COLORADO COMMUNITY COLLEGE SYSTEM

Basic Financial Statements and Compliance Audit

June 30, 2012 and 2011

(With Independent Auditors' Reports Thereon)

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Report Summary

Year ended June 30, 2012

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, 2012. 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 2012 to November 2012.

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, 2012. 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, 2012.
- 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 fiscal year ended June 30, 2012 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, 2012.

Two audit adjustments were not made to the basic financial statements with a net effect of $0 to 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 deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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Year ended June 30, 2012

We identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency. We also noted one deficiency in internal control related to Student Financial Aid Title IV that we consider to be a significant deficiency. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Summary of Key Findings

Colorado Northwestern Community College (CNCC)

Our audit identified the following at CNCC:

- Throughout the year, there was a lack of segregation of duties in CNCC's cashier's offices, at the Rangely and Craig campuses, and common controls, such as the review of daily reconciliations were not occurring.
- Throughout the fiscal year, the bookstores at both campuses operated in a deficit cash and net asset position.
- Purchases using direct pay requests were not consistently verified for budget availability prior to being authorized.
- CNCC does not have adequate financial management processes, including standard reviews of department budgets by the business office.

Return of Title IV Funds

Colorado Northwestern Community College, Community College of Aurora, Trinidad State Junior College, and Lamar Community College lacked adequate controls to ensure the return of Title IV student financial aid funds was in compliance with federal requirements. Out of 55 return calculations tested for students who withdrew, 13 calculations were identified with at least one exception.

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, 2011 included three recommendations. The disposition of these audit recommendations as of November 9, 2012 was as follows:

Implemented	$	—
Partially implemented		3
Total	$	3

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Report Summary

Year ended June 30, 2012

The 2011 audit report included two recommendations that were reported as not implemented or partially implemented for the year ended June 30, 2010, or for previous years. These recommendations have been implemented as of November 9, 2012.

COLORADO COMMUNITY COLLEGE SYSTEM

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Recommendation Locator

Year ended June 30, 2012

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
1	11	CNCC should continue to evaluate its policies and procedures and make appropriate changes as necessary to ensure that the college’s internal controls are adequate, the college's financial position is properly managed, and that financial information is accurate, complete, and available to decision makers in a timely manner.	CNCC	Agree	February 2013
2	13	Trinidad State Junior College, Colorado Northwestern Community College, Lamar Community College , and Community College of Aurora should work to ensure the timely and accurate Return of Title IV funds.	TSJC, CNCC, LCC, and CCA	Agree	February 2013

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Description of the Colorado Community College System

Year ended June 30, 2012

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; the College Opportunity Fund stipends; a fee-for-service contract with the Department of Higher Education; State Fiscal Stabilization funding (fiscal year 2011 only); and Amendment 50 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:

College	Main campus location
Arapahoe Community College (ACC)	Littleton
Colorado Northwestern Community College (CNCC)	Rangely
Community College of Aurora (CCA)	Aurora
Community College of Denver (CCD)	Denver
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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Enrollment, tuition, and faculty and staff information are 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 2012 that is prepared by higher education institutions for CCHE.

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

FTE Student Enrollment

	Resident	Nonresident	Total
Fiscal year:			
2011 – 2012	58,796	3,545	62,341
2010 – 2011	58,994	3,946	62,940
2009 – 2010	53,405	3,647	57,052

FTE Faculty and Staff

	Faculty	Staff	Total
Fiscal year:			
2011 – 2012	3,929	2,193	6,122
2010 – 2011	3,903	2,025	5,928
2009 – 2010	3,590	1,912	5,502

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, 2012, and have issued our report thereon, dated November 9, 2012. 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 November 9, 2012 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 97.3%, 97.3%, and 92.5% of the 2012 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 deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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 Recommendation Nos. 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.

Colorado Northwestern Community College

Colorado Northwestern Community College (CNCC) is located in Rangely with a second campus in Craig. Approximately 796 full time equivalent students in northwest Colorado attended CNCC in Fiscal Year 2012. This is an enrollment decrease of 12% from Fiscal Year 2011. CNCC's net assets at June 30, 2012 totaled $35.5 million or 6% of Colorado Community College System's (CCCS) total net assets. Fiscal Year 2012 operating revenues were $8.5 million or 2% of CCCS operating revenue and operating expenses totaled $14.5 million or 3% of CCCS operating expenses.

What Was the Purpose of the Audit Work?

The purpose of the audit work was to evaluate internal and operational controls in place at CNCC and test account balances as of June 30, 2012, as part of the CCCS system-wide audit. In addition, audit testwork was conducted to evaluate the progress CNCC has made in addressing the significant deficiencies that were identified in the Fiscal Year 2011 audit.

What Audit Work Was Performed and How Were Results Measured?

We performed a site visit at CNCC to evaluate internal controls over revenue, disbursements, payroll and other accounts, and to perform substantive audit procedures in support of the system-wide audit.

Our audit work included reviewing CNCC's controls over cash receipts, including those at the bookstores on both campuses, and reperforming daily cash receipt reconciliations on a sample basis. Internal controls over the cashiering operations should include proper segregation of duties, dual custody of cash, reconciliations of cash receipts to the deposit slip and general ledger, and management review.

In addition, we reviewed CNCC's controls over disbursements, including direct pay requests. Direct pay requests are used for purchases under $3,000 and are not required to be approved by the purchasing department prior to the purchase of the goods or services. Under this process, departments are allowed to procure these goods and services and submit invoices to accounts payable for payment. As part of this process, departments are required to check the availability of budget prior to making the purchase and attach evidence of budget availability to the invoice. In May 2012, CNCC lowered the threshold for use of direct pay requests from $3,000 to $1,000.

Finally, we considered CNCC's financial management and budget processes. Over the past several years, CNCC has been in a deficit cash position, which continued through most of Fiscal Year 2012. As of June 30, 2012, CNCC had a positive cash position of about $2,099,200. However, this was largely due to a one-time transfer of about $2 million to CNCC at year end. This inflow was from a release of funds related to the completion of a building on the Craig campus during the year. The funds were transferred from an account at the state Treasurer where the funds were held during the construction process.

What Problem Did the Audit Work Identify?

In the Fiscal Year 2011 audit, we identified three deficiencies in internal control at CNCC that we considered to be significant deficiencies. The three deficient areas resulted in recommendations related to controls over cashiering, bookstore operations at both campuses, and the institution's general accounting and financial reporting. During our Fiscal Year 2012 audit, we determined that CNCC made progress in implementing the recommendations from the previous audit; however, certain aspects of CNCC's corrective action plans in these three areas have not been fully implemented. Specifically, during Fiscal Year 2012 CNCC drafted policies and procedures over key business processes. However, during Fiscal Year 2012, the policies and procedures were not fully implemented. In addition, we noted that CNCC needs to continue to address its financial management processes, including cash forecasting and budget management. Our specific findings are identified by area below.

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Cashiering Controls

CNCC has a cashiering office at each of the Rangely and Craig campuses. The Cashier collects student payments for tuition, student fees, and other auxiliary activities. The Craig campus cashier is supervised by the Bursar located at the Rangely campus (who is also the cashier at the Rangely campus). The Bursar is supervised by the Business Officer. In Fiscal Year 2012, CNCC collected $6,106,215 in cash receipts from operating activities through the cashier's office.

In the prior year, we identified a lack of segregation of duties in the cashier's offices at each campus as well as lack of basic controls, such as the performance and review of daily reconciliations of cash receipts and the sweep account, and monthly reconciliations of the general ledger to the Colorado Financial Reporting System (COFRS). Finally, we noted CNCC lacked written policies and procedures for the cashiering operations and had not yet implemented outstanding recommendations from a CCCS Fiscal Year 2010 Internal Audit report.

In Fiscal Year 2012, CNCC drafted policies and procedures for the cashier operations and continued to implement recommendations from the 2010 Internal Audit report. These policies and procedures were designed to implement the corrective action plans developed to address the findings and recommendations contained in the CCCS Fiscal Year 2010 Internal Audit report. CNCC implemented daily and monthly reconciliations for cash receipts, the sweep account, and the general ledger to COFRS. The monthly reconciliations are prepared by the Controller and reviewed by the V.P. of Business and Finance.

We found, however, that the daily reconciliations of cash receipts at the Rangely campus that we tested did not show evidence of review by someone other than the preparer. Specifically, KPMG selected a sample of ten daily cash reconciliations and found that none had evidence of review by someone other than the preparer.

We also noted that there continued to be a lack of segregation of duties in certain parts of CNCC's cash receipts process through June 30, 2012. Specifically, at the Rangely campus, during Fiscal Year 2012 one individual, the Rangely campus Bursar, was responsible for both receiving cash and performing reconciliations of cash receipts, and had the ability to make adjustments to student accounts. As of June 30, 2012, a search for a cashier on the Rangely campus had been started and the position was filled as of August 1, 2012 to directly address the previous lack of segregation of duties controls.

Bookstore Controls

CNCC operates two bookstores, one each at the Rangely and Craig campuses. Each bookstore has one manager, who is supervised by the Bursar of the Rangely campus. Staffs at the bookstores receive inventory, collect cash for sales, and track inventory in the Point-of-Sale (POS) system. The POS system is used by the bookstore staff to track purchases and sales of books. The bookstores at the Rangely and Craig campuses had $328,000 and $120,000 of sales during Fiscal Year 2012, respectively.

In the prior year, we found that bookstore staff had not conducted physical inventories at fiscal year end, had not developed written policies and procedures for bookstore operations, had not implemented all the recommendations of the 2010 Internal Audit report, and lacked segregation of duties and controls over inventory and cash receipts for the two bookstores. In addition, we identified that both the Craig and Rangely bookstores were in negative cash positions and the Craig bookstore was in a deficit net asset position at fiscal year end. In Fiscal Year 2012, CNCC conducted a physical inventory of the bookstores at fiscal year-end, developed written

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policies and procedures, began to implement the remaining outstanding recommendations of the 2010 Internal Audit report, put in place proper segregation of duties over cash receipts, and implemented use of the POS system. In addition, the campuses implemented reconciliations of the POS system to cash receipts and the general ledger.

To address the deficit cash and net asset positions of both bookstores, CNCC transferred cash from other auxiliary activities of $179,043 to the Rangely bookstore and $191,496 to the Craig bookstore. As a result, the cash balances were zero at both bookstores as of June 30, 2012, and both reported positive net assets as a result of the transfer. This transfer allowed the bookstores to begin the new fiscal year without negative cash and net asset positions. However, CNCC must continue to evaluate and improve the historically negative performance of its bookstores.

Cash Disbursements

During the year, the department reported that when they used the direct pay requests, they did not attach to the invoice evidence that there was available budget to cover the expenditure, as required by college procedures. As a result, there was an increased risk of overspending. Towards the end of Fiscal Year 2012, CNCC implemented a process in which the Controller began approving all direct pay requests and checking the expenditure against the budget.

Financial Management

CNCC does not have adequate financial management processes, including standard reviews of department budgets by the business office. The business officer and controller are working to put in place regular reviews of department budgets; however, those reviews were not consistently performed during Fiscal Year 2012. Also, CNCC has not performed a forecast of cash flows in the past three years. By implementing a monthly cash flow forecast, the college can help ensure its cash position is actively addressed in the future.

Why Did the Problem Occur?

The control environment has not been designed to ensure adequate supervision and review of the cashiering operations, nor has an appropriate segregation of duties for cashiering operations been implemented. CNCC has not consistently required departments to demonstrate availability of budget before a disbursement is made on a direct pay request. Additionally, CNCC has not implemented adequate budgeting controls or processes, nor does it require staff to perform routine cash flow analyses and projections throughout the fiscal year. This is a result of a lack of knowledge by management of the system and the lack of ability to use reports to analyze operating results.

Why Does This Problem Matter?

Lack of adequate financial management controls increases the risk of misappropriation of assets, unnecessary costs, budget overruns and financial errors. Errors in financial information result in management and users of the financial statements not having accurate information on which to base decisions.

(Classification of Finding: Significant Deficiency)

Recommendation No. 1

CNCC should continue to evaluate its policies and procedures and make appropriate changes as necessary to ensure that the college's internal controls are adequate, the college's financial position is properly managed, and that financial information is accurate, complete, and available to decision makers in a timely manner. Specifically, CNCC should:

a. Complete the implementation of the corrective action plan for cash receipts, including implementing segregation of duties with the Bursar on the Rangely campus.

b. Ensure evidence of internal control, such as review and approval of daily reconciliations, is documented.

c. Continue to monitor the financial position of the bookstores on a monthly basis and develop a long-term plan to improve the financial condition of the bookstores.

d. Evaluate the direct pay request process and implement policies and procedures to ensure proper review of expenditures, including availability of budget, prior to making expenditures.

e. Implement effective financial management processes, including adequate review of department budgets and forecasting of cash flows, at least on a monthly basis. This includes providing training to management regarding the CNCC system, including topics such as accounting and budgeting policies and procedures, and the performance of proper forecasting using the available resources.

CCCS Response

a. Agree. Implementation date: August 2012. Rangely Campus Cashier position was filled in August 2012. The Bursar no longer has access to the safe or has any cash handling responsibility.

b. Agree. Implementation date: July 2012. Cashiers have their daily deposit verified by the Bookstore Clerk or the VP's administrative assistant on the Craig Campus and the Bursar or the Accounting Coordinator on the Rangely Campus and paperwork is reviewed and signed by verifier.

c. Agree. Implementation date: February 2013. Controller continues to monitor the financial position on a monthly basis. The bookstores provide Cost of Goods Sold and Inventory reports at each month end. The Controller reconciles these reports with Banner, and analyzes the financial position. Quarterly, the Controller distributes bookstore financial statements for each bookstore. Performance analysis of the bookstores is ongoing and policies are being reviewed for sustainability. Development of a comprehensive business plan for each bookstore has been initiated to meet the target completion date of February, 2013.

d. Agree. Implementation date: August 2012. The Direct Pay request process has been revamped in its entirety. All Direct Pay requests are submitted to Purchasing, which verifies budget prior to obtaining approval. All payment requests are being reviewed by the Controller to ensure that the purchase is appropriate according to fiscal rules and internal policy.

e. Agree. Implementation date: December 2012. Evaluation of department budgets has been occurring on a weekly basis by the Business Officer since July 2012. As discrepancies are identified immediate attention is given to those discrepancies until adequately resolved. The Business Officer is obtaining training on forecasting cash flow, after which, the Business Officer will, at a minimum, provide the President's Cabinet a monthly cash forecast.

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Controls over the Return of Title IV Funds

Trinidad State Junior College (TSJC), Colorado Northwestern Community College (CNCC), Lamar Community College (LCC), and Community College of Aurora (CCA) participate in several federal student financial aid programs, including Direct Loans, Pell, and Federal Work Study, and other programs. Title IV establishes general rules that apply to student financial aid programs and requires that when a student who has received Title IV funds withdraws from an institution, the institution must determine the amount of Title IV aid that shall be returned to the federal government for Title IV programs. TSJC distributed $7,378,319, CNCC distributed $3,470,391, LCC distributed $3,535,830, and CCA distributed $30,508,717, in Title IV funds to students as of June 30, 2012 in fiscal year 2012.

What was the purpose of the audit work?

The purpose of the audit work was to assess the adequacy of the colleges' controls and compliance over the return of Title IV funds to the US Department of Education when students who receive these funds withdraw from the institution.

What audit work was performed and how were results measured?

The audit work included reviewing a sample of 55 return calculations for Title IV students who withdrew across the four colleges during fiscal year 2012 to determine whether adequate controls were implemented by the colleges to ensure Title IV funds were returned in compliance with federal regulations. When a recipient of Title IV grants or loan assistance withdraws from an institution during a payment period (the current semester for which the student has paid) or period of enrollment (if the student is enrolled in a non-standard term) in which the recipient was in attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's date of withdrawal. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student as of the date of the student's withdrawal determined by the institution, the excess disbursed must be returned to the Title IV programs. Federal regulations require that institutions return Title IV funds to the US Department of Education no later than 45 days after the date of the student's withdrawal as determined by the institution.

What problem did the work identify?

Overall, out of 55 return calculations we tested for students who withdrew, 13 calculations were identified with at least one exception. We noted the following exceptions as a result of our work.

- At TSJC, out of 14 calculations tested, a total of 8 calculations had one or more exceptions. In five calculations, the required process for determining the withdrawal date and the required documentation for calculation of the amount of funds that should be returned was not completed by TSJC within the required 45 days of withdrawal notification. In two of these five calculations, students had received excess Title IV funds that were returned. In four calculations, TSJC used incorrect information when calculating the amount of funds to be returned. In two of these four calculations, the tuition rate used was too high, which resulted in the return of a total of $370 more of Title IV funds than should have been, had the correct amounts been used. In the other two calculations the use of incorrect information did not result in an improper amount of funds returned.

- At CNCC, out of 13 calculations tested we identified one for which the incorrect withdrawal date was used in the calculation. This did not affect the amount of funds returned.
- At LCC, out of 13 calculations tested, we identified one for which the process for determining the withdrawal date and the required documentation for the calculation of the amount of funds that should be returned was not completed within the required 45 days of withdrawal notification. This did not affect the amount of funds returned as the student did not receive excess funds.
- At CCA, out of 15 calculations tested we identified three for which the process for determining the withdrawal date and the required documentation for the calculation of the amount of funds that should be returned was not completed within the required 45 days of withdrawal notification. This did not affect the amount of funds returned as the student did not receive excess funds.

Why does this problem matter?

Failure to properly calculate or initiate refunds in the timeline required increases the risk that Title IV funds are not returned in accordance with federal regulations.

Why did the problem occur?

In general, the institutions did not have an adequate process for timely identification of withdrawing students by the institution's respective directors of financial aid, who initiate the process for calculating whether Title IV funds must be repaid to the US Department of Education. Additionally, the institutions did not have an adequate supervisory review process in place over of the return of Title IV funds calculations to ensure calculations were accurate.

(Classification of Finding: Significant Deficiency)

(CFDA No. 84.063; 84.268; Student Financial Aid Cluster, Special Tests and Provisions)

Total Known Questioned Costs: $0 as there no instances in which the schools returned less Title IV funds than were required. In the event that the school returned more funds that were required, the school will work with US Department of Education to resolve the excess amount.

Recommendation No. 2

Trinidad State Junior College, Colorado Northwestern Community College, Lamar Community College, and Community College of Aurora should implement controls to ensure that Title IV funds are returned to the federal government in the required timeframe and that the return of Title IV calculations are properly reviewed to ensure accuracy.

CCCS Response

Agree. The report available to identify Title IV recipients who have withdrawn has been available to colleges but was not consistently run in a timely manner by all institutions. To ensure timely processing in the future, the Financial Aid Directors at CNCC, LCC, TSJC, and CCA will revise their procedures by November 2012 to run the process at least weekly. This will identify students within seven days of a withdrawal. Schools will then process the Return of Title IV (R2T4) Worksheet within three weeks of identifying withdrawn students.

Output from this Banner process will be kept on a secure network drive for future reference and documentation.

In addition, a reporting tool will be created for all schools which will alert Financial Aid Directors of any withdrawn students who may not have a completed Return of Title IV worksheets within 30 days of a student being identified as withdrawn. This tool will be available for schools by February 2013.

To ensure accuracy with the calculation, the Director of Financial Aid at CNCC, LCC, TSJC, and CCA will designate a secondary reviewer who will verify the calculated values in at least 10% of the total processed worksheet. This will be carried out by the Financial Aid Advisors at the Processing Center for CNCC and LCC, the administrative assistant at TSJC, and the Financial Aid Counselors at CCA. This secondary review will be documented in the student's file. This process will be implemented by February 2013.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2012

Following are the audit recommendations made for the year ended June 30, 2011 and their disposition as of November 9, 2012:

Recommendation	Disposition
Recommendation No. 1 CNCC should strengthen controls in the cashier's offices by developing written procedures for cashiering operations including the cash receipt process and defining roles and responsibilities of the personnel involved in the process, ensuring daily cash reconciliations, including reconciliation to the deposit slip, are performed timely and reviewed by the Bursar or Controller, as applicable for each campus, ensuring the cash sweep account is reconciled to the general ledger and the reconciliation is reviewed on a monthly basis, and ensuring the monthly COFRS reconciliations are prepared and reviewed.	Partially implemented. See current year recommendation no. 1.
Recommendation No. 2 CNCC should strengthen controls in the bookstores by conducting a physical inventory at fiscal year-end, implementing the use of the POS system for inventory management, performing a reconciliation of the POS system to cash receipts deposit and the general ledger, ensuring dual custody over cash, and implementing proper segregation of duties between purchasing, receiving, sales, and physical inventory.	Partially implemented. See current year recommendation no. 1.
Recommendation No. 3 CNCC should evaluate its accounting and financial reporting policies and procedures and make appropriate changes as necessary to ensure the college's financial information is accurate, complete, and available to decision makers in a timely manner.	Partially implemented. See current year recommendation no. 1.

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Independent Auditors' Report

The Members of the Legislative Audit Committee
Colorado Community College System:

We have audited the accompanying financial statements of the business-type activities and the 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, 2012 and 2011, 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 97.3%, 97.3%, and 92.5% and 99.0%, 99.0%, and 99.0% of the 2012 and 2011 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 related to the amounts included for the discretely presented component units, are based on the reports of 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 above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Colorado Community College System as of June 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012 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 considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 18 to 33 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

November 9, 2012

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, 2012 and 2011 (fiscal years 2012 and 2011, respectively), with comparative information presented for fiscal year 2010. 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). The Community College of Denver Foundation entered into dissolution effective February 2010 and all assets were remitted to the Community College of Denver (CCD). The CCD Foundation was reestablished effective November 10, 2011.

CCCS is Colorado's largest institution of higher education and served 146,000 students (62,000 full-time equivalent students), approximately, during the fiscal year ended June 30, 2012. The System has 8,600 employees, approximately, of which two-thirds are faculty and adjunct instructors. 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 three Area Vocational Schools (AVSs), two Local District Colleges (LDCs), and secondary career and technical programs in over 160 school districts throughout the state.

Higher education institutions in the State of Colorado (the State) have 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 meets the stated qualifications. CCCS qualified as an enterprise for fiscal year 2012 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 10.0% (in relation to total revenues) in support from the State. In fiscal years 2012, 2011, and 2010, the System received 1.7%, 1.4%, and 2.0%, 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 Education (CDE) for career and technical education as state grants for the purpose of this calculation, including funding under the Career and Technical Act (CTA).

CCCS is partially funded through the College Opportunity Fund (COF) stipend program and a fee-for-service (FFS) contract with the Colorado Department of Higher Education (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. COF may support the costs of up to 145 eligible undergraduate credits for each eligible student. For fiscal years 2012, 2011, and 2010, respectively, the COF stipend was $62, $62, and $44, per credit hour, which students could use to pay for a portion of their tuition. 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 2012, 2011, and 2010, respectively, CDHE's contract with CCCS purchased credit hours for vestibule labs, reciprocal programs, and educational services in rural areas. In fiscal years 2011 and 2010, the CDHE's contract with CCCS also included purchased credit hours for career and technology, vocational, and other high cost, specialized instructional educational services (notes 3 and 4).

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Student tuition and fees, net of scholarship allowance comprise several important and offsetting components. Student tuition and fees charges alone include all amounts earned for the provision of instructional services to students, including stipends paid for eligible undergraduate students under COF. In fiscal year 2012, CCCS had a $16.8 million increase in gross tuition and fee revenue resulting from a 1.0% decrease in enrollment, offset by a 10% and 5.0% increase in resident tuition and nonresident tuition rates, respectively. This includes a decrease in COF funding of approximately $2.6 million compared to fiscal year 2011. This increase was offset by an increase in the scholarship allowance, or the amount of federal- and state-funded financial assistance paid on behalf of students, which is netted against tuition and fee revenue. This scholarship allowance offset increased $7.2 million in fiscal year 2012 due in part to the increase in Federal Pell awards received for students, on a per student basis, as well as an increase in the number of students receiving Pell awards.

The following table represents the change in tuition and fees from fiscal year 2011 to 2012 (in millions).

Tuition and fees increase due to enrollment changes and rate increases	$	16.8
Less decrease in COF stipend funding		(2.6)
Gross tuition and fee increase		14.2
Reduced by increased scholarship allowance offset		(7.2)
Net increase in student tuition and fees, net of scholarship allowance	$	7.0

The following table represents the change in tuition and fees from fiscal year 2010 to 2011 (in millions).

Tuition and fees increase due to enrollment and rate increases	$	42.5
Plus increase in COF stipend funding		35.5
Gross tuition and fee increase		78.0
Reduced by increased scholarship allowance offset		(33.6)
Net increase in student tuition and fees, net of scholarship allowance	$	44.4

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. During fiscal year 2011, the State distributed $4.5 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 fiscal year 2012, no SFSF funds were distributed. 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. 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.

In November 2008, voters passed Amendment 50, which expanded limited stakes gaming in three Colorado mountain towns. CCCS received approximately $6.0 million in Amendment 50 funding in fiscal year 2012, of which $5.4 million was used for classroom instruction-related expenses and $0.6 million was awarded to students for scholarships. In fiscal year 2011, CCCS received approximately $5.4 million, of which $4.5 million was used for classroom instruction-related expenses and $0.6 million was awarded to students for scholarships.

On October 13, 2010, CCCS issued series 2010C Systemwide Revenue Bonds for $6,545,000 and Series 2010D Systemwide Revenue Bonds for $31,455,000 for CCD and Pueblo Community College (PCC). The bond projects funded include CCD's construction and equipping of the Student Learning and Success Building along with PCC's Student Center and the Learning Resource Center.

On January 25, 2012, CCCS issued series 2012A Systemwide Revenue Refunding Bonds for $11,495,000. The Bonds were used to current and advance refund the capital leases between the Colorado Community College Foundation and the System Office, Pikes Peak Community College (PPCC), and Arapahoe Community College (ACC).

Financial Highlights

At June 30, 2012, CCCS' assets of $813,544,882 exceeded its liabilities of $190,258,962 by $623,285,920. At June 30, 2011, CCCS' assets of $780,838,428 exceeded its liabilities of $193,842,281 by $586,996,147. The resulting net assets are summarized into the following categories:

		June 30		
		2012	**2011**	**2010**
Invested in capital assets, net of related debt	$	323,746,565	313,486,808	286,351,174
Restricted, expendable		37,800,466	36,031,366	29,159,795
Unrestricted		261,738,889	237,477,973	186,040,177
Total net assets	$	623,285,920	586,996,147	501,551,146

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 building and equipment expansion and repair, and new programs.

During fiscal year 2012, the CCCS' total net assets increased by $36,289,773. The increase in net assets is a result of excess revenue streams compared to overall expenses.

During fiscal year 2011, the CCCS' total net assets increased by $85,445,001. The increase in net assets is a result of increased tuition and fees revenue, increase in COF and an offsetting increase in scholarship allowances, an increase in auxiliary revenue, an increase in FFS, an increase in Federal Pell grants, and an increase in State Capital Contributions, offset, in part, by an increase in operating expenses.

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Overview of the Financial Statements

The financial statements are designed to provide readers with a broad overview of the System's finances and comprise 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, 2012 and 2011), 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 relative availability for expenditure by 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, 2012 and 2011). All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered). Its purpose is to assess CCCS' 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, 2012 and 2011) 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, 2012 and 2011, resulting in net assets of $623,285,920 and $586,996,147, respectively. The majority (51.9% for 2012 and 53.4% for 2011) 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.

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The assets reported by CCCS exceeded liabilities at June 30, 2011 and 2010, resulting in net assets of $586,996,147 and $501,551,146, respectively. The majority (53.4% for 2011 and 57.1% for 2010) of CCCS' net assets are invested in capital assets (e.g., land, buildings, and equipment), net of related debt.

		June 30		
		2012	**2011**	**2010**
Current assets	$	403,736,333	382,427,713	311,671,460
Noncurrent assets, including capital assets of $383,429,906, $352,744,435, and $321,758,543, respectively		409,808,549	398,410,715	335,424,208
Total assets		813,544,882	780,838,428	647,095,668
Current liabilities		93,200,789	93,868,180	88,047,489
Noncurrent liabilities		97,058,173	99,974,101	57,497,033
Total liabilities		190,258,962	193,842,281	145,544,522
Net assets:				
Invested in capital assets, net of related debt		323,746,565	313,486,808	286,351,174
Restricted – expendable		37,800,466	36,031,366	29,159,795
Unrestricted		261,738,889	237,477,973	186,040,177
Total net assets	$	623,285,920	586,996,147	501,551,146

Current assets increased as of June 30, 2012 compared with June 30, 2011 by approximately $21.3 million or 5.6% as a result of a $20.9 million increase in cash and cash equivalents and a $1.4 million increase in accounts receivable, offset by a $1.0 million decrease in inventories. Increases in accounts receivable include an increase of $1.4 million in other receivables, net, and an increase of $300 thousand in student receivables, net, offset by a decrease of $300 thousand in due from other governments, net, approximately.

Current assets increased as of June 30, 2011 compared with June 30, 2010 by approximately $70.8 million or 22.7% as a result of an $81.6 million increase in cash and cash equivalents and an $11.6 million decrease in accounts receivable. Decreases in accounts receivable include a decrease of $5.9 million in due from other governments and a decrease of $6.3 million in other receivables offset by an increase of $500 thousand in student receivables, approximately.

Current liabilities decreased as of June 30, 2012 compared with June 30, 2011 by approximately $700 thousand or 0.7% due to a decrease of $300 thousand capital leases payable, current portion, and a decrease of approximately $3.5 million in deferred revenue primarily related to the summer tuition decrease from reduced enrollment, offset by an increase in accounts payable and accrued liabilities of $1.3 million due to normal timing differences, an increase of $1.4 million of bonds payable, current portion, and an increase of $400 thousand in deposits held for others.

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Current liabilities increased as of June 30, 2011 compared with June 30, 2010 by approximately $5.8 million or 6.6% due to normal timing differences in the payment of accounts payable and accrued liabilities of $5.2 million outstanding at year-end, an increase of approximately $1.3 million in deferred revenue primarily related to the summer tuition increase from enrollment, offset by a decrease of $500 thousand in deposits held for others and $300 thousand in other long-term liabilities, current portion.

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 (6.1% for 2012, 6.1% for 2011, and 5.8% for 2010 of total net assets) are primarily restricted for auxiliary programs, scholarships, loans, and community training programs.

Unrestricted net assets (42.0% for 2012, 40.5% for 2011, and 37.1% for 2010 of total net assets) 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. 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 those where 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. During 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 also considered nonoperating. For similar reasons, Amendment 50 funding and most gifts and investment income are also nonoperating revenue.

State appropriations, net of distributions to LDCs and AVSs, represent approximately 4.6%, 4.5%, and 4.8%; student tuition and fees represent approximately 41.0%, 37.7%, and 32.8%, and FFS contracts represent approximately 1.9%, 3.8%, and 0.6% of CCCS' total revenue (less distributions to LDC and AVS) from all sources in fiscal years 2012, 2011, and 2010, 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 $154.8 million loss from operations in fiscal year 2012 compared to a $130.0 million loss from operations in fiscal year 2011 and a $169.6 million loss from operations in fiscal year 2010. In fiscal year 2012, this operating loss was offset by net state appropriations of $26.4 million, Federal Pell grants of $145.2 million, and Amendment 50 funding of $6.0 million. In fiscal year 2011, this operating loss was offset by net state appropriations of $26.9 million, SFSF of $4.5 million, Federal Pell grants of $144.5 million, and Amendment 50 funding of $5.4 million. In fiscal year 2010, this operating loss was offset by net state appropriations of $26.8 million, SFSF of $71.2 million, and Federal Pell grants of $108.1 million.

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

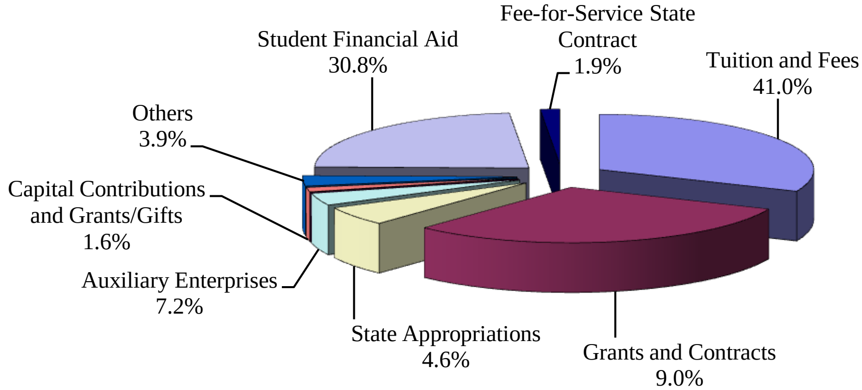
	June 30 2012	2011	2010
Operating revenues:			
Tuition and fees, net	$ 234,075,160	227,112,067	182,746,236
Grants and contracts	82,257,616	81,761,644	79,882,791
Fee-for-service state contract	10,906,347	22,860,290	3,541,151
Sales and services of educational activities	1,356,510	1,449,894	1,038,173
Auxiliary enterprises, net	41,387,150	41,552,120	38,895,405
Other	8,338,016	9,762,896	9,426,697
Total operating revenues	378,320,799	384,498,911	315,530,453
Operating expenses:			
Instruction	219,979,142	216,714,455	203,366,078
Research	170,296	332,504	88,551
Public service	3,431,668	4,179,695	4,404,203
Academic support	36,292,217	34,650,384	34,413,831
Student services	55,683,205	51,192,466	47,881,565
Institutional support	73,628,507	71,443,337	67,601,384
Operation and maintenance of plant	53,320,159	45,625,398	47,069,253
Scholarships and fellowships	22,457,365	25,457,019	19,799,690
Auxiliary enterprises	44,220,245	43,514,915	40,280,060
Depreciation	23,914,545	21,420,555	20,259,450
Total operating expenses	533,097,349	514,530,728	485,164,065
Operating loss	(154,776,550)	(130,031,817)	(169,633,612)
Nonoperating revenues (expenses):			
State appropriations	45,964,065	49,339,382	38,476,832
State Fiscal Stabilization Funding	—	4,523,158	71,186,390
Federal Pell grants	145,210,102	144,545,446	108,143,611
Amendment 50 funding	6,035,507	5,360,539	—
Distributions to Local District Colleges and Area Vocational Schools	(19,574,820)	(22,418,236)	(11,662,619)

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

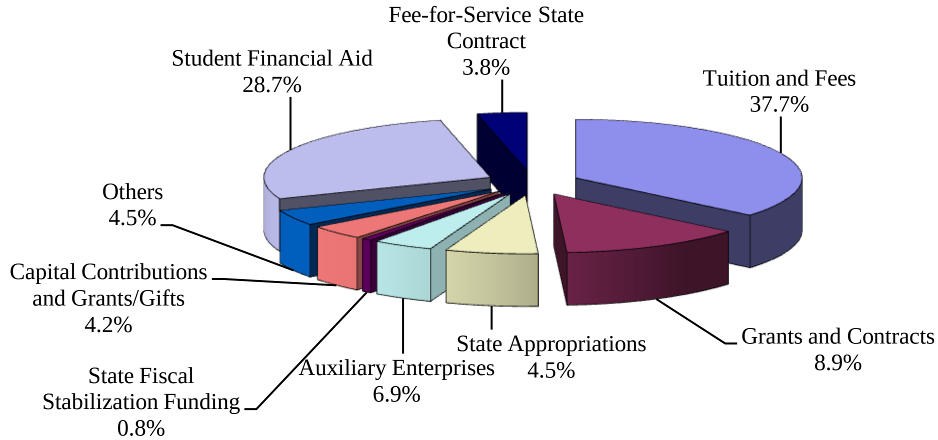
	June 30		
	2012	**2011**	**2010**
Other nonoperating revenues and expenses, net	$ 4,282,143	8,975,509	8,960,781
Net nonoperating revenues	181,916,997	190,325,798	215,104,995
Income before other revenues, expenses, gains, or losses	27,140,447	60,293,981	45,471,383
State capital contributions	7,679,114	23,086,772	21,466,589
Capital grants and gifts	1,470,212	2,064,248	3,853,666
Increase in net assets	36,289,773	85,445,001	70,791,638
Net assets:			
Beginning of year	586,996,147	501,551,146	430,759,508
End of year	$ 623,285,920	586,996,147	501,551,146

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

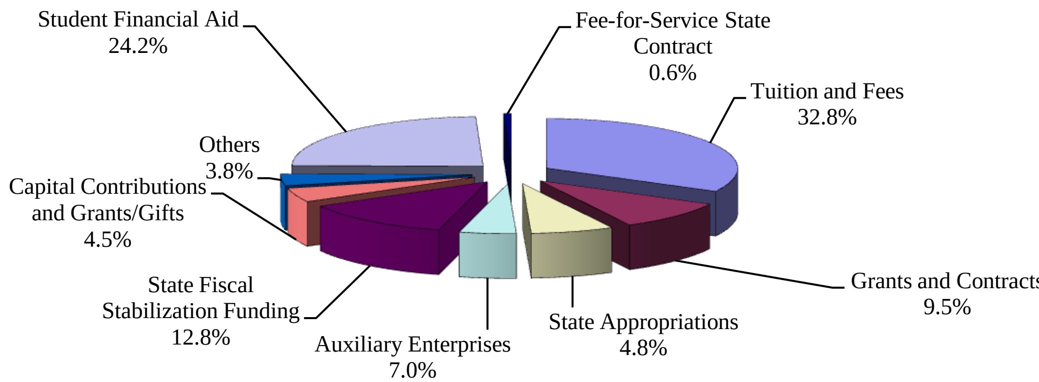
Sources of Revenue
Fiscal Year 2012



Sources of Revenue
Fiscal Year 2011



Sources of Revenue
Fiscal Year 2010



As the above charts demonstrate, student tuition and fees are the largest revenue source for CCCS in fiscal years 2012, 2011, and 2010. The operating loss of approximately $154.8 million, $130.0 million, and $169.6 million in fiscal years 2012, 2011, and 2010, respectively, noted above, is a result of operating expenses exceeding operating revenues. CCCS supplemented operating revenues with State appropriations and Federal Pell grants for fiscal years 2012, 2011, and 2010; SFSF for fiscal years 2011 and 2010, and Amendment 50 funding for fiscal year 2012 and 2011, which are classified as nonoperating revenues but are used to fund operations.

Revenue activity highlights for fiscal year 2012 include:

- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately $7.0 million or 3.1%. This increase was primarily due to the fact that there was a $14.2 million increase in gross tuition and fee revenue due to an 1.0% decrease in enrollment offset by an increase of 10% in resident tuition and 5.0% in nonresident tuition rates with an even greater increase in scholarship allowance of $7.2 million directly as a result of increased Federal Pell grant awards for students with an offset of a $2.6 million decrease in the COF stipend.
- FFS state contracts decreased by $12.0 million or 52.3% due to a decrease in FFS appropriations from the State.
- Other operating revenue decreased by $1.4 million or 14.6% as a result of the elimination of internal service revenues of $0.5 million not recognized in prior year, and the reevaluation of revenue classifications for direct loan activity, Perkins loans payments, and private donations resulting in a further reduction of $1.5 million.
- State appropriations decreased by $3.4 million or 6.8% due to a decrease in appropriations for LDCs and AVSs of $2.8 million.
- SFSF decreased by $4.5 million or 100.0%. In fiscal year 2012, this funding was discontinued.
- State capital contributions decreased $15.4 million or 66.7%. This decrease is primarily due to completion of projects funded through the State's certificates of participation at CNCC on its Academic Building Project, Front Range Community College on the new laboratory wing of its science building on the Larimer campus, and Morgan Community College on its space and building improvements for the health and science programs.

Revenue activity highlights for fiscal year 2011 include:

- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately $44.4 million or 24.3%. This increase was primarily due to the fact that there was a $42.4 million increase in tuition revenue due to an 10.3% increase in enrollment coupled with an increase of 9.0% in resident tuition and 5.0% in nonresident tuition rates with an even greater increase in scholarship allowance of $33.6 million directly as a result of increased Federal Pell grant awards for students and a $35.5 million increase in the COF stipend.
- FFS state contracts increased by $19.3 million or 545.6% due to an increase in FFS appropriations from the State.
- State appropriations increased by $10.9 million or 28.1% due to an increase in appropriations for LDCs and AVSs of $10.8 million.
- SFSF decreased by $66.7 million or 93.6%. In fiscal year 2011, this funding was partially offset by the increase in FFS of $18.9 million and increase in COF of $35.5 million.

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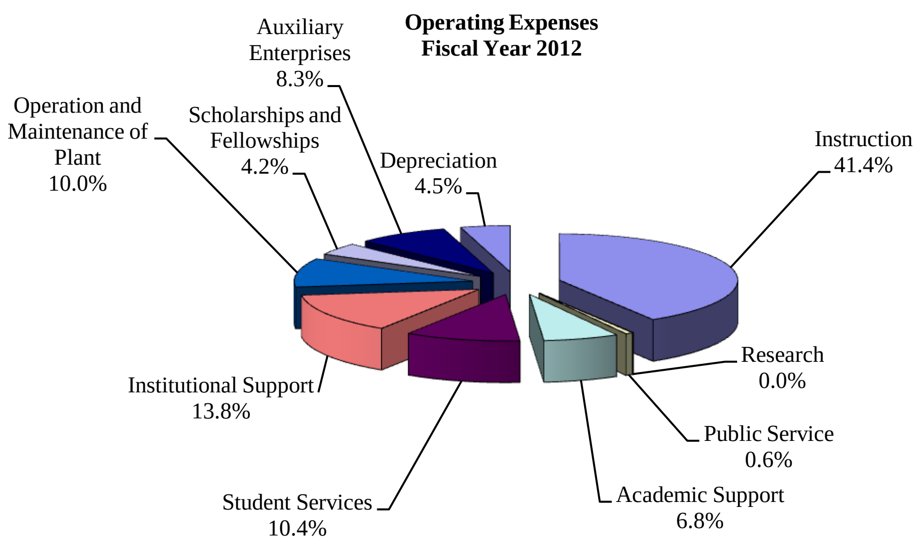
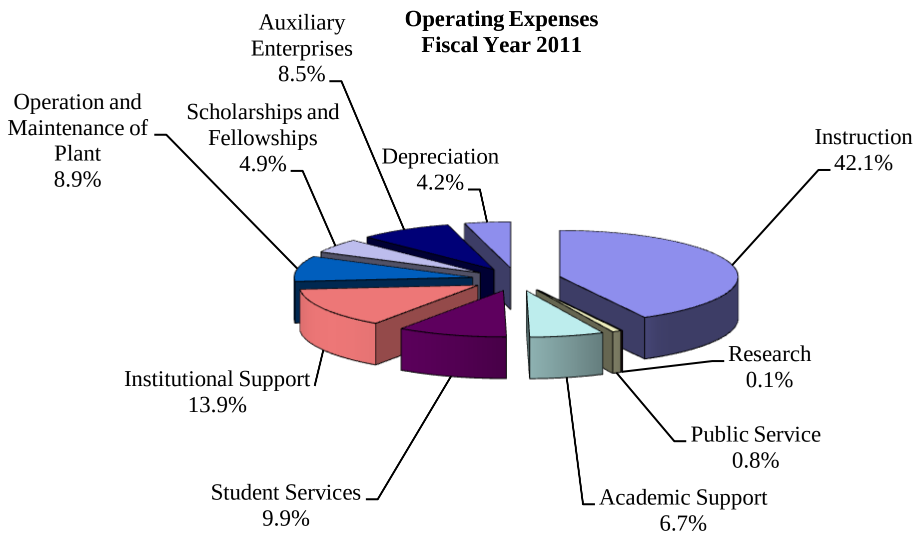
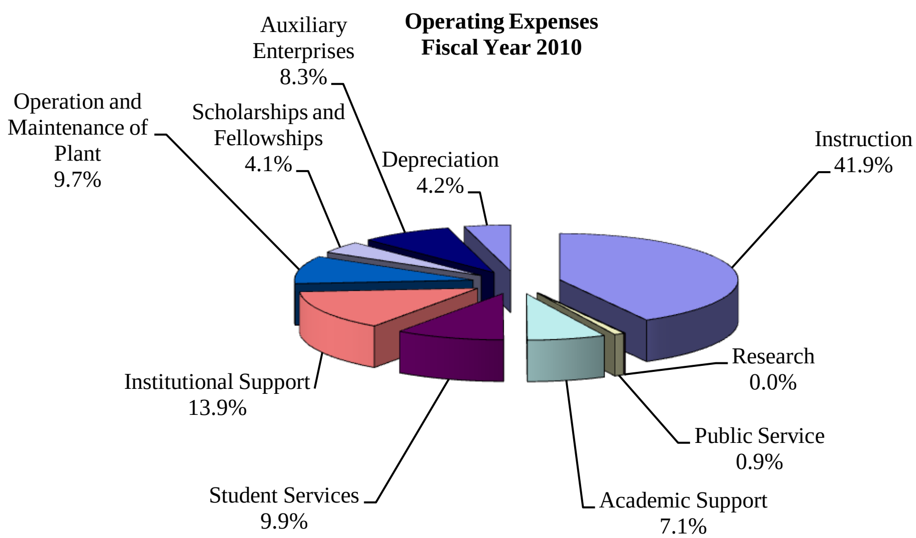
- Federal Pell grants increased $36.4 million or 33.7% due to an increase in overall enrollment of 10.3% leading to a greater number of students qualifying as well as an increase in the award per student under new legislation.
- Amendment 50 funding in the amount of $5.4 million was received for the first time in fiscal year 2011. These funds were limited in use to classroom instruction-related activities and scholarships for students.
- State capital contributions increased $1.6 million or 7.5%. This increase is primarily due to continuing projects funded through the State's certificates of participation at CNCC on its Academic Building Project, Front Range Community College on the new laboratory wing of its science building on the Larimer campus, and Morgan Community College on its space and building improvements for the health and science programs.
- Capital grants and gifts decreased a total of $1.8 million or 46.4% due to CNCC's Foundation contribution for the Stiegel building and NJC's private donation for the purchase of a golf course and clubhouse facility in fiscal year 2010.







Expense activity highlights for fiscal year 2012 include:

- Student services expenses increased by $4.5 million or 8.8%. Approximately $0.4 million of expenses increased due to additional services provided to students; new grants for Science, Technology, Engineering, and Mathematics for one college grant activity, of $1.0 million; and $1.3 million resulted from increased salaries, filling vacancies, and additions of new positions. Additionally, $0.1 million of fee expenses increased related to the centralization of financial aid services for three rural colleges.
- Operations and maintenance expense increased by $7.7 million or 16.9%. Significant projects driving up operations and maintenance by $7.7 million include the emergency projects, Voice Over IP project,

increase costs for the new Craig Campus building for CNCC, fitness center expenses related to upgrades at OJC, noncapital expenses for furniture and the computer centers for the College Center and Learning Center at PCC, repairs and retrofitting for code upgrades at PPCC, new technology switches at RRCC, and a Boiler and Elevator maintenance and replacement at TSJC.

- Scholarships and fellowships expenses decreased by $3.0 million or 11.8%. This is primarily due to a $4.3 million increase in Colorado Student Grants. This was offset by an increase of $7.2 million in scholarship allowance, which reduces tuition and fees and auxiliary revenues.
- Distributions to LDC and AVS decreased $2.8 million or 12.7% due to a decrease in State appropriations. LDCs and AVSs alternatively received less in distributions in fiscal year 2012.
- Investment income decreased $1.1 million or 21.0% due to a combination of lower average daily cash balances, a lower earnings rates, and additional investment expense.
- Other nonoperating revenues net of expense decreased $2.3 million or 54.7%. This is primarily due to a reclassification of pledged revenue offsets from prior year to directly offset the related revenue stream.

Expense activity highlights for fiscal year 2011 include:

- Instruction expenses increased by $13.3 million or 6.6%. Approximately $11.2 million related to increase costs for adjunct faculty and other staff salary and benefits for increased enrollment, including concurrent enrollment programs at the High Schools. Additionally, $1.6 million related to increased grant activity for a Department of Labor Nursing Grant, $1.1 million was a result of increases in distributions of CVA funds, and $1.3 million related to increased noncapital equipment, furniture, and supplies for new instructional facilities.
- Student services expenses increased by $3.3 million or 6.9%. Approximately $1.4 million of expenses increased due to additional grant activity and $1.2 million resulted from increased salaries and additions of new positions to address increased enrollment. Additionally, $0.9 million of fee expenses increased related to the Auraria Higher Education Center services provided for the shared common facilities.
- Institutional support expenses increased by $3.8 million or 5.7%. Approximately $3.5 million of the increase was related to additional bad debt and $0.9 million related to additional salary and benefit expense to address increased enrollment.
- Scholarships and fellowships expenses increased by $5.7 million or 28.6%. This is primarily due to a $36.4 million increase in Federal Pell grants due to additional awards and an increase in the amount awarded per student. This was offset by an increase of $34.4 million in scholarship allowance, which reduces tuition and fees and auxiliary revenues.
- Distributions to LDC and AVS increased $10.8 million or 92.2% due to an increase in State appropriations. LDCs and AVSs alternatively received less in SFSF funds directly from the State.

Capital Asset and Debt Management

At June 30, 2012, CCCS had $383,429,906 of capital assets, net of accumulated depreciation of $282,854,923 and including current year depreciation of $23,914,545. At June 30, 2011, CCCS had $352,744,435 of capital assets, net of accumulated depreciation of $266,403,326 and including current year depreciation of $21,420,555. A breakdown of assets by category, net of accumulated depreciation is provided below:

		June 30 2012	2011	2010
Nondepreciable land and land improvements	$	20,623,390	20,623,390	20,624,742
Land improvements		8,521,733	8,942,410	9,177,640
Buildings and improvements		270,075,844	228,072,228	214,299,145
Leasehold improvements		7,895,907	3,962,022	4,204,440
Construction in progress		33,210,231	47,829,409	30,850,907
Equipment and software		38,229,787	38,411,017	37,564,423
Library materials		4,052,147	4,268,053	4,401,340
Collections		820,867	635,906	635,906
Total capital assets	$	383,429,906	352,744,435	321,758,543

Major capital additions of $500,000 or more completed during fiscal year 2012 are as follows:

College	Project		Total project cost (In millions)	Source of funding
Community College of Aurora	Lowry Remodel Phase 1	$	1.9	Internal Reserves
Colorado Northwestern Community College	Craig Campus Expansion		27.3	State Funded, Debt, Internal Reserves
Front Range Community College	Space Plan & Renovation Leasehold Improvement BCC		2.0	Internal Reserves
	C9111 Science Building LC		1.1	State Funded
	Student Service Center WC		4.1	Internal Reserves
Morgan Community College	Nursing/Health/Science & Tech Bldg		5.3	State Funded
Northeastern Junior College	Blue Spruce Residence Hall		6.4	Debt, Private Donation
Otero Junior College	Fitness Center Add On McDivitt Gym		1.6	Internal Reserves
Pueblo Community College	Learning Center Addition Academic Bldg		2.2	Debt
Pikes Peak Community College	Centennial Campus Theater Remodel		1.8	Internal Reserves
	Centennial Campus Science Labs Renovation		3.7	Internal Reserves
	Centennial Campus Air Handler Replacement		1.0	Internal Reserves
Trinidad State Junior College	Banta Building Improvements		0.6	State Capital Contributions

The System has $42.6 million in commitments for various upcoming capital construction and controlled maintenance projects as of June 30, 2012.

CCCS had $83,310,843 and $85,071,210 in debt outstanding at June 30, 2012 and 2011, respectively.

In December 2011, Moody's affirmed the rating of Aa3 on the 2003 and 2004 Systemwide Revenue Bonds outstanding, the Series 2010 Bonds (A, B-1, B-2, C, and D), and the Series 2012A Bonds.

The breakdown of the debt is as follows:

		June 30		
		2012	**2011**	**2010**
Auxiliary revenue bonds	$	72,295,735	61,937,334	24,693,110
Capital lease obligations		11,015,108	23,133,876	21,114,128
Total debt	$	83,310,843	85,071,210	45,807,238

Colorado Community College System Future

The budgetary situation for higher education continues to change. 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 2013, CCCS is authorized to receive $15.1 million in FFS revenue and $101.0 million in student stipends. This support totaling $116.1 million of anticipated fiscal year 2013 represents a 2.9% increase in state support from the $112.8 million that was provided in 2012. CCCS anticipates receiving $5.3 million of additional funding under the Amendment 50 funding in fiscal year 2013.

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

Enrollment: In fiscal year 2012, in a slowly expanding economy, CCCS' resident enrollment of 58,796 decreased by 0.3% from fiscal year 2011, and nonresident enrollment of 3,545 decreased by 10.2%, resulting in a total net enrollment decrease of 1.0%. Therefore, further flattening or decreases in enrollment are anticipated in the fiscal year 2013 budget.

Tuition Rates: In an effort to mitigate increased costs along with an overall decrease in state support during the previous three years, the Board raised the resident tuition by 10.0% and the nonresident tuition by 5.0% in fiscal year 2012. The Board approved a 6.5% increase in resident and nonresident tuition for fiscal year 2013.

Requests for Information

This financial report is designed to provide a general overview of CCCS' finances and to show the System's accountability for the money it receives. Questions concerning any other information provided in this report or requests for additional financial information should be addressed to:

Colorado Community College System
Department of Finance and Administration
9101 E. Lowry Blvd
Denver, CO 80230-6011

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Net Assets

June 30, 2012 and 2011

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	343,287,435	323,121,905
Restricted cash and cash equivalents		4,620,634	3,882,953
Accounts receivable, net		51,127,601	49,768,466
Inventories		4,121,433	5,103,827
Prepaid expenses		579,230	550,562
Total current assets		403,736,333	382,427,713
Noncurrent assets:			
Restricted cash and cash equivalents		23,691,488	42,239,105
Restricted investments		1,590,868	2,524,924
Other assets		1,096,287	902,251
Capital assets, net		383,429,906	352,744,435
Total noncurrent assets		409,808,549	398,410,715
Total assets	$	813,544,882	780,838,428
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	19,223,436	18,972,377
Accrued liabilities		34,524,999	33,439,021
Deferred revenue		23,108,498	26,635,648
Deposits held for others		11,775,962	11,321,820
Bonds payable, current portion		2,840,000	1,480,000
Capital leases payable, current portion		575,246	849,275
Other long-term liabilities, current portion		48,861	61,423
Compensated absences liability, current portion		1,103,787	1,108,616
Total current liabilities		93,200,789	93,868,180
Noncurrent liabilities:			
Bonds payable		69,455,735	60,457,334
Capital leases payable		10,439,862	22,284,601
Other long-term liabilities		1,086,738	857,116
Compensated absences liability		16,075,838	16,375,050
Total noncurrent liabilities		97,058,173	99,974,101
Total liabilities		190,258,962	193,842,281
Net assets:			
Invested in capital assets, net of related debt		323,746,565	313,486,808
Restricted for expendable purposes:			
Auxiliary pledged revenue		31,306,423	30,533,571
Scholarships/fellowships		741,257	1,032,923
Loans		931,539	498,215
Training programs		1,148,245	547,455
Amendment 50		169,176	174,681
Debt service		57,352	592,260
Other		3,446,474	2,652,261
Total restricted for expendable purposes		37,800,466	36,031,366
Unrestricted		261,738,889	237,477,973
Total net assets		623,285,920	586,996,147
Total liabilities and net assets	$	813,544,882	780,838,428

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statements of Financial Position

June 30, 2012 and 2011

Assets		**2012**	**2011**
Cash and cash equivalents	$	6,738,231	6,395,767
Accounts and pledges receivable		3,076,519	1,772,524
Investments		26,483,519	26,653,690
Investment in direct financing leases		—	11,900,000
Beneficial interest in charitable remainder trust		547,047	526,242
Other assets		246,657	156,777
Capital assets, net		11,702,332	12,079,983
Total assets	$	48,794,305	59,484,983
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	158,183	162,410
Due to primary government		373,809	787,319
Accrued liabilities		38,211	53,496
Deferred revenue		1,059,276	1,007,189
Bonds payable		4,375,275	5,195,128
Other liabilities		517,879	12,491,790
Total liabilities		6,522,633	19,697,332
Net assets:			
Unrestricted		14,317,875	12,144,679
Temporarily restricted		17,273,222	19,358,566
Permanently restricted		10,680,575	8,284,406
Total net assets		42,271,672	39,787,651
Total liabilities and net assets	$	48,794,305	59,484,983

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, 2012 and 2011

	2012	2011
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $153,354,995 in 2012 and $146,156,261 in 2011; including revenues pledged for bonds of $30,943,319 in 2012 and $30,335,487 in 2011	$ 234,075,160	227,112,067
Grants and contracts	82,257,616	81,761,644
Fee-for-service state contract	10,906,347	22,860,290
Sales and services of educational activities	1,356,510	1,449,894
Auxiliary enterprises, net of scholarship allowances of $5,849,471 in 2012 and $5,969,769 in 2011; including revenues pledged for bonds of $39,642,631 in 2012 and $42,014,043 in 2011	41,387,150	41,552,120
Other operating revenues and gifts	8,338,016	9,762,896
Total operating revenues	378,320,799	384,498,911
Operating expenses:		
Instruction	219,979,142	216,714,455
Research	170,296	332,504
Public service	3,431,668	4,179,695
Academic support	36,292,217	34,650,384
Student services	55,683,205	51,192,466
Institutional support	73,628,507	71,443,337
Operation and maintenance of plant	53,320,159	45,625,398
Scholarships and fellowships	22,457,365	25,457,019
Auxiliary enterprises	44,220,245	43,514,915
Depreciation	23,914,545	21,420,555
Total operating expenses	533,097,349	514,530,728
Operating loss	(154,776,550)	(130,031,817)
Nonoperating revenues (expenses):		
State appropriations	45,964,065	49,339,382
State Fiscal Stabilization funding	—	4,523,158
Federal Pell grants	145,210,102	144,545,446
Amendment 50 funding	6,035,507	5,360,539
Distributions to Local District College and Area Vocational Schools	(19,574,820)	(22,418,236)
Gifts	352,646	1,340,156
Investment income	4,134,595	5,235,723
Interest expense on capital debt	(2,093,591)	(1,768,643)
Other nonoperating revenues, including gain (loss) on disposal of assets and revenues pledged for bonds of $886,500 in 2012 and $503,695 in 2011	1,888,493	4,168,273
Net nonoperating revenues	181,916,997	190,325,798
Income before other revenues, expenses, gains, or losses	27,140,447	60,293,981
Other revenues, expenses, gains, or losses:		
State capital contributions	7,679,114	23,086,772
Capital grants	229,533	757,735
Capital gifts	1,240,679	1,306,513
Increase in net assets	36,289,773	85,445,001
Net assets, beginning of year	586,996,147	501,551,146
Net assets, end of year	$ 623,285,920	586,996,147

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2012

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:					
Contributions	$	1,025,564	3,871,675	2,239,652	7,136,891
Grants		—	127,908	—	127,908
Investment income, net		533,864	(9,747)	(36,235)	487,882
Rental income		2,058,274	154,624	20,776	2,233,674
Special events		340,822	172,935	—	513,757
Net assets released from restrictions		6,202,755	(6,201,808)	(947)	—
Other income (loss)		572,364	(198,531)	170,023	543,856
Total revenues		10,733,643	(2,082,944)	2,393,269	11,043,968
Expenses:					
Program services		6,850,877	—	—	6,850,877
Fund-raising services		738,388	—	—	738,388
Administrative services		970,682	—	—	970,682
Total expenses		8,559,947	—	—	8,559,947
Change in net assets		2,173,696	(2,082,944)	2,393,269	2,484,021
Net assets, beginning of year as restated (note 21)		12,144,179	19,356,166	8,287,306	39,787,651
Net assets, end of year	$	14,317,875	17,273,222	10,680,575	42,271,672

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2011

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Contributions	$ 807,253	3,772,082	989,019	5,568,354
Grants	—	564,360	—	564,360
Investment income, net	1,936,358	1,280,627	131,806	3,348,791
Rental income	1,995,002	64,702	33,847	2,093,551
Special events	270,816	167,189	1,500	439,505
Net assets released from restrictions	6,511,474	(6,509,884)	(1,590)	—
Other income (loss)	687,673	(107,008)	(59,445)	521,220
Total revenues	12,208,576	(767,932)	1,095,137	12,535,781
Expenses:				
Program services	8,123,627	—	—	8,123,627
Fund-raising services	1,823,930	—	—	1,823,930
Administrative services	837,184	—	—	837,184
Total expenses	10,784,741	—	—	10,784,741
Change in net assets	1,423,835	(767,932)	1,095,137	1,751,040
Net assets, beginning of year as restated (note 21)	10,720,844	20,126,498	7,189,269	38,036,611
Net assets, end of year	$ 12,144,679	19,358,566	8,284,406	39,787,651

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received:		
Tuition and fees	$ 223,655,010	221,808,404
Student loans collected	5,738,160	4,040,893
Sales of products and services	43,172,974	42,993,539
Grants, contracts, and gifts	93,696,126	105,750,469
Other operating receipts	8,393,762	11,011,738
Cash payments:		
Scholarships disbursed	(22,786,884)	(24,759,743)
Student loans disbursed	(5,507,780)	(4,017,617)
Payments for employees	(307,479,953)	(288,566,444)
Payments to suppliers	(175,856,576)	(166,051,731)
Net cash used in operating activities	(136,975,161)	(97,790,492)
Cash flows from noncapital financing activities:		
State appropriations – noncapital	45,964,065	49,339,382
State Fiscal Stabilization funding	—	4,523,158
Federal Pell grants	144,649,744	144,488,543
Amendment 50 funding	6,035,507	5,360,539
Distributions to Local District Colleges and Area Vocation Schools	(19,574,820)	(22,418,236)
Gifts and grants for other than capital purposes	352,646	1,269,319
Agency (inflows)	201,647,952	297,777,732
Agency (outflows)	(201,945,316)	(290,582,339)
Other noncapital financing activities	2,355,818	4,154,524
Net cash provided by noncapital financing activities	179,485,596	193,912,622
Cash flows from capital and related financing activities:		
Capital grants, contracts, and gifts	829,533	1,607,735
Proceeds from capital debt	11,676,872	41,024,247
Proceeds from sale of capital assets	9,500	88,930
Acquisition and construction of capital assets	(42,829,833)	(27,335,800)
State certificates of participation cash match	2,199,149	120,972
Principal paid on capital debt	(14,091,905)	(2,208,807)
Interest on capital debt	(2,082,749)	(1,475,711)
Net cash provided by (used in) capital and related financing activities	(44,289,433)	11,821,566
Cash flows from investing activities:		
Investment earnings	4,134,595	5,235,723
Proceeds from sale of investments	910,206	209,861
Purchase of investments	(910,209)	(209,722)
Net cash provided by investing activities	4,134,592	5,235,862
Net increase in cash and cash equivalents	2,355,594	113,179,558
Cash and cash equivalents, beginning of year	369,243,963	256,064,405
Cash and cash equivalents, end of year	$ 371,599,557	369,243,963

(Continued)

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (154,776,550)	(130,031,817)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	23,914,545	21,420,555
Increase in other nonoperating assets/noncash expenses	1,090,739	149,408
Decrease (increase) in assets:		
Receivables, net	(1,604,978)	1,309,128
Inventory and prepaids	1,006,849	(748,864)
Increase (decrease) in liabilities:		
Accounts payable	(3,967,588)	3,709,939
Accrued liabilities	1,087,123	1,697,438
Deferred revenues	(3,536,840)	1,320,431
Deposits held for others	(112,885)	370,641
Compensated absences liability	(304,040)	3,116,353
Other liabilities	228,464	(103,704)
Net cash used in operating activities	$ (136,975,161)	(97,790,492)
Noncash investing, capital, and noncapital financing activities:		
State funding for acquisitions of capital assets	$ 7,395,628	22,937,364
State funding for acquisitions of noncapital assets	283,487	149,408
Equipment donations and capital gifts	640,679	527,350
Capital leases	298,842	—
Loss on disposal of capital assets	(195,691)	(1,500)
Amortization of bond premium/discount, issuance costs, and gain or loss on refunding	(254,711)	42,396
Institution COP match reversion	(287,293)	—

See accompanying notes to basic financial statements.

(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 system office and the 13 state system colleges and administers vocational technical education funds distributed to the two Local District Colleges (LDCs), three 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 (CRS). 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, the College Opportunity Fund (COF) stipends, and a fee-for-service (FFS) contract. Pursuant to 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)
- Colorado Northwestern Community College (CNCC)
- Community College of Aurora (CCA)
- Community College of Denver (CCD)
- Front Range Community College (FRCC)
- Lamar Community College (LCC)
- Morgan Community College (MCC)
- Northeastern Junior College (NJC)
- Otero Junior College (OJC)
- Pikes Peak Community College (PPCC)
- Pueblo Community College (PCC)
- Red Rocks Community College (RRCC)
- Trinidad State Junior College (TSJC)

As an institution of higher education in the State of Colorado, the income of CCCS is generally exempt from income taxes under Section 115(a) of the Internal Revenue Code. Income generated from activities unrelated to the exempt purpose of CCCS would be subject to tax under Section 511(a)(2)(B). There was no material tax liability related to income generated from activities unrelated to CCCS' exempt purpose as of June 30, 2012 and 2011.

(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)(9) 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, investments, leases, 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 Community College of Denver Foundation entered into dissolution effective February 2010 and all assets were remitted to CCD. Subsequently, a resolution of the Sole Incorporator of the Community College of Denver Foundation reestablished the CCD Foundation effective November 10, 2011. The discretely presented component unit financial statements are presented in accordance with Financial Accounting Standards Board (FASB) pronouncements.

The Arapahoe Community College Foundation, Inc.; Community College of Aurora Foundation; Colorado Northwestern Community College Foundation; Front Range Community College Foundation; Lamar 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 Foundation were audited by other auditors.

Complete financial statements for the foundations can be obtained from the Finance and Administration Department 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 CCD, 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) 556-2232 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 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.

(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 and Cash Equivalents and Restricted Investments

Restricted cash and cash equivalents and restricted investments primarily represent moneys from unspent bond proceeds, restricted for Benefit Trust benefits, and cash and cash equivalents 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, 2012 and 2011.

(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 internally developed software, 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: 15 – 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, 2012 and 2011, the construction in progress includes capital construction projects in process, but not substantially complete.

(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.

(g) Accrued Liabilities

Accrued liabilities primarily represent accrued payroll, benefits payable, and other payroll-related liabilities at June 30, 2012 and 2011.

(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, FFS contracts, COF stipends, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of CCCS to meet current expenses for any purpose. These resources also include those from auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff. Unrestricted net assets include assets designated by the SBCCOE for certain purposes.

(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 of Colorado for delivery of educational services by CCCS that are not part of the COF stipend program. In fiscal years 2012 and 2011, 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 2012 and 2011, nonoperating revenues include Career and Technical Act (CTA) state appropriations, State Fiscal Stabilization funding (SFSF in fiscal year 2011 only), Federal Pell grants, Amendment 50 funding, state training program grants, occupational education funds, gifts, investment income, and insurance recoveries from prior years. 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' general policy is to first utilize restricted resources. Only when restricted resources are unavailable are unrestricted resources used to pay expenses, with the exception of Amendment 50 funding received, which may be expensed in future periods.

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

(o) State Fiscal Stabilization Funds

On February 19, 2009, the American Recovery and Reinvestment Act (ARRA) of 2009 was signed into law. Under ARRA, some federal funds were allocated to state governments via the 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. In fiscal year 2011, 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. SFSF funding was 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. The SFSF funding stream was concluded in fiscal year 2011 and no funding was received for fiscal year 2012.

(p) Amendment 50 Funds

In November 2008, the passage of Amendment 50 recognized the importance of Community Colleges and LDCs to the State's economic development through the development of a highly skilled workforce. This legislation approved the expansion for limited gaming with new rules, hours, and games beginning July 2, 2009. Gaming tax revenue is collected by the State in the fiscal year that the gaming play takes place and a portion is allocated out to the recipients the following fiscal year, per the provisions of HB 09-1272. Community colleges are to use the funds for classroom instruction-related activities and scholarships for students.

(q) Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

(r) Reclassifications

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

(4) Appropriations

The Colorado State Legislature establishes spending authority for CCCS in its annual Long Appropriations Bill. Appropriated funds include an amount from the State of Colorado's General Fund, COF stipend, and FFS contract revenue. In prior years, the annual appropriation bill included certain cash revenues from the student share of tuition and fees, and 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 the student share of tuition and fees, certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the years ended June 30, 2012 and 2011, appropriated expenditures were within the authorized spending authority. CCCS received a total general fund appropriation of $45,964,065 and $49,339,382, respectively, for 2012 and 2011. Included in the State appropriations are general fund appropriations specified to be passed through to two LDCs and three AVSs for both 2012 and 2011 of $19,574,822 and $22,418,236, respectively. These amounts consist of $11,909,951 and $13,967,735 for 2012 and 2011, respectively, for LDCs, and $7,664,871 and $8,450,501 for 2012 and 2011, respectively, for AVSs. Also included in general fund appropriations were capital contributions of $7,679,114 in 2012 and $23,086,772 in 2011. During 2012, CCCS received FFS contract revenue in the amount of $10,906,347 and COF stipends in the amount of $101,926,579. During 2011, CCCS received FFS contract revenue in the amount of $22,860,290 and COF stipends in the amount of $104,582,509.

(5) Tuition, Fees, and Auxiliary Revenue

Tuition, fees, and auxiliary revenue and the related scholarship allowance for the year ended June 30, 2012 were as follows:

		Tuition and fees	Auxiliary revenue	Total
Gross revenue	$	387,430,155	47,236,621	434,666,776
Scholarship allowances:				
Federal		(122,877,132)	(4,402,566)	(127,279,698)
State		(22,379,843)	(783,694)	(23,163,537)
Private		(2,352,720)	(132,588)	(2,485,308)
Institutional		(5,745,300)	(530,623)	(6,275,923)
Total scholarship allowances		(153,354,995)	(5,849,471)	(159,204,466)
Net revenue	$	234,075,160	41,387,150	275,462,310

Tuition, fees, and auxiliary revenue and the related scholarship allowance for the year ended June 30, 2011 were as follows:

		Tuition and fees	Auxiliary revenue	Total
Gross revenue	$	373,268,328	47,521,889	420,790,217
Scholarship allowances:				
Federal		(119,910,271)	(4,553,973)	(124,464,244)
State		(18,900,264)	(839,813)	(19,740,077)
Private		(2,220,419)	(79,017)	(2,299,436)
Institutional		(5,125,307)	(496,966)	(5,622,273)
Total scholarship allowances		(146,156,261)	(5,969,769)	(152,126,030)
Net revenue	$	227,112,067	41,552,120	268,664,187

(6) Cash and Cash Equivalents and Investments

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

	June 30 2012	June 30 2011
Cash on hand and change funds	$ 262,617	162,912
Deposits with financial institutions	30,039,070	48,098,829
Total	$ 30,301,687	48,261,741

Colorado statutes require protection of public moneys in banks beyond that provided by the Federal Deposit Insurance Corporation (FDIC). The Public Deposit Protection Act in CRS 11-10.5-107(5) requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102.0% of the deposits exceeding those amounts insured by federal insurance.

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

	Carrying amount June 30 2012	Carrying amount June 30 2011
Footnote amounts:		
Deposits	$ 30,301,687	48,261,741
Deposits held with State Treasurer	341,297,870	320,982,222
Restricted investments	1,590,868	2,524,924
Total	$ 373,190,425	371,768,887
Financial statement amounts:		
Net cash and cash equivalents	$ 343,287,435	323,121,905
Current restricted cash and cash equivalents	4,620,634	3,882,953
Noncurrent restricted cash and cash equivalents	23,691,488	42,239,105
Subtotal cash and cash equivalents	371,599,557	369,243,963
Restricted investments	1,590,868	2,524,924
	$ 373,190,425	371,768,887

CCCS deposits its cash with the Treasurer as required by CRS. The Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, CRS. The Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2012 and 2011, CCCS had cash on deposit with the Treasurer of $341,297,870 and $320,982,222, respectively, which represented approximately 5.2% of the total of $6,541.7 million and 5.3% of the total of $6,100.3 million, respectively, in deposits in the 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 an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The 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 Treasurer, the net unrealized loss for fiscal year 2012 was $242,500 and the net unrealized loss for fiscal year 2011 was $122,086. These unrealized losses are included in cash and cash equivalents on the statements of net assets.

(a) Custodial Credit Risk

Investments in the Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. As of June 30, 2012 and 2011, none of the investments in the Pool are 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 the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2012 and 2011, approximately 89.0% and 86.7%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for $12,085,710 and $18,384,300 in 2012 and 2011, respectively, of corporate bonds rated lower medium, and $15,015,000 in 2011 of corporate bonds rated as very 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, 2012 and 2011, there were no investments in the Benefit Trust, subject to credit quality risk. The Benefit Trust does not have a documented risk policy on its investments for credit quality risk.

(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 WAM 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, 2012, the WAM of investments in the Pool is 0.090 years for commercial paper (2.1% of the Pool), 0.803 years for U.S. government securities (75.2% of the Pool), 2.379 years for asset-backed securities (6.6% of the Pool), and 3.252 years for corporate bonds (16.1% of the Pool). As of June 30, 2011, the WAM of investments in the Pool is 0.015 years for commercial paper (1.3% of the Pool), 1.054 years for U.S. government securities (81.7% of the Pool), 1.06 years for asset-backed securities (6.9% of the Pool), and 3.133 years for corporate bonds (10.1% of the Pool).

As of June 30, 2012 and 2011, the Benefit Trust had no investments subject to interest rate risk. The Benefit Trust does not have a documented risk policy on its investments for interest rate risk.

(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 5.0% or more of total investments subject to concentration of credit risk, 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, 2012, the fair value of Benefit Trust investments greater than 5.0% of total applicable investments was as follows:

	Fair value	Percentage of investments
Analog Devices	$ 86,641	5.58%
Berkshire Hathaway Inc Series B New	124,995	8.06
Caterpillar Inc	110,383	7.11
Celgene Corp	256,640	16.54
EQT Corp	101,897	6.57
Omnicare Inc	96,813	6.24
Verizon Communications Com	111,100	7.16
Willis Group Holdings Public Limited	153,258	9.88

As of June 30, 2011, the fair value of Benefit Trust investments greater than 5.0% of total investments was as follows:

Issuer		Fair value	Percentage of investments
Analog Devices	$	90,022	5.32%
Berkshire Hathaway Inc Series B New		116,085	6.86
Caterpillar Inc		244,858	14.47
Colene Corp		241,280	14.26
EQT Corp		99,788	5.90
Omnicare Inc		98,859	5.84
Verizon Communications Com		93,075	5.50
Wells Fargo Company		95,404	5.64
Willis Group Holdings Public Limited Company		86,331	5.10

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 Pool was not subject to concentration of credit risk in fiscal year 2012 or 2011.

(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 Pool and the Benefit Trust were not subject to foreign currency risk in fiscal year 2012 or 2011.

Additional information on investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2012.

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

Accounts receivable at June 30, 2012 were as follows:

		Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	$	52,363,340	(24,917,489)	27,445,851
Due from other governments		18,743,447	—	18,743,447
Other receivables		5,269,430	(331,127)	4,938,303
Total receivables	$	76,376,217	(25,248,616)	51,127,601

Accounts receivable at June 30, 2011 were as follows:

		Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	$	50,118,784	(22,998,471)	27,120,313
Due from other governments		19,052,317	—	19,052,317
Other receivables		3,929,533	(333,697)	3,595,836
Total receivables	$	73,100,634	(23,332,168)	49,768,466

Accounts payable and accrued liabilities at June 30, 2012 and 2011 were as follows:

		2012	2011
Amounts owed to vendors	$	17,326,791	16,342,188
Salaries and benefits payable		34,524,999	33,439,021
Accrued interest payable		514,543	471,120
Other payables		1,382,102	2,159,069
Total accounts payable and accrued liabilities	$	53,748,435	52,411,398

(8) Capital Assets

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2012:

	Balance, June 30, 2011	Additions	Deletions	Transfers	Balance, June 30, 2012
Nondepreciable capital assets:					
Land and land improvements	$ 20,623,390	—	—	—	20,623,390
Construction in progress	47,829,409	36,661,089	(501,991)	(50,778,276)	33,210,231
Collections	635,906	244,961	(60,000)	—	820,867
Total nondepreciable capital assets	69,088,705	36,906,050	(561,991)	(50,778,276)	54,654,488
Depreciable capital assets:					
Land improvements	17,878,427	248,870	—	17,689	18,144,986
Buildings and improvements	438,589,944	9,258,235	(147,670)	47,632,863	495,333,372
Leasehold improvements	7,759,096	1,366,042	—	3,127,724	12,252,862
Equipment and software	73,776,063	7,061,029	(6,205,952)	—	74,631,140
Library materials	12,055,526	486,761	(1,274,306)	—	11,267,981
Total depreciable capital assets	550,059,056	18,420,937	(7,627,928)	50,778,276	611,630,341
Less accumulated depreciation:					
Land improvements	8,936,017	687,236	—	—	9,623,253
Buildings and improvements	210,517,716	14,853,605	(113,793)	—	225,257,528
Leasehold improvements	3,797,074	559,881	—	—	4,356,955
Equipment and software	35,365,046	7,111,156	(6,074,849)	—	36,401,353
Library materials	7,787,473	702,667	(1,274,306)	—	7,215,834
Total accumulated depreciation	266,403,326	23,914,545	(7,462,948)	—	282,854,923
Net depreciable capital assets	283,655,730	(5,493,608)	(164,980)	50,778,276	328,775,418
Total capital assets, net	$ 352,744,435	31,412,442	(726,971)	—	383,429,906

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2011:

	Balance, June 30, 2010	Additions	Deletions	Transfers	Balance, June 30, 2011
Nondepreciable capital assets:					
Land and land improvements	$ 20,624,742	—	(1,352)	—	20,623,390
Construction in progress	30,850,907	43,768,742	(37,579)	(26,752,661)	47,829,409
Collections	635,906	—	—	—	635,906
Total nondepreciable capital assets	52,111,555	43,768,742	(38,931)	(26,752,661)	69,088,705
Depreciable capital assets:					
Land improvements	17,351,925	442,301	(1)	84,202	17,878,427
Buildings and improvements	411,465,199	958,294	(17,112)	26,183,563	438,589,944
Leasehold improvements	7,519,249	65,104	(2)	174,745	7,759,096
Equipment and software	68,573,922	6,782,637	(1,890,647)	310,151	73,776,063
Library materials	12,596,008	553,305	(1,093,787)	—	12,055,526
Total depreciable capital assets	517,506,303	8,801,641	(3,001,549)	26,752,661	550,059,056
Less accumulated depreciation:					
Land improvements	8,174,285	761,732	—	—	8,936,017
Buildings and improvements	197,166,054	13,351,662	—	—	210,517,716
Leasehold improvements	3,314,809	482,267	(2)	—	3,797,074
Equipment and software	31,009,499	6,138,305	(1,782,758)	—	35,365,046
Library materials	8,194,668	686,589	(1,093,784)	—	7,787,473
Total accumulated depreciation	247,859,315	21,420,555	(2,876,544)	—	266,403,326
Net depreciable capital assets	269,646,988	(12,618,914)	(125,005)	26,752,661	283,655,730
Total capital assets, net	$ 321,758,543	31,149,828	(163,936)	—	352,744,435

(9) Long-Term Liabilities

The following table presents changes in long-term liabilities at June 30, 2012:

	Balance, June 30, 2011	Additions	Reductions	Balance, June 30, 2012	Current portion
Bonds payable	$ 61,937,334	11,931,596	(1,573,195)	72,295,735	2,840,000
Capital leases payable	23,133,876	298,842	(12,417,610)	11,015,108	575,246
Other long-term liabilities	918,539	307,629	(90,569)	1,135,599	48,861
Compensated absences liability	17,483,666	18,374,468	(18,678,509)	17,179,625	1,103,787

The following table presents changes in long-term liabilities at June 30, 2011:

	Balance, June 30, 2010	Additions	Reductions	Balance, June 30, 2011	Current portion
Bonds payable	$ 24,693,110	38,656,977	(1,412,753)	61,937,334	1,480,000
Capital leases payable	21,114,128	2,828,305	(808,557)	23,133,876	849,275
Other long-term liabilities	980,761	301,873	(364,095)	918,539	61,423
Compensated absences liability	14,367,313	16,188,956	(13,072,603)	17,483,666	1,108,616

(10) Bonds Payable

(a) Systemwide Revenue Bonds

The State's Department of Higher Education, through the SBCCOE, issued revenue bonds in 2003, 2004, 2010, and 2012 known as Systemwide Revenue Bonds. Bond proceeds were used to benefit facilities at the individual colleges, as noted below.

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, 2030. The principal of the Series 2003 issue was used to refund PPCC's portion of the Series 1996 bonds and to build two new child development centers for PPCC.

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, 2015. The principal of the Series 2004 issue was used to advance refund the remaining $2,620,000 balance of the FRCC Westminster Campus Series 1995 bonds and the remaining $1,740,000 balance of the FRCC Larimer Campus Series 1996 bonds.

Series 2010 Bonds

The Series 2010A Systemwide Revenue Refunding Bonds for $7,335,000 were issued on March 10, 2010. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2019. The principal of the Series 2010A issue was used to current refund the remaining outstanding balances of the following:

Series 1997 bonds for Community College of Aurora, Northeastern Junior College, and Trinidad State Junior College	$ 2,770,000
Series 1998 bonds for Morgan Community College and Northeastern Junior College Series	905,000
Series 1999 bonds for Pueblo Community College and Red Rocks Community College	3,565,000
	$ 7,240,000

(Continued)

The principal of the Series 2010A issue was distributed between the colleges as follows:

Community College of Aurora	$	761,893
Morgan Community College		334,400
Northeastern Junior College		2,092,944
Pueblo Community College		1,663,917
Red Rocks Community College		1,940,311
Trinidad State Junior College		541,535
	$	7,335,000

Series 2010B-1 Systemwide Revenue Bonds for $830,000 were issued on March 10, 2010. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2014. The principal of the Series 2010B-1 issue was distributed between the colleges as follows:

Colorado Northwestern Community College	$	495,000
Northeastern Junior College		335,000
	$	830,000

The Series 2010B-2 Taxable Systemwide Revenue Bonds for $9,665,000 were issued on March 10, 2010. Interest is payable semiannually on May 1 and November 1. The Series 2010B-2 Bonds were issued as "Build America Bonds" for purposes of ARRA of 2009 signed into law on February 17, 2009 (the Recovery Act). Pursuant to the Recovery Act, SBCCOE expects to receive a cash subsidy payment from the U.S. Treasury (referred to herein as the Federal Direct Payments) equal to 35.0% of the interest payable on the Series 2010B-2 Bonds on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the U.S. government, but is required to be paid by the Treasury under the Recovery Act. Any Federal Direct Payments received by the Board are to be deposited into the Debt Service Fund and applied to the payment of principal and interest on the Series 2010B-2 Bonds. Final maturity of the bonds is November 1, 2041. The principal of the Series 2010B-2 issue was distributed between the colleges as follows:

Colorado Northwestern Community College	$	4,585,000
Northeastern Junior College		5,080,000
	$	9,665,000

The proceeds from the 2010B-1 and 2010B-2 bonds will be used to finance construction, improvement, and equipping of 78,000 square feet of the Craig Campus Academic Building at CNCC, 14,000 square feet of the Craig Career and Technical Center at CNCC, and a new student residence hall for the housing of students at NJC.

The Series 2010A, 2010B-1, and 2010B-2 Bonds qualify for the State of Colorado Intercept Program (the State Intercept Program). Pursuant to the State Intercept Program, the Treasurer shall pay the principal of and interest on the Series 2010 Bonds if the Board does not make such payments when they are due.

The Series 2010C Systemwide Revenue Bonds for $6,545,000 were issued on October 13, 2010. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2017. The principal of the Series 2010C issue was distributed between the colleges as follows:

Community College of Denver	$ 4,575,000
Pueblo Community College	1,970,000
	$ 6,545,000

The Series 2010D Taxable Systemwide Revenue Bonds for $31,455,000 were issued on October 13, 2010. Interest is payable semiannually on May 1 and November 1. The Series 2010D Bonds were issued as “Build America Bonds.” Final maturity of the bonds is November 1, 2039. The principal of the Series 2010C issue was distributed between the colleges as follows:

Community College of Denver	$ 19,970,000
Pueblo Community College	11,485,000
	$ 31,455,000

The proceeds from the 2010C and 2010D bonds will be used to finance construction, improvement, and equipping of the Student Learning and Success Building at CCD, the Student Center at PCC, and the Learning Resource Center at PCC.

The Board has adopted a resolution stating that it will not participate in the State Intercept Program for the 2010C and 2010D Bonds.

Series 2012 Bonds

The Series 2012A Systemwide Revenue Refunding Bonds for $11,495,000 were issued on January 25, 2012. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2032. The net present value of the savings of the refunded bonds was $2,852,711. The principal of the Series 2012A issue was used to current refund the Colorado Educational and Cultural Facilities Authority Lease Revenue Bonds (Community Colleges of Colorado System Headquarters Project), Series 2001 (the Series 2001 Bonds), and the Colorado Educational and Cultural Facilities Authority, Community Colleges of Colorado, Lease Revenue Bonds (Pikes Peak Community College Project), Series 2001A (the Series 2001A Bonds) and advance refund the Colorado Educational and Cultural Facilities Authority, Community Colleges of Colorado, Lease Revenue Bonds (Arapahoe Community College Project), Series 2002 (the Series 2002 Bonds) and together with the Series 2001 Bonds and Series 2001A Bonds, the Refunded Bonds) held by the Colorado Community College System Foundation (the Foundation) which replaced capital leases between the Foundation and the System Office, Pikes Peak Community College, and Arapahoe Community College, respectively, as follows:

Series 2001 bonds for Colorado Community College System	$	5,865,000
Series 2001A bonds for Pikes Peak Community College		3,615,000
Series 2002 bonds for Arapahoe Community College		2,065,000
	$	11,545,000

The principal of the Series 2012A issue was distributed between the colleges as follows:

Community College System	$	5,825,000
Pikes Peak Community College		3,535,000
Arapahoe Community College		2,135,000
	$	11,495,000

The Board has adopted a resolution stating that it will not participate in the State Intercept Program for the 2012A Bonds.

(b) Advance Refundings

In fiscal year 1999, $5,490,000 of Pueblo Community College and Red Rocks Community College Systemwide Revenue Bonds Series 1992 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, the Pikes Peak Community College Systemwide Revenue Bonds Series 1996 were advance refunded. A portion of the proceeds of the 2003 bonds, in the amount of $1,175,000, 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.

In fiscal year 2012, $2,135,000 of Community Colleges of Colorado, Lease Revenue Bonds (Arapahoe Community College Project), Series 2002 Arapahoe Community College Systemwide Revenue Bonds Series 2002 was advance refunded. Proceeds of the new bonds were placed in an escrow fund for all future debt service payments on the previous service bonds. The net present value of the savings of the advance refunded bonds was $521,862.

For June 30, 2012 and 2011, $4,740,000 and $5,920,000, respectively, outstanding is considered advance refunded and not included in the accompanying basic financial statements.

(c) Security

The bonds are special obligations of CCCS payable from certain net pledged revenues as defined in the bond indentures. The Series 2012 and 2010 bonds are payable solely out of and secured by an irrevocable pledge of 10% of tuition and fee revenues, net of scholarship allowance. The Series 2004 and Series 2003 bonds are payable solely out of and secured by an irrevocable pledge of income or monies derived from the auxiliary facilities (defined below) after deduction of operating and maintenance expenses, including, without limitation, student fees and other fees, rates, and charges pertaining thereto and for the development thereof, and may include, at 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.

Total net pledged revenue for bonds was $75,534,225 and $72,349,530 for fiscal years 2012 and 2011, respectively. These amounts consisted of $30,943,319 student tuition and fees, net of scholarship allowance plus pledges for other revenues for fiscal year 2012 and $30,335,487 of student fees net of scholarship allowance plus pledges for other revenues for fiscal year 2011 plus $39,642,631 and $42,014,043 of auxiliary enterprise plus pledges for other revenues for fiscal year 2012 and 2011, respectively.

(d) Earnings Requirement

Under the terms of the December 2004 bond indenture, CCCS must adopt fees, tuition rates, rents, and charges sufficient to budget annual net pledged revenues of at least 125.0% of the debt service due that fiscal year. Management believes it is in compliance with the earnings requirement provision of the bond indentures.

(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.

(Continued)

(h) Long-Term Bond Principal Maturities

Bond principal payments to be made during fiscal years through 2017 are enumerated in the following tables:

Bond issue		Principal maturing in next five years by year FY13	FY14	FY15	FY16	FY17
Series 2003:						
Pikes Peak Community College	$	155,000	160,000	165,000	170,000	175,000
Series 2004:						
Front Range Community College		470,000	485,000	505,000	525,000	—
Series 2010A:						
Community College of Aurora		71,752	74,625	73,006	75,511	78,019
Morgan Community College		37,514	36,654	35,855	39,384	38,363
Northeastern Junior College		208,711	208,300	212,398	215,276	222,672
Pueblo Community College		234,056	238,398	242,928	246,192	249,707
Red Rocks Community College		183,640	184,723	190,600	195,442	200,443
Trinidad State Junior College		64,327	67,300	70,213	68,195	70,796
Series 2010B-1:						
Colorado Northwestern Community College		105,000	105,000	110,000	—	—
Northeastern Junior College		110,000	110,000	115,000	—	—
Series 2010B-2:						
Colorado Northwestern Community College		—	—	—	110,000	115,000
Northeastern Junior College		—	—	—	115,000	120,000
Series 2010C:						
Community College Denver		420,000	765,000	795,000	830,000	865,000
Pueblo Community College		295,000	310,000	325,000	335,000	345,000
Series 2010D:						
Community College Denver		—	—	—	—	—
Pueblo Community College		—	—	—	—	—
Series 2012A:						
Community College of Aurora		75,000	75,000	80,000	80,000	80,000
Colorado Community College System		230,000	235,000	240,000	245,000	250,000
Pikes Peak Community College		180,000	190,000	195,000	195,000	200,000
Total revenue bonds payable		2,840,000	3,245,000	3,355,000	3,445,000	3,010,000
Interest		2,941,482	2,854,051	2,756,521	2,654,186	2,552,047
Total annual debt service	$	5,781,482	6,099,051	6,111,521	6,099,186	5,562,047

Bond debt service payments after fiscal year 2017 to maturity are as follows:

	Principal	Interest	Total
2018 – 2022	$ 13,435,000	11,343,569	24,778,569
2023 – 2027	13,570,000	8,863,261	22,433,261
2028 – 2032	14,090,000	5,637,720	19,727,720
2033 – 2037	9,780,000	2,447,999	12,227,999
2038 – 2042	4,555,000	528,698	5,083,698

Remaining debt service by bond issuance is as follows:

	Revenue bonds outstanding*, June 30, 2012	Interest rate	Maximum annual principal	Callable	Call premium	Final payment
State Board for Community Colleges and Occupational Education Systemwide Revenue Bonds:						
Series 2003:						
Pikes Peak Community College	$ 3,646,301	2.08% to 4.125%	$ 290,000	Yes	None	11/1/2030
Series 2004:						
Front Range Community College	1,924,948	3.08% to 3.65%	525,000	Yes	None	11/1/2015
Series 2010A:						
Community College of Aurora	638,055	2.00% to 3.00%	86,935	No	None	11/1/2019
Morgan Community College	272,986	2.00% to 3.00%	41,803	No	None	11/1/2018
Northeastern Junior College	1,739,811	2.00% to 3.00%	233,038	No	None	11/1/2019
Pueblo Community College	1,236,467	2.00% to 2.50%	249,706	No	None	11/1/2016
Red Rocks Community College	1,620,310	2.00% to 3.00%	220,025	No	None	11/1/2019
Trinidad State Junior College	426,360	2.00% to 2.75%	74,279	No	None	11/1/2017
Series 2010B-1:						
Colorado Northwestern Community College	326,364	2.00%	110,000	No	None	11/1/2014
Northeastern Junior College	340,065	2.00%	115,000	No	None	11/1/2014
Series 2010B-2:						
Colorado Northwestern Community College	4,584,283	2.00% to 6.10%	280,000	Yes (after 11/2021)	None	11/1/2040
Northeastern Junior College	5,077,336	2.00% to 6.10%	305,000	Yes (after 11/2021)	None	11/1/2041
Series 2010C:						
Community College Denver	4,966,757	4.00%	900,000	No	None	11/1/2017
Pueblo Community College	2,132,220	4.00%	360,000	No	None	11/1/2017
Series 2010D:						
Community College Denver	19,955,230	3.37% to 5.35%	1,510,000	Yes (after 11/2021)	None	11/1/2034
Pueblo Community College	11,477,307	3.37% to 5.50%	730,000	Yes (after 11/2021)	None	11/1/2039
Series 2012A:						
Community College of Aurora	2,201,570	2.00% to 3.375%	140,000	Yes (after 11/2022)	None	11/1/2032
Colorado Community College System	6,023,004	2.00% to 3.375%	375,000	Yes (after 11/2022)	None	6/30/2032
Pikes Peak Community College	3,706,361	2.00% to 3.375%	270,000	Yes (after 11/2022)	None	6/30/2028
	$ 72,295,735					

* Includes deferred gain on refunding and unamortized bond premium and discount of $970,735

(11) Leases and State of Colorado Certificates of Participation

CNCC, LCC, NJC, TSJC, and CCCS have recorded capital leases in conjunction with building improvements and equipment related to energy performance contracts. The interest rate on the capital lease range from 4.75% to 5.35%. 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. In 2012 and 2011, capitalized assets relating to these leases were approximately $16,570,741 and $27,862,563, respectively, with amortization expense of $847,825 and $1,063,334, respectively, and accumulated amortization of $2,118,920 and $4,439,984, respectively.

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

		Principal	Interest	Total
2013	$	575,246	551,914	1,127,160
2014		615,871	516,824	1,132,695
2015		638,825	484,062	1,122,887
2016		713,439	450,060	1,163,499
2017		732,998	412,741	1,145,739
2018 – 2022		3,672,331	1,522,502	5,194,833
2023 – 2027		2,836,727	679,912	3,516,639
2028 – 2032		1,229,671	145,832	1,375,503
Total	$	11,015,108	4,763,847	15,778,955

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-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; 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.

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, 2012 and 2011 was $2,724,538 and $4,015,681, respectively. Future minimum rental payments, exclusive of real estate taxes and other expenses, under operating leases are as follows:

Year ending June 30:		
2013	$	4,159,408
2014		3,717,183
2015		3,317,101
2016		4,124,490
2017		1,853,447
2018 – 2022		5,719,720
2023 – 2027		645,517
2028 – 2032		645,517
2033 – 2037		645,517
2038 – 2042		645,517
2043 – 2047		645,517
2048 – 2052		65,552

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.

(12) Other Long-Term Liabilities

Other long-term liabilities consist of expired warrants that are unclaimed at year-end. The combined payment schedule is as follows:

		Total
2013	$	48,861
2014		100,444
2015		190,599
2016		144,048
2017		378,927
2018 – 2022		272,720
Total	$	1,135,599

(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, 2012 and 2011 is $17,179,625 and $17,483,666, 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, 2012 and 2011, the Public Employees' Retirement Association of Colorado (PERA) estimated that 55.5% and 55.4%, 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 PERA Board of Trustees. 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, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

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. Community college employees hired after January 1, 2010 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 twelve 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 any years of service.
- Hired between January 1, 2007 and December 31, 2010 – 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. For members with less than five years of service credits as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.

(Continued)

- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 58 with 30 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 the original hire date, as follows:

- Hired before January 1, 2007 – age 55 with a minimum of five years of service credit and age plus years of service equals 80 or more.
- Hired on or before January 1, 2007 – age 55 with a minimum of five years of service credit and age plus years of service equals 85 or more.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

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 15.0% increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2.0% or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2.0% or the actual increase in the national Consumer Price Index, limited to a 10.0% 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 one percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103.0% and declines by one-quarter percentage point when the funded ratio drops below 90.0% after having exceeded 103.0%. The funded ratio increase does not apply for three years when a negative return on investment occurs.

Members who are 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. Effective July 1, 2011, Senate Bill 11-076 extended the requirement for members in the State Division to pay 2.5% additional member contributions through June 30, 2012. Employer contributions for members in this division will be reduced by 2.5%.

From July 1, 2011 to December 31, 2011, CCCS contributed 12.25% of the employee's salary. From January 1, 2012 through June 30, 2012, CCCS contributed 13.15%. During all of fiscal year 2012, 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, 2011, the division of PERA in which the state participates has a funded ratio of 57.7% and a 56-year amortization period based on current contribution rates. The funded ratio on the market value of assets is lower at 57.6%.

In the 2004 and 2010 legislative sessions, 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 for calendar years 2006 and 2007, with subsequent year increases of 0.4% of salary through 2017, to maximum of 5.0%.

In the 2006 and 2010 legislative sessions, 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, for calendar years 2008 through 2017, to a maximum of 5.0%. The SAED will be deducted from the amount otherwise available to increase state employees' salaries.

At a 103.0% funding ratio, both the AED and SAED will be reduced by one-half percentage point, and for subsequent declines to below 90.0% funded both the AED and SAED will be increased by one-half percentage point.

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 and/or the State's defined-contribution plan for the fiscal years ended June 30, 2012, 2011, and 2010 were

(Continued)

$30,046,428, $26,288,210, and $28,362,396, respectively. These contributions met the contribution requirements for each year.

(c) Future Accounting Change

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (Statement No. 68), which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The System provides certain of its employees with pension benefits through the state's multiple-employer cost-sharing Public Employees' Retirement Association (PERA) defined benefit retirement program.

Statement No. 68 requires cost-sharing employers participating in the PERA program, such as CCCS, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The System has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact CCCS' future unrestricted net position. Statement No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of this impact. Information regarding PERA's current funding status can be found in its Comprehensive Annual Financial Report.

(15) Other Retirement Plans

(a) Defined-Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative function for the defined-contribution plan were transferred to PERA. New member contributions to the plan vest from 50.0% to 100.0% evenly over five years. Participants in the plan are required to contribute 8.0% of their salary. For fiscal years 2011 and 2010, the legislature temporarily increased the required contribution rate to 10.5%. At December 31, 2011, the plan had 4,029 participants.

(b) Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100.0% of their annual gross salary (reduced by their 8.0% PERA contribution with a temporarily increase to 10.5% for fiscal years 2011 and 2012 to a maximum of $16,500). Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $5,500 contribution in 2010, for total contributions of $22,000. Contributions and earnings are tax deferred. At December 31, 2011, the plan had 17,821 participants.

PERA also offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan, the deferred compensation plan, and the defined-contribution plan. Certain agencies and institutions of the state offer 403(b) or 401(a) plans.

(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 P.O. 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 5.0% 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 wages to the Health Care Trust Fund. CCCS’ contribution is disclosed above in conjunction with contributions for the State defined benefit plan. In each year, the amount contributed was 100.0% of the required contribution.

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, 2011, there were 50,217 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2011, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.43 billion, a funded ratio of 16.5%, and a 49-year amortization period.

(b) Other Programs

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 2012 and 2011, CCCS made contributions to the Benefit Trust of approximately $261,000 and $268,000, 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 Office 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 Office 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 $42.6 million in commitments for various capital construction and controlled maintenance projects as of June 30, 2012.

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, the State Office of Risk Management (the Office), and it is anticipated that the Office would pay any judgment that would be entered against the System. In management's opinion, none of these proceedings will have a material adverse effect on the System's financial condition or operations. No provision has been made in the accompanying basic financial statements for these items.

CCCS receives significant financial awards from federal and state agencies in the form of grants. Expenditures of funds under those programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of CCCS. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition or operations of CCCS.

(Continued)

(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 have historically included 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 10.0% (in relation to total revenues) in support from the State. In fiscal years 2012 and 2011, the System received 1.7% and 1.4%, 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. Beginning fiscal year 2012, the Colorado State Legislature no longer appropriated the student share of tuition and fees.

(21) Discretely Presented Component Units Restatement

As of July 1, 2011, the MCC Foundations net assets were restated to correct errors and the presentation of net assets. A summary of the total adjustments was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year, as previously reported	$ 12,144,679	19,358,566	8,284,406	39,787,651
Restatement	(500)	(2,400)	2,900	—
Net assets, beginning of year, as restated	$ 12,144,179	19,356,166	8,287,306	39,787,651

As of July 1, 2010, CNCC, LCC, and TSJC Foundations' net assets were restated to correct errors and the presentation of net assets. A summary of the total adjustments was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year, as previously reported	$ 10,720,845	20,250,897	7,191,046	38,162,788
Restatement	(1)	(124,399)	(1,777)	(126,177)
Net assets, beginning of year, as restated	$ 10,720,844	20,126,498	7,189,269	38,036,611

(22) Related-Party Transactions

Approximately $3,892,532 and $5,256,992 was transferred to the colleges from the foundations for the years ended June 30, 2012 and 2011, respectively, in pursuit of providing financial support for instructional programs, facilities, equipment, student scholarship programs, and cultural activities.

(23) Return of CTA Funds

As Colorado school district budgets decreased over the past four years, there was also a significant decline in the amounts expended for Career and Technical Education. In addition, the majority of school districts reported a decrease in the cost per FTE of 3%, most likely as a result of total costs declining at a faster rate than student enrollment as programs were consolidated or closed. Finally, some school districts exercised an option to exclude reporting a program for funding because if it had high enrollment and low costs, it may have had a detrimental impact on the reimbursement level due to the funding formula. As a result, the System returned $820,277 in unspent CTA funds in fiscal year 2012 to the Colorado Department of Education.

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

The Members of the Legislative Audit Committee and
Colorado Community College System:

We have audited the 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, 2012, which collectively comprise CCCS' basic financial statements, and have issued our report thereon dated November 9, 2012. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component units were audited by the other auditors and not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of CCCS is responsible for establishing and maintaining effective 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 our opinion 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.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency and is described in the Findings and Recommendations section of this report as Recommendation No. 1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

KPMG

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*.

CCCS' responses to the findings identified in our audit 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

November 9, 2012

KPMG LLP
Suite 800
1225 17th Street
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November 9, 2012

The Members of the Legislative Audit Committee
Colorado Community College System:

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, 2012, and have issued our report thereon dated November 9, 2012, which includes a reference to the reports of other auditors. Under our professional standards, we are providing you with the accompanying 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 perform 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.

Also, in planning and performing our audit of the basic 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 basic 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 the CCCS' internal control. However, during the course of our audit, we identified certain deficiencies in internal control that we consider to be significant deficiencies. 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 the 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 Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by CCCS are described in note 3 to the 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 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 the CCCS' books and records as of and for the year ended June 30, 2012. We have reported such misstatements to management on a Summary of Unadjusted 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 79 includes a copy of the summary that has been provided to, and discussed with, management.

The Members of the Legislative Audit Committee
Colorado Community College System
November 9, 2012

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 the 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, 2012.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with 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. Findings and recommendations included in this report

Significant Difficulties Encountered during the Audit

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

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all relationships between our firm and CCCS and persons in a financial reporting oversight role at CCCS and provide confirmation that we are independent accountants with respect to CCCS.

Confirmation of Audit Independence

We hereby confirm that as of November 9, 2012 we are independent accountants with respect to CCCS under all relevant professional and regulatory standards.

* * * * *

This letter is intended solely for the information 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, 2012

Adj. No.	Description	Change in net assets unadjusted audit differences arising in Current period	Statement of net assets		
			Net assets	Assets	Liabilities
1	Tuition and fees revenue:				
	Operating expense – bad debt	$ 6,509,086	6,509,086	—	—
	To reclassify bad debt expense to a contra-revenue account	(6,509,086)	(6,509,086)	—	—
2	Accounts receivable, net	4,972,898	—	4,972,898	—
	To write off AR balances greater than 5 years old	(4,972,898)	—	(4,972,898)	—
	(Disclosure only no financial statement impact)				
		$ —	—	—	—

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Introduction
(Unaudited)

Year ended June 30, 2012

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.

The financial and compliance examination of the various state-funded student financial assistance programs at CCCS for the year ended June 30, 2012 was directed toward the objectives and criteria set forth in the *2011-12 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the Department of Higher Education (DHE), and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System. The state-funded student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2012.

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

- Colorado Need-Based Grants awards:
- Colorado Student Grants Program
- Colorado Work-Study Program

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 $29.4 million during the year ended June 30, 2012.

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, 2012. CCCS also obtained authorizations for federal student financial aid funds as follows:

- Supplemental Educational Opportunity Grant of approximately $1.3 million
- College Work-Study of approximately $1.7 million

In addition to these programs, CCCS also received funding through the Pell Grant Program in the amount of approximately $143.5 million and through direct lending in the amount of approximately $227.1 million. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

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

The Members of the Legislative Audit Committee and
Colorado Community College System:

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, 2012. This Statement is the responsibility of CCCS' management. Our responsibility is to express an opinion on this 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 as set forth in the *2011-12 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the Department of Higher Education (DHE), and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System. 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, 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 State-Funded Student Financial Assistance programs of Colorado Community College System for the year ended June 30, 2012, pursuant to the *2011-12 Audit Guide, Colorado Funded Student Aid* issued by the Department of Higher Education, and in conformity with the policies and procedures for State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012 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 considered in assessing 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 *Audit Guide*, and in conformity with the provisions of the policies and procedures for State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System. The accompanying 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statement. The schedules of appropriations, expenditures, transfers, and reversions of each college have been subjected to the auditing procedures applied in the audit of the Statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of appropriations, expenditures, transfers, and reversions of each college are fairly stated in all material respects in relation to the basic Statement as a whole. The introduction is presented for the purposes of additional analysis and is not a required part of the Statement. Such information has not been subjected to the auditing procedures applied in the audit of the Statement, and accordingly, we do not express an opinion or provide any assurance on it.

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, the Colorado Department of Higher Education and the Colorado Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 9, 2012

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:				
Original	$	29,418,279	24,775,775	4,642,504
Supplementals		—	—	—
Transfers		—	—	—
Total appropriations		29,418,279	24,775,775	4,642,504
Less expenditures		29,395,552	24,772,146	4,623,406
Reversions to state general fund	$	22,727	3,629	19,098

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

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2012

(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 *2011-12 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the Department of Higher Education (DHE), and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System.

. 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, 2012.

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.

The Colorado Leveraging Educational Assistance Partnership (CLEAP) and Supplemental Leveraging Educational 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 Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:			
Original	$ 2,174,561	1,896,203	278,358
Supplementals	—	—	—
Transfers	—	—	—
Total appropriations	2,174,561	1,896,203	278,358
Less expenditures	2,174,561	1,896,203	278,358
Reversions to state general fund	$ —	—	—

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

COLORADO NORTHWESTERN COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:			
Original	$ 272,829	202,756	70,073
Supplementals	—	—	—
Transfers	—	—	—
Total appropriations	272,829	202,756	70,073
Less expenditures	272,829	202,756	70,073
Reversions to state general fund	$ —	—	—

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

COMMUNITY COLLEGE OF AURORA

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:			
Original	$ 2,280,209	2,044,752	235,457
Supplementals	—	—	—
Transfers	—	—	—
Total appropriations	2,280,209	2,044,752	235,457
Less expenditures	2,280,209	2,044,752	235,457
Reversions to state general fund	$ —	—	—

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

COMMUNITY COLLEGE OF DENVER

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:				
Original	$	4,314,191	3,618,802	695,389
Supplementals		—	—	—
Transfers		—	—	—
Total appropriations		4,314,191	3,618,802	695,389
Less expenditures		4,314,191	3,618,802	695,389
Reversions to state general fund	$	—	—	—

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

FRONT RANGE COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:			
Original	$ 5,644,346	4,891,987	752,359
Supplementals	—	—	—
Transfers	—	—	—
Total appropriations	5,644,346	4,891,987	752,359
Less expenditures	5,644,346	4,891,987	752,359
Reversions to state general fund	$ —	—	—

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

LAMAR COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:				
Original	$	383,076	272,835	110,241
Supplementals		—	—	—
Transfers		—	—	—
Total appropriations		383,076	272,835	110,241
Less expenditures		379,447	269,206	110,241
Reversions to state general fund	$	3,629	3,629	—

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

MORGAN COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:				
Original	$	554,780	439,302	115,478
Supplementals		—	—	—
Transfers		—	—	—
Total appropriations		554,780	439,302	115,478
Less expenditures		554,780	439,302	115,478
Reversions to state general fund	$	—	—	—

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

NORTHEASTERN JUNIOR COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:				
Original	$	722,057	567,102	154,955
Supplementals		—	—	—
Transfers		—	—	—
Total appropriations		722,057	567,102	154,955
Less expenditures		722,057	567,102	154,955
Reversions to state general fund	$	—	—	—

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

OTERO JUNIOR COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:			
Original	$ 765,652	574,995	190,657
Supplementals	—	—	—
Transfers	—	—	—
Total appropriations	765,652	574,995	190,657
Less expenditures	765,652	574,995	190,657
Reversions to state general fund	$ —	—	—

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

PIKES PEAK COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:				
Original	$	5,115,401	4,333,587	781,814
Supplementals		—	—	—
Transfers		—	—	—
Total appropriations		5,115,401	4,333,587	781,814
Less expenditures		5,115,401	4,333,587	781,814
Reversions to state general fund	$	—	—	—

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

PUEBLO COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:				
Original	$	3,517,931	2,875,739	642,192
Supplementals		—	—	—
Transfers		—	—	—
Total appropriations		3,517,931	2,875,739	642,192
Less expenditures		3,517,931	2,875,739	642,192
Reversions to state general fund	$	—	—	—

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

RED ROCKS COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:				
Original	$	2,564,808	2,275,742	289,066
Supplementals		—	—	—
Transfers		—	—	—
Total appropriations		2,564,808	2,275,742	289,066
Less expenditures		2,564,808	2,275,742	289,066
Reversions to state general fund	$	—	—	—

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

TRINIDAD STATE JUNIOR COLLEGE

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2012

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Appropriations:			
Original	$ 1,108,438	781,973	326,465
Supplementals	—	—	—
Transfers	—	—	—
Total appropriations	1,108,438	781,973	326,465
Less expenditures	1,089,340	781,973	307,367
Reversions to state general fund	$ 19,098	—	19,098

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

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Audit Comments and Recommendations

Year ended June 30, 2012

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

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