



**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial Statements and Compliance Audit

June 30, 2013 and 2012

(With Independent Auditors' Reports Thereon)

**LEGISLATIVE AUDIT COMMITTEE  
2013 MEMBERS**

Representative Angela Williams  
*Chair*

Senator Steve King  
*Vice Chair*

Senator Lucia Guzman  
Senator Owen Hill  
Representative Dan Nordberg  
Representative Su Ryden  
Representative Jerry Sonnenberg  
Senator Lois Tochtrop

Office of the State Auditor Staff:

Dianne E. Ray  
*State Auditor*

Kerri Hunter  
*Deputy State Auditor*

Jeffrey Kahn  
*Legislative Audit Manager*

KPMG LLP  
*Contract Auditor*

**Limitations on Disclosure of Information  
Contained in This Document**

The enclosed report is being distributed to you at this time for your information in accordance with Colorado Revised Statutes (CRS).

Section 2-3-103(2) states in part:

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

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

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

# COLORADO COMMUNITY COLLEGE SYSTEM

## Table of Contents

	<b>Page(s)</b>
Report Summary	1–2
Recommendation Locator	3
Financial Statements and Compliance Audit Report Section:	
Description of the Colorado Community College System	4–5
Findings and Recommendations	6–10
Disposition of Prior Audit Findings and Recommendations	11
Independent Auditors’ Report	12–14
Management’s Discussion and Analysis (Unaudited)	15–30
Business-Type Activities–Statements of Net Position	31
Discretely Presented Component Units–Statements of Financial Position	32
Business-Type Activities–Statements of Revenues, Expenses, and Changes in Net Position	33
Discretely Presented Component Units–Statements of Activities	34–35
Business-Type Activities–Statements of Cash Flows	36–37
Notes to Financial Statements	38–70
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 <i>Government Auditing Standards</i>	71–72
Required Communications to Legislative Audit Committee	73–76
Summary of Unadjusted Audit Misstatements	77

# COLORADO COMMUNITY COLLEGE SYSTEM

## Financial and Compliance Audit

### Report Summary

Year ended June 30, 2013

#### **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, 2013. 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 2013 to November 2013.

The purpose and scope of our audit was to:

- Express an opinion on the financial statements of CCCS as of and for the year ended June 30, 2013 and report on internal control over financial reporting and on compliance and other matters 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.
- 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, 2013 Statewide Single Audit Report issued under separate cover.

#### **Audit Opinion and Report**

We expressed an unmodified opinion on CCCS' financial statements as of and for the year ended June 30, 2013.

Two audit adjustments were not made to the financial statements with a net effect of \$1.2 million to current year ending net assets. These passed differences are not considered material to CCCS' financial statements.

We issued a report on CCCS' compliance and internal control over financial reporting based on an audit of the 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.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Report Summary

Year ended June 30, 2013

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**

*Otero Junior College Accounts Receivable Reconciliation*

Our audit revealed that accounts receivable reconciliations were not appropriately prepared and did not include documentation of an investigation of the reconciling items, nor did the reviewer properly identify the errors in the preparation process. In addition, management was unable to provide proper support for the amounts included in the journal entries related to the reconciliation process. While management did review the entries, the lack of support and improper amounts were not identified nor corrected at the time of audit.

*Return of Title IV Funds*

Pueblo Community College and Northeastern Junior College lacked adequate controls to ensure the return of Title IV student financial aid funds were in compliance with federal requirements. Out of 27 return calculations tested for students who withdrew for these colleges, 3 calculations were identified with exceptions.

**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 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, 2012 included two recommendations. The disposition of these audit recommendations as of November 15, 2013 was as follows:

Implemented	\$	2
Partially implemented		—
Total	\$	<u>2</u>

**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2013

<u>Reg no.</u>	<u>Page no.</u>	<u>Recommendation summary</u>	<u>Agency addressed</u>	<u>Agency response</u>	<u>Implementation date</u>
1	8	Otero Junior College should implement appropriate reconciliation processes over its accounts receivable balances to properly identify, document, and follow up on reconciling items.	OJC	Agree	September 2013
2	10	Pueblo Community College and Northeastern Junior College should work to ensure the timely and accurate Return of Title IV funds.  Pueblo Community College and Northeastern Junior College should implement internal controls to ensure that Title IV funds are returned to the federal government in the required timeframe, and the return of Title IV calculations are properly reviewed to ensure accuracy.	PCC and NJC	Agree	December 2013

**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Description of the Colorado Community College System

Year ended June 30, 2013

**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, as follows:

- 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; 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:

<b>College</b>	<b>Main campus location</b>
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



**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Description of the Colorado Community College System

Year ended June 30, 2013

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 2013 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***

	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal year:			
2012 – 2013	55,475	3,589	59,064
2011 – 2012	58,796	3,545	62,341
2010 – 2011	58,994	3,946	62,940

***FTE Faculty and Staff***

	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal year:			
2012 – 2013	3,951	2,116	6,067
2011 – 2012	3,929	2,193	6,122
2010 – 2011	3,903	2,025	5,928

## **COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2013

We have audited the financial statements of the Colorado Community College System (CCCS or the System) as of and for the year ended June 30, 2013, and have issued our report thereon, dated November 15, 2013. In planning and performing our audit of the financial statements, we considered CCCS' internal control solely to determine our auditing procedures for the purpose of expressing our opinions on the 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 15, 2013 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 the aggregate discretely presented component units discussed in note 1 to the financial statements. 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 material weaknesses or significant deficiencies. 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 financial statements, and accordingly, we express no opinion on them.

### **Otero Junior College Accounts Receivable Reconciliation**

Otero Junior College (OJC) is located in La Junta, Colorado. Approximately 1,130 full time equivalent students in southeast Colorado attended OJC in Fiscal Year 2013. This is an enrollment decrease of 8.1% from Fiscal Year 2012. OJC's net assets at June 30, 2013 totaled \$21.9 million or 3.6% of Colorado Community College System's (CCCS) total net assets. Fiscal Year 2013 operating revenues were \$20.0 million or 5% of CCCS' operating revenue and operating expenses totaled \$27.5 million or 4.7% of CCCS' operating expenses. OJC's accounts receivable balance was \$1,199,105 at June 30, 2013.

## **COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2013

On a monthly basis, OJC performs reconciliations of the information in the student accounts receivable module in Banner to the finance module. The student accounts receivable in Banner is populated when students register for classes, incur fees, etc., and this information is then fed into the finance module. As the finance module is used to generate financial statements, the reconciliation ensures that the information generated in the student accounts receivable module is properly reflected in the finance module.

### ***What Was the Purpose of the Audit Work?***

The purpose of the audit work was to evaluate internal controls in place over accounts receivable at OJC and to test the accuracy of OJC's accounts receivable balances as of June 30, 2013.

### ***What Audit Work Was Performed and How Were Results Measured?***

Our audit work included reviewing OJC's controls over its accounts receivable accounts. Specifically, our audit work included reviewing OJC staff's reconciliations of the accounts receivable accounts for October 2012 and March 2013. We reperformed the Banner Student to Finance reconciliation on a sample basis. Internal controls over the process should include proper segregation of duties, reconciliation of accounts receivable balances to the Banner student module and general ledger (Banner finance module), and management review.

### ***What Problem Did the Audit Work Identify?***

#### ***Accounts Receivable Reconciliation Controls***

Although the two reconciliations of the student accounts receivable module and the finance module selected for test work were prepared and reviewed, our audit revealed that these reconciliations were not appropriately prepared and did not include a documented investigation of the reconciling items at the time of audit, nor did the reviewer properly identify the errors in the preparation process. Specifically, we identified the following:

- Balances per the Finance module in Banner did not agree to the balances per the reconciliation as balances extracted from the general ledger were manually changed by management in the reconciliation to indicate there were no unidentified reconciling differences. As such, the reconciliation did not present any reconciling items, including those that had been identified by management. Because the reconciliation was not properly prepared, the reconciling items at the time of the audit were not properly identified and subsequently investigated. Specifically, in both the October 2012 and March 2013 reconciliations we identified the same differences in 5 accounts totaling \$3,431.
- The ongoing differences described above were a result of management prepared journal entries that were entered in June 2012; however, management was unable to provide proper support for the amounts included in the journal entries initially when requested. While management did review the entries, the lack of support and improper amounts were not specifically identified, documented nor corrected.

### ***Why Did the Problem Occur?***

OJC's internal control environment has not been designed to ensure adequate performance or supervision and review of the accounts receivable reconciliation process.

## **COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2013

### ***Why Does this Problem Matter?***

Lack of adequate controls increases the risk of misappropriation of assets and financial statement errors. Errors in financial information may 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***

OJC should implement appropriate reconciliation processes over its accounts receivable balances to properly identify, document, and follow up on reconciling items. The reconciliation process should include the implementation of a proper review and approval process over the reconciliations to ensure any errors in the reconciliation process are identified and corrected. Finally, all journal entries impacting the reconciliation process should be properly supported and properly reviewed by someone other than the preparer to ensure accuracy prior to posting.

### ***CCCS Response***

Agree. The Controller will complete the monthly accounts receivable reconciliation process beginning September 2013 with all reconciling items documented and explained. Each reconciliation will be reviewed and approved by the Business Officer and will subsequently ensure corrections to clear reconciling items are carried out the following month.

### **Controls over the Return of Title IV Funds**

Pueblo Community College (PCC) and Northeastern Junior College (NJC) participate in several federal student financial aid programs authorized under Title IV of the Higher Education Act of 1965 (Title IV), including Direct Loans, Pell, and Federal Work Study. 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. PCC distributed \$15,254,982 and NJC distributed \$2,494,952, in Title IV funds to students during Fiscal Year 2013.

### ***What Was the Purpose of the Audit Work?***

The purpose of the audit work was to assess the adequacy of PCC's and NJC's internal controls over and compliance with the return of Title IV funds to the U.S. Department of Education requirements 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 40 return calculations for Title IV students who withdrew from both colleges during Fiscal Year 2013 to determine whether adequate controls were implemented by the colleges to ensure Title IV funds were returned in compliance with federal regulations. Of the 40 items tested, 13 were from PCC, 14 were from NJC, and 13 were from Morgan Community College (MCC). Exceptions were identified at PCC and NJC; no exceptions were identified at MCC. 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

## **COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2013

paid) or period of enrollment (if the student is enrolled in a nonstandard 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 amount disbursed must be returned to the U.S. Department of Education. Federal regulations require that institutions return Title IV funds to the U.S. Department of Education no later than 45 days after the date of the student's withdrawal.

### ***What Problem Did the Work Identify?***

Overall, we identified at least one exception with 3 out of 40 (7.5%) return calculations we tested for students who withdrew. We noted the following specific exceptions as a result of our work:

- At PCC, out of 13 calculations tested, we identified one calculation for which PCC used incorrect information when calculating the amount of funds to be returned. Specifically, the tuition rate used was too low, which resulted in \$569 less Title IV funds being returned to the U.S. Department of Education than should have been, had the correct rate been used.
- At NJC, out of 14 calculations tested, we identified two calculations that were performed incorrectly. In the first calculation, NJC used incorrect information when calculating the amount of funds to be returned. Specifically, the tuition rate used in the calculation was too high, resulting in \$367 more Title IV funds being returned to the U.S. Department of Education than should have been, had the correct rate been used. In the second calculation, the required documentation for determining the withdrawal date and calculating the amount of funds that should be returned was not completed within the required 45 days of withdrawal notification. However, this did not affect the amount of funds returned as the student did not receive excess funds.

### ***Why Did the Problem Occur?***

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

### ***Why Does this Problem Matter?***

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

(CFDA No. 84.063; 84.268; Student Financial Aid Cluster, Special Tests and Provisions. Classification of Finding: Significant Deficiency.)

Known questioned net costs of \$202 assigned to the Student Financial Aid Cluster.

## **COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2013

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

Pueblo Community College and Northeastern Junior College should implement internal controls to ensure that Title IV funds are returned to the federal government in the required timeframe, and the return of Title IV calculations are properly reviewed to ensure accuracy.

### ***CCCS Response***

Agree. PCC has initiated in depth training for the advisor who processes the Return of Title IV funding. The advisor attended training at the system office specifically geared to Return of Title IV (R2T4) in July 2013. The PCC Advisor will also attend additional R2T4 training provided by Colorado Association of Financial Aid Administrators (CAFAA) in November 2013. The advisor has also discussed the possibility of having one-on-one training with System Office as well. As soon as training is complete, PCC will develop a step-by-step manual on the R2T4 process to aid in training individuals who may perform the job in the future. The Financial Aid Director will review a random sampling of the work performed at the end of each semester to check for any errors starting December 2013.

Agree. NJC has implemented and will continue to conduct secondary reviews on all Return to Title IV calculations. NJC will also utilize system office resources by having them perform the initial R2T4 calculation. The registrar will work with faculty by sending reminders regarding the importance of reporting students that have not attended classes to ensure a more timely reporting of student no-shows at the beginning of each semester.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2013

Following are the audit recommendations made for the year ended June 30, 2012 and their disposition as of November 15, 2013:

<b>Recommendation</b>	<b>Disposition</b>
<p><b>Recommendation No. 1</b></p> <p>Colorado Northwestern Community College 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.</p>	<p>Implemented.</p>
<p><b>Recommendation No. 2</b></p> <p>Colorado Northwestern Community College, Community College of Aurora, Trinidad State Junior College, and Lamar Community College should implement internal controls to ensure that Title IV funds are returned to the federal government in the required timeframe, and the return of Title IV calculations are properly reviewed to ensure accuracy.</p>	<p>Implemented for affected colleges tested in prior year. See similar current year recommendation No. 2 for colleges tested in the current year.</p>



KPMG LLP  
Suite 800  
1225 17th Street  
Denver, CO 80202-5598

## Independent Auditors' Report

The Members of the Legislative Audit Committee and  
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), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise CCCS's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component units discussed in note 1 to the financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based solely 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.





### ***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 the Colorado Community College System as of June 30, 2013 and 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matters***

As discussed in note 2 to the financial statements, in fiscal year 2013, CCCS adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

As discussed in note 1, the financial statements of CCCS, an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of CCCS. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in note 21 to the financial statements, the June 30, 2012 financial statements of the aggregate discretely presented component units have been restated to correct certain misstatements. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 15 to 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCCS' internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado  
November 15, 2013

## COLORADO COMMUNITY COLLEGE SYSTEM

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 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, 2013 and 2012 (fiscal years 2013 and 2012, respectively), with comparative information presented for fiscal year 2011. This analysis should be read in conjunction with CCCS' financial statements and notes to the 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.

#### **Background**

The CCCS includes 13 public community colleges throughout the State of Colorado (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' financial statements (note 1) in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61: *The Financial Reporting Entity: Omnibus*, and GASB Statement No 39, *Determining Whether Certain Organizations are Component Units*.

CCCS is Colorado's largest institution of higher education and served approximately 141,000 students (59,064 full-time equivalent students) during the fiscal year ended June 30, 2013. The System has approximately 8,800 employees, 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 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), if the institution meets the stated qualifications. CCCS qualified as an enterprise for fiscal year 2013 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 2013, 2012, and 2011, the System received 1.6%, 1.7%, and 1.4%, respectively, of total revenue 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 2013, 2012, and 2011, respectively, the COF stipend was \$62, \$62, and \$62, 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 2013, 2012, and 2011, respectively, CDHE's contract with CCCS

**COLORADO COMMUNITY COLLEGE SYSTEM**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2013 and 2012

purchased credit hours for vestibule labs, reciprocal programs, and educational services in rural areas. In fiscal years 2012 and 2011, 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).

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 2013, CCCS had a \$2.1 million decrease in gross tuition and fee revenue resulting from a 5.3% decrease in enrollment, offset by a 6.5% increase and 6.5% increase in resident tuition and nonresident tuition rates, respectively. This also includes a decrease in COF funding of approximately \$4.0 million compared to fiscal year 2012. This gross tuition and fee decrease was offset by a decrease 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 decreased \$2.0 million in fiscal year 2013 due in part to the decrease in Federal Pell awards received for students, on a per student basis, as well as a decrease in the number of students receiving Pell awards.

The following table represents the change in tuition and fees from fiscal year 2012 to 2013 (in millions).

Tuition and fees increase due to enrollment changes and rate increases	\$ 1.9
Less decrease in COF stipend funding	<u>(4.0)</u>
Gross tuition and fee decrease	(2.1)
Increased as a result of the an offsetting decrease in scholarship allowance	<u>2.0</u>
Net decrease in student tuition and fees, net of scholarship allowance	<u>\$ (0.1)</u>

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	<u>(2.6)</u>
Gross tuition and fee increase	14.2
Decreased as the result of an offsetting increase in scholarship allowance	<u>(7.2)</u>
Net increase in student tuition and fees, net of scholarship allowance	<u>\$ 7.0</u>

In November 2008, voters passed Amendment 50, which expanded limited stakes gaming in three Colorado mountain towns. CCCS received approximately \$5.8 million in Amendment 50 funding in fiscal year 2013, of which \$4.8 million was used for classroom instruction-related expenses and \$0.6 million was awarded to students for scholarships, with the remaining \$0.4 million available for fiscal year 2014. In fiscal year 2012, CCCS received approximately \$6.0 million, of which \$5.4 million was used for classroom instruction-related expenses and \$0.6 million was awarded to students for scholarships.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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 Community College of Denver (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, 2013, CCCS' assets and deferred outflows of \$806,243,896 exceeded its liabilities of \$192,490,898 by \$613,752,998. At June 30, 2012, CCCS' assets and deferred outflows of \$813,544,882 exceeded its liabilities of \$190,258,962 by \$623,285,920. The resulting net position is summarized into the following categories:

	<b>June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net investment in capital assets	\$ 318,418,172	323,746,565	313,486,808
Restricted, expendable	40,938,410	37,800,466	36,031,366
Unrestricted	254,396,416	261,738,889	237,477,973
Total net position	\$ 613,752,998	623,285,920	586,996,147

The restricted, expendable net position may be spent, but only for the purposes for which the donor or grantor or other external party intended. Unrestricted net position 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 2013, the CCCS' total net position decreased by \$9,532,922. The decrease in net position is a result of excess expenses compared to overall revenue streams.

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

#### 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 unmodified opinion prepared by our auditors (an independent certified public accounting firm, KPMG LLP) on the fairness, in all material respects, of our financial statements.

In fiscal year 2013, CCCS implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was effective for financial statements for periods beginning after December 15, 2011. The statement provides financial reporting guidance for deferred outflows

## COLORADO COMMUNITY COLLEGE SYSTEM

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

and deferred inflows of resources, and renames the residual of all financial statement elements as net position. CCCS's net position, based on the renaming and definitions provided in the statement, comprises the following components:

The *Statements of Net Position* present information on all of CCCS' assets and deferred outflows and liabilities at a point in time (June 30, 2013 and 2012), with the difference reported as *net position*. Over time, increases or decreases in net position 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 position and the relative availability for expenditure by CCCS.

The *Statements of Changes of Revenues and Expenses and Changes in Net Position* present information showing how CCCS' net position changed during the fiscal period (the fiscal years ended June 30, 2013 and 2012). All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues, deferred outflows and expenses are reported in these statements 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). The 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 *Statements of Cash Flows* present cash receipts and payments to and from CCCS for the reporting period (the fiscal years ended June 30, 2013 and 2012) 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. The purpose is to assess CCCS' ability to generate net cash flows and meet its obligations as they come due.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the 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 financial statements. The notes follow the financial statements.

### **Financial Analysis**

The *Statements of Net Position* present information on all of CCCS' assets, deferred outflows, and liabilities, with the difference between the three reported as net position.

The assets and deferred outflows reported by CCCS exceeded liabilities at June 30, 2013 and 2012, resulting in a net position of \$613,752,998 and \$623,285,920, respectively. The majority (51.9% for 2013 and 51.9% for 2012) of CCCS' net position are net investment in capital assets (e.g., land, buildings, and equipment). These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

The assets and deferred outflows reported by CCCS exceeded liabilities at June 30, 2012 and 2011, resulting in a net position of \$623,285,920 and \$586,996,147, respectively. The majority (51.9% for 2012 and 53.4% for 2011) of CCCS' net position are net investment in capital assets (e.g., land, buildings, and equipment).

	<b>June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Current assets	\$ 403,895,143	403,736,333	382,427,713
Noncurrent assets, including capital assets of \$399,259,489, \$383,429,906, and \$352,744,435, respectively	402,261,095	409,808,549	398,410,715
Total assets	<u>\$ 806,156,238</u>	<u>813,544,882</u>	<u>780,838,428</u>
Total deferred outflows	<u>\$ 87,658</u>	<u>—</u>	<u>—</u>
Current liabilities	\$ 97,128,482	93,200,789	93,868,180
Noncurrent liabilities	95,362,416	97,058,173	99,974,101
Total liabilities	<u>\$ 192,490,898</u>	<u>190,258,962</u>	<u>193,842,281</u>
Net position:			
Net investment in capital assets	\$ 318,418,172	323,746,565	313,486,808
Restricted – expendable	40,938,410	37,800,466	36,031,366
Unrestricted	254,396,416	261,738,889	237,477,973
Total net position	<u>\$ 613,752,998</u>	<u>623,285,920</u>	<u>586,996,147</u>

Current assets increased as of June 30, 2013 compared with June 30, 2012 by approximately \$200 thousand or 0.04% as a result of a \$300 thousand increase in inventories, a \$100 thousand increase in prepaid expense, and a \$500 thousand increase in accounts receivable, offset by a \$700 thousand decrease in cash and cash equivalents. Increases in accounts receivable include an increase of \$2.2 million in student receivables, net, and an increase of \$500 thousand in other receivables, net, offset by a decrease of \$2.1 million in due from other governments, net, approximately.

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 liabilities increased as of June 30, 2013 compared with June 30, 2012 by approximately \$3.9 million or 4.2% due to an increase of \$2.8 million accounts payable and accrued liabilities, and an increase of \$1.0 million in deposits held for others, an increase of \$600 thousand in bonds and capital leases payable – current, and an

## COLORADO COMMUNITY COLLEGE SYSTEM

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

increase of \$300 thousand in compensated absences – current, offset by a decrease of \$800 thousand in unearned revenue.

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 unearned 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.

Net position 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 position (6.7% for 2013, 6.1% for 2012, and 6.1% for 2011 of total net position) are primarily restricted for auxiliary programs, scholarships, loans, and community training programs.

Unrestricted net position (41.4% for 2013, 42.0% for 2012, and 40.5% for 2011 of total net position) 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 position for certain purposes, including capital maintenance, equipment expansion and repair, and new programs.

The *Statements of Changes of Revenues and Expenses, and Changes in Net Position* report the results of operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net position 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. Amendment 50 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. Federal Pell grants and most gifts and investment income are also nonoperating revenue.

State appropriations, net of distributions to LDCs and AVSs, represent approximately 4.9%, 4.6%, and 4.5%; student tuition and fees represent approximately 41.0%, 41.0%, and 37.7%, and FFS contracts represent approximately 3.5%, 1.9%, and 3.8% of CCCS' total revenue (less distributions to LDC and AVS) from all sources in fiscal years 2013, 2012, and 2011, 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 \$183.9 million loss from operations in fiscal year 2013 compared to a \$154.8 million loss from operations in fiscal year 2012 and a \$130.0 million loss from operations in fiscal year 2011. In fiscal year 2013, this operating loss was offset by net state appropriations of \$27.8 million, Federal Pell grants of \$138.2 million, and Amendment 50 funding of \$5.8 million. Additionally CCCS experienced other decreases of Federal Pell grants of \$7.0 million, and investment income of \$4.6 million. 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



**COLORADO COMMUNITY COLLEGE SYSTEM**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2013 and 2012

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.

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 overall increased enrollment over the three-year period.

**Condensed Summary of Changes of Revenues and Expenses  
and Changes in Net Position**

	<b>June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Operating revenues:			
Tuition and fees, net	\$ 234,004,079	234,075,160	227,112,067
Grants and contracts	90,537,812	82,257,616	81,761,644
Fee-for-service state contract	19,785,125	10,906,347	22,860,290
Sales and services of educational activities	1,248,795	1,356,510	1,449,894
Auxiliary enterprises, net	38,888,311	41,387,150	41,552,120
Other	7,899,287	8,338,016	9,762,896
Total operating revenues	<u>392,363,409</u>	<u>378,320,799</u>	<u>384,498,911</u>
Operating expenses:			
Instruction	233,303,209	219,979,142	216,714,455
Research	116,971	170,296	332,504
Public service	3,487,495	3,431,668	4,179,695
Academic support	40,702,390	36,292,217	34,650,384
Student services	63,900,261	55,683,205	51,192,466
Institutional support	79,637,810	73,628,507	71,443,337
Operation and maintenance of plant	50,267,865	53,320,159	45,625,398
Scholarships and fellowships	19,529,641	22,457,365	25,457,019
Auxiliary enterprises	43,684,662	44,220,245	43,514,915
Depreciation and amortization	41,664,838	23,914,545	21,420,555
Total operating expenses	<u>576,295,142</u>	<u>533,097,349</u>	<u>514,530,728</u>
Operating loss	<u>(183,931,733)</u>	<u>(154,776,550)</u>	<u>(130,031,817)</u>
Nonoperating revenues (expenses):			
State appropriations	47,702,573	45,964,065	49,339,382
State Fiscal Stabilization Funding	—	—	4,523,158
Federal Pell grants	138,251,659	145,210,102	144,545,446
Amendment 50 funding	5,780,745	6,035,507	5,360,539
Distributions to Local District Colleges and Area Vocational Schools	(19,859,535)	(19,574,820)	(22,418,236)

**COLORADO COMMUNITY COLLEGE SYSTEM**

Management's Discussion and Analysis  
(Unaudited)

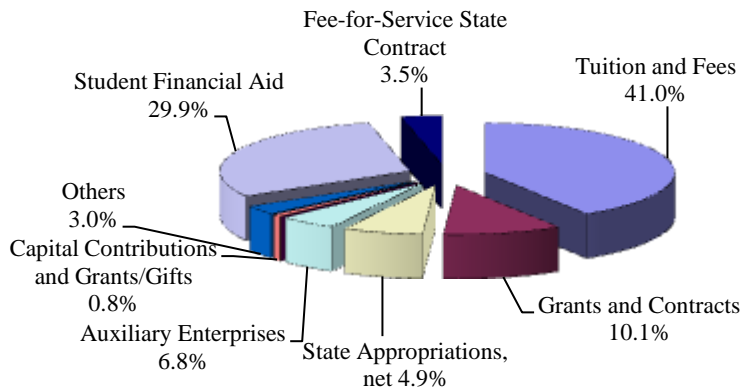
June 30, 2013 and 2012

**Condensed Summary of Changes of Revenues and Expenses  
and Changes in Net Position**

	<b>June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Other nonoperating revenues and expenses, net	\$ (1,832,504)	4,282,143	8,975,509
Net nonoperating revenues	170,042,938	181,916,997	190,325,798
Income before other revenues, expenses, gains, or losses	(13,888,795)	27,140,447	60,293,981
State capital contributions	3,058,872	7,679,114	23,086,772
Capital grants and gifts	1,297,001	1,470,212	2,064,248
Increase (decrease) in net assets	(9,532,922)	36,289,773	85,445,001
Net assets:			
Beginning of year (note 21)	623,285,920	586,996,147	501,551,146
End of year	\$ 613,752,998	623,285,920	586,996,147

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 2013**

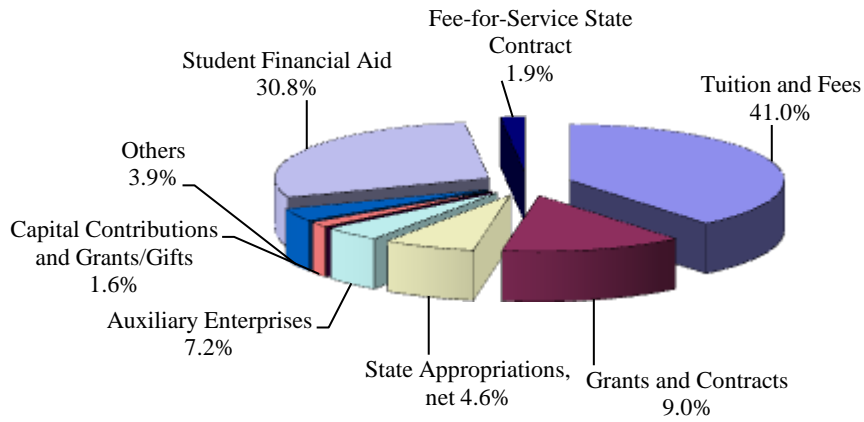


**COLORADO COMMUNITY COLLEGE SYSTEM**

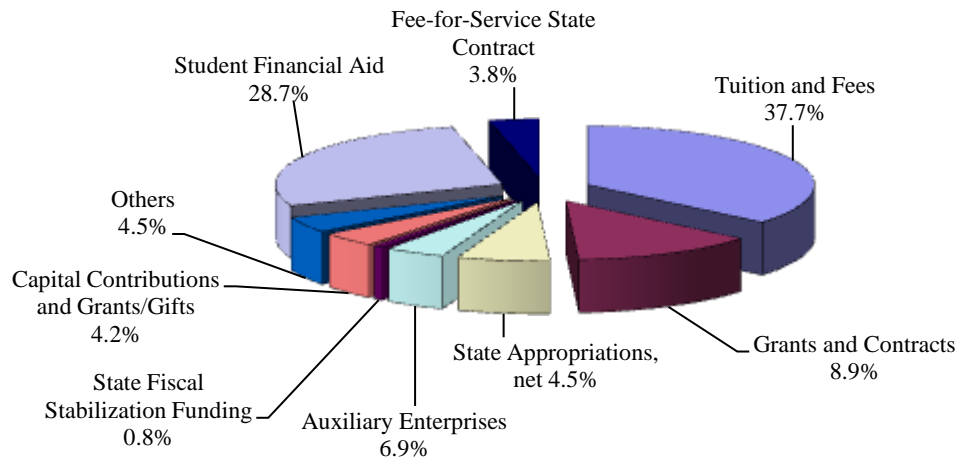
Management's Discussion and Analysis  
(Unaudited)

June 30, 2013 and 2012

**Sources of Revenue  
Fiscal Year 2012**



**Sources of Revenue  
Fiscal Year 2011**



## COLORADO COMMUNITY COLLEGE SYSTEM

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

As the above charts demonstrate, student tuition and fees are the largest revenue source for CCCS in fiscal years 2013, 2012, and 2011. The operating loss of approximately \$183.9 million, \$154.8 million, and \$130.0 million in fiscal years 2013, 2012, and 2011, 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 2013, 2012, and 2011; State Fiscal Stabilization Fund (SFSF) for fiscal year 2011, and Amendment 50 funding for fiscal years 2013, 2012 and 2011, which are classified as nonoperating revenues but are used to fund operations.

Revenue activity highlights for fiscal year 2013 include:

- Grants and Contracts increased by \$8.3 million, or 10.1%. Contributing to this change was an increase of Federal grant revenue of approximately \$6.5 million or 14.7%. This increase was due primarily to the Trade Adjustment Assistance grant at Community College of Denver (CCD). As the fiscal agent, CCD was responsible for \$5.4 million in reimbursable spending. Also, Otero Junior College (OJC) had increased spending for the Science, Technology, Engineering and Math (STEM) grant of \$1.3 million over prior year. Local grants and contracts also increased by \$1.5 million or 42.4% due to local taxing district support of Colorado Northwestern Community College (CNCC).
- Fee-for-service (FFS) state contracts increased by \$8.9 million or 81.4% due to an increase in FFS appropriations from the State. This was related to a decrease in enrollment that caused a decrease in COF stipend that thereby increased FFS expectations.
- Auxiliary Enterprise revenue decreased by \$2.5 million or 6.0%. Decreases are primarily attributable to the reduction in enrollment impacts on bookstore sales, dormitory collections, and food services required at Morgan Community College (MCC), Northeastern Junior College (NJC), Pueblo Community College (PCC) and Trinidad Junior College (TSJC). These are, in part, offset by an increase in CNCC dormitory activity after repair of the prior year damage on the largest residence hall coupled with an increased rate per student for the housing,
- Investment income (loss) decreased by \$4.6 million or 111.1% for an overall loss of \$.5 million. This was due primarily to the fair market value adjustment for unrealized loss on investments, per GASB 31 requirements, of \$4.2 million. There was also a decrease of 21% in the investment interest rate, coupled with the utilization of funds for the completion of bond funded projects at CCD, CNCC, and PCC, leaving less available funds generating interest earnings.
- State capital contributions decreased \$4.6 million or 60.2%. 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 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 10.0% in resident tuition and 5.0% in nonresident tuition rates with an even greater increase in scholarship

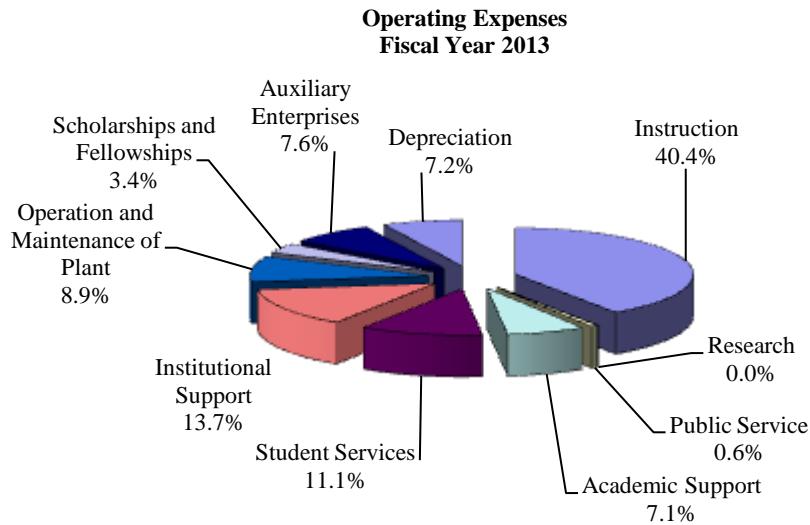
# COLORADO COMMUNITY COLLEGE SYSTEM

## Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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.

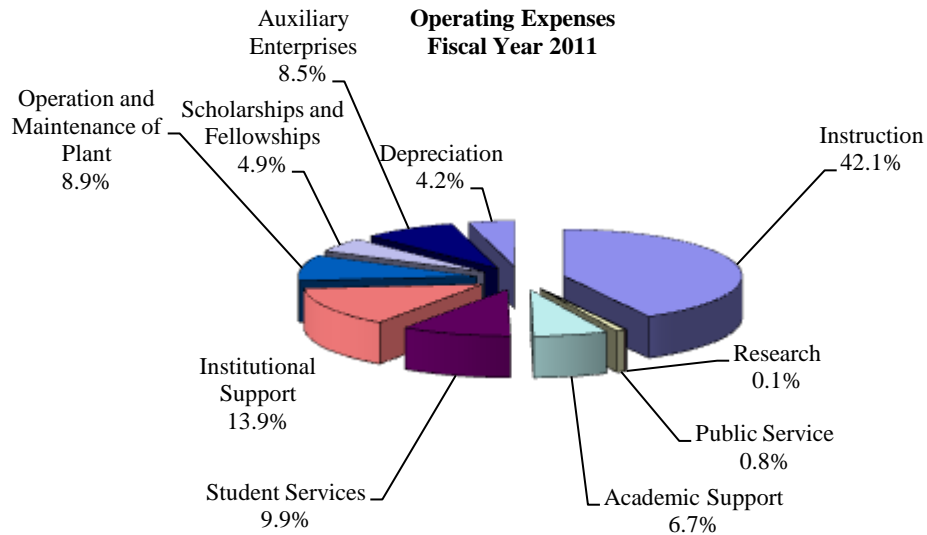
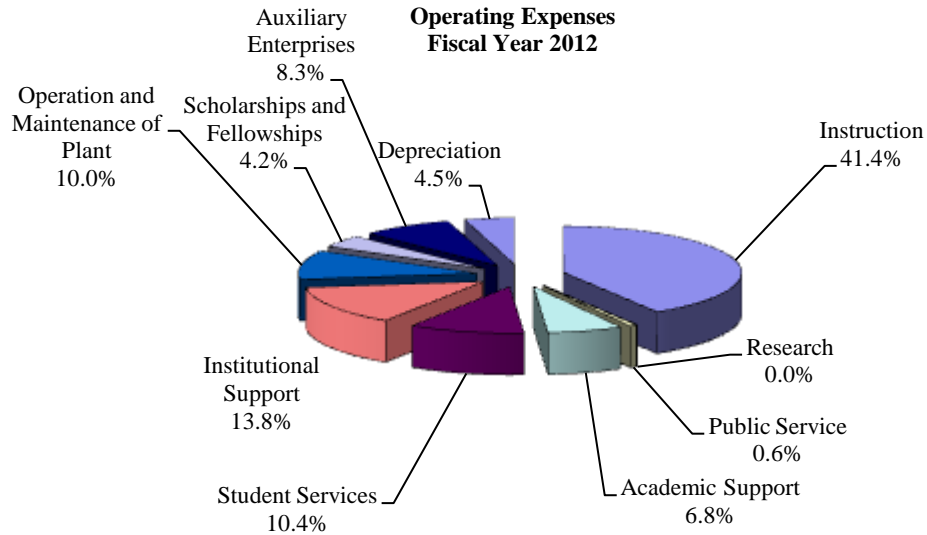
- FFS state contracts decreased by \$12.0 million or 52.3% due to a decrease in FFS appropriations from the State.
- Other operating revenue decreased by \$1.4 million or 14.6% as a result of the elimination of internal service revenues of \$0.5 million not recognized in prior year, and the reevaluation 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.



## COLORADO COMMUNITY COLLEGE SYSTEM

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012



Expense activity highlights for fiscal year 2013 include:

- Instructional expense increased by \$13.3 million or 6.1% primarily as the result of salary increases for instructional staff.
- Academic support expenses increased by \$4.4 million or 12.2%. This increase is due to the Federal Trade Adjustment Assistance (TAA) grant at CCD of \$2.0 million, a total of 8.5 FTE added across the system in the Academic area, and three significant retirement leave payouts at Pikes Peak Community College (PPCC).

## COLORADO COMMUNITY COLLEGE SYSTEM

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

- Student services expenses increased by \$8.2 million or 14.8%. Contributing to these increases are new noncapital equipment for Arapahoe Community College's (ACC) student center accounts for \$210 thousand, an increase in STEM grant spending at OJC of \$1.6 million, systemwide concurrent enrollment legislative changes of approximately \$300 thousand. There were also additions of new employees of approximately \$1.5 million (15 full time and part time employees). One-time initiatives at PPCC account for \$500 thousand of the increase as well as student health center of \$200 thousand and increased support of the Gateway program of \$100 thousand at Red Rocks Community College (RRCC).
- Institutional support increased by \$6.0 million or 8.2%. The overall salary increases primarily contributed to this increase, along with increases in staffing of new or vacant positions across the system.
- Scholarships and fellowships expenses decreased by \$2.9 million or 13.0%. This is primarily due to a \$7.0 million decrease in PELL grants across the system. The PELL decrease was, in part, offset by a decrease in scholarship allowance of \$2.7 million (contra expense).
- Depreciation increased by \$17.8 million or 74.2%. This is primarily due to the conversion to a new fixed asset system and the subsequent change of system policy on capital assets for estimated lives, resulting in colleges accelerating depreciation by \$9.5 million for many existing capital assets. There were also projects completed in fiscal year 2013 at ACC, CCD, CNCC, and PCC that account for an additional \$2.9 million in depreciation. The remaining difference is due to the overall shortened lives under the new policy, resulting in a higher average depreciation compared to prior year.
- Interest expense on capital debt increased by \$1.8 million or 85.5%. This was due to the full year impact of debt issued in 2012 as well as a new capital lease at FRCC.

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.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2013 and 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.

**Capital Asset and Debt Management**

At June 30, 2013, CCCS had \$399,259,489 of capital assets, net of accumulated depreciation of \$314,390,945 and including current year depreciation of \$41,664,838. At June 30, 2012, CCCS had \$383,429,906 of net investment in capital assets of \$282,854,923 and including current year depreciation of \$23,914,545. A breakdown of assets by category, net of accumulated depreciation is provided below:

	<b>June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Nondepreciable land and land improvements	\$ 21,596,785	20,623,390	20,623,390
Construction in progress	27,689,576	33,210,231	47,829,409
Collections	882,306	820,867	635,906
Land improvements	7,580,375	8,521,733	8,942,410
Buildings and improvements	300,860,991	270,075,844	228,072,228
Leasehold improvements	4,399,427	7,895,907	3,962,022
Equipment and software	33,535,360	38,229,787	38,411,017
Library materials	2,714,669	4,052,147	4,268,053
Total capital assets	<u>\$ 399,259,489</u>	<u>383,429,906</u>	<u>352,744,435</u>

Major capital additions of \$500,000 or more completed during fiscal year 2013 are as follows:

<u>College</u>	<u>Project</u>	<u>Total project cost</u> (In millions)	<u>Source of funding</u>
Arapahoe Community College	Annex Roof	\$ 0.5	Internal Reserves
	Trash Enclosure	0.5	Internal Reserves
	Voice over Internet Protocol Project	0.5	Internal Reserves
	Roof and Main Building	0.5	State Funded
	IT Classroom Location	1.2	Internal Reserves
	Fire and Control Upgrade	0.9	Internal Reserves
Community College of Denver	Confluence Construction and Cherry Creek Remodel	50.0	Internal Reserves, Bonds
Front Range Community College	Harmony Library Project Improvement	0.6	Internal Reserves
Lamar Community College	Energy Performance Contract	2.8	Capital Lease
Otero Community College	Conley D Dorm New Building	1.1	Internal Reserves
Pueblo Community College	Student Center Remodel	11.1	Internal Reserves, Bonds
Pikes Peak Community College	22 N Sierra Madre Land Purchase	0.7	Internal Reserves



## COLORADO COMMUNITY COLLEGE SYSTEM

### Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

The System has \$15.0 million in commitments for various upcoming capital construction and controlled maintenance projects as of June 30, 2013.

CCCS had \$80,935,415 and \$83,310,843 in debt outstanding at June 30, 2013 and 2012, respectively.

In June 2013, 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:

	<b>June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Bonds payable	\$ 69,426,640	72,295,735	61,937,334
Capital leases payable	11,508,775	11,015,108	23,133,876
Total debt	\$ 80,935,415	83,310,843	85,071,210

### **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 the Colorado Department of Higher Education (CDHE) for the provision of other educational services. For fiscal year 2014 funding, CCCS is authorized to receive \$23.4 million in FFS revenue and \$99.4 million in student stipends. This support totaling \$122.8 million of anticipated fiscal year 2014 funding represents a 5.8% increase in state support from the \$116.1 million that was provided in 2013. CCCS anticipates receiving \$5.3 million of funding under the Amendment 50 funding in fiscal year 2014.

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

*Enrollment:* In fiscal year 2013, in a slowly expanding economy, CCCS' resident enrollment of 55,745 decreased by 5.6% from fiscal year 2012, and nonresident enrollment of 3,589 increased by 1.2%, resulting in a total net enrollment decrease of 5.3%. Therefore, further flattening or decreases in enrollment are anticipated in the fiscal year 2014 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 6.5% and the nonresident tuition by 6.5% in fiscal year 2013. The Board also approved a 6.5% increase in resident and nonresident tuition for fiscal year 2014.

## **COLORADO COMMUNITY COLLEGE SYSTEM**

Management's Discussion and Analysis  
(Unaudited)

June 30, 2013 and 2012

### **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 Activities

Statements of Net Position

June 30, 2013 and 2012

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Current assets:		
Cash and cash equivalents	\$ 342,506,335	343,287,435
Restricted cash and cash equivalents	4,690,296	4,620,634
Accounts receivable, net	51,636,901	51,127,601
Inventories	4,408,408	4,121,433
Prepaid expenses	653,203	579,230
Total current assets	<u>403,895,143</u>	<u>403,736,333</u>
Noncurrent assets:		
Restricted cash and cash equivalents	224,776	23,691,488
Restricted investments	2,776,830	1,590,868
Other assets	—	1,096,287
Capital assets, net	399,259,489	383,429,906
Total noncurrent assets	<u>402,261,095</u>	<u>409,808,549</u>
Total assets	<u>\$ 806,156,238</u>	<u>813,544,882</u>
<b>Deferred Outflows</b>		
Deferred outflows:		
Loss on refunding	\$ 87,658	—
Total deferred outflows	<u>\$ 87,658</u>	<u>—</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 21,937,273	19,223,436
Accrued liabilities	34,628,748	34,524,999
Unearned revenue	22,317,643	23,108,498
Deposits held for others	12,763,999	11,775,962
Bonds payable, current portion	3,245,000	2,840,000
Capital leases payable, current portion	758,518	575,246
Other long-term liabilities, current portion	82,094	48,861
Compensated absences liability, current portion	1,395,207	1,103,787
Total current liabilities	<u>97,128,482</u>	<u>93,200,789</u>
Noncurrent liabilities:		
Bonds payable	66,181,640	69,455,735
Capital leases payable	10,750,257	10,439,862
Other long-term liabilities	1,437,303	1,086,738
Compensated absences liability	16,993,216	16,075,838
Total noncurrent liabilities	<u>95,362,416</u>	<u>97,058,173</u>
Total liabilities	<u>\$ 192,490,898</u>	<u>190,258,962</u>
<b>Net Position</b>		
Net position:		
Net investment in capital assets	\$ 318,418,172	323,746,565
Restricted for expendable purposes:		
Auxiliary pledged revenue	33,799,040	31,306,423
Scholarships/fellowships	812,557	741,257
Loans	923,350	931,539
Capital projects	279,941	—
Training programs	629,343	1,148,245
Amendment 50 instruction	265,105	154,607
Amendment 50 scholarship	125,699	14,569
Debt service	42,131	57,352
Other	4,061,244	3,446,474
Total restricted for expendable purposes	<u>40,938,410</u>	<u>37,800,466</u>
Unrestricted	<u>254,396,416</u>	<u>261,738,889</u>
Total net position	<u>\$ 613,752,998</u>	<u>623,285,920</u>

See accompanying notes to financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Discretely Presented Component Units

Statements of Financial Position

June 30, 2013 and 2012

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 5,915,944	6,738,231
Accounts and pledges receivable	1,774,650	3,076,519
Due from Primary Government	11,207	
Investments	29,339,149	26,483,519
Investment in direct financing leases	61,542	—
Beneficial interest in charitable remainder trust	620,907	547,047
Other assets	2,610,170	246,657
Capital assets, net	9,746,892	11,702,332
	<hr/>	<hr/>
Total assets	\$ 50,080,461	48,794,305
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 262,071	158,183
Due to primary government	303,362	373,809
Accrued liabilities	32,749	38,211
Deferred revenue	1,068,620	1,059,276
Bonds payable	3,530,422	4,375,275
Other liabilities	593,786	517,879
	<hr/>	<hr/>
Total liabilities	5,791,010	6,522,633
	<hr/>	<hr/>
Net assets:		
Unrestricted	16,019,177	14,317,875
Temporarily restricted	16,678,410	17,273,222
Permanently restricted	11,591,864	10,680,575
	<hr/>	<hr/>
Total net assets	44,289,451	42,271,672
	<hr/>	<hr/>
Total liabilities and net assets	\$ 50,080,461	48,794,305
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Business-Type Activities

Statements of Changes of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$151,353,248 in 2013 and \$153,354,995 in 2012; including revenues pledged for bonds of \$31,219,693 in 2013 and \$30,943,319 in 2012	\$ 234,004,079	234,075,160
Grants and contracts	90,537,812	82,257,616
Fee-for-service state contract	19,785,125	10,906,347
Sales and services of educational activities	1,248,795	1,356,510
Auxiliary enterprises, net of scholarship allowances of \$5,183,329 in 2013 and \$5,849,471 in 2012; including revenues pledged for bonds of \$38,670,559 in 2013 and \$39,642,631 in 2012	38,888,311	41,387,150
Other operating revenues and gifts	7,899,287	8,338,016
Total operating revenues	<u>392,363,409</u>	<u>378,320,799</u>
Operating expenses:		
Instruction	233,303,209	219,979,142
Research	116,971	170,296
Public service	3,487,495	3,431,668
Academic support	40,702,390	36,292,217
Student services	63,900,261	55,683,205
Institutional support	79,637,810	73,628,507
Operation and maintenance of plant	50,267,865	53,320,159
Scholarships and fellowships	19,529,641	22,457,365
Auxiliary enterprises	43,684,662	44,220,245
Depreciation and amortization	41,664,838	23,914,545
Total operating expenses	<u>576,295,142</u>	<u>533,097,349</u>
Operating loss	<u>(183,931,733)</u>	<u>(154,776,550)</u>
Nonoperating revenues (expenses):		
State appropriations	47,702,573	45,964,065
Federal PELL grants	138,251,659	145,210,102
Amendment 50 funding	5,780,745	6,035,507
Distributions to Local District College and Area Vocational Schools	(19,859,535)	(19,574,820)
Gifts	491,197	352,646
Investment income (loss)	(460,278)	4,134,595
Interest expense on capital debt	(3,883,868)	(2,093,591)
Other nonoperating revenues	2,020,445	1,888,493
Net nonoperating revenues	<u>170,042,938</u>	<u>181,916,997</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(13,888,795)</u>	<u>27,140,447</u>
Other revenues, expenses, gains, or losses:		
State capital contributions	3,058,872	7,679,114
Capital grants	—	229,533
Capital gifts	1,297,001	1,240,679
Increase (decrease) in net assets	<u>(9,532,922)</u>	<u>36,289,773</u>
Net position, beginning of year	<u>623,285,920</u>	<u>586,996,147</u>
Net position, end of year	\$ <u>613,752,998</u>	<u>623,285,920</u>

See accompanying notes to financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Contributions	\$ 1,450,811	4,124,083	857,367	6,432,261
Grants	—	151,172	—	151,172
Investment income, net	918,367	1,148,628	22,136	2,089,131
Rental income	2,119,088	256,409	—	2,375,497
Special events	241,927	244,878	1,875	488,680
Net assets released from restrictions	5,990,330	(5,988,625)	(1,705)	—
Other income (loss)	392,377	(231,810)	19,348	179,915
Total revenues	<u>11,112,900</u>	<u>(295,265)</u>	<u>899,021</u>	<u>11,716,656</u>
Expenses:				
Program services	7,546,914	—	—	7,546,914
Fund-raising services	802,860	—	—	802,860
Administrative services	1,349,103	—	—	1,349,103
Total expenses	<u>9,698,877</u>	<u>—</u>	<u>—</u>	<u>9,698,877</u>
Change in net assets	1,414,023	(295,265)	899,021	2,017,779
Net assets, beginning of year as restated (note 21)	<u>14,605,154</u>	<u>16,973,675</u>	<u>10,692,843</u>	<u>42,271,672</u>
Net assets, end of year	\$ <u><u>16,019,177</u></u>	<u><u>16,678,410</u></u>	<u><u>11,591,864</u></u>	<u><u>44,289,451</u></u>

See accompanying notes to financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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
	<u>10,733,643</u>	<u>(2,082,944)</u>	<u>2,393,269</u>	<u>11,043,968</u>
Total revenues				
Expenses:				
Program services	6,850,877	—	—	6,850,877
Fund-raising services	738,388	—	—	738,388
Administrative services	970,682	—	—	970,682
	<u>8,559,947</u>	<u>—</u>	<u>—</u>	<u>8,559,947</u>
Total expenses				
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)	<u>12,144,179</u>	<u>19,356,166</u>	<u>8,287,306</u>	<u>39,787,651</u>
Net assets, end of year	\$ <u><u>14,317,875</u></u>	<u><u>17,273,222</u></u>	<u><u>10,680,575</u></u>	<u><u>42,271,672</u></u>

See accompanying notes to financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 231,660,898	223,655,010
Student loans collected	4,315,647	5,738,160
Sales of products and services	40,116,422	43,172,974
Grants, contracts, and gifts	109,001,597	93,696,126
Other operating receipts	7,720,257	8,393,762
Cash payments:		
Scholarships disbursed	(19,529,641)	(22,786,884)
Student loans disbursed	(4,189,666)	(5,507,780)
Payments for employees	(327,202,868)	(307,479,953)
Payments to suppliers	(182,785,036)	(175,856,576)
Net cash used in operating activities	<u>(140,892,390)</u>	<u>(136,975,161)</u>
Cash flows from noncapital financing activities:		
State appropriations – noncapital	47,702,573	45,964,065
Federal PELL grants	139,133,004	144,649,744
Amendment 50 funding	5,780,745	6,035,507
Distributions to Local District Colleges and Area Vocation Schools	(19,859,535)	(19,574,820)
Gifts and grants for other than capital purposes	491,197	352,646
Agency (inflows)	250,343,905	201,647,952
Agency (outflows)	(248,590,125)	(201,945,316)
Other noncapital financing activities	2,645,817	2,355,818
Net cash provided by noncapital financing activities	<u>177,647,581</u>	<u>179,485,596</u>
Cash flows from capital and related financing activities:		
Capital grants, contracts, and gifts	118,580	829,533
Proceeds from capital debt	991,341	11,676,872
Proceeds from sale of capital assets	—	9,500
Acquisition and construction of capital assets	(55,194,591)	(42,829,833)
State certificates of participation cash match	(7,563)	2,199,149
Principal paid on capital debt	(3,490,017)	(14,091,905)
Interest on capital debt	(2,890,815)	(2,082,749)
Net cash used in capital and related financing activities	<u>(60,473,065)</u>	<u>(44,289,433)</u>
Cash flows from investing activities:		
Investment income (loss)	(460,278)	4,134,595
Proceeds from sale of investments	236,536	910,206
Purchase of investments	(236,534)	(910,209)
Net cash provided by (used in) investing activities	<u>(460,276)</u>	<u>4,134,592</u>
Net increase (decrease) in cash and cash equivalents	(24,178,150)	2,355,594
Cash and cash equivalents, beginning of year	<u>371,599,557</u>	<u>369,243,963</u>
Cash and cash equivalents, end of year	\$ <u><u>347,421,407</u></u>	\$ <u><u>371,599,557</u></u>



**COLORADO COMMUNITY COLLEGE SYSTEM**

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (183,931,733)	(154,776,550)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	41,664,838	23,914,545
Increase in other nonoperating assets/noncash expenses	817,096	1,090,739
Decrease (increase) in assets:		
Receivables, net	(3,973,018)	(1,604,978)
Inventory and prepaids	(324,112)	1,006,849
Increase (decrease) in liabilities:		
Accounts payable	4,036,710	(3,967,588)
Accrued liabilities	103,749	1,087,123
Unearned revenues	(781,166)	(3,536,840)
Deposits held for others	(64,894)	(112,885)
Compensated absences liability	1,208,798	(304,040)
Other liabilities	351,342	228,464
Net cash used in operating activities	\$ <u>(140,892,390)</u>	<u>(136,975,161)</u>
Noncash investing, capital, and noncapital financing activities:		
State funding for acquisitions of capital assets	\$ 2,777,022	7,395,628
State funding for acquisitions of noncapital assets	241,609	283,487
Equipment donations and capital gifts	1,197,001	640,679
Capital leases	167,642	298,842
Loss on disposal of capital assets	(665,344)	(195,691)
Amortization of bond premium/discount, issuance costs, and gain or loss on refunding	(977,431)	(254,711)
Institution COP match reversion	—	(287,293)

See accompanying notes to basic financial statements.

# COLORADO COMMUNITY COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2013 and 2012

### (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.

The financial statements of CCCS, which is an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Colorado that is attributable to the transactions of CCCS. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Financial results for the State are presented in separate state-wide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in these state-wide financial statements.

Accordingly, the accompanying 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)

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

- 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, 2013 and 2012.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, CCCS has one blended component unit, 14 discretely presented component units and participates in one joint venture as described below.

**(a) Blended Component Unit**

The SBCCOE Employee Benefit Trust Fund (the Benefit Trust) is included in the accompanying 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' financial statements. The discretely presented component unit financial statements are presented in

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

accordance with Financial Accounting Standards Board (FASB) pronouncements, which is a different reporting model than CCCS.

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) **Implementation of New Accounting Standards**

During the fiscal year ended June 30, 2013, CCCS implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was effective for financial statements for periods beginning after December 15, 2011, and CCCS early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012. These standards provide

# COLORADO COMMUNITY COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2013 and 2012

financial reporting guidance for deferred outflows and deferred inflows of resources; rename the residual of all financial statement elements as net position; and establish accounting standards to reclassify, as deferred outflows or inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. Accounting changes adopted to conform to the provisions of these statements were not material to the financial statements of CCCS for the fiscal year ended June 30, 2012.

The impact of implementing these GASB Statements resulted in CCCS expensing \$1,024,497 of bond issuance costs during the fiscal year ended June 30, 2013 and reclassifying \$87,658 of loss on refunding from bonds payable to deferred outflows of resources as of June 30, 2013.

### **(3) Basis of Presentation, 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. In fiscal year 2013, CCCS implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 GASB and AICPA Pronouncements*. This statement had no impact on CCCS' accounting policies.

#### **(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 and restricted for Benefit Trust benefits. Investments are reported at fair value, which is determined based on quoted market prices as of June 30, 2013 and 2012.

#### **(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

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

lives of the assets. As of July 1, 2012, CCCS revised estimated useful lives for capital assets resulting in additional charges of approximately \$9.5 million to depreciation for fiscal year 2013. 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. Library collections are capitalized, regardless of cost, as a collection. Estimated useful lives are determined in accordance with the *State Fiscal Procedures Manual*. CCCS' estimated useful lives are as follows: 5–27 years for buildings, 5–20 years (or term of lease) for improvements other than buildings, 3–10 years for equipment, 7 years for library collections, and 3–5 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, 2013 and 2012, 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 position 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, 2013 and 2012.

**(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 or other funding sources available in future years when the liability is paid.

**(i) *Unearned Revenue***

Unearned 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 unearned revenue.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

**(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 Position**

Net position is classified in the accompanying financial statements as follows:

- Net Investment in Capital Assets 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 net investment in capital assets.
- 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 position represents 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 position includes 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 2013 and 2012, 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 2013 and 2012, nonoperating revenues include

# COLORADO COMMUNITY COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2013 and 2012

Career and Technical Act (CTA) state appropriations, Federal Pell grants, Amendment 50 funding, state training program grants, occupational education funds, gifts, investment income, and insurance recoveries from prior years. Nonoperating expenses include 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 allowances in the accompanying financial statements. Certain grants from external governmental and private programs are recorded as either operating or nonoperating revenues in the accompanying financial statements. To the extent that such grant revenues are used to satisfy tuition and fees and other student charges, CCCS records scholarship allowances. Any excess grant revenues are recorded as scholarships and fellowships operating expense. CCCS calculates scholarship allowances on a student-by-student basis.

**(o) *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.

**(p) *Use of Estimates***

The preparation of 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

**(q) *Reclassifications***

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



**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

**(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 position. 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, 2013 and 2012, appropriated expenditures were within the authorized spending authority. CCCS received a total general fund appropriation of \$47,702,573 and \$45,964,065, respectively, for 2013 and 2012. Included in the State appropriations are general fund appropriations specified to be passed through to two LDCs and three AVSs for both 2013 and 2012 of \$19,859,535 and \$19,574,822, respectively. These amounts consist of \$12,093,711 and \$11,909,951 for 2013 and 2012, respectively, for LDCs, and \$7,765,824 and \$7,664,871 for 2013 and 2012, respectively, for AVSs. Also included in general fund appropriations were capital contributions of \$3,058,872 in 2013 and \$7,679,114 in 2012. During 2013, CCCS received FFS contract revenue in the amount of \$19,785,125 and COF stipends in the amount of \$97,935,168. During 2012, CCCS received FFS contract revenue in the amount of \$10,906,347 and COF stipends in the amount of \$101,926,579.

**(5) Tuition, Fees, and Auxiliary Revenue**

Tuition, fees, and auxiliary revenue and the related scholarship allowances for the year ended June 30, 2013 were as follows:

	<u>Tuition and fees</u>	<u>Auxiliary revenue</u>	<u>Total</u>
Gross revenue	\$ 385,357,327	44,071,640	429,428,967
Scholarship allowances:			
Federal	(119,960,408)	(3,842,822)	(123,803,230)
State	(22,688,621)	(754,930)	(23,443,551)
Private	(1,929,175)	(42,393)	(1,971,568)
Institutional	<u>(6,775,044)</u>	<u>(543,184)</u>	<u>(7,318,228)</u>
Total scholarship allowances	<u>(151,353,248)</u>	<u>(5,183,329)</u>	<u>(156,536,577)</u>
Net revenue	<u>\$ 234,004,079</u>	<u>38,888,311</u>	<u>272,892,390</u>

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

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

	<u>Tuition and fees</u>	<u>Auxiliary revenue</u>	<u>Total</u>
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	<u>(5,745,300)</u>	<u>(530,623)</u>	<u>(6,275,923)</u>
Total scholarship allowances	<u>(153,354,995)</u>	<u>(5,849,471)</u>	<u>(159,204,466)</u>
Net revenue	\$ <u>234,075,160</u>	<u>41,387,150</u>	<u>275,462,310</u>

**(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:

	<u>June 30</u>	
	<u>2013</u>	<u>2012</u>
Cash on hand and change funds	\$ 474,713	262,617
Deposits with financial institutions	<u>6,850,824</u>	<u>30,039,070</u>
Total	\$ <u>7,325,537</u>	<u>30,301,687</u>

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.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

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

	<u>Carrying amount</u>	
	<u>June 30</u>	
	<u>2013</u>	<u>2012</u>
Footnote amounts:		
Deposits	\$ 7,325,537	30,301,687
Deposits held with State Treasurer	340,095,870	341,297,870
Restricted investments	<u>2,776,830</u>	<u>1,590,868</u>
Total	<u>\$ 350,198,237</u>	<u>373,190,425</u>
Financial statement amounts:		
Cash and cash equivalents	\$ 342,506,335	343,287,435
Current restricted cash and cash equivalents	4,690,296	4,620,634
Noncurrent restricted cash and cash equivalents	<u>224,776</u>	<u>23,691,488</u>
Subtotal cash and cash equivalents	347,421,407	371,599,557
Restricted investments	<u>2,776,830</u>	<u>1,590,868</u>
	<u>\$ 350,198,237</u>	<u>373,190,425</u>

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, 2013 and 2012, CCCS had cash on deposit with the Treasurer of \$340,095,870 and \$341,297,870, respectively, which represented approximately 4.7% of the total of \$7,260.8 million and 5.2% of the total of \$6,541.7 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 2013 was \$4,186,335 and the net unrealized loss for fiscal year 2012 was \$242,500. These unrealized losses are included in cash and cash equivalents on the statements of net position, and investment income on the statements of change in net position.

**(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, 2013 and

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

2012, 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, 2013 and 2012, approximately 88.5% and 89.0%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for \$41,074,270 and \$12,085,710 in 2013 and 2012, respectively, of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

As of June 30, 2013 and 2012, 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, 2013, the WAM of investments in the Pool is 0.037 years for commercial paper (1.0% of the Pool), 1.321 years for U.S. government securities (63.9% of the Pool), 3.371 years for asset-backed securities (16.0% of the Pool), and 3.100 years for corporate bonds (19.1% of the Pool). 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, 2013 and 2012, 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.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

**(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, 2013, the fair value of Benefit Trust investments greater than 5.0% of total investments of \$2,776,830 was as follows:

	<u>Fair value</u>	<u>Percentage of investments</u>
Berkshire Hathaway Inc Series B New	\$ 167,880	6.80%
Celgene Corp	304,148	12.31
EQT Corp	150,803	6.11
Ishares Barclays Intermediate Credit Bond Fund	254,753	10.31
Ishares Barclays 1 – 3 Year Credit Bond Fund	259,424	10.50

As of June 30, 2012, the fair value of Benefit Trust investments greater than 5.0% of total investments of \$1,590,868 was as follows:

	<u>Fair value</u>	<u>Percentage of investments</u>
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

CCCS management does not believe that possible future losses resulting from the Benefit Trust investments 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 2013 or 2012.

**(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 2013 or 2012.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

Additional information on investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2013.

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

Accounts receivable at June 30, 2013 were as follows:

	<b>Gross receivables</b>	<b>Allowance for uncollectible accounts</b>	<b>Net receivables</b>
Student accounts receivable	\$ 57,865,346	(28,247,790)	29,617,556
Due from other governments	16,579,103	—	16,579,103
Other receivables	5,615,126	(174,884)	5,440,242
<b>Total receivables</b>	<b>\$ 80,059,575</b>	<b>(28,422,674)</b>	<b>51,636,901</b>

Accounts receivable at June 30, 2012 were as follows:

	<b>Gross receivables</b>	<b>Allowance for uncollectible accounts</b>	<b>Net receivables</b>
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
<b>Total receivables</b>	<b>\$ 76,376,217</b>	<b>(25,248,616)</b>	<b>51,127,601</b>

Accounts payable and accrued liabilities at June 30, 2013 and 2012 were as follows:

	<b>2013</b>	<b>2012</b>
Amounts owed to vendors	\$ 18,583,603	17,326,791
Salaries and benefits payable	34,628,748	34,524,999
Accrued interest payable	537,273	514,543
Other payables	2,816,397	1,382,102
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 56,566,021</b>	<b>53,748,435</b>

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

**(8) Capital Assets**

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2013. Adjustments reflect one-time adjustments to properly classify buildings and improvements, leasehold improvements and equipment.

	<u>Balance, June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Adjustments</u>	<u>Balance, June 30, 2013</u>
Nondepreciable capital assets:						
Land and land improvements \$	20,623,390	522,881	—	450,513	1	21,596,785
Construction in progress	33,210,231	46,833,671	(475,995)	(52,008,028)	129,697	27,689,576
Collections	820,867	10,010	(108,171)	159,600	—	882,306
Total nondepreciable capital assets	<u>54,654,488</u>	<u>47,366,562</u>	<u>(584,166)</u>	<u>(51,397,915)</u>	<u>129,698</u>	<u>50,168,667</u>
Depreciable capital assets:						
Land improvements	18,144,986	—	(615,154)	—	—	17,529,832
Buildings and improvements	495,333,372	5,332,153	(2,748,335)	50,238,008	7,699,418	555,854,616
Leasehold improvements	12,252,862	181,061	—	156,316	(3,668,299)	8,921,940
Equipment and software	74,631,140	4,906,722	(4,045,636)	1,003,591	15,096	76,510,913
Library materials	11,267,981	361,723	(6,965,238)	—	—	4,664,466
Total depreciable capital assets	<u>611,630,341</u>	<u>10,781,659</u>	<u>(14,374,363)</u>	<u>51,397,915</u>	<u>4,046,215</u>	<u>663,481,767</u>
Less accumulated depreciation:						
Land improvements	9,623,253	755,321	(429,117)	—	—	9,949,457
Buildings and improvements	225,257,528	25,070,183	(2,092,716)	—	6,758,630	254,993,625
Leasehold improvements	4,356,955	975,447	(156,450)	—	(653,439)	4,522,513
Equipment and software	36,401,353	13,403,983	(3,732,043)	—	(3,097,740)	42,975,553
Library materials	7,215,834	1,459,904	(6,725,942)	—	1	1,949,797
Total accumulated depreciation	<u>282,854,923</u>	<u>41,664,838</u>	<u>(13,136,268)</u>	<u>—</u>	<u>3,007,452</u>	<u>314,390,945</u>
Net depreciable capital assets	<u>328,775,418</u>	<u>(30,883,179)</u>	<u>(1,238,095)</u>	<u>51,397,915</u>	<u>1,038,763</u>	<u>349,090,822</u>
Total capital assets, net	<u>\$ 383,429,906</u>	<u>16,483,383</u>	<u>(1,822,261)</u>	<u>—</u>	<u>1,168,461</u>	<u>399,259,489</u>

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

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

	<u>Balance, June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance, June 30, 2012</u>
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
	<u>69,088,705</u>	<u>36,906,050</u>	<u>(561,991)</u>	<u>(50,778,276)</u>	<u>54,654,488</u>
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
	<u>550,059,056</u>	<u>18,420,937</u>	<u>(7,627,928)</u>	<u>50,778,276</u>	<u>611,630,341</u>
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
	<u>266,403,326</u>	<u>23,914,545</u>	<u>(7,462,948)</u>	<u>—</u>	<u>282,854,923</u>
Net depreciable capital assets	<u>283,655,730</u>	<u>(5,493,608)</u>	<u>(164,980)</u>	<u>50,778,276</u>	<u>328,775,418</u>
Total capital assets, net	\$ <u>352,744,435</u>	<u>31,412,442</u>	<u>(726,971)</u>	<u>—</u>	<u>383,429,906</u>

**(9) Long-Term Liabilities**

The following table presents changes in long-term liabilities at June 30, 2013:

	<u>Balance, June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2013</u>	<u>Current portion</u>
Bonds payable	\$ 72,295,735	687	(2,869,782)	69,426,640	3,245,000
Capital leases payable	11,015,108	1,155,374	(661,707)	11,508,775	758,518
Other long-term liabilities	1,135,599	563,610	(179,812)	1,519,397	82,094
Compensated absences liability	17,179,625	14,955,942	(13,747,144)	18,388,423	1,395,207



**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

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

	<u>Balance, June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2012</u>	<u>Current portion</u>
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

**(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 Systemwide Revenue Refunding 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.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

**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		905,000
Series 1999 bonds for Pueblo Community College and Red Rocks Community College		<u>3,565,000</u>
	\$	<u><u>7,240,000</u></u>

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		<u>541,535</u>
	\$	<u><u>7,335,000</u></u>

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		<u>335,000</u>
	\$	<u><u>830,000</u></u>

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 the American Recovery and Reinvestment Act 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.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

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	<u>5,080,000</u>
	\$ <u><u>9,665,000</u></u>

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 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	<u>1,970,000</u>
	\$ <u><u>6,545,000</u></u>

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	<u>11,485,000</u>
	\$ <u><u>31,455,000</u></u>

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.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

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	<u>2,065,000</u>
	<u>\$ 11,545,000</u>

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	<u>2,135,000</u>
	<u>\$ 11,495,000</u>

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.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

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, 2013 and 2012, \$4,740,000 and \$4,740,000, respectively, outstanding of bonds are considered advance refunded and not included in the accompanying 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 10.0% of tuition and fee revenues, net of scholarship allowances. 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 and 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 \$71,089,699 and \$75,534,225 for fiscal years 2013 and 2012, respectively. These amounts consisted of \$31,219,693 student tuition and fees, net of scholarship allowance plus pledges for other revenues for fiscal year 2013 and \$30,943,319 of student fees net of scholarship allowance plus pledges for other revenues for fiscal year 2012 plus \$38,670,599 and \$39,642,631 of auxiliary enterprise plus pledges for other revenues for fiscal year 2013 and 2012, 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

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

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 for their portion of the bonds. 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 financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

**(h) Long-Term Bond Principal Maturities**

Bond principal payments to be made during fiscal years 2014 through 2018 are enumerated in the following tables:

<b>Bond issue</b>	<b>Principal maturing in next five years by year</b>				
	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Series 2003:					
Pikes Peak Community College	\$ 160,000	165,000	170,000	175,000	180,000
Series 2004:					
Front Range Community College	485,000	505,000	525,000	—	—
Series 2010A:					
Community College of Aurora	74,625	73,006	75,511	78,019	81,513
Morgan Community College	36,654	35,855	39,384	38,363	37,873
Northeastern Junior College	208,300	212,398	215,276	222,672	232,841
Pueblo Community College	238,398	242,928	246,192	249,707	—
Red Rocks Community College	184,723	190,600	195,442	200,443	203,494
Trinidad State Junior College	67,300	70,213	68,195	70,796	74,279
Series 2010B-1:					
Colorado Northwestern Community College	105,000	110,000	—	—	—
Northeastern Junior College	110,000	115,000	—	—	—
Series 2010B-2:					
Colorado Northwestern Community College	—	—	110,000	115,000	115,000
Northeastern Junior College	—	—	115,000	120,000	120,000
Series 2010C:					
Community College Denver	765,000	795,000	830,000	865,000	900,000
Pueblo Community College	310,000	325,000	335,000	345,000	360,000
Series 2010D:					
Community College Denver	—	—	—	—	—
Pueblo Community College	—	—	—	—	—
Series 2012A:					
Community College of Aurora	75,000	80,000	80,000	80,000	85,000
Colorado Community College System	235,000	240,000	245,000	250,000	250,000
Pikes Peak Community College	190,000	195,000	195,000	200,000	205,000
<b>Total revenue bonds payable</b>	<b>3,245,000</b>	<b>3,355,000</b>	<b>3,445,000</b>	<b>3,010,000</b>	<b>2,845,000</b>

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

<u>Bond issue</u>	<u>Principal maturing in next five years by year</u>				
	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>
Interest	\$ 2,854,051	2,756,621	2,654,186	2,552,407	2,454,893
Total annual debt service	\$ 6,099,051	6,111,621	6,099,186	5,562,407	5,299,893

Bond debt service payments after fiscal year 2018 to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019 – 2023	\$ 13,135,000	10,880,469	24,015,469
2024 – 2028	14,005,000	8,281,085	22,286,085
2029 – 2033	13,630,000	4,960,013	18,590,013
2034 – 2038	8,705,000	2,008,543	10,713,543
2039 – 2043	3,110,000	227,705	3,337,705

Remaining debt service by bond issuance is as follows:

	<u>Revenue bonds outstanding*, June 30, 2013</u>	<u>Interest rate</u>	<u>Maximum annual principal</u>	<u>Callable</u>	<u>Call premium</u>	<u>Final payment</u>
State Board for Community Colleges and Occupational Education Systemwide Revenue Bonds:						
Series 2003:						
Pikes Peak Community College	\$ 3,544,039	2.08% to 4.125%	\$ 290,000	Yes	None	11/1/2030
Series 2004:						
Front Range Community College	1,521,525	3.08% to 3.65%	525,000	Yes	None	11/1/2015
Series 2010A:						
Community College of Aurora	564,734	2.00% to 3.00%	86,935	No	None	11/1/2019
Morgan Community College	234,598	2.00% to 3.00%	41,803	No	None	11/1/2018
Northeastern Junior College	1,526,527	2.00% to 3.00%	233,038	No	None	11/1/2019
Pueblo Community College	996,604	2.00% to 2.50%	249,706	No	None	11/1/2016
Red Rocks Community College	1,432,973	2.00% to 3.00%	220,025	No	None	11/1/2019
Trinidad State Junior College	362,033	2.00% to 2.75%	74,279	No	None	11/1/2017
Series 2010B-1:						
Colorado Northwestern Community College	218,636	2.00%	110,000	No	None	11/1/2014
Northeastern Junior College	227,894	2.00%	115,000	No	None	11/1/2014
Series 2010B-2:						
Colorado Northwestern Community College	4,584,309	2.00% to 6.10%	280,000	Yes (after 11/2021)	None	11/1/2040
Northeastern Junior College	5,077,427	2.00% to 6.10%	305,000	Yes (after 11/2021)	None	11/1/2041
Series 2010C:						
Community College Denver	4,473,303	4.00%	900,000	No	None	11/1/2017
Pueblo Community College	1,806,842	4.00%	360,000	No	None	11/1/2017



**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

	<u>Revenue bonds outstanding*, June 30, 2013</u>	<u>Interest rate</u>	<u>Maximum annual principal</u>	<u>Callable</u>	<u>Call premium</u>	<u>Final payment</u>
Series 2010D:						
Community College Denver	\$ 19,955,891	3.37% to 5.35%	\$ 1,510,000	Yes (after 11/2021)	None	11/1/2034
Pueblo Community College	11,477,588	3.37% to 5.50%	730,000	Yes (after 11/2021)	None	11/1/2039
Series 2012A:						
Community College of Aurora	2,123,400	2.00% to 3.375%	140,000	Yes (after 11/2022)	None	11/1/2032
Colorado Community College System	5,783,132	2.00% to 3.375%	375,000	Yes (after 11/2022)	None	6/30/2032
Pikes Peak Community College	<u>3,515,185</u>	2.00% to 3.375%	270,000	Yes (after 11/2022)	None	6/30/2028
	<u>\$ 69,426,640</u>					

\* Includes unamortized bond premium and discount of \$941,640

**(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 leases 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 2013 and 2012, capitalized assets relating to these leases were approximately \$17,743,880 and \$16,570,741, respectively, with amortization expense of \$835,583 and \$847,825, respectively, and accumulated amortization of \$2,957,248 and \$2,122,088, respectively.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 758,518	405,511	1,164,029
2015	734,278	504,275	1,238,553
2016	788,154	468,424	1,256,578
2017	801,676	429,472	1,231,148
2018	815,839	392,118	1,207,957
2019 – 2023	3,936,136	1,388,216	5,324,352
2024 – 2028	2,758,084	546,365	3,304,449
2029 – 2033	<u>916,090</u>	<u>89,725</u>	<u>1,005,815</u>
Total	<u>\$ 11,508,775</u>	<u>4,224,106</u>	<u>15,732,881</u>

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 3.0% to 5.5% 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.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

The certificates are secured by the buildings or equipment acquired with the lease proceeds and any unexpended lease proceeds. The proceeds were 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 included CNCC's construction of a new 53,000-square-foot academic building that houses 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 provided 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 and are reflected in the accompanying financial statements.

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, for approximately \$1.0 million for both years ended June 30, 2013 and 2012. Total rent expense for all operating leases for the years ended June 30, 2013 and 2012 was \$4,498,231 and \$4,311,762, respectively. Future minimum rental payments, exclusive of real estate taxes and other expenses, under operating leases are as follows:

Year ending June 30:	
2014	\$ 3,889,919
2015	3,286,243
2016	3,987,599
2017	1,756,692
2018	1,742,498
2019 – 2023	4,303,873
2024 – 2028	629,216
2029 – 2033	629,216
2034 – 2038	629,216
2039 – 2043	629,216
2044 – 2048	566,295

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

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

**(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:

	<u><b>Total</b></u>
2014	\$ 82,094
2015	160,077
2016	226,088
2017	379,803
2018	169,765
2019 – 2023	<u>501,570</u>
Total	\$ <u><u>1,519,397</u></u>

**(13) Compensated Absences for Annual and Sick Leave**

Employees of CCCS may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The estimated total liability for compensated absences at June 30, 2013 and 2012 is \$18,388,423 and \$17,179,625, respectively.

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

At June 30, 2013 and 2012, the Public Employees’ Retirement Association of Colorado (PERA) estimated that 57.1% and 55.5%, 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.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

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 credit as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.
- 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 60 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 their 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 between January 1, 2007 and December 31, 2010—age 55 with a minimum of five years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than five years of service credit as of January 1, 2011.
  - 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

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

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, 2012, the temporary contribution rate increase of 2.5% for members in the State Division to replace the 2.5% reduction in employer contributions effective for fiscal years 2010-11 and 2011-12 expired.

From July 1, 2012 to December 31, 2012, CCCS contributed 15.65% of the employee's salary. From January 1, 2013 through June 30, 2013, CCCS contributed 16.55%. During all of fiscal year 2013, 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, 2012, the division of PERA in which the state participates has a funded ratio of 59.2% and a 53-year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 60.2%.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

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 a 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, 2013, 2012, and 2011 were \$38,964,377, \$30,046,428, and \$26,288,210, respectively. These contributions met the contribution requirement 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 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,

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

have the option of participating in the plan. At July 1, 2009, the State's administrative functions 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. The temporary contribution rate increased to 10.5% effective in fiscal years 2010-11 and 2011-12 expired on July 1, 2012. At December 31, 2012, the plan had 4,362 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 2012, participants were allowed to make contributions of up to 100.0% of their annual gross salary (reduced by their 8.0% PERA contribution) to a maximum of \$17,000. The reduction for the 8.0% PERA contribution reflects the expiration of the temporary contribution rate increase to 10.5% effective in fiscal years 2010-11 and 2011-12. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2012, for total contributions of \$22,500. Contributions and earnings are tax deferred. At December 31, 2012, the plan had 17,469 participants.

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

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Financial Statements

June 30, 2013 and 2012

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, 2012, there were 51,666 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2012, the Health Care Trust Fund had an unfunded actuarially accrued liability of \$1.43 billion, a funded ratio of 16.5%, and a 66-year amortization period.

#### **(b) Other Programs**

CCCS' principal employee pension plan is PERA (notes 14 and 15). 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 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 2013 and 2012, CCCS made contributions to the Benefit Trust of approximately \$282,000 and \$261,000, 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 \$15.0 million in commitments for various capital construction and controlled maintenance projects as of June 30, 2013.



# COLORADO COMMUNITY COLLEGE SYSTEM

## Notes to Financial Statements

June 30, 2013 and 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 financial statements for these items.

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

### **(20) Tax and Spending Limitations (TABOR Amendment)**

Certain state revenues, such as taxes and fees, are constitutionally limited. The growth in these revenues from year to year is limited to the rate of population growth plus the rate of inflation. These limitations are applied to the State as a whole, not to each individual college, department, or agency of the State. The Colorado State Legislature establishes spending authority, within these constitutional limits, for CCCS in its annual Appropriations Long Bill. Beginning fiscal year 2005, appropriated funds included an amount from the General Fund as well as cash funds, such as tuition, certain fees, and other revenue sources. Nonappropriated funds were excluded from the annual appropriations bill. Nonappropriated funds 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), if 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 2013 and 2012, the System received 1.6% and 1.7%, 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.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Financial Statements

June 30, 2013 and 2012

**(21) Discretely Presented Component Units Restatements**

As of July 1, 2012, the CCD, NJC, and RRCC Foundations net assets were restated to correct errors and the presentation of net assets. A summary of the total adjustments was as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year, as previously reported	\$ 14,317,875	17,273,222	10,680,575	42,271,672
Restatement	287,279	(299,547)	12,268	—
Net assets, beginning of year, as restated	\$ <u>14,605,154</u>	<u>16,973,675</u>	<u>10,692,843</u>	<u>42,271,672</u>

As of July 1, 2011, 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:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	\$ <u>12,144,179</u>	<u>19,356,166</u>	<u>8,287,306</u>	<u>39,787,651</u>

**(22) Related-Party Transactions**

Approximately \$4.4 million and \$3.9 million was transferred to the colleges from the foundations for the years ended June 30, 2013 and 2012, respectively, in pursuit of providing financial support for instructional programs, facilities, equipment, student scholarship programs, and cultural activities.

**(23) Subsequent Event**

On July 10, 2013, CCCS issued Series 2013 System-wide Revenue bonds in the amount of \$21,025,000. The proceeds will be used to finance the construction, improvement, equipping, renovation, expansion, and upgrade of various campus facilities for the FRCC Larimer Campus and the FRCC Westminster campus facilities.



KPMG LLP  
Suite 800  
1225 17th Street  
Denver, CO 80202-5598

**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, in accordance with the 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 business-type activities and the aggregate discretely presented component units of the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise CCCS' basic financial statements, and have issued our report thereon dated November 15, 2013. Our report included an explanatory paragraph stating that CCCS adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year 2013. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on CCCS' financial statements, and an explanatory paragraph stating that the June 30, 2012 financial statements of the aggregate discretely presented component units have been restated to correct certain misstatements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered CCCS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCCS' internal control. Accordingly, we do not express an opinion on the effectiveness of CCCS' internal control.

A deficiency in internal control 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, 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist



that have not been identified. However, we identified certain deficiencies in internal control, described in the Findings and Recommendations section of this report as Recommendations No. 1 and 2, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CCCS' financial statements are free from 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' Response to Findings**

CCCS' responses to the findings identified in our audit are described in the Findings and Recommendations section. CCCS' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CCCS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCCS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Denver, Colorado  
November 15, 2013



KPMG LLP  
Suite 800  
1225 17th Street  
Denver, CO 80202-5598

November 15, 2013

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

We have audited, in accordance with the 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 business-type activities and the aggregate discretely presented component units of the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise CCCS' basic financial statements, and have issued our report thereon dated November 15, 2013. Our report included an explanatory paragraph stating that CCCS adopted Governmental Accounting Standards Board (GASB) Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, in fiscal year 2013. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on CCCS' financial statements, and an explanatory paragraph stating that the June 30, 2012 financial statements of the aggregate discretely presented component units have been restated to correct certain misstatements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

### **Our Responsibility under Professional Standards**

We are responsible for forming and expressing an opinion about whether the 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 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 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 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 financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCCS' internal control. Accordingly, we do not express an opinion on the effectiveness of 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.



The Members of the Legislative Audit Committee and  
Colorado Community College System  
November 15, 2013

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' 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 financial statements.

### **Accounting Practices and Alternative Treatments**

#### ***Significant Accounting Policies***

The significant accounting policies used by CCCS are described in note 3 to the 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' financial statements, which include related disclosures.

### **Management Judgments and Accounting Estimates**

The preparation of the 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Accounting estimates are an integral part of the 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 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' financial statements are the allowance for uncollectible receivables, the period to depreciate capital assets owned by CCCS, scholarship allowances, and accrued compensated absences. We evaluated the key factors and assumptions in determining that these estimates are reasonable in relation to the financial statements taken as a whole.



The Members of the Legislative Audit Committee and  
Colorado Community College System  
November 15, 2013

### **Uncorrected Misstatements**

In connection with our audit of CCCS' financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in CCCS' books and records as of and for the year ended June 30, 2013. We have reported such misstatements to management on a Summary of Unadjusted Audit Misstatements 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 financial statements taken as a whole. Page 77 includes a copy of the summary that has been provided to, and discussed with, management.

### **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' 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, 2013.

### **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. Engagement letter
2. Management representation letter
3. 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.



The Members of the Legislative Audit Committee and  
Colorado Community College System  
November 15, 2013

***Confirmation of Audit Independence***

We hereby confirm that as of November 15, 2013 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 Misstatements

Year ended June 30, 2013

Adj. No.	Description	Change in net assets for unadjusted audit differences arising in current period	Statement of net assets		
			Net assets	Assets	Liabilities
1	Tuition and fees revenue:				
	Tuition and fees revenue	\$ 6,252,292	6,252,292	—	—
	Operating expense – bad debt	(6,252,292)	(6,252,292)	—	—
	<i>To reclassify bad debt expense to a contra-revenue account</i>				
		<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
		\$ —	—	—	—
2	Tuition and fees revenue:				
	Tuition and fees revenue – bad debt	\$ 1,150,889	1,150,889	—	—
	Student accounts receivable	—	—	(1,150,889)	—
	<i>To record uncollectible receivable allowance for CCD due to incorrect percentage used</i>				
		<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
		\$ 1,150,889	1,150,889	(1,150,889)	—

The electronic version of this report is available on the Web site of the  
Office of the State Auditor  
[www.state.co.us/auditor](http://www.state.co.us/auditor)

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

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

**Report Control Number 1322F**