



**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

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# COLORADO COMMUNITY COLLEGE SYSTEM

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# COLORADO COMMUNITY COLLEGE SYSTEM

## Financial and Compliance Audit

### Report Summary

Year ended June 30, 2006

#### **Purpose and Scope**

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado Community College System (CCCS) for the year ended June 30, 2006. 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 2006 to December 1, 2006.

The purpose and scope of our audit was to:

- Express opinions on the basic financial statements of CCCS as of and for the year ended June 30, 2006. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of Federal and state funds.
- Express an opinion on CCCS' compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of CCCS for the year ended June 30, 2006.
- 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, State of Colorado, are included in the June 30, 2006 Statewide Single Audit Report issued under separate cover.

#### **Audit Opinions and Reports**

We expressed unqualified opinions on CCCS' basic financial statements and its Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 2006.

No audit adjustments were proposed and made to the basic financial statements. One audit adjustment was not made to the basic financial statements totaling \$364,000, which is less than 1% of current year net assets. This passed difference is not considered material to CCCS' basic financial statements.

We issued a report on CCCS' internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Report Summary

Year ended June 30, 2006

**Summary of Key Findings**

**Information Technology**

The scope of our audit related to information technology general controls included the Financial Reporting System (FRS), Student Information System (SIS), and the Windows Active Directory, which control access to the network. FRS was the system of record in fiscal year 2006. CCCS is in the process of implementing a new accounting and financial reporting system. The operational effectiveness of the new system was not in the scope of our audit.

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

**Carl Perkins Vocational Education Program**

CCCS administers the Carl Perkins Vocational Education Program (Perkins) throughout the state. In December 2005, the Office of the State Auditor (OSA) issued several findings and recommendations related to subrecipient monitoring of the Perkins program. CCCS is responsible for monitoring and auditing subrecipients receiving Perkins funds to ensure they comply with state and Federal requirements. The OSA found that CCCS' review of Perkins subrecipients lacked steps to adequately review financial information and ensure that all subrecipient expenditures funded through Perkins are appropriate. The OSA also found that CCCS did not meet its goals for conducting Perkins monitoring visits and staff did not adequately follow prescribed Perkins monitoring procedures. During fiscal year 2006, CCCS had not yet implemented the recommendations; therefore, it did not have adequate controls over subrecipient monitoring and was not in compliance with the requirements of Federal Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Recommendations and CCCS Responses**

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

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

The audit report for the year ended June 30, 2005 included seven recommendations. The audit report for the year ended June 30, 2004 included four recommendations that were reported as not implemented or partially implemented in the 2005 audit report. The disposition of these audit recommendations as of December 1, 2006 was as follows.

Implemented	9
Partially implemented	1
Not implemented	1
Total	<u>11</u>

**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2006

<b>Rec. no.</b>	<b>Page no.</b>	<b>Recommendation summary</b>	<b>Agency addressed</b>	<b>Agency response</b>	<b>Implementation date</b>
1	11	Improve information technology general controls.	Colorado Community College System	Agree	June 2007
2	13	Ensure the Community College of Denver (CCD) implements processes and procedures to ensure accurate and complete accounting and financial reporting. Specifically, CCD should ensure reconciliations are prepared in a timely manner, transactions recorded in the proper period and proper controls are in place and evidenced for personnel action forms.	Colorado Community College System	Agree	January 2007
3	14	Ensure payroll amounts capitalized for the Enterprise Resource Planning system are accurate, complete and supported by underlying records.	Colorado Community College System	Agree	June 2007
4	15	Evaluate options to expedite the closing and financial reporting processes, including coordination of deadlines with the external auditor and other State of Colorado agencies. CCCS should also work with individual colleges and foundations to ensure accurate and timely financial reporting to improve its consolidation process.	Colorado Community College System	Agree	October 2007

**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2006

<b>Rec. no.</b>	<b>Page no.</b>	<b>Recommendation summary</b>	<b>Agency addressed</b>	<b>Agency response</b>	<b>Implementation date</b>
5	17	Improve its subrecipient monitoring by implementing policies, procedures and controls to ensure compliance with OMB Circular A-133. Specifically, CCCS should:  a. Develop a risk-based approach for monitoring subrecipients, including written policies and procedures, in compliance with OMB Circular A-133.  b. Require all subrecipients to submit either their annual OMB Circular A-133 audit or a statement attesting that they are not subject to OMB Circular A-133 audit requirements. Review audit reports or other statements.  c. Develop written policies, procedures and documentation requirements for subrecipients to support allowability and appropriateness of grant expenditures and other compliance requirements.  d. Provide training to improve the technical skill of staff responsible for subrecipient monitoring.  e. Provide adequate oversight and supervisory review of the Perkins monitoring process.	Colorado Community College System	Agree	July 2007



**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2006

<b>Rec. no.</b>	<b>Page no.</b>	<b>Recommendation summary</b>	<b>Agency addressed</b>	<b>Agency response</b>	<b>Implementation date</b>
6	18	Ensure Front Range Community College (FRCC) enhances procedures to ensure that the institution's portion of a student's unearned Title IV funds is returned within 30 days after the school has determined the student has withdrawn.	Colorado Community College System	Agree	June 2007
7	18	Ensure FRCC and Pikes Peak Community College (PPCC) enhance procedures to ensure that students are not allowed additional days of eligibility before they are reported to National Student Loan Data System (NSLDS).	Colorado Community College System	Agree	June 2007



**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Description of the Colorado Community College System

Year ended June 30, 2006

**Organization**

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

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

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

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

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

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

**COLORADO COMMUNITY COLLEGE SYSTEM**

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Description of the Colorado Community College System

Year ended June 30, 2006

Enrollment, tuition, and faculty and staff information is presented below. Enrollment information was obtained from the Colorado Commission on Higher Education (CCHE), Final Student full-time equivalent (FTE) Enrollment Report. Staff information was obtained from Format 10 and 40 for the Budget Data Book for Fiscal Year 2005-2006, as prepared for CCHE.

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

***FTE Student Enrollment***

	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal year:			
2005 – 2006	42,454	2,165	44,619
2004 – 2005	44,564	2,122	46,686
2003 – 2004	44,573	2,002	46,575

***FTE Faculty and Staff***

	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal year:			
2005 – 2006	3,015	1,376	4,391
2004 – 2005	3,211	1,362	4,573
2003 – 2004	3,123	1,535	4,658

## **COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2006

We have audited the basic financial statements of the Colorado Community College System (CCCS) as of and for the year ended June 30, 2006 and have issued our report thereon, dated December 1, 2006. In planning and performing our audit of the basic financial statements, we considered CCCS' internal control solely to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated December 1, 2006 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 December 1, 2006.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Our procedures were designed primarily to enable us to form opinions on the basic financial statements and on management's assertion regarding compliance. In addition, we considered the effectiveness of internal control over financial reporting. Our procedures may not bring to light all weaknesses in policies or procedures that may exist. We have attempted, however, to use our knowledge of CCCS gained during our work to make comments and suggestions that we hope will be useful to CCCS.

During our engagement, we noted certain other matters involving internal control and other operational matters that are presented for CCCS' consideration. These comments and recommendations, all of which have been discussed with the appropriate members of CCCS' management, are intended to improve internal control or result in other operating efficiencies.

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### **Information Technology**

The scope of our audit related to information technology general controls included the Financial Reporting System (FRS), Student Information System (SIS), and the Windows Active Directory, which control access to the network. FRS was the system of record in fiscal year 2006. CCCS is in the process of implementing a new accounting and financial reporting system, Banner. The operational effectiveness of this new system was not in the scope of our audit.

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

## **COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2006

We noted certain deficiencies in information technology general controls during our audit related to access to programs and data, change management and backup and recovery procedures relating to the existing system. In fiscal year 2004 CCCS began implementation of a new enterprise resource management (ERP) system, which is scheduled to be put into operation in fiscal year 2007. Many system and college resources were dedicated to the implementation. This may have impacted the system office's implementation of certain control, and its ability to monitor college IT operations. In addition, colleges did not comply with certain CCCS policies. Failure to ensure adequate general controls are in place and operating effectively could impact proper operation of information systems, including improper access to programs and data. Our specific observations are described below.

### ***Access to Programs and Data***

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

- ACC, PPCC, and the system office do not have formal policies and procedures for adding and removing users from their networks or Windows Active Directories.
- CCCS' Information Security Policy outlines password parameters. We noted the following exceptions to the CCCS policy in the following areas.
  - ACC and FRCC did not comply with the requirement that the last 15 passwords cannot be reused. ACC and FRCC allow the last 6 and 12 passwords to be used, respectively.
  - PPCC allows passwords to be changed every 120 days. The CCCS policy requires a change every 60 days.
  - PPCC requires the password minimum length to be six characters. The CCCS policy requires eight characters.
  - ACC and PPCC provide for account lockout after ten and five failed attempts, respectively. CCCS policy requires account lockout after four failed attempts.
  - PPCC does not require complex passwords in accordance with CCCS policy.
- Certain generic IDs are used in the Domain Admin Group of ACC and PPCC. These colleges could not explain the need for these generic IDs, such as Instructional Support, Investigation, and Testmerge, which did not appear to be reasonable in the Domain Admin Group for the Windows Active Directory. These generic IDs are not linked to specific employees.
- Certain generic badges were inappropriately included on the access listing to the data center. These badges were not linked to specific employees.
- CCCS did not document periodic, formal reviews of user access rights to systems and applications of the Active Directory.
- Certain help desk personnel have super user access to VMS. Super user access allows personnel access to programs and data for a variety of purposes. Super user access is normally limited to certain programmers, not help desk personnel.

## COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2006

### *Program Change*

CCCS did not retain testing documentation for any program changes during fiscal year 2006. CCCS was also unable to provide evidence that appropriate individuals had access to DevProd, which is the directory used to move changes into production.

### *Computer Operations*

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

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### **Recommendation No. 1**

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

- a. Implement formal policies and procedures for adding or removing employees from the Active Directory.
- b. Ensure colleges adhere to the Information Security Policy.
- c. Eliminate generic IDs in the Domain Admin Group at ACC and PPCC.
- d. Remove generic badge access to the data center.
- e. Perform and document periodic, formal reviews of user access rights to systems and applications of the Windows Active Directory.
- f. As part of the ERP system implementation, reconsider super user access to VMS for help desk personnel.
- g. Ensure evidence is maintained for testing program changes.
- h. Ensure only appropriate individuals have access to ProdMov.
- i. Rotate backup tapes offsite and ensure backup and recovery procedures are periodically tested.

### ***CCCS Response:***

Agree.

- a. CCCS-IT is working in conjunction with CCCS Human Resources (HR) on formalizing the business processes and associated steps for employee/contractor hires, changes, and terminations. The outcome will include the written policy and procedure formalizing the current informal process for adding and removing accounts.
- b. CCCS-IT will obtain certifications on a quarterly basis from each college that each is adhering to CCCS' Information Security Policy on password parameters (specifics will be detailed in the certification).
- c. ACC's Manager of Technical Support Services will work with the Security Administrators on the campus to remove all generic accesses that do not support a System program tie-in by January 2007. PPCC has removed the one generic ID that was in place and PPCC's Information Technology Support Services

## **COLORADO COMMUNITY COLLEGE SYSTEM**

### Financial and Compliance Audit

### Findings and Recommendations

Year ended June 30, 2006

Technical Support Manager has implemented an internal quarterly audit process to review all active directory (AD) accounts, their group memberships, and their permissions. PPCC ITSS Director will sign off on all internal audit results.

- d. The access listing to the data center is under review and generic badges are being removed and all access by individuals is being re-authorized.
- e. The procedure to perform and document periodic, formal reviews of user access rights to systems and applications of the Windows Active Directory is under review and will be formalized with HR for a quarterly review of accounts.
- f. Super user access is given to VMS FRS/SIS help desk personnel. These help desk individuals require super user access in order to set up security and to perform approved devprods (moving new code into production from development) on the system. As part of the ERP implementation, we will reconsider the super user access to VMS for help desk personnel.
- g. A process is now in place and all documentation is being kept on file to ensure evidence is maintained for testing changes.
- h. All individuals who have access to DevProd are identified, appropriate and validated at this time.
- i. There is a project in process to implement a formal offsite storage and tape rotation process using a certified recovery vendor which will be complete this fiscal year.

All changes will be made by June 30, 2007.

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### **Community College of Denver Accounting and Financial Reporting**

During our audit, we noted the following conditions at the Community College of Denver (CCD):

- CCD did not prepare the reconciliation of the Billing Receivable System (BRS) to the FRS during the year. This reconciliation is prepared to ensure tuition and fees have been properly recorded in the general ledger. Upon our request, CCD prepared the reconciliations and we found no exceptions.
- CCD did not capitalize assets in the proper period. \$52,330 in capital assets were recorded in fiscal year 2006 but acquired in fiscal year 2005.
- CCD did not have adequate controls over the authorization of employee compensation. For example, we noted one instance in which the personnel action form was faxed and contained no evidence of who approved the employee salary. We also noted three instances in which approvals were typed on the personnel action form. CCD does not have an automated personnel action system; therefore, we could not determine the typed signature was genuine. CCD does have an informal monitoring process over employee compensation.



## COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2006

During fiscal year 2006, CCD experienced employee turnover in its Controller's office and processes were not in place to ensure certain reconciliations were prepared and account balances updated. This could impact the accuracy and completeness of CCD's financial reporting. CCD also did not have proper controls over the authorization of personnel action forms. As a result, an unauthorized person could approve salary or other changes.

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

CCCS should ensure CCD implements processes and procedures to ensure accurate and complete accounting and financial reporting. Specifically, CCD should ensure reconciliations are prepared in a timely manner, transactions are recorded in the proper period and proper controls are in place and evidenced for personnel action forms.

### ***CCCS Response:***

Agree.

- a. The Assistant Controller currently reconciles the BRS to FRS on a monthly basis.
- b. The Controller will reassign responsibility for Fixed Assets to another Accountant who is experienced in the General Ledger. New assignment will be effective January 1, 2007.
- c. The Community College of Denver's Chief Financial Officer (CFO) and Director of Human Resources are developing a formal process for authorization and control of employee compensation. Process changes include manual routing of the personnel action form for required approvals and programming of current electronic personnel action system (QuickForms) to include requirement for unique user ID and password for each user requesting and approving personnel actions. Manual process will be implemented immediately, and reprogramming will be evaluated for cost/benefit and feasibility by Dec. 31, 2006. If CFO determines it is in CCD's best interests to proceed with programming changes, those changes will begin as soon as possible.

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### **System Office Construction Work-in-Progress for Enterprise Resource Planning System**

In fiscal year 2004, CCCS began implementation of a new Enterprise Resource Planning (ERP) system to replace its legacy system, FRS. The ERP system will provide CCCS an integrated system used by each of the thirteen colleges. In April 2006, CCCS brought on-line the student module of its new ERP system which was used for fall 2006 registration. CCCS plans to bring on-line the financial and human resources modules on July 1, 2007. This is an estimated date based on CCCS' project plan.

A majority of the ERP costs were capitalized in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. As of June 30, 2006, CCCS capitalized \$17 million in construction work-in-progress.

## COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2006

During our audit, we noted the following exceptions in capitalization of the internal use software:

- \$92,742 of payroll costs (including Public Employees Retirement Association (PERA) and Medicare) were improperly capitalized. Total payroll costs capitalized were approximately \$1,973,000. We tested 35 employees totaling \$1,570,000 in payroll expense and noted the following:
  - CCCS uses the Ultimus system to track employee time spent on the ERP system implementation. Ultimus allows employees to enter more than one timesheet for the same date. We noted one instance in which 100 hours for \$3,296 were capitalized in error as a result of this process; however, this individual also did not report approximately 160 hours in the Ultimus System equaling \$5,274, resulting in a net undercapitalization of \$1,978. We also noted one instance in which 169 hours were capitalized in error; however, this individual also did not report approximately 150 hours in the Ultimus system, resulting in a net over capitalization of \$683.
  - Some employees working on the ERP implementation did not provide descriptions of their activities in Ultimus. As a result, there was the potential that some training hours were not captured and expensed as incurred. However, based on our test work, we noted no exceptions.
  - We noted three instances incorrect salaries were used to calculate payroll amounts to be capitalized. Two employees had mid-year salary changes and one employee capitalized for a full year was only employed for a portion of the year. The errors resulted in an overstatement of \$266, \$833, and \$65,124, respectively.
  - The system office calculated the amount to be capitalized based on the number of hours spent on the project multiplied by the hourly rate. We noted three instances in the 35 employees tested in which more than 2,080 hours for one year were capitalized for salaried employees. The total overstatement for these three employees was \$27,814.

The system office implemented a process to capture payroll costs for construction work-in-progress. However, this process did not detect the errors noted above. These errors are not significant to the overall ERP system capitalization and were corrected during fiscal year 2006. However, CCCS can implement certain procedures to accurately capture payroll costs in the future.

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

CCCS should implement a cost-effective process to ensure payroll amounts capitalized for the ERP system are accurate, complete, and supported by underlying records. Specifically, the system office should:

- a. Evaluate ability within the Ultimus system for more than one timesheet per day and make necessary modifications to CCCS processes.
- b. Ensure employees complete the proper training categories in Ultimus.
- c. Ensure the correct salary is used in the calculation of payroll amounts to be capitalized.
- d. Ensure salaried employees' payroll costs are capped at the annual salary amount for capitalization.

## COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2006

### ***CCCS Response:***

Agree. While these errors do not individually or in the aggregate constitute material amounts for the purposes of financial reporting, CCCS recognizes the need to evaluate limitations and capabilities within the Ultimus system for tracking to ensure each time period is properly accounted for, including making changes to past periods, as appropriate. Employees will be trained and directed to identify proper training categories within Ultimus for each period in which time is claimed and inquiry will be made at year end as to any changes in salary that may have taken place during the year so that adjustments in the calculations based on year end salary rates can be modified in the limited instances that changes may have occurred. Finally, the year end estimate of capitalized payroll time will be capped at the maximum annual salary for each individual. These changes will be completed during the closing of fiscal year 2006-07.

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### **Financial Reporting**

When CCCS prepares its financial statements, it consolidates financial information of the 13 colleges and the system office. These statements are used by multiple stakeholders, including the State of Colorado. Since CCCS is an institution of the State of Colorado, its financial statements are included in the state's basic financial statements. The demands for timelier financial reporting are increasing as evidenced by accelerated filing requirements for publicly trade companies.

The state's financial reporting process requires the 13 colleges and the system office to submit their individual financial statements and other financial information to the State Controller's Office at the end of August. The system office subsequently prepares CCCS' basic financial statements from the information submitted by the individual colleges. Per contract with the Office of the State Auditor, the external auditor is required to issue a financial and compliance audit report by October 31 which includes an opinion on the basic financial statements as well as any findings and recommendations resulting from the audit. Delays in completing the audit impact the state's ability to complete its financial reporting process in a timely manner.

Though the majority of the testwork was done by October 31, the reporting process, and issuance of the financial and compliance audit report extended one month after the deadline—as the consolidation of the basic financial statements were not provided by CCCS to the external auditors until October 13. The delay in preparing the basic financial statements resulted from the system office not receiving timely and accurate information from the individual community colleges and the foundations, and the system office being involved in the implementation of the new accounting and financial reporting system (ERP system). Although the delay in completing the fiscal year 2006 audit was shorter than the previous two years, further improvements can be made to complete the issuance of the report by the end of October.

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### **Recommendation No. 4:**

CCCS should evaluate options to expedite the closing and financial reporting processes, including coordination of deadlines with the external auditor and other State of Colorado agencies. CCCS should also work with individual colleges and foundations to ensure accurate and timely financial reporting to improve its consolidation process.

## COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2006

### ***CCCS Response:***

Agree. CCCS will strive to provide a consolidated financial statement draft of the System and the Colleges by September 30, 2007 for the external auditors. By October 10, a draft inclusive of the 14 Foundations will be provided. Further, CCCS will coordinate and monitor a more timely submission of financial information and footnotes from the college data submitted to the State Controller's Office from which the consolidated report is prepared and from financial statements provided by the foundations. Responses for findings will be prepared within 10 days of submission to CCCS from the external auditors and State Auditors' Office.

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### **Carl Perkins Vocational Education Program**

CCCS administers the Carl Perkins Vocational Education Program (Perkins) throughout the state. In this role, the CCCS' duties include creating a state plan for administering Perkins funds and instituting statewide performance measures that subrecipients must meet for the State to continue receiving Perkins funding. CCCS staff manages the day-to-day Perkins operations on behalf of the Board. CCCS had \$17 million of Federal vocational expenditures during fiscal year 2006.

In December 2005, the Office of the State Auditor (OSA) issued several findings and recommendations related to subrecipient monitoring of the Perkins program. The OSA found that CCCS' review of Perkins subrecipients lacked steps to adequately review financial information and ensure that all subrecipient expenditures funded through Perkins are appropriate. The OSA also found that CCCS did not meet its goals for conducting Perkins monitoring visits and staff did not adequately follow prescribed Perkins monitoring procedures.

During fiscal year 2006, CCCS had not yet implemented the recommendations; therefore, it did not have adequate controls over subrecipient monitoring and was not in compliance with the requirements of OMB Circular A-133. Specifically, CCCS did not perform site visits and appropriately review annual OMB Circular A-133 subrecipient audit reports. OMB Circular A-133 requires entities to monitor grant subrecipients to ensure compliance with Federal laws and regulations. Specifically, CCCS is responsible for:

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

## **COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2006

- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

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### **Recommendation No. 5:**

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

- a. Develop a risk based approach for monitoring subrecipients, including written policies and procedures, in compliance with OMB Circular A-133.
- b. Require all subrecipients to submit either their annual OMB Circular A-133 audit or a statement attesting that they are not subject to OMB Circular A-133 audit requirements. Review audit reports or other statements.
- c. Develop written policies, procedures, and documentation requirements for subrecipients to support allowability and appropriateness of grants expenditures and other compliance requirements.
- d. Provide training to improve the technical skill of staff responsible for subrecipient monitoring.
- e. Provide adequate oversight and supervisory review of the Perkins monitoring process.

### ***CCCS Response:***

Agree. CCCS has developed a monitoring team comprising Program Directors and Internal Audit, Accounting, Credentialing, Colorado Vocational Act (CVA) Staff, and Perkins personnel to develop factors to be utilized in a risk-based approach to monitoring and to ensure each subrecipient is monitored at least once every five years as provided in the State's Perkins Plan. This risk-based approach will employ a matrix to select appropriate data sample sizes to test, including enrollment, as part of the monitoring visits and will include written policies on carrying out monitoring visits. A process is in place to identify and request OMB Circular A-133 reports annually, as applicable, and specific corrective action plan procedures will be developed for subrecipients with findings. CCCS will provide Colorado sub-indicator performance reports to subrecipients to identify individual program deficiencies and will monitor subrecipients against their plan objectives. In addition, CCCS is actively pursuing the hiring of a compliance officer to oversee and implement the entire monitoring process. Procedures will be in place by July 2007.

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### **Student Financial Assistance**

We performed procedures required by Federal OMB Circular A-133 and the Compliance Supplement for Federal Student Aid. We also performed procedures as required by the 2005-2006 Audit Guide for Colorado Funded Student Aid, issued by the Colorado Commission on Higher Education (CCHE). For Fiscal Year 2006, CCCS received approximately \$106 million of Federal and state student financial assistance. The two findings and recommendations below result from this work. In the prior year, we also noted four findings and recommendations. The implementation status of those comments is located in the Disposition of Prior Year Findings and Recommendation section of this report.

## COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2006

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### Student Financial Aid

In accordance with 34 CFR 668.22; 2003-2004 United States Department of Education Student Financial Aid Handbook Volume 2 Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds, a school must return its portion of unearned Title IV funds by no later than thirty days after the date the school determined the student withdrew. During our audit, we noted Front Range Community College (FRCC) did not return funds timely and did not have adequate procedures in place to ensure Title IV funds are returned in the time allowed. In a sample of 30 students (12 from FRCC), two students' institutional portion of unearned Title IV funds were returned after the thirty days allowed. FRCC returned the funds three and seven days late. As a result, FRCC returned its portion of unearned Title IV funds beyond the timeframe established by Federal regulations.

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### Recommendation No. 6:

CCCS should ensure FRCC enhances procedures to ensure that the institution's portion of a student's unearned Title IV funds is returned within thirty days after the school has determined the student has withdrawn.

### *CCCS Response:*

Agree. The FRCC Financial Aid Director is working with CCCS in the development of enhanced procedures for ensuring compliance with the required Return of Title IV Fund regulations by June 30, 2007.

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### Student Financial Aid

In accordance with the 2005 – 2006 United States Department of Education Federal Student Aid Handbook, Volume 2 Institutional Eligibility and Participation Chapter 6 Return of Title IV Funds, students who owe grant overpayments as a result of withdrawals generally will retain their eligibility for Title IV funds for a maximum of 45 days. The student's eligibility for additional Title IV funds will end if the student fails to take positive action by the 45th day following the date the school sent or was required to send notification to the student. If the student takes no positive action during the 45 day period, the school should report the overpayment to the National Student Loan Data System (NSLDS) immediately after the 45 day period has elapsed.

During our audit, we noted adequate procedures are not in place at FRCC and PPCC to report overpayments to NSLDS in a timely manner. By reporting a student late, a student's eligibility is extended and the student could apply for aid for which the student is not entitled. In a sample of thirty students (12 from FRCC and six from PPCC), two students (one each from FRCC and PPCC) were reported to NSLDS 63 days and 19 days, respectively, after the expiration of the 45 day period of extended eligibility to NSLDS. These students were not granted additional aid by CCCS.

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### Recommendation No. 7:

CCCS should ensure FRCC and PPCC enhance procedures to ensure that students are not allowed additional days of eligibility before they are reported to NSLDS.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2006

***CCCS Response:***

Agree. The FRCC Financial Aid Director will work with CCCS in the development of enhanced procedures for ensuring compliance with the Return of Title IV Fund regulations and related reporting to NSLDS by June 30, 2007. PPCC has policies and procedures in place to report and refer students to NSLDS, but in this case one was missed. PPCC will continue to comply with as few mistakes as possible. A financial aid processor is assigned this particular duty and has procedures in the calendar to automatically provide a reminder. Compliance is expected to continue from November 2006 forward.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2006

Following are the audit recommendations made for the year ended June 30, 2005 and certain recommendations from the fiscal year 2004 audit and their disposition as of December 1, 2006.

<b>Recommendation</b>	<b>Disposition</b>
<p>2005 Comment:</p> <p>Perform the following to improve information technology general controls and access controls:</p> <ul style="list-style-type: none"> <li>a. Document the software development and change process, including testing performed and changes approved.</li> <li>b. Maintain testing evidence for changes to SIS and FRS.</li> <li>c. Evaluate passwords on the FRCC network.</li> <li>d. Implement a process to ensure that access is removed upon termination of employment.</li> <li>e. Evaluate generic user IDs on the PCC network and VMS.</li> <li>f. Perform an analysis of system access and users' accounts and make changes as appropriate to ensure system access is restricted to appropriate users' files and that user profiles are commensurate with job responsibilities and policies.</li> <li>g. Complete an annual review of system access for all users and remove and update necessary access rights.</li> </ul>	Implemented.
<p>2005 Comment: Ensure CCA, PPCC, and the system office accurately and completely calculate the compensated absences liability. Colleges should implement automated procedures to calculate the compensated absences liability.</p>	Implemented.
<p>2005 Comment: Implement procedures to ensure capital assets are fairly stated. Specifically, CCCS should ensure agreements are properly obtained and reviewed for assets managed by other entities and that software in development is reviewed for inclusion in construction work-in-process (CIP) and reconciled at year-end, including year-end accounts payable entries.</p>	Implemented.
<p>2005 Comment: Ensure PCC communicates to students the proper amount to be returned.</p>	Implemented.



**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2006

<b>Recommendation</b>	<b>Disposition</b>
2005 Comment: Ensure ACC establishes procedures to ensure that students are not allowed additional days of eligibility before they are reported to NSLDS and that breaks are correctly calculated.	Implemented.
2005 Comment: Ensure FRCC establishes procedures to have a supervisory review of the Return of Title IV calculations.	Implemented.
2005 Comment: Ensure FRCC establishes procedures to ensure that the institution's portion of a student's unearned Title IV funds are returned within 30 days after FRCC has determined a student has withdrawn and that proper amounts are used in the calculation.	Partially implemented. See current year Recommendation No. 6 for FRCC.
2004 Comment: CCCS should ensure CCA develops and implements a plan to address the accounting and internal control weaknesses noted in this audit. This plan should address CCA business processes as well as supervision, training, and skill levels of employees responsible for accounting and financial reporting. CCA should submit this plan to the System President for approval. The System President should monitor implementation of the plan, and require at least quarterly updates from CCA.	Implemented.
2004 Comment: To improve information technology general controls, CCCS should perform the following:  a. Document the software development and change process. b. Document all emergency fixes. c. Ensure remote access requests are submitted on an approved form and that all are tracked. d. Establish a single anti-virus server and distribute updates to all other servers, including the colleges. e. Document the mainframe user administration procedure so that users are aware of the process for granting, modifying, and removing access and password parameters. f. Consider installing cameras in the computer room to monitor activity.	Implemented.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2006

<b>Recommendation</b>	<b>Disposition</b>
2004 Comment: CCCS should ensure FRCC develops and implements a plan to improve internal control and compliance over student financial aid. This plan should review the organization structure, business process, and policies and procedures in place in the Financial Aid department to ensure compliance with applicable laws and regulations. Students who received aid inappropriately should be required to repay these funds.	Implemented.
2004 Comment: Ensure that CCD, FRCC, TSJC, and PCC establish procedures to ensure that the institution's portion of a student's unearned Title IV funds are returned within 30 days after the school has determined a student has withdrawn.	Not implemented. See current year Recommendation No. 6.



**KPMG LLP**  
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## **Independent Auditors' Report**

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activity and aggregate discretely presented component units of the Colorado Community College System (CCCS), a component unit of the state of Colorado, as of and for the years ended June 30, 2006 and 2005, which collectively comprise CCCS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of CCCS management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of certain discretely presented component units discussed in note 1, which represent 98%, 99%, and 98%, and 99%, 99%, and 97% of the 2006 and 2005 assets, net assets, and revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CCCS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities and of the aggregate discretely presented component units of CCCS as of June 30, 2006 and 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 21, CCCS restated the 2005 financial statements of the aggregate discretely presented component units.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 27 to 38 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 1, 2006



## **COLORADO COMMUNITY COLLEGE SYSTEM**

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

**June 30, 2006 and 2005**

The following discussion and analysis provides management's view of the financial position and results of operations for the Colorado Community College System (CCCS) as of June 30, 2006 and 2005 (fiscal years 2006 and 2005, respectively), with comparative information presented for fiscal year 2004. This analysis should be read in conjunction with CCCS' financial statements and notes to the basic financial statements. This analysis is intended to make CCCS' financial statements easier to understand and communicate our financial situation in an open and accountable manner.

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

CCCS is Colorado's largest institution of higher-education and served approximately 116,000 students during the fiscal year ended June 30, 2006. The System has approximately 6,000 employees, of which approximately two-thirds are faculty. The colleges offer a wide variety of both academic and career programs leading either to degrees and certificates, or otherwise enhancing personal and professional growth. In addition to the 13 community colleges, CCCS also assists the State Board for Community Colleges and Occupational Education (Board) in exercising certain curriculum and funding authority over four Area Vocational Schools, two Local District Colleges, and secondary career and technical programs in over 160 school districts throughout the state.

Legislation passed in fiscal year 2004 provided higher education institutions in the State of Colorado the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), given the institution met the stated qualifications. CCCS qualified as an enterprise for fiscal year 2006 because it is a government owned business with legal authority to issue revenue bonds. In addition, the System was required to receive (and is expected to continue to receive) less than 10% (in relation to total revenues) in support from the State. In fiscal years 2006 and 2005, the System received 6% and 31% percent, respectively, in State support (see note 4).

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

## COLORADO COMMUNITY COLLEGE SYSTEM

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

June 30, 2006 and 2005

#### Financial Highlights

At June 30, 2006, CCCS' assets of \$468,750,974 exceeded its liabilities of \$110,048,669 by \$358,702,305. At June 30, 2005, CCCS' assets of \$436,407,855 exceeded its liabilities of \$99,712,825 by \$336,695,030. The resulting net assets are summarized into the following categories:

	<b>June 30</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Invested in capital assets, net of related debt	\$ 262,474,089	262,291,147	249,355,846
Restricted, expendable	20,964,743	21,868,967	19,501,563
Unrestricted	75,263,473	52,534,916	41,412,595
Total net assets	\$ 358,702,305	336,695,030	310,270,004

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

During fiscal year 2006, the CCCS' total net assets increased by \$22,007,275. The increase in net assets is the result of increased tuition revenue and expense containment, compensating for reductions in state appropriations.

#### Overview of the Financial Statements

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

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

The *Statement of Net Assets* presents information on all of CCCS' assets and liabilities at a point in time (June 30, 2006 and 2005), with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. A reader of the financial statements should be able to determine the assets available to continue CCCS' operations, how much CCCS owes to vendors and lending institutions, and a picture of net assets and their availability for expenditure in CCCS.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how CCCS' net assets changed during the fiscal period (the fiscal years ended June 30, 2006 and 2005). All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered). Its purpose is to assess CCCS' operating results. CCCS reports its activity as a special purpose government engaged only in business-type activities using the economic resources measurement focus and the accrual basis of accounting.



**COLORADO COMMUNITY COLLEGE SYSTEM**

Management's Discussion and Analysis (Unaudited)

June 30, 2006 and 2005

The *Statement of Cash Flows* presents cash receipts and payments to CCCS for the reporting period (the fiscal years ended June 30, 2006 and 2005) using the direct method. The direct method of cash flow reporting portrays cash flows from operations, noncapital financing, capital and related financing, and investing activities. Its purpose is to assess CCCS' ability to generate net cash flows and meet its obligation as they come due.

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

**Financial Analysis**

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

The assets reported by CCCS exceeded liabilities at June 30, 2006 and 2005, resulting in net assets of \$358,702,305 and \$336,695,030, respectively. The majority (73.2% for 2006 and 77.9% for 2005) of CCCS' net assets are invested in capital assets (e.g., land, buildings, and equipment), net of related debt. These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

	<b>June 30</b>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 169,635,991	137,647,820	121,709,016
Noncurrent assets, including capital assets of \$295,959,598, \$295,474,498 and \$283,375,622	<u>299,114,983</u>	<u>298,760,035</u>	<u>286,634,193</u>
Total assets	\$ <u>468,750,974</u>	<u>436,407,855</u>	<u>408,343,209</u>
Current liabilities	\$ 70,402,877	60,092,153	57,616,029
Noncurrent liabilities	<u>39,645,792</u>	<u>39,620,672</u>	<u>40,457,176</u>
Total liabilities	\$ <u>110,048,669</u>	<u>99,712,825</u>	<u>98,073,205</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 262,474,089	262,291,147	249,355,846
Restricted – expendable	20,964,743	21,868,967	19,501,563
Unrestricted	<u>75,263,473</u>	<u>52,534,916</u>	<u>41,412,595</u>
Total net assets	\$ <u><u>358,702,305</u></u>	<u><u>336,695,030</u></u>	<u><u>310,270,004</u></u>

Current assets increased approximately \$32 million as a result of a \$30 million increase in cash and a \$2.5 million accounts receivable due to the timing of payments made after year end resulting in the increase in current liabilities, as discussed below.

## COLORADO COMMUNITY COLLEGE SYSTEM

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

June 30, 2006 and 2005

Current liabilities increased approximately \$10 million or 17.2% due to normal timing differences in the payment of vendor accounts payable and an increase in deferred revenue for summer tuition. Summer tuition revenue is deferred for the percentage of the summer semester that falls into the next fiscal year. As a result of the change in funding from the State under the COF stipend program, CCCS' largest funding source is now recorded as tuition and fee revenue. Correspondingly an increasing portion of COF for the summer term resulted in deferral.

Net assets may have restrictions imposed by external parties, such as donors, who specify how the assets must be used, or by their nature are invested in capital assets (property, plant, and equipment). Restricted net assets (5.8% for 2006 and 6.5% for 2005 of total net assets, respectively) are primarily restricted for auxiliary programs, scholarships, loans, capital projects, and community training programs.

Unrestricted net assets (21.0% for 2006 and 15.6% for 2005 of total net assets, respectively) are available for general operations at the discretion of the Board. However, the Board has placed some limitations on future use by designating unrestricted net assets for certain purposes, including capital maintenance and equipment expansion and repair, new programs, and compensated absences liability.

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

In previous years, State appropriations were CCCS' largest revenue source. In 2006, the change in funding from State appropriations to COF and fee-for-service revenue resulted in a decline in the State appropriations non-operating revenue and a corresponding increase in the student tuition and fees and fee-for-services state contract operating revenues. State appropriations (net of distributions to Local District Colleges and Area Vocational Schools) represent approximately 6.2% and 32.8%, Student tuition and fees represent approximately 42.2% and 24%, and fee-for-service contracts represent approximately 9.8% and 0% of CCCS' total revenue from all sources in fiscal year 2006 and 2005, 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 offset or supplement the operating loss from the cost of operations. CCCS experienced a \$7.0 million loss from operations in fiscal year 2006 compared to a \$121.1 million loss from operations in fiscal year 2005. In fiscal year 2006, this operating loss was offset by net state appropriations of \$24 million. In fiscal year 2005, this operating loss was offset by net state appropriations of \$130 million.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Management's Discussion and Analysis (Unaudited)

June 30, 2006 and 2005

The decline in the operating loss is a result of the change in funding from the State. During 2006 CCCS received COF stipend revenue and fee-for-service revenue both of which were included in operating revenues to directly offset the operating expenses.

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

	<b>June 30</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Operating revenues:			
Tuition and fees, net	\$ 162,542,462	94,750,747	91,955,294
Grants and contracts	114,400,276	118,961,395	116,991,273
Fee-for-service state contract	37,671,263		
Auxiliary enterprises, net	32,404,547	28,333,105	27,731,242
Other	8,949,694	5,682,951	5,899,041
Total operating revenues	<u>355,968,242</u>	<u>247,728,198</u>	<u>242,576,850</u>
Operating expenses:			
Instruction	162,058,391	158,010,374	175,858,587
Public service	3,407,873	2,597,233	2,636,774
Academic support	25,121,529	24,939,234	24,375,020
Student services	31,794,249	31,061,700	31,544,586
Institutional support	40,057,055	46,720,823	32,224,848
Operation and maintenance of plant	38,475,886	34,673,421	34,034,705
Scholarships and fellowships	12,929,621	25,663,485	26,864,413
Auxiliary enterprises	33,714,677	28,353,671	29,787,739
Depreciation	15,457,389	16,845,123	16,268,631
Total operating expenses	<u>363,016,670</u>	<u>368,865,064</u>	<u>373,595,303</u>
Operating loss	<u>(7,048,428)</u>	<u>(121,136,866)</u>	<u>(131,018,453)</u>
Nonoperating revenues:			
State appropriations	44,484,902	149,070,456	148,853,289
Distributions to Local District Colleges and Area Vocational Schools	(20,764,004)	(19,543,862)	(19,543,862)
Other net nonoperating revenues	3,299,730	16,483,956	628,795
Net nonoperating revenues	<u>27,020,628</u>	<u>146,010,550</u>	<u>129,938,222</u>
Gain/loss before other revenues, expenses, gains, or losses	19,972,200	24,873,684	(1,080,231)
State capital contributions	1,691,665	560,217	1,812,010
Capital grants and gifts	343,410	991,125	522,727
Increase in net assets	<u>22,007,275</u>	<u>26,425,026</u>	<u>1,254,506</u>
Net assets:			
Beginning of year	<u>336,695,030</u>	<u>310,270,004</u>	<u>309,015,498</u>
End of year	<u>\$ 358,702,305</u>	<u>336,695,030</u>	<u>310,270,004</u>

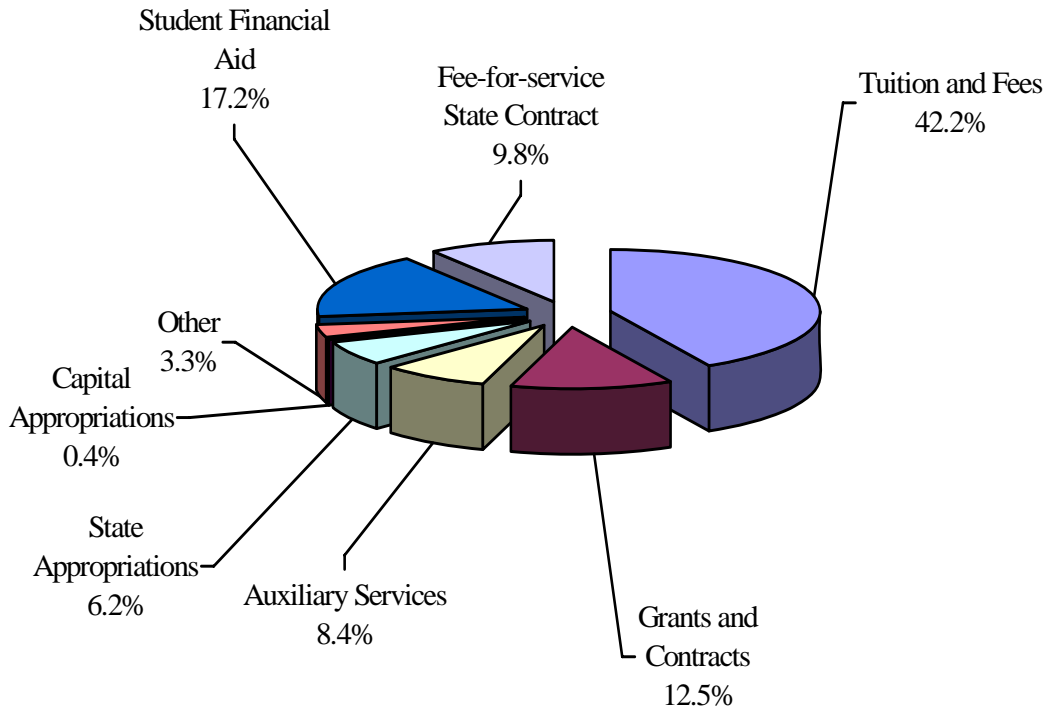
**COLORADO COMMUNITY COLLEGE SYSTEM**

Management's Discussion and Analysis (Unaudited)

June 30, 2006 and 2005

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 2006**

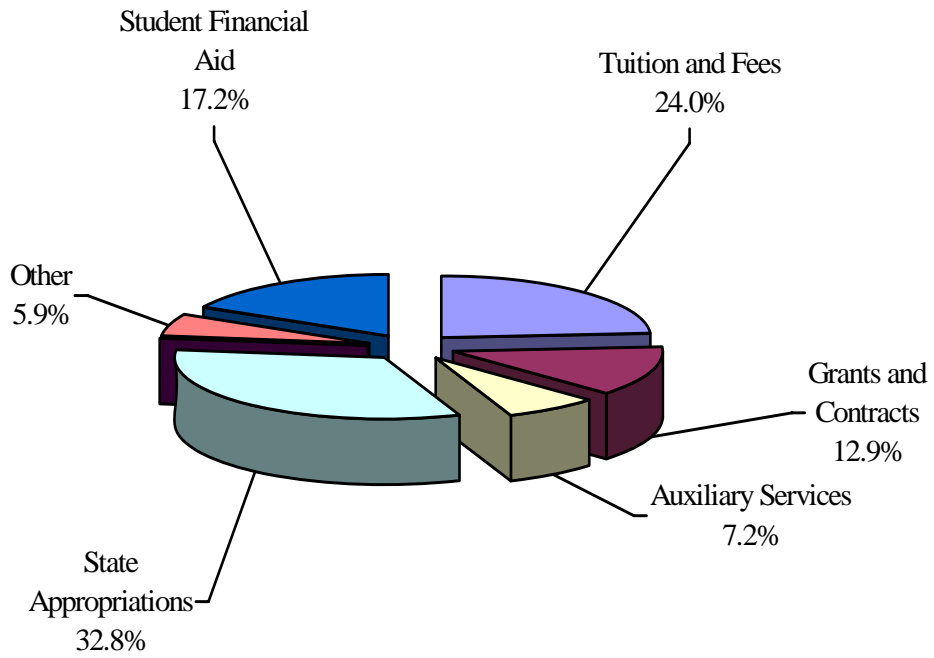


**COLORADO COMMUNITY COLLEGE SYSTEM**

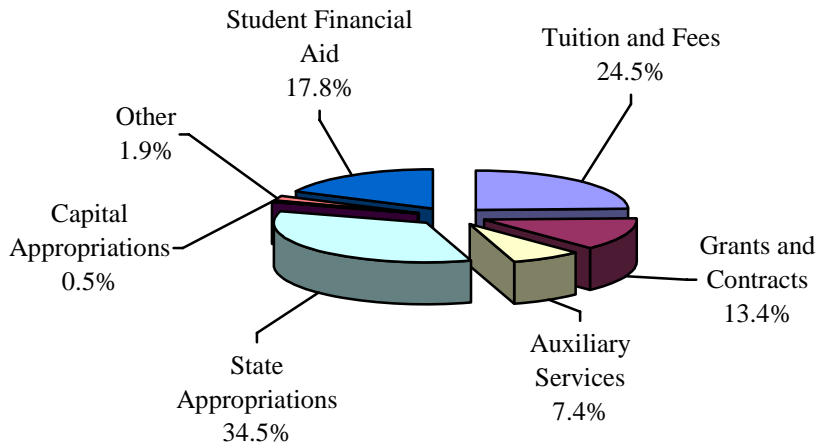
Management's Discussion and Analysis (Unaudited)

June 30, 2006 and 2005

**Sources of Revenue  
Fiscal Year 2005**



**Sources of Revenue  
Fiscal Year 2004**



## COLORADO COMMUNITY COLLEGE SYSTEM

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

June 30, 2006 and 2005

As the above charts demonstrate, Student tuition and fees are the largest revenue source for CCCS in fiscal year 2006 whereas, State appropriations were the largest revenue source for CCCS in fiscal years 2005 and 2004. The operating loss of approximately \$7.0 million, \$121.1 million and \$131.0 million in fiscal year 2006, 2005 and 2004 respectively, noted above, are the result of operating expenses exceeding operating revenues. During 2006 CCCS supplemented operating revenues with State appropriations, which are classified as nonoperating revenues, to fund operations. In fiscal years 2005 and 2004 CCCS used State appropriations, which are classified as nonoperating revenues, to fund operations.

Revenue activity highlights for fiscal year 2006 include:

- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately \$67.8 million or 71.6%. The increase is primarily due to the change in funding from State appropriations to the state funded COF stipend program. The COF stipend is characterized as operating revenue included in tuition and fee revenue, whereas State appropriations are characterized as non-operating revenue. During 2006, CCCS received approximately \$79.1 million in COF stipend revenue. There was also an 8.9% tuition increase and increases in some student fees. This increase was offset by an increase in scholarship allowances.
- Auxiliary enterprises increased, net of the effect of scholarship allowances, by approximately \$4.1 million, or 14.4%, due to a combination of factors: decreases in the credit for scholarship allowances at most colleges and the reclassification of aviation flight revenue from the agency fund to the auxiliary enterprises at Colorado Northwestern Community College.
- General state appropriations decreased by approximately \$104.6 million or 70.2%, reflecting the change in funding that occurred during 2006. CCCS was funded through the COF stipend program, recorded as tuition and fee revenue, and fee-for-service contract revenue recorded in operating revenues.
- Investment income increased by approximately \$2 million or 106.4% due to several factors. A significant portion of the fee-for-service contract revenue was received in July 2005. As a result, the average daily cash balances at the State Treasury were higher. Colorado Vocational Act payments to secondary schools also occurred later than in the previous year. Additionally, interest rates paid by the State Treasury increased during fiscal year 2006 from an average of 3.0% to 3.8% over the same nine-month period.
- Other nonoperating revenues (expenses) decreased by approximately \$17.0 million or 97.1% due to the 2005 one-time adjustment of approximately \$17 million to buildings and accumulated depreciation recorded to correct the valuation of assets acquired by conveyance.
- Gain/(loss) on disposal of assets decreased approximately \$1.7 million or 83.7% due to the 2005 write-off of disposed assets.
- State capital contributions increased by \$1.1 million or 202.0% due to the approval in the State's budget for capital appropriations following the passing of House Bill 05-1194, Referendum C, which allowed all state revenues in excess of limitations to be spent on healthcare; education, including capital construction; retirement plans for firefighters and police officers; and to pay for strategic transportation projects.

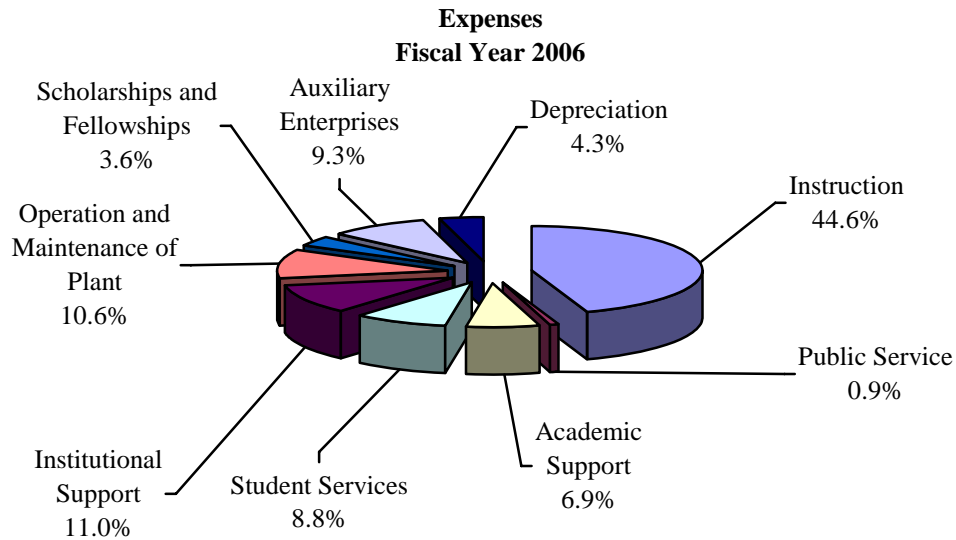
# COLORADO COMMUNITY COLLEGE SYSTEM

## Management's Discussion and Analysis (Unaudited)

June 30, 2006 and 2005

Revenue activity highlights for fiscal year 2005 include:

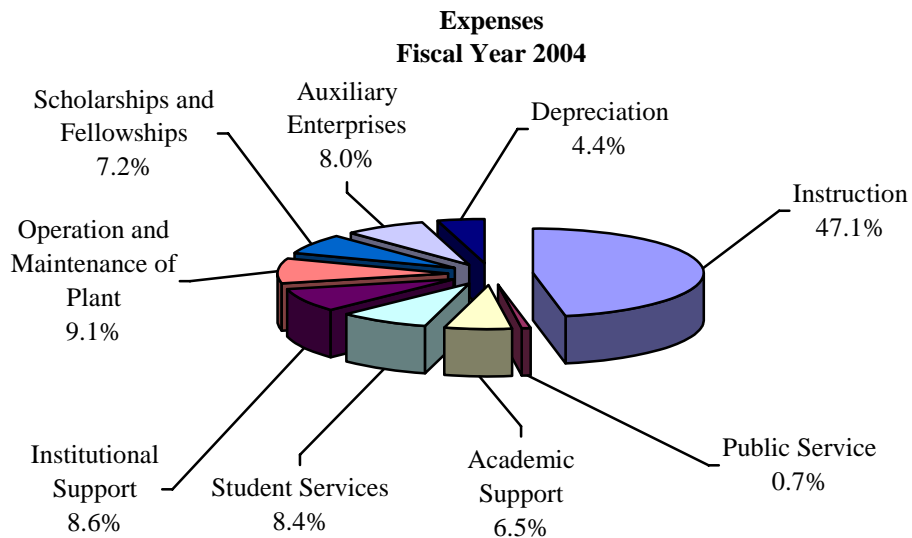
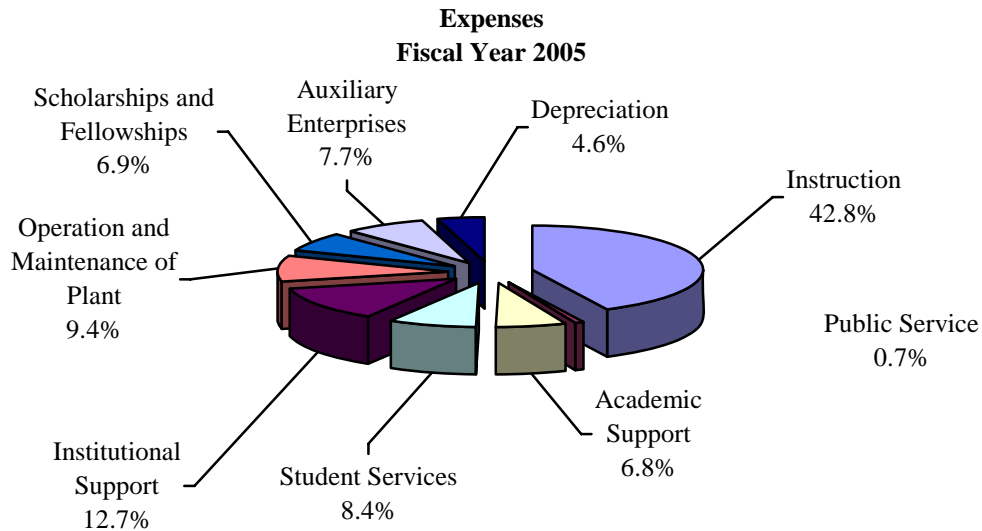
- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately \$2.8 million or 3.0%. The increase is primarily a combination of a 1.1% tuition increase, an increase in enrollment, and increases in some student fees. This increase was offset by an increase in scholarship allowances.
- Grants and contracts revenue increased by \$1.9 million or 1.6%. This increase was due to a 4.4% increase in Federal student financial aid which offset a 5.7% decrease in State-funded student financial aid and increases in grants at the colleges.
- General state appropriations remained consistent with fiscal year 2004.
- State capital appropriations decreased by \$1.2 million or 69.1% from fiscal year 2004 and are down by \$5.3 million or 74.7% from fiscal year 2003, as a result of State revenue shortfalls limiting the State's ability to fund capital projects.
- A one-time adjustment of approximately \$17 million to buildings and accumulated depreciation was recorded to correct the valuation of assets acquired by conveyance. This adjustment was included with other nonoperating revenue.



## COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2006 and 2005



Expense activity highlights for fiscal year 2006 include:

- Institutional Support decreased approximately \$6.7 million or 14.3% due to grant programs being transferred to other state agencies, timing of Carl Perkins payments, a reduction in grant administrative expenses, and overall staffing reductions in administrative positions.
- Operation and maintenance of plant increased approximately \$3.8 million or 11.0% due to an overall increase in salaries and utilities as well as an increase in expenditures for the implementation of the ERP system that do not qualify for capitalization.



## COLORADO COMMUNITY COLLEGE SYSTEM

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

June 30, 2006 and 2005

- Scholarships and fellowships expense decreased approximately \$12.7 million or 50.0% due to the 8.9% tuition increase and COF stipend program revenue included in tuition and fees revenue. This results in more student financial aid funding being applied to tuition, rather than refunded for other student costs such as books and living expenses.
- Auxiliary enterprises increased approximately \$5.4 million or 19.0% due to the addition of programs to the auxiliary funds including Child Care programs and Vocational Credentialing.

Expense activity highlights for fiscal year 2005 include:

- Decreases ranging from 1.2% to 2.3% from fiscal year 2004 in instruction, public service, student services, and institutional support as a result of CCCS' continued emphasis on reducing spending in response to state budget cuts.
- From fiscal year 2003 spending levels, overall expenses have decreased by over \$15 million or 4.0%, while enrollment system-wide increased by 6.4% during the same period.

#### Capital Asset and Debt Management

At June 30, 2006, CCCS had \$295,959,598 of capital assets, net of accumulated depreciation of \$185,643,462, and including current year depreciation of \$15,457,389. At June 30, 2005, CCCS had \$295,474,498 of capital assets, net of accumulated depreciation of \$171,210,694, and including current year depreciation of \$16,845,123. A breakdown of assets by category, net of accumulated depreciation, is provided below:

	<b>June 30</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Land	\$ 20,073,667	20,073,667	20,073,667
Land improvements	8,879,803	9,214,937	6,664,543
Buildings and improvements	233,956,333	242,089,691	229,433,009
Leasehold improvements	2,993,776	3,433,652	3,855,514
Construction in progress	17,819,901	8,724,380	7,700,749
Equipment	7,149,536	6,667,654	10,503,471
Library materials	4,470,756	4,654,691	4,540,481
Collections	615,826	615,826	604,188
Total capital assets	<u>\$ 295,959,598</u>	<u>295,474,498</u>	<u>283,375,622</u>

At June 30, 2006 and 2005, there were no significant new building projects under construction. There is a significant increase in construction in progress due to the costs associated with implementing the new ERP system.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Management's Discussion and Analysis (Unaudited)

June 30, 2006 and 2005

Major capital additions completed during fiscal year 2004 are as follows:

<u>College</u>	<u>Project</u>	<u>Cost</u> (In millions)	<u>Source of funding</u>
Front Range Community College	Boulder County Campus	\$ 2.6	Plant reserves
Pikes Peak Community College	Two Child Development Centers	3.4	Auxiliary revenue bonds

CCCS had \$33,674,200 and \$33,392,138 in debt outstanding at June 30, 2006 and 2005, respectively.

In December, 2004, Moody's affirmed the A2 rating on the Series 2004 Revenue Refunding Bonds. Moody's has previously affirmed the A2 rating on other outstanding Systemwide revenue bonds, the A3 rating on the System's Series 2001A and 2002 lease revenue bonds, and the Baa1 rating on the Series 2001 lease revenue bonds (Headquarter's Project). The rating outlook for all Systemwide revenue bonds remains stable.

The breakdown of the debt follows:

	<u>June 30</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Auxiliary revenue bonds	\$ 18,391,308	19,239,650	20,017,171
Capital lease obligations	15,282,892	14,152,488	14,128,236
Total debt	<u>\$ 33,674,200</u>	<u>33,392,138</u>	<u>34,145,407</u>

**Colorado Community College System Future**

The budgetary situation for higher education changed with the implementation of the College Opportunity Fund in fiscal year 2006. As a result of legislation adopted in the 2004 session (Senate Bill 04-189), the state no longer provides direct state General Fund appropriations to the governing boards for general operations. Instead, the state provides stipends to the qualified, resident undergraduate students, and institutions receive fee-for-service contracts from the Department of Higher Education for the provision of other educational services. The CCCS funding also relies on two other primary drivers: enrollment and tuition rates.

**Enrollment:** As the economy strengthens, enrollment in community colleges typically plateaus or decreases slightly. CCCS resident enrollment of 42,454 declined 4.7% from fiscal year 2005 to fiscal year 2006. Continued declines in enrollment were considered in the budget this year and next year as the Colorado economy strengthens. Nonresident enrollment increased over the same period 2.0% resulting in total enrollment decline of 4.4%.

**Tuition Rates:** In an effort to mitigate increased costs and decreased state support, the State Board for Community Colleges and Occupational Education (SBCCOE) raised tuition 2.5% in fiscal year 2007.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Business-Type Activity  
Statements of Net Assets  
June 30, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 131,939,444	102,473,169
Restricted cash and cash equivalents	762,848	343,568
Accounts receivable, net	32,855,288	30,343,043
Inventories	2,911,251	3,116,073
Prepaid expenses	<u>1,167,160</u>	<u>1,371,967</u>
Total current assets	<u>169,635,991</u>	<u>137,647,820</u>
Noncurrent assets:		
Restricted cash and cash equivalents	297,133	204,110
Restricted investments	2,616,298	2,821,855
Other assets	241,954	259,572
Capital assets, net	<u>295,959,598</u>	<u>295,474,498</u>
Total noncurrent assets	<u>299,114,983</u>	<u>298,760,035</u>
Total assets	<u>\$ 468,750,974</u>	<u>436,407,855</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 15,816,758	8,398,397
Accrued liabilities	24,269,799	24,529,141
Deferred revenue	14,218,071	9,959,747
Deposits held for others	9,609,966	11,083,237
Bonds payable, current portion	1,080,000	880,000
Capital leases payable, current portion	560,510	454,657
Other long-term liabilities, current portion	357,466	273,516
Compensated absences liability	<u>4,490,307</u>	<u>4,513,458</u>
Total current liabilities	<u>70,402,877</u>	<u>60,092,153</u>
Noncurrent liabilities:		
Bonds payable	17,311,308	18,359,650
Capital leases payable	14,722,382	13,697,831
Other long-term liabilities	1,159,369	1,388,491
Compensated absences liability	<u>6,452,733</u>	<u>6,174,700</u>
Total noncurrent liabilities	<u>39,645,792</u>	<u>39,620,672</u>
Total liabilities	<u>110,048,669</u>	<u>99,712,825</u>
Net assets:		
Invested in capital assets, net of related debt	262,474,089	262,291,147
Restricted for expendable purposes:		
Auxiliary pledged revenue	15,421,521	14,323,667
Scholarships/fellowships	670,955	892,892
Loans	1,261,591	1,229,382
Capital projects	100,000	70,000
Training programs	2,522,700	4,269,688
Other	<u>987,976</u>	<u>1,083,338</u>
Total restricted for expendable purposes	<u>20,964,743</u>	<u>21,868,967</u>
Unrestricted	<u>75,263,473</u>	<u>52,534,916</u>
Total net assets	<u>\$ 358,702,305</u>	<u>336,695,030</u>

See accompanying notes to basic financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Discretely Presented Component Units

Statements of Financial Position

June 30, 2006 and 2005

Assets	2006	2005
Cash and cash equivalents	\$ 5,814,640	5,782,797
Accounts and pledges receivable	1,433,952	1,472,616
Due from primary government	10,281	15,939
Investments	20,327,064	18,521,711
Investment in direct financing leases	13,670,000	14,100,000
Beneficial interest in charitable remainder trust	397,092	400,215
Other assets	231,330	255,118
Capital assets, net of depreciation	12,708,246	12,730,079
Total assets	\$ 54,592,605	53,278,475
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 275,490	388,605
Due to primary government	276,124	154,343
Accrued liabilities	110,334	95,329
Deferred revenue	875,479	870,936
Bonds payable	8,854,392	9,054,244
Other liabilities	14,455,126	14,931,840
Total liabilities	24,846,945	25,495,297
Net assets:		
Unrestricted	8,512,306	7,518,983
Temporarily restricted	15,809,419	15,249,947
Permanently restricted	5,423,935	5,014,248
Total net assets	29,745,660	27,783,178
Total liabilities and net assets	\$ 54,592,605	53,278,475

See accompanying notes to basic financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Business-Type Activity

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$55,613,365 in 2006 and \$36,986,925 in 2005; including revenues pledged for bonds of \$3,431,731 in 2006 and \$4,420,680 in 2005	\$ 162,542,462	94,750,747
Grants and contracts	114,400,276	118,961,395
Fee-for-service state contract	37,671,263	—
Gifts	9,005	484,641
Sales and services of educational activities	1,717,378	1,127,905
Auxiliary enterprises, net of scholarship allowances of \$3,731,654 in 2006 and \$7,018,772 in 2005; including revenues pledged for bonds of \$28,464,017 in 2006 and \$28,812,808 in 2005	32,404,547	28,333,105
Other operating revenues, including revenues pledged for bonds of \$128,665 in 2006 and \$151,700 in 2005	7,223,311	4,070,405
Total operating revenues	<u>355,968,242</u>	<u>247,728,198</u>
Operating expenses:		
Instruction	162,058,391	158,010,374
Public service	3,407,873	2,597,233
Academic support	25,121,529	24,939,234
Student services	31,794,249	31,061,700
Institutional support	40,057,055	46,720,823
Operation and maintenance of plant	38,475,886	34,673,421
Scholarships and fellowships	12,929,621	25,663,485
Auxiliary enterprises	33,714,677	28,353,671
Depreciation	15,457,389	16,845,123
Total operating expenses	<u>363,016,670</u>	<u>368,865,064</u>
Operating loss	<u>(7,048,428)</u>	<u>(121,136,866)</u>
Nonoperating revenues (expenses):		
State appropriations	44,484,902	149,070,456
Distributions to Local District College and Area Vocation Schools	(20,764,004)	(19,543,862)
Gifts	606,349	573,483
Investment income	4,143,542	2,007,822
Interest expense on capital debt	(1,661,618)	(1,568,301)
Loss on disposal of assets	(329,871)	(2,026,338)
Other nonoperating revenues	541,328	17,497,290
Net nonoperating revenues	<u>27,020,628</u>	<u>146,010,550</u>
Gain before other revenues, expenses, gains, or losses	19,972,200	24,873,684
Other revenues, expenses, gains, or losses:		
State capital contributions	1,691,665	560,217
Capital grants	308,284	935,450
Capital gifts	35,126	55,675
Increase in net assets	22,007,275	26,425,026
Net assets, beginning of year	<u>336,695,030</u>	<u>310,270,004</u>
Net assets, end of year	<u>\$ 358,702,305</u>	<u>336,695,030</u>

See accompanying notes to basic financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2006

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

See accompanying notes to basic financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Contributions	\$ 837,083	3,777,651	370,261	4,984,995
Grants	—	1,210,913	—	1,210,913
Investment income	1,375,318	599,912	3,731	1,978,961
Rental income	2,005,917	35,100	—	2,041,017
Special events	246,561	116,432	—	362,993
Net assets released from restrictions	3,958,225	(3,958,225)	—	—
Other income	279,719	21,623	—	301,342
Total revenues	<u>8,702,823</u>	<u>1,803,406</u>	<u>373,992</u>	<u>10,880,221</u>
Expenses:				
Program services	7,060,553	—	—	7,060,553
Fundraising services	638,832	—	—	638,832
Administrative services	668,985	—	—	668,985
Total expenses	<u>8,368,370</u>	<u>—</u>	<u>—</u>	<u>8,368,370</u>
Change in net assets	334,453	1,803,406	373,992	2,511,851
Net assets, beginning of year	<u>7,184,530</u>	<u>13,446,541</u>	<u>4,640,256</u>	<u>25,271,327</u>
Net assets, end of year	<u>\$ 7,518,983</u>	<u>15,249,947</u>	<u>5,014,248</u>	<u>27,783,178</u>

See accompanying notes to basic financial statements.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Business-Type Activity

Statements of Cash Flow

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 176,003,006	97,434,328
Student loans collected	382,072	468,522
Sales of products	16,123,551	13,430,665
Sales of services	20,034,577	17,801,041
Grants, contracts, and gifts	143,044,530	117,803,398
Other operating receipts	9,676,676	4,508,202
Cash payments:		
Scholarships disbursed	(21,212,643)	(25,326,119)
Student loans disbursed	(360,014)	(275,128)
Payments for employees	(215,243,330)	(206,572,914)
Payments to suppliers	(110,966,767)	(120,084,394)
Net cash provided (used) by operating activities	<u>17,481,658</u>	<u>(100,812,399)</u>
Cash flows from noncapital financing activities:		
State appropriations – noncapital	44,484,902	149,070,456
Distributions to Local District College and Area Vocation Schools	(20,764,004)	(19,543,862)
COF settlement	36,721	—
Gifts and grants for other than capital purposes	672,675	1,057,620
Agency (inflows)	51,075,023	48,717,145
Agency (outflows)	(51,878,123)	(48,434,834)
Net cash provided by noncapital financing activities	<u>23,627,194</u>	<u>130,866,525</u>
Cash flows from capital and related financing activities:		
State appropriations – capital	1,306,997	479,463
Capital grants, contracts, and gifts	623,979	1,170,177
Proceeds from capital lease	1,306,041	4,725,528
Payments to escrow for advance bond refunding	—	(4,587,199)
Bond issuance costs	—	(138,329)
Proceeds from sale of capital assets	10,000	45,202
Acquisition and construction of capital assets	(15,858,736)	(14,165,451)
Principal paid on capital debt	(1,226,716)	(1,563,984)
Interest on capital debt	(1,640,832)	(1,506,808)
Net cash used by capital and related financing activities	<u>(15,479,267)</u>	<u>(15,541,401)</u>
Cash flows from investing activities:		
Investment earnings	3,920,080	2,007,822
Proceeds from sale of investments	632,057	—
Purchase of investments	(203,144)	—
Net cash provided by investing activities	<u>4,348,993</u>	<u>2,007,822</u>
Net increase in cash and cash equivalents	29,978,578	16,520,547
Cash and cash equivalents, beginning of the year	<u>103,020,847</u>	<u>86,500,300</u>
Cash and cash equivalents, end of the year	<u>\$ 132,999,425</u>	<u>103,020,847</u>



**COLORADO COMMUNITY COLLEGE SYSTEM**

Business-Type Activity

Statements of Cash Flow

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (7,048,428)	(121,136,866)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	15,457,389	16,845,123
Increase (decrease) in other nonoperating assets	(73,362)	89,259
Decrease (increase) in assets:		
Receivables, net	2,745,948	717,057
Inventory and prepaids	322,123	4,185,123
Increase (decrease) in liabilities:		
Accounts payable	4,556,873	(3,821,034)
Accrued liabilities	51,161	1,706,749
Deferred revenues	3,276,334	(1,169,728)
Deposits held for others	(2,052,324)	1,157,197
Compensated absences liability	254,883	697,577
Other liabilities	(8,939)	(82,856)
Net cash provided (used) by operating activities	<u>\$ 17,481,658</u>	<u>(100,812,399)</u>
Noncash investing, capital, and noncapital financing activities:		
State-funded acquisitions of capital assets	\$ 253,951	320,177
Adjustment to capital assets acquired under conveyance	—	17,245,777
Equipment donations and capital gifts	6,190	540,208

See accompanying notes to basic financial statements.

# COLORADO COMMUNITY COLLEGE SYSTEM

## Notes to Basic Financial Statements

June 30, 2006 and 2005

### (1) Governance and Reporting Entity

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

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

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

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

As an institution of higher education in the state of Colorado, the income of CCCS is generally exempt from income taxes under Section 115(a) of the Internal Revenue Code. Income generated from activities unrelated to the exempt purpose of CCCS would be subject to tax under Section 511(a)(2)(B). There was no tax liability related to income generated from activities unrelated to CCCS' exempt purpose as of June 30, 2006 and 2005.

## **COLORADO COMMUNITY COLLEGE SYSTEM**

### Notes to Basic Financial Statements

June 30, 2006 and 2005

#### ***Blended Component Unit***

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

#### ***Discretely Presented Component Units***

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

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

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

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

# COLORADO COMMUNITY COLLEGE SYSTEM

## Notes to Basic Financial Statements

June 30, 2006 and 2005

### ***Joint Venture***

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

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

### **(2) Basis of Presentation**

CCCS applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. In addition, CCCS has chosen to only apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

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

#### **(a) Cash and Cash Equivalents**

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

#### **(b) Accounts Receivable**

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

#### **(c) Investments**

Investments are reported at fair value, which is determined based on quoted market prices as of June 30, 2006, and 2005.

#### **(d) Restricted Cash and Cash Equivalents and Restricted Investments**

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

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Basic Financial Statements

June 30, 2006 and 2005

**(e) Inventories**

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

**(f) Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. CCCS uses a capitalization threshold of \$5,000 and estimated useful lives in accordance with the *State Fiscal Procedures Manual*. CCCS' estimated useful lives are as follows: 20-50 years for buildings, 20-50 years for improvements other than buildings, 3-10 years for equipment, 7-15 years for library collections, and 1.5-3 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.

**(g) Deposits Held for Others**

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

**(h) Accrued Liabilities**

Accrued liabilities primarily represent accrued payroll and benefits payable at June 30, 2006 and 2005.

**(i) Compensated Absences Liability**

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

**(j) Deferred Revenue**

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

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Basic Financial Statements

June 30, 2006 and 2005

**(k) Capital Leases**

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

**(l) Net Assets**

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

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

**(m) Classification of Revenues and Expenses**

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

- Operating revenues and expenses are derived from activities associated with providing goods and services for instruction, public service, or related support services to an individual or entity separate from CCCS to carry out the mission of CCCS. In 2006, operating revenues included stipends paid for eligible undergraduate students under the College Opportunity Fund (COF), created and funded by the Colorado Legislature. The stipend can be used to pay a portion of in-state tuition for both new and continuing students and is paid on a per credit hour basis to the institution at which the student is enrolled. The credit-hour amount is set annually by the General Assembly. In addition, in 2006 operating revenues include payment for the fee-for-service contract from the State for delivery of educational services by CCCS that are not part of the COF stipend program. CDHE's contract with CCCS purchases credit hours for Basic Skills, Fast Track classes for high school students, and Post-Secondary Enrollment Options (PSEO) classes. Other types of services added through contract amendment were for educational services in rural areas or communities in which the cost of delivering the educational services is not sustained by the amount received in tuition.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Basic Financial Statements

June 30, 2006 and 2005

- Nonoperating revenues and expenses are those that do not meet the definition of operating revenues or capital revenues. In 2006 and 2005, nonoperating revenues include Colorado Vocational Act state appropriations, state training program grants, occupational education funds, gifts, investment income, and insurance recoveries. In fiscal year 2005, nonoperating revenues also included state appropriations for operations in the general fund. In fiscal 2005, nonoperating revenue also includes a one-time adjustment to correct the valuation of assets acquired under conveyance. Nonoperating expense includes interest expense.
- *Other revenues, expenses, gains, and losses* include state capital construction contributions and controlled maintenance appropriations, gifts, and grants restricted for capital purposes.

**(n) *Summer Session Revenues and Related Expenses***

CCCS prorates the summer session revenues and direct instructional expenses based on the percentage of total calendar days before June 30 to total calendar days in the selected primary summer term.

**(o) *Application of Restricted and Unrestricted Resources***

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

**(p) *Scholarship Allowances***

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

**(q) *Use of Estimates***

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

**(r) *Reclassifications***

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

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

**(4) Appropriations**

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

For the years ended June 30, 2006 and 2005, appropriated expenditures were within authorized spending authority. CCCS received a total general fund appropriation of \$44,484,902 and \$149,070,456, respectively, for 2006 and 2005. Included in the general fund appropriations for both 2006 and 2005 are \$20,764,004 and \$19,543,862, respectively, of State appropriations specified to be passed through to two Local District Colleges and four Area Vocational Schools: \$12,601,934 and \$11,038,334 for 2006 and 2005, respectively, for Local District Colleges and \$8,505,528 for both 2006 and 2005 for Area Vocational Schools. Also included in general fund appropriations were capital contributions of \$1,691,665 in 2006 and \$560,217 in 2005. During 2006, CCCS received fee-for-service contract revenue in the amount of \$37,839,979 and COF stipends in the amount of \$79,180,800.

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

CCCS receives revenue from several sources that is restricted for student scholarships and financial aid. In addition, CCCS allocates unrestricted revenue for student financial aid. To the extent that these resources are used to pay student charges, CCCS records a scholarship allowance against tuition, fees, and auxiliary revenue.

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

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



**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Tuition, fees, and auxiliary revenue and the related scholarship allowance for the year ended June 30, 2005 were as follows:

	<u>Tuition and fees</u>	<u>Auxiliary revenue</u>	<u>Total</u>
Gross revenue	\$ 131,737,672	35,351,877	167,089,549
Scholarship allowances:			
Federal	(26,230,927)	(4,880,963)	(31,111,890)
State	(7,751,513)	(1,448,853)	(9,200,366)
Private	(1,128,522)	(162,371)	(1,290,893)
Institutional	(1,875,963)	(526,585)	(2,402,548)
Total allowances	<u>(36,986,925)</u>	<u>(7,018,772)</u>	<u>(44,005,697)</u>
Net revenue	\$ <u>94,750,747</u>	<u>28,333,105</u>	<u>123,083,852</u>

**(6) Cash and Cash Equivalents, and Investments**

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

	<u>2006</u>	<u>2005</u>
Cash on hand and change funds	\$ 658,370	383,605
Deposits with financial institutions	1,035,652	2,091,705
Total	\$ <u>1,694,022</u>	<u>2,475,310</u>

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

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

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

	<b>Carrying amount</b>	
	<b>2006</b>	<b>2005</b>
Footnote amounts:		
Deposits	\$ 1,694,022	2,475,310
Deposit held with State Treasurer	131,305,403	100,545,537
Restricted investments (Benefit Trust)	<u>2,616,298</u>	<u>2,821,855</u>
Total	<u>\$ 135,615,723</u>	<u>105,842,702</u>
Financial statement amounts:		
Net cash and cash equivalents	\$ 131,939,444	102,473,169
Current restricted cash	762,848	343,568
Noncurrent restricted cash	<u>297,133</u>	<u>204,110</u>
Subtotal cash and cash equivalents	132,999,425	103,020,847
Restricted investments (Benefit Trust)	<u>2,616,298</u>	<u>2,821,855</u>
	<u>\$ 135,615,723</u>	<u>105,842,702</u>

CCCS deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, CRS. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. At June 30, 2006 and 2005, CCCS had cash on deposit with the State Treasurer of \$131,305,403 and \$100,545,537, respectively, which represented approximately 2.8% of the total of \$4,758.8 million in deposits in the State Treasurer's Pool (Pool).

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

For CCCS' deposits with the State Treasury, the net unrealized loss for fiscal year 2006 was \$1,920,884 and the net unrealized loss for fiscal year 2005 was \$308,700. These unrealized losses are included in cash and cash equivalents on the Statements of Net Assets.

***Custodial Credit Risk***

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. As of June 30, 2006 and 2005, none of the investments in the State Treasurer's Pool were subject to custodial credit risk.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Basic Financial Statements

June 30, 2006 and 2005

#### *Credit Quality Risks*

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies which 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, 2006 and 2005, approximately 85.5% and 83%, respectively, of investments in the Treasurer's Pool are subject to credit quality risk reporting. Except for \$2,963,730 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.

#### *Interest Rate Risk*

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. The weighted average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in terms of years, weighted to reflect the dollar size of individual investments within an investment type. The overall portfolio weighted average maturity is derived by dollar-weighting the WAM for each investment type. The State has selected WAM as the primary method for reporting interest rate risk. As of June 30, 2006, the WAM of investments in the Treasurer's Pool is 0.10 years for commercial paper and money market funds (32% of the Pool), 1.30 years for U.S. government securities (41% of the Pool), 2.20 years for asset-backed securities (17% of the Pool), and 2.40 years for corporate bonds (10% of the Pool). As of June 30, 2005, the WAM of investments in the Treasurer's Pool is 0.10 years for commercial paper and money market funds (26% of the Pool), 2.10 years for U.S. government securities (47% of the Pool), 2.60 years for asset-backed securities (15% of the Pool) and 2.30 years for corporate bonds (12% of the Pool)

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

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

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

As of June 30, 2005, the Benefit Trust had the following investments:

<u>Type</u>	<u>Fair value June 30, 2005</u>	<u>Weighted average maturity (years) June 30, 2005</u>
U.S. Government Securities	\$ 99,671	0.13
U.S. Agency Securities (TVA)	104,508	2.38
Corporate bonds	678,652	2.40
Mutual funds	164,532	
Common stock	1,774,492	
Total trust investments	<u>\$ 2,821,855</u>	

***Concentration of Credit Risk***

The Benefit Trust does have investments (other than U.S. Government or Agency securities, mutual funds, or investment pools) which represent five percent or more of total assets, thus concentrating credit risk. Although all investments intrinsically carry credit risk, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. As of June 30, 2006, the fair value of Benefit Trust investments greater than five percent of total plan net assets were as follows:

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

As of June 30, 2005, the fair value of Benefit Trust investments greater than five percent of total plan net assets were as follows:

<u>Issuer</u>	<u>Fair value June 30, 2006</u>	<u>% of total assets</u>
Questar Corp.	\$ 197,700	6.40

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

The Treasurer's Pool was not subject to concentration of credit risk in fiscal year 2006 or 2005.

***Foreign Currency Risk***

The Treasurer's Pool and the Benefit Trust were not subject to foreign currency risk or concentration of credit risk in fiscal year 2006 or 2005.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

Additional information on investments of the State Treasurer's Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2006.

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

Accounts receivable at June 30, 2006 are as follows:

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

Accounts receivable at June 30, 2005 are as follows:

	<b>Gross receivables</b>	<b>Allowance for uncollectible accounts</b>	<b>Net receivables</b>
Student accounts receivable	\$ 19,822,634	(6,364,779)	13,457,855
Due from other governments	12,089,746	—	12,089,746
Other receivables	4,988,653	(193,211)	4,795,442
<b>Total receivables</b>	<b>\$ 36,901,033</b>	<b>(6,557,990)</b>	<b>30,343,043</b>

Accounts payable and accrued liabilities at June 30, 2006 and 2005 are as follows:

	<b>2006</b>	<b>2005</b>
Accounts payable, vendors	\$ 15,816,758	8,398,397
Salaries and benefits payable	\$ 23,424,320	22,291,524
Accrued interest payable	148,727	130,991
Other payables	696,752	2,106,626
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 24,269,799</b>	<b>24,529,141</b>

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

**(8) Capital Assets**

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

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Adjustments</u>	<u>Balance June 30, 2006</u>
Nondepreciable capital assets:						
Land and land improvements	\$ 20,073,667	—	—	—	—	20,073,667
Construction in progress	8,724,380	12,460,558	(6,650)	(3,109,747)	(248,640)	17,819,901
Collections	615,826	—	—	—	—	615,826
Total nondepreciable capital assets	<u>29,413,873</u>	<u>12,460,558</u>	<u>(6,650)</u>	<u>(3,109,747)</u>	<u>(248,640)</u>	<u>38,509,394</u>
Depreciable capital assets:						
Land improvements	13,781,687	440,784	—	—	—	14,222,471
Buildings and improvements	379,165,149	211,624	(45,522)	3,109,747	—	382,440,998
Leasehold improvements	4,347,570	—	—	—	—	4,347,570
Equipment	27,261,214	3,385,510	(1,611,310)	—	—	29,035,414
Library materials	12,715,699	667,342	(335,828)	—	—	13,047,213
Total depreciable capital assets	<u>437,271,319</u>	<u>4,705,260</u>	<u>(1,992,660)</u>	<u>3,109,747</u>	<u>—</u>	<u>443,093,666</u>
Less accumulated depreciation:						
Land improvements	4,566,750	775,918	—	—	—	5,342,668
Buildings and improvements	137,075,458	11,315,364	318,236	—	124,190	148,833,248
Leasehold improvements	913,918	439,876	—	—	—	1,353,794
Equipment	20,593,560	2,209,428	(1,154,169)	—	—	21,648,819
Library materials	8,061,008	716,803	(304,772)	—	(8,106)	8,464,933
Total accumulated depreciation	<u>171,210,694</u>	<u>15,457,389</u>	<u>(1,140,705)</u>	<u>—</u>	<u>116,084</u>	<u>185,643,462</u>
Net depreciable capital assets	<u>266,060,625</u>	<u>(10,752,129)</u>	<u>(851,955)</u>	<u>3,109,747</u>	<u>(116,084)</u>	<u>257,450,204</u>
Total capital assets, net	\$ <u>295,474,498</u>	<u>1,708,429</u>	<u>(858,605)</u>	<u>—</u>	<u>(364,724)</u>	<u>295,959,598</u>

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2005:

	<b>Balance June 30, 2004</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Adjustments</b>	<b>Balance June 30, 2005</b>
Nondepreciable capital assets:						
Land and land improvements	\$ 20,073,667	—	—	—	—	20,073,667
Construction in progress	7,700,747	10,413,090	(23,887)	(9,365,570)	—	8,724,380
Collections	604,188	11,638	—	—	—	615,826
Total nondepreciable capital assets	<u>28,378,602</u>	<u>10,424,728</u>	<u>(23,887)</u>	<u>(9,365,570)</u>	<u>—</u>	<u>29,413,873</u>
Depreciable capital assets:						
Land improvements	11,931,285	404,643	(1,169,763)	2,615,522	—	13,781,687
Buildings and improvements	374,861,960	656,501	(58,939)	6,750,048	(3,044,421)	379,165,149
Leasehold improvements	4,347,570	—	—	—	—	4,347,570
Equipment	32,537,223	1,713,444	(6,989,453)	—	—	27,261,214
Library materials	12,417,898	601,567	(303,766)	—	—	12,715,699
Total depreciable capital assets	<u>436,095,936</u>	<u>3,376,155</u>	<u>(8,521,921)</u>	<u>9,365,570</u>	<u>(3,044,421)</u>	<u>437,271,319</u>
Less accumulated depreciation:						
Land improvements	5,181,941	536,558	(1,169,763)	18,014	—	4,566,750
Buildings and improvements	145,513,750	11,922,753	(70,630)	—	(20,290,415)	137,075,458
Leasehold improvements	492,056	439,876	—	(18,014)	—	913,918
Equipment	22,033,752	3,332,530	(4,772,722)	—	—	20,593,560
Library materials	7,877,417	606,840	(423,249)	—	—	8,061,008
Total accumulated depreciation	<u>181,098,916</u>	<u>16,838,557</u>	<u>(6,436,364)</u>	<u>—</u>	<u>(20,290,415)</u>	<u>171,210,694</u>
Net depreciable capital assets	<u>254,997,020</u>	<u>(13,462,402)</u>	<u>(2,085,557)</u>	<u>9,365,570</u>	<u>17,245,994</u>	<u>266,060,625</u>
Total capital assets, net	\$ <u>283,375,622</u>	<u>(3,037,674)</u>	<u>(2,109,444)</u>	<u>—</u>	<u>17,245,994</u>	<u>295,474,498</u>

**(9) Long-Term Liabilities**

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

	<b>Balance, July 1, 2005</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance, June 30, 2006</b>	<b>Current portion</b>
Bonds payable	\$ 19,239,650	—	(848,342)	18,391,308	1,080,000
Capital leases payable	14,152,488	1,654,813	(524,409)	15,282,892	560,510
Other long-term liabilities	1,662,007	—	(145,172)	1,516,835	357,466
Compensated absences liability	10,688,158	5,215,073	(4,960,191)	10,943,040	4,490,307

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

The following presents changes in long-term liabilities at June 30, 2005:

	<u>Balance, July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2005</u>	<u>Current portion</u>
Bonds payable	\$ 20,017,171	4,498,329	(5,275,850)	19,239,650	880,000
Capital leases payable	14,128,236	457,478	(433,226)	14,152,488	454,657
Other long-term liabilities	1,994,861	—	(332,854)	1,662,007	273,516
Compensated absences liability	9,990,577	1,384,063	(686,482)	10,688,158	4,513,458

**(10) Bonds Payable**

*(a) Systemwide Revenue Bonds*

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

**Series 1995 Bonds**

The Series 1995 Front Range Community College – Westminster Campus Project revenue bonds for \$3,900,000 were issued on June 27, 1995 and dated June 15, 1995. Interest is payable semiannually on May 1 and November 1. The final maturity of the bonds is November 1, 2015. These bonds were advance refunded with the proceeds of the 2004 Systemwide Revenue Refunding bonds in fiscal 2005.

The Series 1995, Red Rocks Community College project revenue bonds for \$3,080,000 were issued on March 7, 1995 and dated March 1, 1995. Interest is payable semiannually on May 1 and November 1. These bonds were advance refunded on February 18, 1999.

Front Range Community College	\$ 3,900,000
Red Rocks Community College	<u>3,080,000</u>
	<u>\$ 6,980,000</u>



## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Basic Financial Statements

June 30, 2006 and 2005

#### **Series 1996 Bonds**

The Series 1996 revenue bonds for \$4,150,000 were issued on June 27, 1996 and dated June 15, 1996. Interest is payable semiannually on May 1 and November 1. The final maturity of the bonds is November 1, 2015. Pikes Peak Community College's portion of \$1,175,000 was refunded in June 2003. Front Range Community College's portion of the bonds was advance refunded with the proceeds of the 2004 Systemwide Revenue Refunding bonds in fiscal 2005. The principal of the Series 1996 November issue was distributed between the colleges as follows:

Front Range Community College – Larimer Campus Project	\$	2,595,000
Red Rocks Community College – North Campus Project		1,555,000
	\$	4,150,000

#### **Series 1997 Bonds**

The Series 1997 Northeastern Junior College dormitory project revenue bonds for \$2,465,000 were issued on March 6, 1997 and dated March 1, 1997. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2019. In December 1997, a total of \$495,000 was refunded. The refunding reduced the bond liability reflected on the CCCS financial statements to \$1,970,000.

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

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

#### **Series 1998 Bonds**

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

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

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

**Series 1999 Bonds**

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

Pueblo Community College	\$	3,490,000
Red Rocks Community College		<u>3,260,000</u>
	\$	<u><u>6,750,000</u></u>

**Series 2003 Bonds**

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

**Series 2004 Bonds**

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

**(b) Advance Refunding**

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

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

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

As of June 30, 2006 and 2005, \$11,025,000 and \$12,930,000, respectively, of bonds outstanding are considered advance refunded and not included in the accompanying basic financial statements.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Basic Financial Statements

June 30, 2006 and 2005

(c) ***Security***

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

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

(d) ***Earnings Requirement***

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

Total gross revenue pledged for bonds was \$33,357,300 and \$33,385,188 for fiscal year 2006 and 2005, respectively. These amounts consisted of \$3,431,731 and \$4,420,680 of student tuition and fees, \$29,796,904 and \$28,812,808 of auxiliary enterprise revenue, and \$128,665 and \$151,700 of other revenues, respectively.

(e) ***Minimum Bond Reserve Requirement***

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

(f) ***Mandatory Sinking Fund Redemption***

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

(g) ***Bond Accounting***

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

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

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

Bond principal payments to be made during fiscal years through 2011 are enumerated in the following table:

Bond issue	Principal maturing in next five years by year				
	FY07	FY08	FY09	FY10	FY11
Series 1997:					
Community College of Aurora	\$ 50,000	50,000	55,000	55,000	60,000
Northeastern Junior College	95,000	100,000	105,000	110,000	115,000
Trinidad State Junior College	45,000	50,000	50,000	55,000	55,000
Series 1998:					
Morgan Community College	25,000	25,000	25,000	30,000	30,000
Northeastern Junior College	45,000	45,000	45,000	50,000	50,000
Series 1999:					
Pueblo Community College	175,000	185,000	185,000	200,000	210,000
Red Rocks Community College	130,000	135,000	145,000	150,000	155,000
Series 2003:					
Pikes Peak Community College	135,000	140,000	140,000	145,000	145,000
Series 2004:					
Front Range Community College	380,000	395,000	410,000	425,000	440,000
Total revenue bonds payable	1,080,000	1,125,000	1,160,000	1,220,000	1,260,000
Interest	748,979	736,982	694,763	648,298	602,545
Total annual debt service	\$ 1,828,979	1,861,982	1,854,763	1,868,298	1,862,545

Bond debt service payments from 2011 to maturity are:

	Principal	Interest	Total
2012-2016	\$ 7,385,000	2,172,529	9,557,529
2017-2021	3,360,000	861,532	4,221,532
2022-2026	1,150,000	318,831	1,468,831
2027-2031	965,000	76,177	1,041,177

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

	<u>Revenue bonds outstanding* June 30, 2006</u>	<u>Interest rate</u>	<u>Maximum annual principal</u>	<u>Callable</u>	<u>Call premium</u>	<u>Final payment</u>
State Board for Community Colleges and Occupational Education Systemwide Revenue Bonds:						
Series 1997:						
Northeastern Junior College	\$ 1,490,000	3.75% to 5.5%	150,000	Yes	None	11/1/2019
Community College of Aurora	960,000	4.6% to 5.125%	95,000	Yes	None	11/1/2019
Northeastern Junior College	405,000	3.85% to 5.125%	40,000	Yes	None	11/1/2019
Trinidad Junior College	735,000	3.85% to 5.125%	80,000	Yes	None	11/1/2017
Series 1998:						
Morgan Community College	435,000	3.9% to 5.0%	45,000	Yes	None	11/1/2018
Northeastern Junior College	760,000	3.9% to 5.0%	75,000	Yes	None	11/1/2018
Series 1999:						
Pueblo Community College	2,395,000	3.2% to 4.5%	265,000	Yes	None	11/1/2016
Red Rocks Community College	2,475,000	2.0% to 4.125%	235,000	Yes	None	11/1/2019
Series 2003:						
Pikes Peak Community College*	4,419,454	2.08% to 4.125%	285,000	Yes	None	6/30/2031
Series 2004:						
Front Range Community College*	4,316,854	3.08% to 3.65%	525,000	Yes	None	11/1/2016
Series 2005:						
Front Range Community College*						
	<u>\$ 18,391,308</u>					

\* Includes deferred loss on refunding and unamortized bond premium and discount.

**(11) Leases**

CCCS has acquired land, buildings, and equipment under leases and lease/purchase arrangements with The Education Foundation, a discretely presented component unit of CCCS, which are classified as capital leases. In addition, Arapahoe Community College has recorded capital leases with GE Capital Public Finance and JP Morgan, Pikes Peak Community College has recorded a capital lease with the Colorado Educational and Cultural Facilities Authority, and Morgan Community College has recorded a capital lease. Stated and/or implicit interest rates on these leases range from zero to 22.5% interest. Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or their estimated useful life. Capitalized assets relating to these leases were approximately \$12,805,180 in 2006 and \$16,072,896 in 2005 with amortization expense of \$384,281 at June 30, 2006 and \$416,398 at June 30, 2005, respectively.

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 560,510	792,168	1,352,678
2008	538,788	739,809	1,278,597
2009	488,990	720,831	1,209,821
2010	495,247	703,609	1,198,856
2011	294,312	646,138	940,450
2012-2016	2,524,130	2,898,836	5,422,966
2017-2021	2,775,914	2,215,082	4,990,996
2022-2026	3,260,000	1,446,748	4,706,748
2027-2031	3,145,000	569,797	3,714,797
2032-2033	1,200,001	27,755	1,227,756
Total	\$ <u>15,282,892</u>	<u>10,760,773</u>	<u>26,043,665</u>

CCCS also has building and equipment operating leases. One of these leases is by and between Community College of Aurora and a discretely presented component unit, CCA Foundation. Total rent expense for all operating leases for the years ended June 30, 2006 and 2005 were \$4,384,359 and \$4,858,414, respectively. Future minimum rental payments, exclusive of real estate taxes and other expenses, under operating leases are as follows:

Year ending June 30:	
2007	\$ 3,360,874
2008	2,710,567
2009	2,328,235
2010	2,343,592
2011	1,225,325
2012-2016	6,315,131

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

**COLORADO COMMUNITY COLLEGE SYSTEM**

Notes to Basic Financial Statements

June 30, 2006 and 2005

**(12) Other Long-Term Liabilities**

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 357,466	68,458	425,924
2008	373,067	52,278	425,345
2009	384,474	35,526	420,000
2010	401,828	18,172	420,000
2011	—	—	—
Total	\$ <u>1,516,835</u>	<u>174,434</u>	<u>1,691,269</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, 2006 and 2005 is \$10,943,040 and \$10,688,158, respectively.

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

At June 30, 2006 and 2005, the Public Employees' Retirement Association of Colorado (PERA) estimated that 49% and 61%, 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 (Public Employees' Retirement Association). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, or by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org/>.

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Basic Financial Statements

June 30, 2006 and 2005

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

Defined benefit plan members vest after five years of service, and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Persons hired on or after July 1, 2005 (except state troopers, plan members, inactive plan members, and retirees), are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

**(b) Funding Policy**

Employees contribute 8.0% of their salary, defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2005 to December 31, 2005, the State contributed 10.15% (12.85% for state troopers and 13.66% for the Judicial Branch) of the employee's salary. From January 1, 2006 to June 30, 2006, the State contributed these same percentage amounts plus an additional 0.5% for the Amortization Equalization Disbursement discussed below. During all of fiscal year 2006, 1.02% of the total contribution was allocated to the Health Care Trust Fund.

At December 31, 2004, the State and School Division of PERA was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate. In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement to address the funding shortfall that requires PERA employers to pay an additional 0.5% of salary in 2006, 1.0% of salary in 2007, and subsequent year increases of 0.4% of salary until the additional payment reaches 3.0% in 2012.



## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Basic Financial Statements

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

CCCS' contributions to the three programs described above for the fiscal years ended June 30, 2006, 2005, and 2004 were \$18,516,834, \$16,254,836, and \$15,941,485, respectively. These contributions met the contribution requirements for each year.

#### **(15) Voluntary Tax-Deferred Retirement Plans**

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer a 403(b) or 401(a) plan. Members who contribute to any of these plans also receive the state match when available.

In January 2001, the MatchMaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan asset is 110% of actuarially accrued plan liabilities. This condition was not met during either fiscal year 2005 or 2006.

#### **(16) Postretirement Health Care and Life Insurance Benefits**

##### **(a) Health Care Program**

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. Under this program, PERA subsidizes a portion of the monthly premium for healthcare coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal 2005 and 2006, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under age 65 and not eligible for Medicare), and it was reduced by 5% for each year of service fewer than 20. The Health Care Trust Fund is maintained by an employer's contribution as discussed above in note 14.

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

##### **(b) Life Insurance Program**

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

# COLORADO COMMUNITY COLLEGE SYSTEM

## Notes to Basic Financial Statements

June 30, 2006 and 2005

(c) ***Other Programs***

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

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

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

**(17) Employee Benefit Trust Fund**

The Trust provides long-term disability benefits to all employees participating in the Employee Choice Flexible Benefit Plan sponsored by the SBCCOE. For fiscal years 2006 and 2005, CCCS made contributions to the Trust of approximately \$207,896 and \$213,375, respectively.

**(18) Risk Financing and Insurance-Related Activities**

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

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

**(19) Commitments and Contingencies**

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

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

## COLORADO COMMUNITY COLLEGE SYSTEM

### Notes to Basic Financial Statements

June 30, 2006 and 2005

#### (20) Tax and Spending Limitations (Tabor Amendment)

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

Legislation passed in fiscal year 2004 provided higher education institutions in the State of Colorado the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), given the institution met the stated qualifications. In fiscal year 2006, the System qualified as an enterprise because it is a government owned business with legal authority to issue revenue bonds. In addition, the System was required to receive (and is expected to continue to receive) less than 10 percent (in relation to total revenues) in support from the State. In fiscal years 2006 and 2005, the System received 6 percent and 31 percent, respectively, in State support.

#### (21) Restatement

As of July 1, 2005, Lamar Community College (LCC), Morgan Community College (MCC), Northeastern Junior College (NJC), Red Rocks Community College (RRCC), and Trinidad State Junior College (TSJC) Foundations' net assets were restated to correct errors and the presentation of temporarily and permanently restricted net assets. A summary of the total adjustments is as follows:

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





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Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

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

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the business-type activities and aggregate discretely presented component units of the Colorado Community College System (CCCS), a component unit of the state of Colorado, as of and for the year ended June 30, 2006, and issued our report thereon, dated December 1, 2006, which included a reference to the reports of other auditors. Our report included an explanatory paragraph addressing CCCS' restatement of the 2005 financial statements of its aggregate discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants and other matters did not include the entities audited by other auditors referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered CCCS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CCCS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those



provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of CCCS in the findings and recommendations section of this report.

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

KPMG LLP

December 1, 2006







**KPMG LLP**  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

December 1, 2006

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the Colorado Community College System (CCCS) as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon, dated December 1, 2006. Under our professional standards, we are providing you with information related to the conduct of our audit.

### **Our Responsibility Under Professional Standards**

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

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

### **Significant Accounting Policies**

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

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

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

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

### **Audit Adjustments and Uncorrected Misstatements**

#### ***Audit Adjustments***

We proposed no corrections relating to financial statement balances.



### ***Uncorrected Misstatements***

In connection with our audit of CCCS' basic financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in CCCS' books and records as of and for the year ended June 30, 2006. We have reported such misstatements to management on a Summary of Uncorrected Misstatements and have received written representations from management that management believes these misstatements are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. Page 83 includes a copy of the summary that has been provided to, and discussed with, management.

### **Other Information in Documents Containing Audited Financial Statements**

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

### **Disagreements with Management**

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

### **Consultation with Other Accountants**

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

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

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

### **Difficulties Encountered in Performing the Audit**

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

### **Material Written Communications**

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

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



**Independence**

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

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

***Confirmation of Audit Independence***

We hereby confirm that as of December 1, 2006, we are independent accountants with respect to CCCS under all relevant professional and regulatory standards.

\* \* \* \* \*

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

Very truly yours,

**KPMG LLP**



**Summary of Uncorrected Audit Differences** [KAM 6244]

**Method used to evaluate audit differences:** [KAM 6223]

*[Income statement] / [Balance Sheet]*

#	Description	Type of Error Known Audit Difference (KD) Most Likely Audit Difference (MLD)	Impact of audit differences on financial statement captions (000's) - Debit/(Credit)										
			Income Statement Effect			Balance Sheet Effect					Cash Flows Effect		
			Audit Difference arising in			Net Assets	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	Operating Activities	Investing Activities	Financing Activities
			Current Period	Prior Period (1)	Total								
	<b>Current year effect of prior period uncorrected audit differences: (1)</b>												
1	Net Assets Operating Expense <i>To properly record corrections to construction work-in-progress.</i>	KD	(364,724)	364,724	<b>364,724</b> <b>(364,724)</b>								
2	Capital Assets Operating Expense <i>To properly record equipment additions.</i>	KD	(254,100)		<b>(254,100)</b>			254,100					
	<b>Aggregate of uncorrected audit differences</b>		(618,824)	364,724	(254,100)	-	-	254,100	-	-	-	-	-





# **COLORADO COMMUNITY COLLEGE SYSTEM**

## **State-Funded Student Financial Assistance Programs**

### **Introduction**

**Year ended June 30, 2006**

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

Our financial and compliance examination of the various state-funded student financial assistance programs at CCCS for the year ended June 30, 2006 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHÉ) Financial Aid Policy, adopted April 2004. The state student financial assistance programs were examined simultaneously with the Federal financial aid programs for the year ended June 30, 2006.

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

- Colorado Need-Based Grants awards comprised of:
  - Colorado Student Grants Program
  - Colorado Leveraging Educational Assistance Partnership (CLEAP)
- Colorado Merit Scholarships (or merit-based awards) comprised of:
  - Colorado Undergraduate Merit Award Program
- Colorado Work-Study Program
- Governor's Opportunity Scholarships
- Loan Matching for the Perkins Loan Programs

The total state-funded student financial assistance expenditures made by CCCS were approximately \$19.3 million during the year ended June 30, 2006. State-funded matching funds were transferred to the Perkins Loan Funds during the year ended June 30, 2006.

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

During the audit period ended June 30, 2006, CCCS obtained authorizations to award Federal student financial aid funds as follows:

- Supplemental Educational Opportunity Grant of approximately \$1.1 million
- College Work Study of approximately \$1.7 million

# **COLORADO COMMUNITY COLLEGE SYSTEM**

## **State-Funded Student Financial Assistance Programs**

### **Introduction**

**Year ended June 30, 2006**

In addition to these programs, CCCS also received funding through the Pell Grant Program in the amount of approximately \$44 million. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

Authorizations and expenditures for state-funded student financial aid funds are detailed by program in the accompanying schedule of appropriations, expenditures, transfers, and reversions, for each campus, for the year ended June 30, 2006.



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

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance (SFSFA) Programs of the Colorado Community College System (CCCS), a component unit of the state of Colorado, for the year ended June 30, 2006. The statement is the responsibility of CCCS' management. Our responsibility is to express an opinion on the statement based on our audit.

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

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

In our opinion, the statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers, and reversions of the SFSFA programs of CCCS for the year ended June 30, 2006, in accordance with the format set forth in the CCHE *Audit Guide*, and in conformity with the provisions of the CCHE *Financial Aid Policy*, as described in note 1.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

KPMG LLP

December 1, 2006



**COLORADO COMMUNITY COLLEGE SYSTEM**

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 18,549,047	12,003,594	334,584	337,202	4,181,220	1,692,447
Supplementals	723,217	818,998	1,432	—	—	(97,213)
Transfers	(4,648)	—	446	—	—	(5,094)
<b>Total appropriations</b>	<b>19,267,616</b>	<b>12,822,592</b>	<b>336,462</b>	<b>337,202</b>	<b>4,181,220</b>	<b>1,590,140</b>
Less expenditures	19,211,116	12,822,342	327,225	337,202	4,181,220	1,543,127
Reversions to state general fund	\$ 56,500	250	9,237	—	—	47,013

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

## **COLORADO COMMUNITY COLLEGE SYSTEM**

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2006

### **(1) Basis of Presentation**

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

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

The accompanying statement of appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format set forth and last revised November 1998 in the Colorado Commission on Higher Education (CCHE) *Audit Guides*, and in conformity with the provisions of the CCHE *Financial Aid Policy*, adopted April 2004. The purpose of the Statement is to present, in summary form, the state-funded student financial assistance activities of CCCS' 13 campuses for the year ended June 30, 2006.

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

### **(2) Basis of Accounting**

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



**COLORADO COMMUNITY COLLEGE SYSTEM**

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2005

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

**ARAPAHOE COMMUNITY COLLEGE**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 1,164,402	785,311	32,744	35,899	253,033	57,415
Supplementals	115,438	122,306				(6,868)
Transfers	—					
Total appropriations	<u>1,279,840</u>	<u>907,617</u>	<u>32,744</u>	<u>35,899</u>	<u>253,033</u>	<u>50,547</u>
Less expenditures	<u>1,270,603</u>	<u>907,617</u>	<u>23,507</u>	<u>35,899</u>	<u>253,033</u>	<u>50,547</u>
Reversions to state general fund	\$ <u>9,237</u>	<u>—</u>	<u>9,237</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

**COLORADO NORTHWESTERN COMMUNITY COLLEGE**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 274,937	165,726	10,187	5,904	63,698	29,422
Supplementals	2,491	8,216				(5,725)
Transfers	—					
Total appropriations	<u>277,428</u>	<u>173,942</u>	<u>10,187</u>	<u>5,904</u>	<u>63,698</u>	<u>23,697</u>
Less expenditures	<u>277,428</u>	<u>173,942</u>	<u>10,187</u>	<u>5,904</u>	<u>63,698</u>	<u>23,697</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

**COMMUNITY COLLEGE OF AURORA**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 1,107,062	767,230	5,676	25,187	214,035	94,934
Supplementals	153,888	168,888				(15,000)
Transfers	—					
Total appropriations	<u>1,260,950</u>	<u>936,118</u>	<u>5,676</u>	<u>25,187</u>	<u>214,035</u>	<u>79,934</u>
Less expenditures	<u>1,260,950</u>	<u>936,118</u>	<u>5,676</u>	<u>25,187</u>	<u>214,035</u>	<u>79,934</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

**COMMUNITY COLLEGE OF DENVER**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 2,674,036	1,810,678	34,927	40,894	632,122	155,415
Supplementals	79,479	79,479				
Transfers	—					
Total appropriations	<u>2,753,515</u>	<u>1,890,157</u>	<u>34,927</u>	<u>40,894</u>	<u>632,122</u>	<u>155,415</u>
Less expenditures	<u>2,753,515</u>	<u>1,890,157</u>	<u>34,927</u>	<u>40,894</u>	<u>632,122</u>	<u>155,415</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

**FRONT RANGE COMMUNITY COLLEGE**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 2,973,021	1,969,745	62,851	66,454	683,909	190,062
Supplementals	156,806	156,207	599			
Transfers	—					
Total appropriations	<u>3,129,827</u>	<u>2,125,952</u>	<u>63,450</u>	<u>66,454</u>	<u>683,909</u>	<u>190,062</u>
Less expenditures	<u>3,087,084</u>	<u>2,125,952</u>	<u>63,450</u>	<u>66,454</u>	<u>683,909</u>	<u>147,319</u>
Reversions to state general fund	\$ <u>42,743</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>42,743</u>

See accompanying independent auditors' report.

**LAMAR COMMUNITY COLLEGE**  
 State-Funded Student Assistance Programs  
 Schedule of Appropriations, Expenditures, Transfers, and Reversions  
 Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 425,722	241,277	6,840	5,767	96,423	75,415
Supplementals	5,000	5,000				
Transfers	—					
Total appropriations	<u>430,722</u>	<u>246,277</u>	<u>6,840</u>	<u>5,767</u>	<u>96,423</u>	<u>75,415</u>
Less expenditures	<u>430,722</u>	<u>246,277</u>	<u>6,840</u>	<u>5,767</u>	<u>96,423</u>	<u>75,415</u>
Reversions to state general fund	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

**MORGAN COMMUNITY COLLEGE**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 441,674	285,353	4,220	7,557	104,972	39,572
Supplementals	10,358	10,358				
Transfers	—					
<b>Total appropriations</b>	<b>452,032</b>	<b>295,711</b>	<b>4,220</b>	<b>7,557</b>	<b>104,972</b>	<b>39,572</b>
Less expenditures	452,032	295,711	4,220	7,557	104,972	39,572
Reversions to state general fund	\$ —	—	—	—	—	—

See accompanying independent auditors' report.



**NORTHEASTERN JUNIOR COLLEGE**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 585,426	354,639	8,441	14,680	140,858	66,808
Supplementals	7,065	3,215				3,850
Transfers	—					
Total appropriations	592,491	357,854	8,441	14,680	140,858	70,658
Less expenditures	588,221	357,854	8,441	14,680	140,858	66,388
Reversions to state general fund	\$ 4,270	—	—	—	—	4,270

See accompanying independent auditors' report.

**OTERO JUNIOR COLLEGE**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 757,487	484,932	13,475	9,269	173,311	76,500
Supplementals	(13,862)	6,000	59			(19,921)
Transfers	—					
Total appropriations	<u>743,625</u>	<u>490,932</u>	<u>13,534</u>	<u>9,269</u>	<u>173,311</u>	<u>56,579</u>
Less expenditures	<u>743,625</u>	<u>490,932</u>	<u>13,534</u>	<u>9,269</u>	<u>173,311</u>	<u>56,579</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

**PIKES PEAK COMMUNITY COLLEGE**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 3,153,346	1,873,754	68,217	49,015	710,685	451,675
Supplementals	61,369	74,119	618			(13,368)
Transfers	—					
<b>Total appropriations</b>	<b>3,214,715</b>	<b>1,947,873</b>	<b>68,835</b>	<b>49,015</b>	<b>710,685</b>	<b>438,307</b>
Less expenditures	3,214,465	1,947,623	68,835	49,015	710,685	438,307
Reversions to state general fund	\$ 250	250	—	—	—	—

See accompanying independent auditors' report.

**PUEBLO COMMUNITY COLLEGE**  
 State-Funded Student Assistance Programs  
 Schedule of Appropriations, Expenditures, Transfers, and Reversions  
 Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 2,556,951	1,817,733	43,358	26,889	548,645	120,326
Supplementals	17,948	17,948				
Transfers	(4,648)	—	446			(5,094)
Total appropriations	<u>2,570,251</u>	<u>1,835,681</u>	<u>43,804</u>	<u>26,889</u>	<u>548,645</u>	<u>115,232</u>
Less expenditures	<u>2,570,251</u>	<u>1,835,681</u>	<u>43,804</u>	<u>26,889</u>	<u>548,645</u>	<u>115,232</u>
Reversions to state general fund	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

**RED ROCKS COMMUNITY COLLEGE**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 1,060,616	715,176	21,091	38,041	262,766	23,542
Supplementals	161,342	160,655	156			531
Transfers	—					
Total appropriations	<u>1,221,958</u>	<u>875,831</u>	<u>21,247</u>	<u>38,041</u>	<u>262,766</u>	<u>24,073</u>
Less expenditures	<u>1,221,958</u>	<u>875,831</u>	<u>21,247</u>	<u>38,041</u>	<u>262,766</u>	<u>24,073</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

**TRINIDAD STATE JUNIOR COLLEGE**

State-Funded Student Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2006

	<b>Total Colorado Financial Aid</b>	<b>Colorado Student Grants</b>	<b>CLEAP</b>	<b>Colorado Undergraduate Merit Scholarships</b>	<b>Colorado Work- Study</b>	<b>Governor's Opportunity Scholarship</b>
Appropriations:						
Original	\$ 1,374,367	732,040	22,557	11,646	296,763	311,361
Supplementals	(34,105)	6,607				(40,712)
Transfers	—					
<b>Total appropriations</b>	<b>1,340,262</b>	<b>738,647</b>	<b>22,557</b>	<b>11,646</b>	<b>296,763</b>	<b>270,649</b>
Less expenditures	1,340,262	738,647	22,557	11,646	296,763	270,649
Reversions to state general fund	\$ —	—	—	—	—	—

See accompanying independent auditors' report.

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