COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
Denver, Colorado

FINANCIAL AND COMPLIANCE AUDITS
Fiscal Years Ended June 30, 2012 and 2011

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Members of the Legislative Audit Committee:

We have completed the financial statement audit of the Colorado Student Loan Program dba College Assist, Department of Higher Education, State of Colorado (College Assist), as of and for the year ended June 30, 2012. Our audit was conducted 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 were engaged to conduct our audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions and agencies of state government. The reports that we have issued as a result of this engagement are set forth in the table of contents, which follows.

BKD, LLP

November 29, 2012

TABLE OF CONTENTS

	PAGE
Report Summary	1
Recommendation Locator	3
Enterprise Background	4
Auditor's Findings and Recommendations	8
Independent Auditors' Report	9
Management's Discussion and Analysis – Proprietary Fund (Unaudited)	11
Basic Financial Statements – Proprietary Fund	
Statements of Net Assets	19
Statements of Revenues, Expenses and Changes in Net Assets	21
Statements of Cash Flows	22
Notes to Financial Statements	24
Management's Discussion and Analysis – Fiduciary Fund (Unaudited)	42
Basic Financial Statements – Fiduciary Fund	
Statements of Fiduciary Net Assets	45
Statements of Changes in Fiduciary Net Assets	46
Notes to Financial Statements	47
SUPPLEMENTARY INFORMATION	
Combining Schedules of Net Assets – Proprietary Funds	52
Combining Schedules of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	54
Combining Schedules of Cash Flows – Proprietary Funds	55
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the Audit of Financial Statements Performed in Accordance with Government Auditing Standards	57
Required Communication to Legislative Audit Committee	59
Audit Report Distribution Information	62

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
Fiscal Years Ended June 30, 2012 and 2011

Purposes and Scope of Audit

The Office of the State Auditor engaged BKD, LLP (BKD) to conduct a financial and compliance audit of the Colorado Student Loan Program dba College Assist, Department of Higher Education, State of Colorado (the Enterprise or College Assist) for the year ended June 30, 2012. BKD performed the audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.*

The purposes of the audits were to:

- Express opinions on the financial statements of College Assist as of and for the year ended June 30, 2012, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditure of federal and state funds for the year ended June 30, 2012.

- Issue a report on College Assist's compliance with certain provisions of laws, regulations, contracts and grants on internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.

College Assist's schedule of expenditure of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, are included in the Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

The independent auditors' reports, included herein expressed unqualified opinions on College Assist's financial statements and remaining fund information as of and for the year ended June 30, 2012.

As discussed in Note 18 of the basic financial statements, College Assist changed its method of accounting for funds received from lenders for repurchases and refunds which resulted in a retroactive restatement of prior years' financial statements.

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
Fiscal Years Ended June 30, 2012 and 2011

No material weaknesses in internal control over financial reporting were identified.

No instances of noncompliance considered material to the financial statements were disclosed by the audit.

There are no findings and recommendations reported for the year ended June 30, 2012.

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
Fiscal Years Ended June 30, 2012 and 2011

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date

There were no findings and recommendations reported for the year ended June 30, 2012.

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
Fiscal Years Ended June 30, 2012 and 2011

Background on College Assist

Colorado Student Loan Program dba College Assist (the Enterprise or the guaranty agency) was created by an act of the Colorado Legislature in July 1979. The Enterprise is a self-supporting enterprise of the State of Colorado and does not receive any State appropriations to fund operations.

The primary mission of the Enterprise is to assist Colorado residents with planning for college and supporting lenders and Colorado institutions of higher education by administering the Federal Family Education Loan program (FFEL) for the U.S. Department of Education (DE) in accordance with Federal regulations established pursuant to *Title IV, Part B, of the Higher Education Act of 1965 (P.L. 89-329) as amended,* (20 U.S.C. 1071 *et seq)* (the Act or HEA). Effective July 1, 2010, the FFEL program was terminated as a result of enactment of the Health Care and Education Reconciliation Act of 2010. As a result, no new loans can be originated or guaranteed under this program; however, the Enterprise will continue to guarantee and service the existing loan portfolio.

The Enterprise utilizes a third-party service provider, NLS Holding Co., LLC, (NLS Holding or the service provider), a wholly owned subsidiary of Nelnet, Inc. with its principal offices in Lincoln, Nebraska. NLS Holding was created for the purpose of holding guarantor servicing operations and will subcontract the appropriate guarantor services defined under the original agreement with the Enterprise to Nelnet Guarantor Solutions, LLC (NGS), a wholly owned subsidiary of NLS Holding. Through an administrative support agreement with NLS Holding, NGS performs all day-to-day operational support services related to guaranty operations on behalf of the Enterprise. Under the oversight of the Enterprise, NGS assists with activities in accordance with the Lender Participation Agreements, maintenance of the guaranty computer system, data exchange, and other agreed upon services. The NLS Holding agreement, as amended, is for ten years, expiring on October 31, 2015. The agreement, as amended, can be renewed for a second ten-year term if both parties agree.

The Enterprise insures the lender against financial loss from default, disability, death, or bankruptcy. The Federal government serves as the reinsurer. If the Enterprise must reimburse a lender for an uncollectible loan, it files a claim for reimbursement with the DE pursuant to §428(c)(1) and §682.404(a). Default claims paid by the Enterprise are reimbursed by the DE at 95%.

Through its partnership with the Enterprise, NGS assists borrowers with default prevention activities and outsources collection activities of defaulted loans on behalf of and under the oversight of the Enterprise. With termination of the FFEL program, the Enterprise will continue to provide guarantee-related services to borrowers.

Federal Family Education Loan Program

Since inception of the Enterprise in 1979, approximately $21.5 billion of net loans have been guaranteed. The total net outstanding loan portfolio at June 30, 2012, is $10.7 billion. The existing FFEL program loans consist of Stafford (Subsidized and Unsubsidized), Parent Loans for Undergraduate Students (PLUS), Federal Supplemental Loans (SLS) and Consolidation Loans with balances as described below (in billions):

Loan Type	Net Guaranteed	Net Outstanding
Federal Stafford Loans	$ 7.40	$ 1.27
Federal PLUS Loans	$ 0.68	$ 0.12
Federal Supplemental Loans	$ 0.32	$ -
Federal Consolidation Loans	$ 13.11	$ 9.30

College Opportunity Fund (Fiduciary Fund)

The College Opportunity Fund (COF) is a private purpose trust fund, established by Colorado State Statute, whose administrative and financial operations are managed by College Assist. The College Opportunity Fund's activities are accounted for in a fiduciary fund that resides with the State. On an annual basis, the Colorado General Assembly appropriates funds to the Department of Higher Education for purposes of supporting the College Opportunity Fund.

Background of the College Opportunity Fund

The College Opportunity Fund was established in Fall 2005 to increase the number of Coloradans pursuing education beyond high school. The fundamental belief is that a postsecondary education experience for Coloradans is essential for the State to compete in the new global economy and to develop a new generation of leaders and active participants in State and local affairs. This new funding system should encourage access and student enrollment for undergraduate students while maintaining distinctive missions of universities and colleges and encouraging geographical access. It is intended to fundamentally change the process by which the State finances postsecondary education from funding institutions to funding individuals in the form of a stipend. While the intent is to change the process of funding for postsecondary education, funding for postsecondary education is not an entitlement. During periods of revenue shortfalls, the General Assembly may use a variety of mechanisms to balance the State's budget, including reducing appropriations to institutions of higher education, decreasing the value of the stipend, or placing a limit on the number of stipends funded under this act based upon the overall budgetary needs of the State.

Each eligible student receives 145 lifetime credit hours that may be applied toward the cost of total in-state tuition for undergraduate degree programming. Student eligibility is defined under Colorado Revised Statute 23-18-102.5(a). Undergraduate students enrolled at state colleges are eligible if they are classified as in-state students for tuition purposes. Undergraduate students enrolled at participating private colleges or universities *may* be eligible if the college or university is approved for participation in the College Opportunity Fund by the Colorado Commission on Higher Education (CCHE) and the student is classified as an in-state student for tuition purposes, is a graduate of a Colorado high school or has successfully completed a non-public home-based educational program in Colorado as defined under C.R.S. 22-33-104.5, is financially eligible by demonstrating financial need through the student's eligibility for the federal

Pell grant, is not pursuing a professional degree in theology; and meets any other eligibility requirements established by the CCHE.

There are no caps on the number of credit hours that a student may take in any given academic year. Students who are unable to complete a baccalaureate degree within 145 credit hours may apply for a one-time waiver of their lifetime credit hour allocation. Those students who exhaust their lifetime credit hour cap and are not provided a waiver will be required to pay the full cost of in-state tuition for the completion of their degree.

Students who receive a baccalaureate degree following July 1, 2005, will be provided an additional 30 credit hours that can be applied toward continuing education conducted at the undergraduate level. Any undergraduate course that is cash- or fee-for-service-funded is ineligible to receive stipend reimbursement.

Financial Aid

COF funding is not considered financial aid and the stipend is not classified as student financial aid. The COF is a way of delivering funding to institutions as stated in the statute. The stipend is not included in calculating a student’s cost of attendance nor is it a resource to the student for financial aid purposes. When the State’s budget for higher education is appropriated, funding for financial aid and the stipend are made through separate budget allocations.

Students Attending Private Institutions

A portion of the COF was established to provide Pell-eligible students attending selected private institutions the ability to receive one-half of the stipend per credit hour established each academic year.

Performance Contracts

Under the COF, all public and participating private institutions are required to enter into a performance contract with the Colorado Department of Higher Education. For public colleges and universities, the intent of the contracts is to eliminate the current one-size-fits-all practice of quality control while enforcing a system of program accountability. Contracts with participating private institutions differ from those signed with the State’s public institutions. The quality assurance reporting that is developed with these institutions focuses specifically on the graduation, retention, and success rates of participating Pell-eligible students.

Legislative provisions within the COF established essential goals that are included in each institution’s contract. This language states that institutions will continue to focus on improving student access and success, advancing institutional quality and operation, and developing the State’s workforce. The contracts aim to strengthen statewide efficiency programs that were designed to help students graduate in a timely manner.

Fee-for-Service Contracts

In addition to the funding that public institutions receive from the student stipends, the institutions also collect State General Fund dollars by entering into a fee-for-service contract with the Colorado Department of Higher Education. These contracts allow the State to purchase specified educational services and facilities required for the full development of Colorado's educational and economic opportunities. Institutional programs that receive fee-for-service funding may not collect stipend reimbursement from participating students. The fee-for-service contracts are funded from the State's general fund separately from the COF.

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
Fiscal Years Ended June 30, 2012 and 2011

Current Year Findings and Recommendations

There were no findings and recommendations reported for the year ended June 30, 2012.

BKD LLP
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Independent Auditors' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee

We have audited the accompanying financial statements of the business-type activities and the remaining fund information of the Colorado Student Loan Program dba College Assist, Department of Higher Education, State of Colorado (College Assist), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2012, which collectively comprise College Assist's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College Assist's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of College Assist as of and for the year ended June 30, 2011, before they were retroactively restated for the matter discussed in Note 18, were audited by other auditors whose report dated December 8, 2011, expressed an unqualified opinion on those statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of College Assist as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012, on our consideration of College Assist's internal control over financial reporting and 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise College Assist's basic financial statements. The combining schedules listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

November 29, 2012
Denver, Colorado

COLORADO STUDENT LOAN PROGRAM
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DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
Fiscal Years Ended June 30, 2012 and 2011

The Management's Discussion and Analysis (MD&A) is required by Governmental Accounting Standards. It was prepared by the Colorado Student Loan Program dba College Assist (the Enterprise or College Assist) management and is designed to provide an analysis of the Enterprise's financial condition and operating results for the fiscal years ended June 30, 2012 and 2011. The MD&A also informs the reader of the financial issues and activities related to the Enterprise. It should be read in conjunction with the Enterprise's financial statements, which begin on page 19.

The Enterprise is a state agency that assists Colorado residents with planning for college and provides loan guarantee and default aversion, prevention, and collection services on behalf of private and non-profit lenders participating in the Federal Family Education Loan program (FFEL) pursuant to Title IV, Part B of the Higher Education Act of 1965 (P.L. 89-329) as amended (20 U.S.C. 1071 et seq*)* (HEA). Effective July 1, 2010, the FFEL program was eliminated as a result of enactment of the Health Care and Education Reconciliation Act of 2010. As of this date, no new loans can be originated or guaranteed under this program. However, the Enterprise will continue to guarantee and service the existing loan portfolio.

Basic Financial Statements

The financial report includes the report of independent auditors, the management's discussion and analysis, and the basic financial statements. The financial statements are interrelated and represent the financial status of the Enterprise.

The Statements of Net Assets include the assets, liabilities, and net assets at the end of the fiscal years. Over time, increases or decreases in the net assets continue to serve as a useful indicator of whether the financial position of the Enterprise is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Assets present the revenues earned and expenses incurred during the fiscal years. Revenues and expenses are reported on the accrual basis. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods.

The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, noncapital financing, investing, and capital and related financing activities. Operating activities represent the day-to-day activities of the Enterprise. Capital and related financing activities represent acquisitions of capital assets. Investing activities represent investment earnings on pooled cash investments.

Financial Overview

College Assist is an enterprise fund of the State of Colorado and is reported as one fund in the financial statements in accordance with generally accepted accounting principles. However, the Enterprise's activities are accounted for in two separate funds—the Agency Operating Fund and the Federal Reserve Fund. Management's discussion and analysis will focus on these funds in order to better describe the operations of the entity. The Agency Operating Fund is the property of the guaranty agency, except for funds that have been transferred from the Federal Reserve Fund. During periods in which the Agency Operating Fund contains funds transferred from the Federal Reserve Fund, the Agency Operating Fund may be used only as permitted by the HEA. As of June 30, 2012 and 2011, the Agency Operating Fund did not contain funds transferred from the Federal Reserve Fund. Per the HEA, the Agency Operating Fund may be used for guaranty agency related activities, financial aid awareness, and related outreach activities, and other student financial aid related activities.

Assets of the Federal Reserve Fund are designated for paying lender claims, transfer of default aversion fees to the Agency Operating Fund, transfer of account maintenance fees to the Agency Operating Fund (if so designated by the U.S. Department of Education (DE)), refund appropriate payments made by or on behalf of a borrower, paying the DE's share of borrower payments, refunding insurance premiums related to loans cancelled or refunded to the lender, returning to the DE portions of the Federal Reserve Fund required to be returned by the Act, and for any other purpose authorized by the DE. The assets of the Federal Reserve Fund are restricted for use as directed by the Federal government.

The Enterprise utilizes a third-party service provider, NLS Holding Co., LLC (NLS Holding) to provide operational support services related to guaranty agency operations. Nelnet Guarantor Solutions, LLC (NGS), per a servicing agreement with NLS Holding, performs activities in accordance with Lender Participation Agreements. Services performed by NGS include maintenance of the guaranty computer system, data exchange, and other agreed upon services on behalf of the Enterprise. As part of this agreement, NLS Holding and the Enterprise share revenue receipts at 80% and 20%, respectively.

On January 21, 2011, the Enterprise amended its existing agreement to sell eligible rehabilitated loans to Nelnet at a discount of 5% for applicable Stafford, Plus, GradPlus, and a discount of 6% for Consolidation loans. The agreement was amended on January 21, 2012, to sell eligible rehabilitated loans to Nelnet at a discount of 3.75% for applicable Stafford, Plus, Grad Plus, and a discount of 4.5% for Consolidation loans, with no maximum amount, to terminate on January 21, 2013, renewable annually. As of June 30, 2012 and 2011, total rehabilitated loan sales to Nelnet were $133.2 and $100.5 million, net of discounts and adjustments of $7.3 and $7.1 million, respectively.

Management Highlights

The Enterprise's largest source of revenue in the Federal Reserve Fund is reinsurance from the DE on claims paid to lenders on defaulted loans. Claims are reimbursed at 95%. In fiscal year 2012, claims decreased, causing a related and simultaneous decrease in reinsurance. For fiscal year 2012 the decrease in reinsurance was 1.1% ($3,811,585) over the prior year, and a 2.9% ($10,284,838) decrease in fiscal year 2011. Total claims paid to lenders for fiscal years 2012 and 2011 were $348,095,286 and $351,831,128, respectively, representing a 1.1% decrease. Claims are expected to continue to decline as the existing FFEL portfolio matures. The total year end Federal Reserve Fund net assets increased by .01% from $27,482,991 in fiscal year 2011 to $27,486,299 in fiscal year 2012.

Effective July 1, 2006, the HEA, as amended, established a 1% default fee to be collected on new loan originations by the Enterprise from either lenders or borrowers or on behalf of borrowers. The default fee was established for the purpose of sustaining the Federal Reserve

Fund. The default fee was eliminated when new loan originations were terminated along with the FFEL program.

Since the Enterprise is in the business of guaranteeing student loans, the following information is presented and relevant only for comparative discussion and analysis purposes. During fiscal years 2012, 2011 and 2010, new gross loan volume guaranteed totaled $0, $0, and $441,208,128, respectively. The difference between fiscal years 2011 and 2010 represents the elimination of new loan originations.

In fiscal year 2012, the net loan portfolio (net outstanding loans guaranteed) decreased by 5.7% from $11,340,316,428 in fiscal year 2011 to $10,690,433,135 in fiscal year 2012. The net outstanding loans are computed by subtracting loan cancellations, loans paid in full, claims paid, loans transferred out to the DE, and uninsured loans from the gross loan volume. The decrease is due primarily to loans paid in full.

Agency Operating Fund net assets increased by 1% from $32,934,521 in fiscal year 2011 to $33,153,888 in fiscal year 2012.

CONDENSED SCHEDULE OF NET ASSETS

	Agency Operating Fund			Federal Reserve and Drawdown Funds		
June 30,	**2012**	**2011**	**2010**	**2012**	**2011 (as restated)**	**2010 (as restated)**
ASSETS						
Current Assets	$ 39,156,154	$ 37,798,225	$ 46,824,154	$ -	$ -	$ -
Restricted Assets	-	-	-	85,457,076	50,901,599	58,056,030
Capital Assets	-	-	2,419	-	-	-
Total Assets	$ 39,156,154	$ 37,798,225	$ 46,826,573	$ 85,457,076	$ 50,901,599	$ 58,056,030
LIABILITIES						
Current Liabilities	$ 5,949,676	$ 4,757,930	$ 9,283,189	$ 4,919,861	$ 111,008	$ 39,773
Noncurrent Liabilities	52,590	105,774	101,572	-	-	-
Liabilities Payable from Restricted Assets	-	-	-	53,050,916	23,307,600	29,338,720
Total Liabilities	$ 6,002,266	$ 4,863,704	$ 9,384,761	$ 57,970,777	$ 23,418,608	$ 29,378,493
NET ASSETS						
Invested in Capital Assets	$ -	$ -	$ 2,419	$ -	$ -	$ -
Restricted Assets	-	-	-	27,486,299	27,482,991	28,677,537
Unrestricted	33,153,888	32,934,521	37,439,393	-	-	-
Total Net Assets	$ 33,153,888	$ 32,934,521	$ 37,441,812	$ 27,486,299	$ 27,482,991	$ 28,677,537

Net Assets Analysis

Agency Operating Fund – Fiscal Year 2012

Unrestricted net assets of the Agency Operating Fund remained consistent with a 1% increase from $32,934,521 to $33,153,888 in fiscal year 2012. Net assets remained consistent despite the cash transfer of $10 million to the Federal Reserve Fund to meet the 0.25% minimum Federal Reserve requirement, primarily due to the increase in collection revenue resulting from increased rehabilitated loan sales. Total assets increased 3.6% as compared to the prior year decrease of 19.3% primarily due to the increase in collections revenue. Available cash and cash flow are expected to remain relatively stable over the next year given equivalent rehabilitated loan sales and fees.

Total liabilities increased by $1.1 million, or 23% primarily due to fees payable to NLS Holdings for increased collections revenue resulting from rehabilitated loan sales.

Agency Operating Fund – Fiscal Year 2011

Unrestricted net assets of the Agency Operating Fund decreased from $37,439,393 to $32,934,521 or 12% in fiscal year 2011. The decrease was primarily due to cash transfers of $10 million to the Federal Reserve Fund to meet the 0.25% minimum Federal Reserve requirement, reduction in federal fee revenue due to decreased portfolio and elimination of loan origination fees, offset by increased collections and decreased liabilities due to the payment of deferred billings to NLS Holding. Total assets decreased by 19.3%, as compared to the prior year decrease of 18.1%, primarily due to the $10 million cash transfer to the Federal Reserve Fund.

Total liabilities decreased in 2011 by $4.5 million, or 48%, primarily due to payment of deferred billings to NLS Holding of $4.3 million.

Federal Reserve Fund – Fiscal Year 2012

Total assets increased in fiscal year 2012 by $34,555,477 or 67.9%, primarily due to an increase of $54.2 million in reinsurance due from DE, offset by a decrease in cash of $20 million as compared to prior year.

Total liabilities increased in fiscal year 2012 by $34,552,169 or 147.5%, primarily due to an increase of $29.9 million in outstanding claims due to lenders at year end as compared to prior year. As discussed in Note 18 of the financial statements, the amount of 2011 and 2010 liabilities and net assets have been restated.

Federal Reserve Fund – Fiscal Year 2011

Total assets decreased in fiscal year 2011 by $7,154,431 or 12.3%, primarily due to a reduction of $14 million in reinsurance receivable due from DE, offset by amounts owed to DE for collections of $7 million remaining in cash at year end.

Total liabilities decreased in fiscal year 2011 by $5,959,885 or 20.3%, primarily due to a reduction of $7.3 million in outstanding claims due to lenders at year end, offset by an increase of $1.3 million due and payable to DE as compared to prior year.

CONDENSED SCHEDULE OF REVENUES

Years Ended June 30,	Agency Operating Fund 2012	Agency Operating Fund 2011	Agency Operating Fund 2010	Federal Reserve and Drawdown Funds 2012	Federal Reserve and Drawdown Funds 2011 (as restated)	Federal Reserve and Drawdown Funds 2010 (as restated)
OPERATING REVENUES						
Federal Grants and Contracts	$ 8,655,525	$ 5,999,553	$ 3,481,506	$ 334,826,554	$ 338,638,139	$ 348,922,977
Grant Revenue	26,667	160,000	166,912	-	-	-
Interest on Purchased Loans	4,407,326	2,425,453	1,562,767	-	-	-
Other	42,294	31,851	217,432	5,388,306	3,949,073	4,901,593
Total Operating Revenues	13,131,812	8,616,857	5,428,617	340,214,860	342,587,212	353,824,570
Nonoperating Revenues						
Earnings on Investments	390,667	342,385	1,334,520	328,137	258,526	1,075,196
Interfund Transfers	-	-	-	7,555,597	7,790,844	7,912,876
TOTAL REVENUES	$ 13,522,479	$ 8,959,242	$ 6,763,137	$ 348,098,594	$ 350,636,582	$ 362,812,642

Revenue Analysis

Agency Operating Fund – Fiscal Year 2012

Net Federal Grants and Contracts revenue increased in fiscal year 2012 from $5,999,553 to $8,655,525 or 44.3%. The increase was due primarily to an increase in collections revenue resulting from increased rehabilitated loan sales. Approximately $53.9 million of both collections and federal fee revenue was shared directly with NLS Holding.

Agency Operating Fund – Fiscal Year 2011

Net Federal Grants and Contracts revenue increased in fiscal year 2011 from $3,481,506 to $5,999,553 or 72.3%. The increase was due primarily to an increase in collections revenue resulting from increased rehabilitated loan sales. Approximately $41.9 million of both collections and federal fee revenue was shared directly with NLS Holding.

Federal Reserve Fund – Fiscal Year 2012

Federal Grants and Contracts revenue consisting primarily of reimbursements from the DE on defaulted loans decreased in fiscal year 2012 by 1.1% from $338,638,139 in 2011 to $334,826,554 in 2012. The decrease is primarily due to a reduction in default claims due to a declining and changing portfolio. Default claims are expected to decline as the portfolio matures. Other revenue increased by approximately $1.4 million in fiscal year 2012 due to the increase in the portion of collections retained in the Federal Reserve Fund resulting from increased rehabilitated loan sales.

As discussed in Note 18 to the financial statements, the 2011 and 2010 expenses have been restated.

Federal Reserve Fund – Fiscal Year 2011

Federal Grants and Contracts revenue consisting primarily of reimbursements from the DE on defaulted loans decreased in fiscal year 2011 by 2.9% from $348,922,977 in 2010 to $338,638,139 in 2011. The decrease is primarily due to a reduction in default claims due to a declining and changing portfolio. Default claims are expected to decline as the portfolio matures. Other revenue decreased by approximately $1.0 million in fiscal year 2011 due to the elimination of federal default fees on loan originations.

As discussed in Note 18 to the financial statements, the 2011 and 2010 expenses have been restated.

CONDENSED SCHEDULE OF EXPENSES

	Agency Operating Fund			Federal Reserve and Drawdown Funds		
Years Ended June 30,	**2012**	**2011**	**2010**	**2012**	**2011 (as restated)**	**2010 (as restated)**
OPERATING EXPENSES						
Guarantee Claims Paid						
to Lending Institutions	$ -	$ -	$ -	$ 348,095,286	$ 351,831,128	$ 362,943,012
Salaries and Fringe Benefits	1,879,861	1,909,134	2,053,073	-	-	-
Other Operating and Travel	3,867,654	3,764,136	3,813,055	-	-	-
Depreciation	-	2,419	7,717	-	-	-
Total Operating Expenses	5,747,515	5,675,689	5,873,845	348,095,286	351,831,128	362,943,012
NON OPERATING EXPENSES						
Interfund Transfers	7,555,597	7,790,844	7,912,876	-	-	-
TOTAL EXPENSES	$ 13,303,112	$ 13,466,533	$ 13,786,721	$ 348,095,286	$ 351,831,128	$ 362,943,012

Expense Analysis

Agency Operating Fund – Fiscal Year 2012

Salaries and fringe benefits decreased approximately 1.5% from $1,909,134 in 2011 to $1,879,861 in fiscal year 2012. The decrease is primarily due to cost savings derived from temporarily vacant staff positions. Operating and travel increased approximately 2.8% from $3,764,136 in 2011 to $3,867,654 in 2012, primarily due to additional spending in program outreach efforts for College in Colorado data security enhancements. College in Colorado is an outreach initiative charged with helping Coloradoans explore career and education pathways, break down barriers to postsecondary attainment, and create a plan for their postsecondary and work success. Interfund transfers generally include cash transfers to the Federal Reserve Fund to meet the minimum required reserve balance, default aversion fees and related rebates.

Agency Operating Fund – Fiscal Year 2011

Salaries and fringe benefits decreased approximately 7% from $2,053,073 in 2010 to $1,909,134 in fiscal year 2011. The decrease is primarily due to cost savings derived from temporarily vacant staff positions. Operating and travel decreased approximately 1.3% from

$3,813,055 in 2010 to $3,764,136 in 2011, primarily due to cost savings in marketing, general and program administration expenses. Interfund transfers generally include cash transfers to the Federal Reserve Fund to meet the minimum required reserve balance, default aversion fees and related rebates.

Federal Reserve Fund – Fiscal Year 2012

Guarantee claims paid to lending institutions decreased approximately 1.1% from $351,831,128 in fiscal year 2011 to $348,095,286 in fiscal year 2012, due to a declining portfolio. In attempts to prevent a default claim, default aversion assistance is provided to lenders upon request when a borrower falls at least sixty days in arrears on his or her student loan payment. Additionally, assistance is provided to students and parents to understand their rights, responsibilities, and the options available to avoid default. The Enterprise's published two-year default rate for federal fiscal year 2010 decreased by 2% from 9.5% in federal fiscal year 2009 to 7.5%. The last published national average default rate was 8.5% for federal fiscal year 2009. While the default rate has improved to 7.5%, historically between 2006 to 2009, the published two-year default rates increased significantly from 2.5% to 9.5%. The increased historical default rate was primarily due to a changing portfolio. The lower default rates in years 2006 and 2007 were positively impacted by the rapid expansion of consolidation loans in the portfolio. Many of those consolidation loans were made while the students were still in school, leaving little chance of defaulting within the period used for the default rate calculation. Beginning in 2008 and continuing through 2009, the portfolio entering repayment decreased due to the loans being sold to the DE either through the PUT program (via Ensuring Continued Access to Student Loans (ECASLA)) or through consolidation. The DE also published for the first time a three-year default rate for the Enterprise of 13.4% for federal fiscal year 2010. In the future, the three-year rate will be utilized and the two-year rate will be eliminated. The default rates are expected to decline when rates are published for Federal fiscal year 2011. Default rates are published by the DE approximately two years after the fiscal year that students enter repayment.

Federal Reserve Fund – Fiscal Year 2011

Guarantee claims paid to lending institutions decreased approximately 3.1% from $362,943,012 in fiscal year 2010 to $351,831,128 in fiscal year 2011, due to a declining portfolio. Similar to fiscal year 2012, default aversion assistance is provided to lenders upon request when a borrower falls at least sixty days in arrears on his or her student loan payment. Additionally, assistance is provided to students and parents to understand their rights, responsibilities, and the options available to avoid default. College Assist's last two years (Federal fiscal years 2008 and 2009) published default rates averaged about 9.3%, while the national average was about 7.8%.

Capital Assets

Capital assets are fully depreciated in fiscal year 2012. There were no significant purchases of capital assets in 2012 or 2011.

Economic Facts and Conditions for the Future

Effective July 1, 2010, the *Health Care and Education Reconciliation Act of 2010* terminated the FFEL program and all new federally guaranteed student loans are now originated under the Federal Direct Loan Program. Elimination of new loan guarantees under the FFEL program resulted in a significant reduction in revenues for both the Agency Operating Fund and the Federal Reserve Fund of the Enterprise in the prior year.

All revenues related to loan origination and disbursements were eliminated. In addition, the 1% federal default fee charged on all new loans was eliminated. The default fee was deposited into the Federal Reserve Fund, and was intended to provide sufficient funds to maintain the minimum reserve requirement of 0.25%. For combined fiscal years 2012 and 2011, the Agency Operating Fund has funded an additional $20 million to maintain the Federal Reserve requirement. Current projections for future years indicate significant transfers from the Agency Operating Fund to the Federal Reserve Fund will continue to be required to meet the minimum required balance.

The DE has contracted with the Enterprise to provide guarantee services under the *Higher Education Act of 1965* and may only terminate the agreement for cause, and may suspend the agreement in order to prevent substantial harm to federal interests. Failure to maintain the minimum reserve requirements could result in the suspension and/or termination of this agreement.

On May 31, 2011, *Federal Register, Vol. 76, No. 104* was issued by the DE, inviting guaranty agencies with agreements to participate in the FFEL Program to submit Voluntary Flexible Agreement (VFA) proposals. In response to the Federal Register, the Enterprise submitted a VFA proposal in July 2011. In subsequent discussions, the DE requested guaranty agencies submit revised VFAs in conformity with the DE's interpreted language intent of the Federal Register. The revised VFA proposal was submitted by the Enterprise in February 2012. The Enterprise is awaiting communication from the DE regarding the proposal. If accepted, the guaranty agency would operate under the requirements of the VFA in lieu of the guaranty agency agreements established under sections 428(b) and (c) of the HEA, under which the Enterprise is currently operating. The proposal as structured will likely improve the long-term financial position of the Enterprise.

Financial Contact

If you have any questions about this report, please contact

College Assist
1560 Broadway, Suite 1700
Denver, Colorado 80202
Attention: Chief Financial Officer

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
PROPRIETARY FUNDS
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

ASSETS

	2012	2011 (as restated)
CURRENT ASSETS		
Cash and pooled cash investments	$ 37,125,386	$ 35,577,777
Federal fees receivable	1,633,138	1,718,061
Other receivables, net	135,521	154,481
Prepaid expenses	262,109	347,906
Total current assets	39,156,154	37,798,225
RESTRICTED ASSETS		
Restricted cash and pooled cash investments	11,022,910	30,683,757
Federal reinsurance receivable	74,434,166	20,217,842
Total restricted assets	85,457,076	50,901,599
CAPITAL ASSETS		
Computer hardware and software	31,254	31,254
Less accumulated depreciation	(31,254)	(31,254)
Capital assets, net	-	-
TOTAL ASSETS	$ 124,613,230	$ 88,699,824

See Notes to Financial Statements.

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
PROPRIETARY FUNDS
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

LIABILITIES AND NET ASSETS

	2012	2011 (as restated)
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 5,664,512	$ 379,827
Accrued compensated absences	75,900	34,428
Other current liabilities	5,129,125	4,454,683
Total current liabilities	10,869,537	4,868,938
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Loan collections and other liabilities due to federal government	2,098,994	2,235,744
Claims due to lenders	50,951,922	21,071,856
Total liabilities payable from restricted assets	53,050,916	23,307,600
NONCURRENT LIABILITIES		
Accrued compensated absences	52,590	105,774
Total noncurrent liabilities	52,590	105,774
Total liabilities	63,973,043	28,282,312
NET ASSETS		
Restricted	27,486,299	27,482,991
Unrestricted	33,153,888	32,934,521
Total net assets	60,640,187	60,417,512
TOTAL LIABILITIES AND NET ASSETS	$ 124,613,230	$ 88,699,824

See Notes to Financial Statements.

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
PROPRIETARY FUNDS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2012 and 2011

	2012	2011 (as restated)
OPERATING REVENUES		
Federal grants and contracts		
Collections on loans and bankruptcies	$ 55,947,251	$ 40,860,378
Federal fee revenue	6,649,539	7,004,303
Amount paid to service provider	(53,941,265)	(41,865,128)
Federal reinsurance	334,826,554	338,638,139
Grant revenue	26,667	160,000
Interest on purchased loans and other	4,407,326	2,425,453
Other revenues	5,430,600	3,980,924
Total operating revenues	353,346,672	351,204,069
OPERATING EXPENSES		
Guarantee claims paid to lending institutions	348,095,286	351,831,128
Salaries and fringe benefits	1,879,861	1,909,134
Operating and travel	3,867,654	3,764,136
Depreciation	-	2,419
Total operating expenses	353,842,801	357,506,817
OPERATING LOSS	(496,129)	(6,302,748)
NON-OPERATING REVENUES (EXPENSES)		
Earnings on pooled cash investments	718,804	600,911
Total non-operating expenses	718,804	600,911
CHANGE IN NET ASSETS	222,675	(5,701,837)
NET ASSETS, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	60,417,512	63,533,763
Adjustment for correction of liabilities due to federal government	-	2,585,586
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	60,417,512	66,119,349
NET ASSETS, END OF YEAR	$ 60,640,187	$ 60,417,512

See Notes to Financial Statements.

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	2012	2011 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Federal grants and contracts	$ 348,570,166	$ 408,563,513
Amount paid to service provider	(53,266,823)	(46,470,233)
Interest on purchased loans and other	4,407,326	2,425,453
Other sources	61,254	119,482
	299,771,923	364,638,215
Cash disbursed for:		
Guarantee claims paid to lending institutions	(313,406,367)	(361,334,820)
Employees	(1,891,573)	(1,898,649)
Suppliers	(3,306,025)	(3,548,342)
	(318,603,965)	(366,781,811)
Net cash used in operating activities	(18,832,042)	(2,143,596)
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on pooled cash investments	718,804	600,911
Net cash provided by investing activities	718,804	600,911
NET CHANGE IN CASH AND POOLED CASH INVESTMENTS	(18,113,238)	(1,542,685)
CASH AND POOLED CASH INVESTMENTS, BEGINNING OF YEAR	66,261,534	67,804,219
CASH AND POOLED CASH INVESTMENTS, END OF YEAR	$ 48,148,296	$ 66,261,534
NONCASH INVESTING ACTIVITIES		
Unrealized gains	$ 862,679	$ 1,117,140

See Notes to Financial Statements.

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	2012	2011 (as restated)
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Net operating loss	$ (496,129)	$ (6,302,748)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Depreciation	-	2,419
Receivables	(54,112,441)	14,655,444
Prepaid expenses	85,797	(17,769)
Accounts payable and accrued liabilities	5,284,685	144,797
Other current liabilities	674,442	(4,605,104)
Loan collections and other liabilities due to federal government	(136,750)	1,335,236
Claims paid to lenders	29,880,066	(7,366,356)
Accrued compensated absences	(11,712)	10,485
NET CASH USED IN OPERATING ACTIVITIES	$ (18,832,042)	$ (2,143,596)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Colorado Student Loan Program dba College Assist (the Enterprise) is a self-supporting Enterprise Fund of the State of Colorado. It was established as an entity of the Colorado Department of Higher Education pursuant to Title 23, Article 3.1, Part 1, Colorado Revised Statutes (CRS), 1973*,* as amended and was created July 1, 1979. The Enterprise's legal name is Colorado Student Loan Program, which became effective July 1, 2006, per CRS 23-3.1-106 (1)(b), as amended. The Enterprise administers the Federal Family Education Loan program (FFEL), consisting of Stafford, Parent Loans for Undergraduate Students (PLUS), Supplemental Loans for Students (SLS), and Consolidation Loans Programs (CLP). As part of the FFEL program, the Enterprise guarantees loans made by lending institutions to students attending postsecondary schools, in compliance with operating agreements (Agreements) with the U.S. Department of Education (DE), pursuant to Section 428 of the Higher Education Act (HEA) of 1965, as amended. Effective July 1, 2010, the FFEL program was eliminated as a result of enactment of the Health Care and Education Reconciliation Act of 2010. As of this date, no new loans can be originated or guaranteed under this program. The Enterprise will continue to guarantee and service the existing loan portfolio.

Basis of Accounting and Presentation

For financial reporting purposes, the Enterprise is considered a special-purpose government engaged only in business-type activities. Accordingly, the Enterprise uses the economic resources measurement focus and the accrual basis of accounting to summarize its activities. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation is incurred.

The financial statements of the Enterprise have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB), and other applicable guidelines or pronouncements. The Enterprise uses self-balancing accounting funds to record its financial accounting transactions. However, GASB reporting guidelines require the Enterprise to report its assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows from an entity-wide perspective, rather than by accounting fund.

The guidelines further require that intra-fund accounting transactions be eliminated. The Enterprise has the option to apply all FASB pronouncements issued after November 30, 1989, unless those pronouncements conflict with GASB standards. The Enterprise has elected not to apply FASB pronouncements after the applicable date.

The basic financial statements of the Enterprise present the financial position, results of operations, and, where applicable, cash flows for only the entity. They do not purport to, and do

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

not present, the financial position of the State of Colorado as of June 30, 2012 and 2011, or the results of operations, or cash flows where applicable, for the years then ended.

Use of Estimates in Preparation of Financial Statements

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

Cash and Pooled Cash Investments

Cash and pooled cash investments consist of cash on deposit with the State Treasurer and cash on hand. For purposes of the statement of cash flows, cash and pooled cash investments are defined as instruments with maturities of three months or less at date of acquisition, and pooled cash held by the Colorado State Treasurer. Cash and pooled cash investments that are restricted in nature are distinguished as such in the financial statements.

Receivables

Amounts owed from the DE are reported as federal fees receivable and federal reinsurance receivable. Loans purchased from lenders are reported as other receivables, net. Other receivables, net are reported net of the estimated allowance for uncollectible accounts. Receivables that are restricted in nature are reported as such in the financials.

Capital Assets

Depreciable capital assets are recorded at cost on the date of acquisition. The Enterprise's capitalization policy is $5,000 or more per individual piece of equipment, with an estimated useful life of greater than one year. Renovation cost to leased property in excess of $5,000 is also capitalized. Cost to renovate leased property is reported as leasehold improvements.

Depreciation is charged using a straight-line method over the estimated useful lives of the assets. Generally, furniture, equipment, and software are depreciated over three to ten years. Leasehold improvements are depreciated over the lesser of five years or the life of the lease in which the renovation was made. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and resulting gains or losses are recorded as non-operating revenues or expenses.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liabilities

Amounts due to the service provider and others within one year are reported as current liabilities. Amounts owed after one year are reported as noncurrent liabilities. Liabilities restricted in nature are distinguished as such in the financial statements.

Compensated Absences

Employees of the Enterprise are entitled to paid vacations, sick days, and personal days off, depending on job classification, length of service, and other factors. The Enterprise has recorded the amount of compensation for future absences as an accrued liability in the accompanying financial statements. The estimated liability is based on hours earned up to assigned maximums. One-fourth of unused sick days or a maximum of 520 hours may be paid to employees upon retirement or death. Unused vacation days are paid to employees upon termination.

Net Assets

The net assets of the Enterprise are classified as follows:

Invested in capital assets: This balance represents the Enterprise's total investment in capital assets.

Restricted net assets: Restricted net assets represent resources in which the Enterprise is contractually obligated to spend or reserve in accordance with restrictions imposed by external parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from services provided to borrowers, lenders, and collection activities. These resources are used to pay the operating costs of the Enterprise.

Classification of Revenues and Expenses

The Enterprise has classified its revenues and expenses as either operating or non-operating. Operating revenues and expenses generally result from providing services or incurring expenses in connection with the Enterprise's principal activities. Non-operating revenues and expenses include transactions such as interest revenue earned on deposits and loss on disposal of capital assets.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Defaults

Student loans guaranteed by the Enterprise that subsequently default are purchased by the Enterprise. This occurs after a claim is paid to the lending institution. Once a claim is paid to a lender, the Enterprise becomes the holder of the loan and seeks to collect on the loan from the DE. Claim payments are made on defaults, deaths, disabilities and bankruptcies only for loans in default and loans included under Chapter 7 and Chapter 13 bankruptcies are collectible by the Enterprise. A guaranty agency may charge a borrower reasonable costs incurred to collect on defaulted loans per CFR 682.410(b)(2). Effective January 31, 2011, the Enterprise changed the collection cost rate charged to borrowers from 15.64% to 19.58% on regular default borrower payments (excluding Federal consolidations of FFEL default loans and rehabilitations).

Federal consolidations of FFEL default loans and rehabilitations are subject to a rate charge limit equal to the lesser of the rate computed per the formula in 34 CFR 30.60 or the rate assessed if the loan is held by the DE. For these loans, the Enterprise charges a one-time consolidation and rehabilitation fee to borrowers of 18.5% as allowed per Federal regulations.

Loans that meet certain criteria are subrogated or assigned to the DE. The U.S. Treasurer's Offset Program is utilized to pursue collections of defaulted loans. Under this program, Federal income tax refunds are applied or offset against student loans in default.

Federal Reinsurance

The Enterprise is subject to applicable statutorily defined Federal reinsurance rates. Statutory Federal reinsurance on defaulted loans is paid according to the following schedule:

Enterprise Rate of Annual Losses (Defaults)	Federal Reinsurance on Loans Made Prior to October 1, 1993	Reinsurance on Loans Made October 1, 1993 Through September 30, 1998	Reinsurance on Loans Made October 1, 1998 Through September 30, 2011
0% to 5%	100%	98%	95%
More than 5% but less than or equal to 9%	90%	88%	85%
Over 9%	80%	78%	75%

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The rate of annual losses (defaults) also known as the 'trigger rate" for purposes of the application for Federal reinsurance is a result of the year-to-date incurred losses divided by the original amount of guaranteed loans in repayment status at the beginning of the year. Default claims are subject to certain "trigger figures," which may result in reduced Federal reinsurance rates. When the annual rate of losses (defaults) exceeds 5% of the loans in repayment it "triggers" the DE to reimburse the Enterprise a reduced reinsurance rate. The Enterprise's annual rate of losses (defaults) or trigger rate for the federal fiscal years ended September 30, 2012 and September 30, 2011, did not exceed 5%.

Budgets and Budgetary Accounting

The Enterprise prepares an annual operating budget. By statute, the Enterprise is continuously funded through user service charges. The budget is not legislatively adopted and a Budget to Actual Statement of Revenues and Expenses is not a required part of these financial statements.

The operating budget and revisions thereto are approved by the Executive Director of the Department of Higher Education.

In summary, total budgeted operating revenues for the Agency Operating Fund and Federal Reserve Fund were $11.1 million and $345.6 million, as compared with actual operating revenues of $13.1 million and $340.2 million, respectively, for the fiscal year ended June 30, 2012. Total budgeted operating expenses for the Agency Operating Fund and Federal Reserve Fund were $10.1 million and $366.1 million, compared to actual operating expenses of $5.7 million and $348.1 million, respectively.

Application of Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available to pay an expense, the Enterprise's policy is to first use unrestricted resources.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

NOTE 2 – CASH AND POOLED CASH INVESTMENTS

The Enterprise deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education. Monies deposited in the Treasury are invested until the cash is needed. The Enterprise had cash on deposit with the State Treasurer as of June 30, 2012 of $48,148,296 which represented approximately 0.7% of the total $6.5 billion fair value of 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 the Enterprise's participation in the Pool, the Enterprise reports an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The 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.

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, 2012, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2012, approximately 89% of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for $12,085,710 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 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. As of June 30, 2012, the weighted average maturity of investments in the Treasurer's Pool is 0.090

NOTE 2 – CASH AND POOLED CASH INVESTMENTS (CONTINUED)

years for Commercial Paper (2.1% of the Pool), 0.803 years for U.S. Government Securities (75.2% of the Pool), 2.379 years for Asset Backed Securities (6.6% of the Pool), and 3.252 years for Corporate Bonds (16.1% of the Pool).

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2011–12.

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, 2012.

The following summarizes cash and pooled cash investments:

	2012	2011
Cash on deposit with State Treasurer	$ 47,285,417	$ 65,144,194
State Treasurer pooled cash investments – unrealized gain	862,679	1,117,140
Cash on hand and in transit to State Treasurer	48,148,096	66,261,334
Petty cash	200	200
Total	$ 48,148,296	$ 66,261,534

Cash and pooled cash investments are presented in the accompanying combined statement of net assets as follows:

	2012	2011
Cash and pooled cash investments	$ 37,125,386	$ 35,577,777
Restricted cash and pooled cash investments	11,022,910	30,683,757
Total	$ 48,148,296	$ 66,261,534

NOTE 3 – FEDERAL FEES RECEIVABLE

Federal fees receivable are fees due from the DE which include Account Maintenance Fees earned to manage the loan portfolio.

NOTE 4 – OTHER RECEIVABLES, NET

Other receivables – net primarily includes purchased student loans. These represent loans not eligible for reinsurance by the DE. Loans not eligible for reinsurance must be purchased by the Enterprise and become an asset of the Enterprise. Purchased student loan balances were $1,713,411 and $1,676,643 at June 30, 2012 and 2011, respectively. An allowance for uncollectible loans equal to 93% of the purchased loans receivable balance is recorded at $1,593,472 and $1,559,278 at June 30, 2012 and 2011, respectively. The allowance rate is based on historical collection activity for purchased student loans. This net purchased student loans receivable of $119,939 and $117,365, respectively, is included in other receivables on the accompanying Statements of Net Assets at June 30, 2012 and 2011 of $135,521 and $154,481, respectively.

NOTE 5 – ACCRUED LIABILITIES

Under CRS 24-75-201, salaries and wages earned during the months of June 2012 and 2011 are paid in July of the following year. An accrued liability is recorded on June 30, 2012 and 2011 at $139,086 and $134,299, respectively, for incurred but unpaid salaries and wages. The liability is included in accounts payable and accrued liabilities on the accompanying statements of net assets.

NOTE 6 – OTHER CURRENT LIABILITIES

Other current liabilities consist primarily of fees due to NGS of $5,015,345 and $4,239,235, and loan servicing liabilities of $113,780 and $215,448 for fiscal years 2012 and 2011, respectively.

NOTE 7 – NONCURRENT LIABILITIES

During the fiscal years ended June 30, 2012 and 2011, the following changes occurred with noncurrent liabilities:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year
Accrued compensated absences	$ 140,202	$ 156,414	$ (168,126)	$ 128,490	$ 75,900
Total	$ 140,202	$ 156,414	$ (168,126)	$ 128,490	$ 75,900

NOTE 7 – NONCURRENT LIABILITIES (CONTINUED)

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Amounts Due Within One Year
Accrued compensated absences	$ 129,717	$ 152,165	$ (141,680)	$ 140,202	$ 34,428
Total	$ 129,717	$ 152,165	$ (141,680)	$ 140,202	$ 34,428

NOTE 8 – RELATED-PARTY TRANSACTIONS

Related-Party Transactions

CollegeInvest was established in 1979 as a division of the Colorado Department of Higher Education. Effective January 6, 2006, the Director of CollegeInvest was appointed the Director of the Enterprise. Although CollegeInvest and the Enterprise are both divisions of the Department, they are each constituted and operate as separate enterprises of the State under the direction of the same Director, and each (CollegeInvest and the Enterprise) retains the ability to enforce contractual obligations against the other.

The Enterprise shares the cost of human resources personnel, information systems personnel, and other administrative and operating expenses with CollegeInvest under the terms of two separate Memorandums of Understanding (MOUs), expiring on June 30, 2012, renewable annually. For the years ended June 30, 2012 and 2011, personnel expense paid to CollegeInvest was $282,266 and $280,261, respectively. Other operating costs paid to CollegeInvest were $123,701 and $98,879, respectively. Personnel costs billed to CollegeInvest for the years ended June 30, 2012 and 2011 were $51,382 and $24,190, respectively. Other operating costs billed to CollegeInvest were $7,328 and $12,109, respectively.

The Enterprise also leases office space under MOU with CollegeInvest. Under the agreement, the Enterprise is required to pay base rent of approximately $19,500 per month, excluding annual operating expense adjustments. The MOU expires annually on June 30, and a new MOU is put into place for the following year. Total rent expense for the years ended June 30, 2012 and 2011 was $237,060 and $224,894, respectively.

NOTE 9 – COMMITMENTS

Statutory Federal Reserve Fund Requirements

The Enterprise is required by Federal regulations and State statute to maintain a minimum Federal Reserve Fund balance of 0.25% of the unpaid balance of net outstanding loans to meet future default claims. The Enterprise has met this requirement as of September 30, 2012 and 2011, and believes it will continue to meet the reserve requirement. The DE calculates the required reserve amount at September 30 of each year.

Commitment

The Enterprise entered into a long-term contract ending January 31, 2014, for systems operations and maintenance services with XAP Corporation.

Future minimum payments required under this agreement consist of the following:

Year Ending June 30:

2013	$ 1,313,609
2014	888,342
Total	$ 2,201,951

Loan Guarantees

The net outstanding principal balance of student loans guaranteed by the Enterprise at June 30, 2012 and June 30, 2011 is over $10.7 and $11.3 billion, respectively.

Generally, guaranteed defaulted loans are reimbursed by the DE at a minimum rate of 95%. Defaulted loans (claims) are subject to certain trigger figures (trigger rate) which may result in a

reduced reimbursement rate. The trigger rate is calculated as of September 30 of each year for purposes of determining the reimbursement rate applicable for the subsequent year.

The trigger rate is equal to 5% and 9% of the loans in repayment at the end of the prior federal fiscal year. When the default claim losses exceed 5% or 9% of the loans in repayment, it triggers DE to reimburse the default claim at a reduced amount. If the Enterprise exceeds the threshold trigger rate, it may be liable for up to a maximum of 25% of the default claim losses. The Enterprise did not exceed the trigger rate for the period ended September 30, 2012, or in prior periods. The trigger rate for the period ended September 30, 2012 and 2011 was 2.47% and 2.24%, respectively. Any liability that may result would be capped at the Enterprise's total net assets.

NOTE 10 – EMPLOYEE PENSION PLAN

Plan Description

Most of the Enterprise's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

New employees are allowed 60 days to elect to participate in PERA's defined contribution retirement plan. If that election is not made, the employee becomes a member of PERA.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to the defined contribution plan are the same as the contributions to the PERA defined benefit plan.
Defined benefit plan members vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.

- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.

- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011 age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.

- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

- Hired on or after January 1, 2017 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

NOTE 10 – EMPLOYEE PENSION PLAN (CONTINUED)

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

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

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

- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.

- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90 or more.

Most members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

and limited to a 15% increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

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

- Hired before July 1, 2007 – the lesser of 2% or the average of the monthly Consumer Price Index increases.

- Hired on or after January 1, 2007 – the lesser of 2% or the actual increase in the national Consumer Price Index, limited to a 10% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103% and declines by one-quarter percentage point when the funded ratio drops below 90% after having exceeded 103%. The funded ratio increase does not apply for three years when a negative return on investment occurs.

NOTE 10 – EMPLOYEE PENSION PLAN (CONTINUED)

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

Funding Policy

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8% of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2011 Senate Bill 11-076 extended the requirement for members in the State and Judicial Divisions to pay 2.5% additional member contributions through June 30, 2012. Employer contributions for members in these two divisions will be reduced by 2.5%.

From July 1, 2011, to December 31, 2011, the State contributed 12.25% of the employee's salary. From January 1, 2012, through June 30, 2012, the State contributed 13.15%. During all of Fiscal Year 2011–12, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2011, the division of PERA in which the State participates has a funded ratio of 57.7% and a 56-year amortization period based on current contribution rates. The funded ratio on the market value of assets is lower at 57.6%.

In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5% of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4% of salary through 2017, to a maximum of 5%.

In the 2006 and 2010 legislative sessions, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one-half percentage point of total salaries for calendar years 2008 through 2017, to a maximum of 5% (except for the Judicial Division, whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

NOTE 10 – EMPLOYEE PENSION PLAN (CONTINUED)

At a 103% funding ratio, both the AED and the SAED will be reduced by one-half percentage point, and for subsequent declines to below 90% funded, both the AED and SAED will be increased by one-half percentage point. For the Judicial Division, if the funding ratio reaches 90% and subsequently declines, the AED and SAED will be increased by one-half percentage point.

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

The Enterprise's contributions to PERA and/or the state-defined contribution plan for the fiscal years ended June 30, 2012, 2011 and 2010 were $172,533, $156,498, and $198,671, respectively. These contributions met the contribution requirement for each year.

NOTE 11 – OTHER RETIREMENT PLANS

Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees have the option of participating in the plan. New member contributions to the plan vest from 50% to 100% evenly over 5 years. Participants in the plan are required to contribute 8% of their salary. For Fiscal Years 2009–10 and 2010–11 the legislature temporarily increased the required contribution rate to 10.5%. At December 31, 2011, the plan had 4,029 participants.

Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8% PERA contribution with a temporary increase to 10.5% for Fiscal Years 2010–11 and 2011–12) to a maximum of $16,500. Participants who are age 50 and older and contributing the maximum amount allowable were allowed to make an additional $5,500 contribution in 2010 for total contributions of $22,000. Contributions and earnings are tax deferred. At December 31, 2011, the plan had 17,821 participants.

NOTE 12 – VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

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

NOTE 13 – POSTEMPLOYMENT BENEFITS

Health Care Plan

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

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 10 – Funding Policy. Beginning July 1, 2004, the Enterprise is required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The Enterprise contributed $13,860, $12,303, and $15,127 as required by statute in fiscal years 2011–12, 2010–11, and 2009–10, respectively. In each year the amount contributed was 100% of the required contribution.

The amount contributed to the health care fund can be calculated as 8.32% (1.02/12.25) of the total contribution from July 1, 2011, through December 31, 2011, and the residual amount 91.68% (11.23/12.25) was contributed to the defined pension plan. From January 1, 2012 through June 30, 2012, these amounts changed to 7.76% (1.02/13.15) and 92.24% (12.13/13.15), respectively, to reflect the increased State contribution from 12.25% to 13.15% for the increase in the Supplemental Amortization Equalization Disbursement (SAED), as discussed in the Funding Policy section of the PERA note above.

The Health Care Trust Fund offers two general types of plans: fully insured plans offered through health care organizations and self-insured plans administered for PERA by third-party vendors. As of December 31, 2011, there were 50,217 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2011, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.43 billion, a funded ratio of 16.5%, and a 49-year amortization period.

NOTE 14 – FEDERAL AND STATE LEGISLATIVE IMPACTS ON THE ENTERPRISE

Effective July 1, 2010, the FFEL program was eliminated as a result of enactment of the *Health Care and Education Reconciliation Act of 2010.* Guaranty agencies may no longer guarantee new student loan originations under the FFEL program. New loan originations will be made under the Federal Direct Loan Program. Elimination of the FFEL program will have a significant impact on and reduction of revenues earned by the Enterprise in the future. Current projections for future years indicate significant transfers from the Agency Operating Fund to the Federal Reserve Fund will be required to meet the Federal Reserve minimum required balance.

NOTE 15 – RISK MANAGEMENT

The State of Colorado currently self-insures its agencies, officials, and employees for the risks of losses to which they are exposed. That includes general liability, motor vehicle liability, workers' compensation, and medical claims. Property claims are not self-insured; rather the State has purchased insurance.

The Enterprise participates in the Risk Management Fund of the State of Colorado. Agency premiums are based on an assessment of risk exposure and historical experience. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount of claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. There were no significant reductions or changes in insurance coverage from the prior year in any of the above mentioned risk management arrangements. Settlements did not exceed insurance coverage in any of the past three fiscal years.

NOTE 16 – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment excludes from its provision State Enterprise operations. Enterprises are defined as government-owned businesses authorized to issue revenue bonds, which receive less than 10% of their annual revenue in grants from all state and local governments combined. Colorado Student Loan Program qualifies as an Enterprise pursuant to *Title 23, Article 3.1, Part 103.5, Colorado Revised Statutes, 2006,* as amended.

NOTE 17 – SIGNIFICANT OPERATING AGREEMENTS

On November 1, 2005, the Enterprise entered into an agreement with NLS Holding to expand its existing relationship with NGS, a wholly owned subsidiary of NLS Holding. Under this expanded agreement, NGS operates all aspects of the guarantee servicing operations on behalf of the Enterprise. This represents the majority of the Enterprise's business operations.

The agreement also requires that NLS Holding be responsible for all operating expenses associated with the expanded servicing contract. This includes, but is not limited to, personnel, operating, rent, and other expenses normally associated with operating a government agency.

NLS Holding receives 80% of the revenue earned in performing these services. The Enterprise retains 20% of the fees to pay for contract monitoring, financial and regulatory reporting, and related activities under the agreement.

The term of the contract and its related amendment is for ten years, expiring on October 31, 2015 and can be renewed for a second ten-year term if both parties agree.

On January 21, 2011, the Enterprise amended its existing agreement to sell eligible rehabilitated loans to Nelnet at a discount of 5% for applicable Stafford, Plus, GradPlus, and a discount of 6% for Consolidation loans, with no maximum amount, to terminate on January 21, 2012, renewable annually.

On January 21, 2012, the existing agreement was amended to sell eligible rehabilitated loans to Nelnet at a discount of 3.75% for applicable Stafford, Plus, GradPlus, and a discount of 4.5% for Consolidation loans, with no maximum amount, to terminate on January 21, 2013, renewable annually.

As of June 30, 2012 and 2011, rehabilitated loan sales to Nelnet were $133.2 and $100.5 million, net of discounts and adjustments of $7.3 and $7.1 million, respectively.

NOTE 18 – PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2012, the Enterprise discovered that funds received from lenders for repurchases and refunds, occurring within the same month, in prior years were recorded as liabilities due to the federal government rather than being netted to expense, as appropriate. The following financial statement line items, as of and for the year ended June 30, 2011, were restated and the effects of the restatement were as follows:

NOTE 18 – PRIOR PERIOD ADJUSTMENT (CONTINUED)

	As Restated	As Previously Reported	Effect of Change
Statement of Net Assets			
Loan collections and other liabilities due to federal government	$ 2,235,744	$ 7,029,901	$ (4,794,157)
Restricted net assets	27,482,991	22,688,834	4,794,157
Total net assets	60,417,512	55,623,355	4,794,157
Statement of Revenues, Expenses and Changes in Net Assets			
Guarantee claims paid to lending institutions	$ 351,831,128	$ 354,039,699	$ (2,208,571)
Total operating expenses	357,506,817	359,715,388	(2,208,571)
Operating loss	(6,302,748)	(8,511,319)	2,208,571
Change in net assets	(5,701,837)	(7,910,408)	2,208,571
Net assets, beginning of the year	66,119,349	63,533,763	2,585,586
Net assets, end of year	60,417,512	55,623,355	4,794,157
Statement of Cash Flows			
Net operating loss	$ (6,302,748)	$ (8,511,319)	$ 2,208,571
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:			
Loan collections and other liabilities due to federal government	1,335,236	3,543,807	(2,208,571)

NOTE 19 – SUBSEQUENT EVENTS

The Enterprise submitted a Voluntary Flexible Agreement (VFA) proposal in accordance with Federal Register, Vol. 72, No. 104 issued May 31, 2011. In response to the Federal Register, the Enterprise submitted a VFA proposal in July 2011, in partnership with Nebraska Student Loan Program. In subsequent discussions, the DE requested guaranty agencies submit revised VFAs in conformity with DE's interpreted language intent of the Federal Register. The revised VFA proposal was submitted by the Enterprise in February 2012. The Enterprise is awaiting communication from the DE regarding the proposal. If accepted, the guaranty agency would operate under the requirements of the VFA in lieu of the guaranty agency agreements established under sections 428(b) and (c) of the HEA under which the Enterprise is currently operating.

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
Fiscal Years Ended June 30, 2012 and 2011

The Management's Discussion and Analysis (MD&A) is required by Governmental Accounting Standards. The MD&A below was prepared by the Enterprise's management on behalf of the College Opportunity Fund (COF) and is designed to provide an analysis of the COF's financial condition and operating results for the fiscal years ended June 30, 2012 and 2011. The MD&A also informs the reader of the financial issues and activities related to the COF. It should be read in conjunction with the COF's financial statements, which begin on page 45.

Basic Financial Statements – College Opportunity Fund

The financial report includes the report of independent auditors, the management's discussion and analysis, and the basic financial statements. The financial statements are interrelated and represent the financial status of the COF.

The Statements of Fiduciary Net Assets include the assets, liabilities, and net assets at the end of the fiscal years. Over time, increases or decreases in the net assets continue to serve as a useful indicator of whether the financial position of the COF is improving or deteriorating.

The Statements of Changes in Fiduciary Net Assets present the additions to and deductions from the private-purpose trust fund during the fiscal years. These statements provide information about significant year-to-year changes in net assets.

Financial Overview

The COF is a private purpose trust fund with the financial operations administered by Colorado Student Loan Program dba College Assist, an Enterprise fund of the State of Colorado. The COF's activities are accounted for in a fund that resides with the State. On an annual basis, the General Assembly appropriates funds to the Colorado Department of Higher Education for purposes of paying the COF stipend.

Management Highlights

The COF was established in fiscal year 2006 and continues to be funded through fiscal year 2012. Under CRS Article 23, Section 18, Colorado changed its funding system for public higher education to a student-stipend program known as the COF in Fall 2005. Under the current system, funds are provided to public and private higher education institutions on behalf of resident undergraduate students in the form of a stipend.

Stipend rates are set annually by the General Assembly during the State's budget process. The allocation is defined on a per-credit-hour basis where the appropriated amount is representative of a full-time student taking 30 credit hours each year. For the 2011–12 and 2010–11 academic year, the state provided each participating student with $1,860 or a $62 per credit hour stipend. Eligible participating students attending private higher education institutions receive one-half of the stipend.

Schedule of Net Assets – Fiscal Year 2012

Restricted Net Assets of the COF at year-end were $1. During the fiscal year, there was $262,651,633 of stipend receipts appropriated to the Colorado Department of Higher Education for use under the COF statutes. Of the total amount appropriated for COF, 100% was used for stipends for Colorado students attending Colorado Higher Education Institutions. Total assets at year-end were $1. Outstanding liabilities at year-end were $0. There were no stipends due to institutions at year-end.

Schedule of Net Assets – Fiscal Year 2011

Restricted Net Assets of the COF at year-end were $2. During the fiscal year, there was $266,934,378 of stipend receipts appropriated to the Colorado Department of Higher Education for use under the COF statutes. Of the total amount appropriated for COF, 100% was used for stipends for Colorado students attending Colorado Higher Education Institutions. Total assets at year-end were $2. Outstanding liabilities at year-end were $0. There were no stipends due to institutions at year-end.

Additions and Deductions – Fiscal Year 2012

During fiscal year 2012, the General Assembly appropriated stipends of $262,651,633, of which $262,651,634 was paid to Colorado Higher Education Institutions for student stipends used to offset tuition costs. All State funded universities and university systems are eligible to participate in the COF program per Statute. Also included in participation are three private institutions: Denver University, Regis University and Colorado Christian University. Of the total amount appropriated for the COF, $1,280,906 was provided to the three private institutions.

Additions and Deductions – Fiscal Year 2011

During fiscal year 2011, the General Assembly appropriated stipends of $266,934,378, of which $266,934,378 was paid to Colorado Higher Education Institutions for student stipends used to offset tuition costs. All State funded universities and university systems are eligible to participate in the COF program per statute. Also included in participation are three private institutions: Denver University, Regis University and Colorado Christian University. Of the total amount appropriated for the COF, $1,236,667 was provided to the three private institutions.

Economic Facts and Conditions for the Future

On an annual basis, the General Assembly of the State of Colorado makes an appropriation in trust to the COF for eligible undergraduate students. Monies appropriated to the COF are for the sole purpose of disbursement on behalf of eligible undergraduate students and not for the general operation of the Enterprise. Any unexpended and unencumbered monies remaining in the COF at the end of a fiscal year are the property of the trust fund and shall remain in the fund and shall not be credited or transferred to the general fund or any other fund. The COF is statutory in nature; as such, changes to the program in terms and stipend amounts are regulated by the General Assembly.

During periods of revenue shortfalls, the General Assembly may use a variety of mechanisms to balance the state's budget, including changes to the COF program.

The stipend rate appropriated for the 2012–13 academic year remained the same as the 2011–12 academic year at $62 per credit hour. As of the date of the financial statements, there has been no legislation introduced or enacted regarding significant changes to the COF.

Financial Contact

If you have any questions about this report, please contact

College Assist
1560 Broadway, Suite 1700
Denver, Colorado 80202
Attention: Chief Financial Officer

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUND
STATEMENTS OF FIDUCIARY NET ASSETS
June 30, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Operating cash	$ 1	$ 2
Accounts Receivable	-	-
Total current assets	1	2
TOTAL ASSETS	$ 1	$ 2

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Accounts payable	$ -	$ -
Total current liabilities	-	-
NET ASSETS HELD IN TRUST	1	2
Total net assets	1	2
TOTAL LIABILITIES AND NET ASSETS	$ 1	$ 2

See Notes to Financial Statements.

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUND
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
For the Years Ended June 30, 2012 and 2011

	2012	2011
ADDITIONS		
Stipend receipts	$ 262,651,633	$ 266,934,378
Total additions	262,651,633	266,934,378
DEDUCTIONS		
Stipend payments	262,651,634	266,934,378
Total deductions	262,651,634	266,934,378
CHANGE IN NET ASSETS	(1)	(0)
NET ASSETS, BEGINNING OF YEAR	2	2
NET ASSETS, END OF YEAR	$ 1	$ 2

See Notes to Financial Statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – College Opportunity Fund

College Opportunity Fund (COF) is a trust fund of the State of Colorado and is presented as a fiduciary fund in this report. It was established as a private purpose trust fund of the Colorado Department of Higher Education pursuant to and managed by the Enterprise. The COF was established to forward stipend funds to Colorado Higher Education Institutions on behalf of eligible students to subsidize tuition costs.

The financial statements of the COF include receipts and payments of the COF stipend.

Stipends are set annually by the General Assembly during the State's budget process. The allocation is defined on a credit-hour basis where the advertised amount is representative of a full-time student taking 30 credit hours each year at a public institution. For the 2011–12 and 2010–11 academic year, the State provided each participating student with a $1,860, or $62 per credit hour stipend. Eligible participating students attending Colorado private higher education institutions receive one-half of the stipend.

Basis of Accounting and Presentation

The COF uses the accrual basis of accounting to summarize its activities. Under the accrual basis of accounting, additions are recognized when earned and deductions are recorded when an obligation is incurred.

The financial statements of the COF have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and other applicable guidelines or pronouncements. The COF uses self-balancing accounting funds to record its financial accounting transactions.

Cash

Cash consists of cash on deposit with the State Treasurer.

Net Assets Held In Trust

Net assets held in trust represent resources in which there is contractual obligation to spend or reserve in accordance with the State of Colorado's COF program.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additions and Deductions

Additions include stipend receipts, resulting from government appropriated funding and grant receipts, while deductions include stipend payments resulting from incurring expenses in connection with the entity's principal activities of providing tuition stipends to institutions of higher education on behalf of eligible students.

Budgets and Budgetary Accounting

By statute, the COF is continuously funded through appropriations authorized and approved by the General Assembly. The operating budget, its appropriations and revisions thereto are reviewed by the Colorado Department of Higher Education and the Enterprise Director. The original Long Bill appropriations, excluding adjustments, for fiscal years 2012 and 2011 were $275,120,040 and $268,305,930, respectively. Total adjustments to the original appropriations including fee for service transfers for fiscal years 2012 and 2011 were $12,468,407 and $1,371,552, respectively. Final COF appropriations after adjustments for fiscal years 2012 and 2011 were $262,651,633 and $266,934,378, respectively.

NOTE 2 – CASH

The General Assembly deposits cash on behalf of the COF with the Colorado State Treasurer as required by the CRS. The COF is a non-interest bearing trust fund and does not receive interest earnings from the State Treasurer's Pooled Cash account nor does it participate in the unrealized gains/losses of the State Treasurer.

The COF had cash of $1 and $2 on deposit with the State Treasurer at June 30, 2012 and June 30, 2011, respectively. There was no cash on hand or petty cash.

The Colorado Public Deposit Protection Act requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral determined by the PDPA. The institution is allowed to create a single collateral pool for all public funds held. The pool is maintained by another institution or held in trust for all the uninsured public deposits as a group. The fair value of the collateral must be at least equal to 102% of the uninsured deposits.

NOTE 3 – FEDERAL AND STATE LEGISLATIVE IMPACTS

On an annual basis the General Assembly of the State of Colorado makes an appropriation in trust to the COF for eligible undergraduate students. Monies appropriated to the COF are for the sole purpose of disbursement on behalf of eligible undergraduate students and not for the general operation of the Enterprise. Any unexpended and unencumbered monies remaining at the end of a fiscal year are the property of the trust fund, shall remain in the fund and shall not be credited or transferred to the general fund or any other fund.

Annually, the Colorado Department of Higher Education requests that the General Assembly adjust the amount appropriated to the COF for stipends to reflect at least inflation and enrollment growth in the state institutions of higher education. During periods of revenue shortfalls, the General Assembly may use a variety of mechanisms to balance the State's budget, including reducing appropriations to institutions of higher education, decreasing the value of the stipend, or placing a limit on the number of stipends funded under the CRS based upon the overall budgetary needs of the State. In fiscal year 2012, COF stipends remained the same as fiscal year 2011 at $62 per credit hour.

NOTE 4 – RISK MANAGEMENT

The State of Colorado currently self-insures its agencies, officials, and employees for the risks of losses to which they are exposed. That includes general liability, motor vehicle liability, worker's compensation, and medical claims. Property claims are not self-insured; rather, the State has purchased insurance.

The COF through the Enterprise participates in the Risk Management Fund of the State of Colorado. Agency premiums are based on an assessment of risk exposure and historical experience. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount of claims that have been incurred but not reported.

Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

There were no significant reductions or changes in insurance coverage from the prior year in any of the above mentioned risk management arrangements. Settlements did not exceed insurance coverage in any of the past three fiscal years.

NOTE 5 – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of State and local governments. The amendment excludes from its provision Enterprise operations. Enterprises are defined as government-owned businesses authorized to issue revenue bonds, which receive less than 10% of their annual revenue in grants from all State and local governments combined.

For purposes of the COF, “It is the intent of the General Assembly that the amount of a stipend received by a state institution of higher education on behalf of an eligible undergraduate student pursuant to this part 2 shall not constitute a grant from the State of Colorado pursuant to section 20(2)(d) of Article X of the State Constitution.” By not including stipends as grants from the State of Colorado, institutions of higher education do not have to include the stipends as State of Colorado revenue for TABOR calculation purposes. This allows institutions to be designated as an enterprise for purposes of TABOR through a resolution by its governing board.

SUPPLEMENTARY INFORMATION

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
PROPRIETARY FUNDS
COMBINING SCHEDULES OF NET ASSETS
June 30, 2012
With Comparative Totals for June 30, 2011

ASSETS

	Agency Operating Fund	Federal Reserve and Drawdown Funds	Totals 2012	Totals 2011 (as restated)
CURRENT ASSETS				
Cash and pooled cash investments	$ 37,125,386	$ -	$ 37,125,386	$ 35,577,777
Federal fees receivable	1,633,138	-	1,633,138	1,718,061
Other receivables, net	135,521	-	135,521	154,481
Prepaid expenses	262,109	-	262,109	347,906
Total current assets	39,156,154	-	39,156,154	37,798,225
RESTRICTED ASSETS				
Restricted cash and pooled cash investments	-	11,022,910	11,022,910	30,683,757
Federal reinsurance receivable	-	74,434,166	74,434,166	20,217,842
Total restricted assets	-	85,457,076	85,457,076	50,901,599
CAPITAL ASSETS				
Furniture & equipment	31,254	-	31,254	31,254
Less accumulated depreciation	(31,254)	-	(31,254)	(31,254)
Capital assets, net	-	-	-	-
TOTAL ASSETS	$ 39,156,154	$ 85,457,076	$ 124,613,230	$ 88,699,824

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
PROPRIETARY FUNDS
COMBINING SCHEDULES OF NET ASSETS
June 30, 2012
With Comparative Totals for June 30, 2011

LIABILITIES AND NET ASSETS

	Agency Operating Fund	Federal Reserve and Drawdown Funds	Totals 2012	Totals 2011 (as restated)
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	$ 744,651	$ 4,919,861	5,664,512	$ 379,827
Accrued compensated absences	75,900	-	75,900	34,428
Other current liabilities:	5,129,125	-	5,129,125	4,454,683
Total current liabilities	5,949,676	4,919,861	10,869,537	4,868,938
LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Loan collections and other liabilities due to federal government	-	2,098,994	2,098,994	2,235,744
Claims due to lenders	-	50,951,922	50,951,922	21,071,856
Total liabilities payable from restricted assets	-	53,050,916	53,050,916	23,307,600
NONCURRENT LIABILITIES				
Accrued compensated absences	52,590	-	52,590	105,774
Total noncurrent liabilities	52,590	-	52,590	105,774
Total liabilities	6,002,266	57,970,777	63,973,043	28,282,312
NET ASSETS				
Restricted	-	27,486,299	27,486,299	27,482,991
Unrestricted	33,153,888	-	33,153,888	32,934,521
Total net assets	33,153,888	27,486,299	60,640,187	60,417,512
TOTAL LIABILITIES AND NET ASSETS	$ 39,156,154	$ 85,457,076	$ 124,613,230	$ 88,699,824

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
PROPRIETARY FUNDS
COMBINING SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011

	Agency Operating Fund	Federal Reserve and Drawdown Funds	Totals 2012	Totals 2011 (as restated)
OPERATING REVENUES				
Federal grants and contracts				
Collections on loans and bankruptcies	$ 55,947,251	$ -	$ 55,947,251	$ 40,860,378
Federal fee revenue	6,649,539	-	6,649,539	7,004,303
Less: Amount paid to service provider	(53,941,265)	-	(53,941,265)	(41,865,128)
Federal reinsurance	-	334,826,554	334,826,554	338,638,139
Grant Revenue	26,667	-	26,667	160,000
Interest on purchased loans and other	4,407,326	-	4,407,326	2,425,453
Other revenues	42,294	5,388,306	5,430,600	3,980,924
Total operating revenues	13,131,812	340,214,860	353,346,672	351,204,069
OPERATING EXPENSES				
Guarantee claims paid to lending institutions	-	348,095,286	348,095,286	351,831,128
Salaries and fringe benefits	1,879,861	-	1,879,861	1,909,134
Operating and travel	3,867,654	-	3,867,654	3,764,136
Depreciation	-	-	-	2,419
Total operating expenses	5,747,515	348,095,286	353,842,801	357,506,817
OPERATING Income/(Loss)	7,384,297	(7,880,426)	(496,129)	(6,302,748)
NON-OPERATING REVENUES (EXPENSES)				
Earnings on pooled cash investments	390,667	328,137	718,804	600,911
Income (loss) before transfers	7,774,964	(7,552,289)	222,675	(5,701,837)
Interfund transfers in/(out)	(7,555,597)	7,555,597	-	-
CHANGE IN NET ASSETS	219,367	3,308	222,675	(5,701,837)
NET ASSETS, BEGINNING OF YEAR	32,934,521	27,482,991	60,417,512	66,119,349
NET ASSETS, END OF YEAR	$ 33,153,888	$ 27,486,299	$ 60,640,187	$ 60,417,512

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
PROPRIETARY FUNDS
COMBINING SCHEDULES OF CASH FLOWS
For the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011

	Agency Operating Fund	Federal Reserve and Drawdown Funds	Totals 2012	Totals 2011 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from:				
Federal grants and contracts	$ 62,708,380	$ 285,861,786	$ 348,570,166	$ 408,563,513
Amount paid to service provider	(53,266,823)	-	(53,266,823)	(46,470,233)
Interest on purchased loans and other	4,407,326	-	4,407,326	2,425,453
Other sources	61,254	-	61,254	119,482
	13,910,137	285,861,786	299,771,923	364,638,215
Cash disbursed for:				
Guarantee claims paid to lending institutions	-	(313,406,367)	(313,406,367)	(361,334,820)
Employees	(1,891,573)	-	(1,891,573)	(1,898,649)
Suppliers	(3,306,025)	-	(3,306,025)	(3,548,342)
	(5,197,598)	(313,406,367)	(318,603,965)	(366,781,811)
Net cash used in operating activities	8,712,539	(27,544,581)	(18,832,042)	(2,143,596)
INTERFUND TRANSFERS	(7,555,597)	7,555,597	-	-
CASH FLOW FROM INVESTING ACTIVITIES				
Interest on pooled cash investments	390,667	328,137	718,804	600,911
Net cash provided by investing activities	390,667	328,137	718,804	600,911
NET CHANGE IN CASH AND POOLED CASH INVESTMENTS	1,547,609	(19,660,847)	(18,113,238)	(1,542,685)
CASH AND POOLED CASH INVESTMENTS, BEGINNING OF YEAR	35,577,777	30,683,757	66,261,534	67,804,219
CASH AND POOLED CASH INVESTMENTS, END OF YEAR	$ 37,125,386	$ 11,022,910	$ 48,148,296	$ 66,261,535

COLORADO STUDENT LOAN PROGRAM
dba COLLEGE ASSIST
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
PROPRIETARY FUNDS
COMBINING SCHEDULES OF CASH FLOWS
For the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011

	Agency Operating Fund	Federal Reserve and Drawdown Funds	Totals 2012	Totals 2011 (as restated)
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Net operating gain/(loss)	$ 7,384,297	$ (7,880,426)	$ (496,129)	$ (6,302,748)
to net cash provided by (used in) operating activities:				
Depreciation	-	-	-	2,419
Effects of changes in net assets and liabilities:				
Receivables	103,883	(54,216,324)	(54,112,441)	14,655,444
Interagency receivable	-	-	-	-
Prepaid expenses	85,797	-	85,797	(17,769)
Accounts payable and accrued liabilities	475,832	4,808,853	5,284,685	144,797
Other current liabilities	674,442	-	674,442	(4,605,104)
Loan collections and other liabilities due to federal government	-	(136,750)	(136,750)	1,335,236
Claims due to lenders	-	29,880,066	29,880,066	(7,366,356)
Accrued compensated absences	(11,712)	-	(11,712)	10,485
NET CASH USED IN OPERATING ACTIVITIES	$ 8,712,539	$ (27,544,581)	$ (18,832,042)	$ (2,143,596)

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities and the remaining fund information of the Colorado Student Loan Program dba College Assist, Department of Higher Education, State of Colorado (College Assist), an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 29, 2012. 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.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of College Assist's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether College Assist's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing body, management and others within College Assist and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

November 29, 2012

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Independent Auditors' Audit Committee Communication

Members of the Legislative Audit Committee:

As part of our audits of the financial statements and compliance of the Colorado Student Loan Program dba College Assist, Department of Higher Education, State of Colorado (College Assist), as of and for the year ended June 30, 2012, we wish to communicate the following to you:

Auditor's Responsibility Under 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 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*

An audit performed 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 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations,* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in OMB Circular A-133 that could have a direct and material effect on a major federal program occurred. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement and compliance audits that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

Audits of the financial statements and compliance do not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

College Assist's significant accounting policies are described in Note 1 of the audited financial statements.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Federal fees receivable
- Claims due to lenders

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Commitments
- Related party transactions
- Federal and state legislative impacts on the enterprise
- Prior period adjustment

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include the following:

Proposed Audit Adjustments Recorded

- No matters are reportable.

Proposed Audit Adjustments Not Recorded

- No matters are reportable.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the Company's application of accounting principles:

- No matters are reportable.

Other Material Written Communications

Listed below are other material written communications between management and us related to the audit:

- Management representation letter

This communication is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor and management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

November 29, 2012

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

A bound report may be obtained by calling the
Office of State Auditor
303.869.2800

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

Report Control Number 2091-12