

***STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO***

***AUDIT REPORT
Years Ended June 30, 2001 and 2000***

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BONDI & Co. LLP

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

TABLE OF CONTENTS
Year Ended June 30, 2001

	<u>PAGE(S)</u>
Report Summary	1 - 3
Organization Summary	4 - 5
Disposition of Prior Year Audit Recommendations	6 - 8
Independent Auditors' Report	9 - 10
Financial Statements: Balance Sheet	11 - 12
Statements of Revenues, Expenses and Changes in Retained Earnings	13
Statement of Cash Flows	14 - 15
Notes to the Financial Statements	16 - 33
Reports on Compliance and on Internal Control:	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34 - 35
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	36 - 37
Schedule of Expenditures of Federal Awards	38
Schedule of Findings and Questioned Costs	39
Distribution Page	40

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

REPORT SUMMARY
Year Ended June 30, 2001

Authority

The authority for this audit comes from *Colorado Revised Statutes, Section 23-3.1-109*, which states in part that the Student Loan Division, Department of Higher Education, State of Colorado (the "Division") shall be audited annually by the State Auditor for the Legislative Audit Committee. The State Auditor has contracted with **BONDI & Co. LLP** to conduct this audit.

Standards

The audit was conducted in accordance with auditing standards generally accepted in the United States of America as promulgated by the American Institute of Certified Public Accountants in *Statements on Auditing Standards*; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act of 1996, as amended; and the provisions of Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as amended.

Purpose and Scope

The primary purpose of the engagement was to conduct a financial and compliance audit of the Division, as of and for the year ended June 30, 2001, in accordance with standards described above. Evidence was examined, on a test basis, supporting the Division's financial transactions and related balances and compliance with applicable laws, regulations, contracts and grants.

Required Communications

- Auditor's Responsibility Under Generally Accepted Auditing Standards:

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and was designed to provide reasonable assurance that the financial statements are free of material misstatement. We issued an unqualified opinion.

Required Communications (Continued)

- Accounting Policies:

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

REPORT SUMMARY (Continued)
Year Ended June 30, 2001

The Division increased its capitalization policy from \$1,000 to \$5,000 in fiscal 2001.

- Accounting for Estimates:

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.

- Unusual Transactions and Contingencies:

We noted no unusual transactions that have a material effect on the financial statements. Nor did we note any material contingencies that were not disclosed in the financial statements.

- Audit Adjustments:

We had two passed audit adjustments, which do not have a material effect on the financial statements.

- Other Matters

We noted no material errors or irregularities, or possible material illegal acts. We noted no material weaknesses in internal control. We had no disagreements with management on financial accounting and reporting matters and auditing procedures. We are not aware of any opinion obtained by management from other independent accountants.

Auditors' Reports

An independent auditors' report on the financial statements of the Division, dated August 30, 2001, has been issued, which states that the financial statements present fairly, in all material

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

REPORT SUMMARY (Continued)
Year Ended June 30, 2001

respects, the financial position of the Division as of June 30, 2001 and 2000, its results of operations and its cash flows for the years then ended.

A report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*, dated August 30, 2001, has been issued, which states that the results of the tests disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.

A report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133, dated August 30, 2001, has been issued and states that the Division complied, in all material respects, with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs for the year ended June 30, 2001.

Summary of Current Year Findings

There were no current year findings. Of the findings and recommendations carried over from prior years, two were fully implemented, one was partially implemented, and two were deferred for implementation in future years.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

ORGANIZATION SUMMARY
Year Ended June 30, 2001

Agency Description

The Colorado Student Loan Program (“CSLP” or “Student Loan Division” or the “Division”) was created by an act of the Colorado Legislature in June 1979, to assist Colorado residents in meeting expenses incurred in availing themselves of higher education opportunities. CSLP’s mission is to provide students with access and choice in higher education by ensuring the availability and value of financing programs.

CSLP represents a partnership between lenders, schools, and the Federal government. The loan capital is provided by approximately 34 private lenders – banks, savings and loan associations, credit unions, pension funds, insurance companies, or secondary markets. CSLP administers the Federal Family Education Loan Program and guarantees the loans made to students and parents 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)*.

Students borrow to attend approximately 73 participating Colorado schools and any participating national school – colleges, universities, community colleges, career schools (proprietary), graduate and professional. The school certifies both student enrollment and financial cost. CSLP insures the lender against financial loss from default, disability, death, or bankruptcy. CSLP provides needed technical and training assistance to schools and lenders, and performs periodic compliance reviews to assure that both schools and lenders are performing in accordance with applicable laws, regulations, and policies. CSLP performs loan-servicing functions for lenders - from disbursement through repayment, assists borrowers through default prevention activities, and pursues collection of defaulted loans.

The Federal government is the reinsurer. If CSLP must reimburse a lender for an uncollectible loan, it files a claim for reimbursement to the Federal government. The Federal reimbursement rate can vary depending on the number of claims paid per year. The Federal government also subsidizes the student’s interest payments while in school at least half-time and during authorized periods of deferment, and they pay an additional special allowance to lenders, to make up for the difference between the lender’s cost of money and the interest rate they can charge the student.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

ORGANIZATION SUMMARY (Continued)

June 30, 2001

Federal Family Education Loan Program

CSLP administers the Federal Family Education Loan Program (the “FFEL” program) for the Federal government. The FFEL program consists of Stafford, PLUS, and Consolidation Loans.

Federal Stafford Loans (Subsidized and Unsubsidized)

Colorado’s Stafford Loan Program is the single largest financial aid program for post-secondary education in Colorado. The program makes low-interest rate loans to eligible residents. If the student does not qualify financially for Federal interest subsidy, the student can still borrow, but will be responsible for interest payments. Since the creation of the Division in 1979, over \$4.5 billion in loans have been made to over 642,364 students. In Fiscal Year 2001, students borrowed over \$340 million in Stafford Loans.

Federal PLUS Loans

Parents of dependent undergraduate students are eligible to borrow under the Federal Parent Loans for Undergraduate Students (PLUS) Loan program. The maximum amount that can be borrowed is limited only by the cost of school attendance minus any other financial aid. The school financial aid office and/or the lender make the final determination on the amount. In Fiscal Year 2001, PLUS Loan borrowings approximated \$33 million through the Colorado Student Loan Program.

Federal Consolidation Loans

Federal Consolidation Loans allow student borrowers to combine their Stafford, Perkins, Federally Insured Student Loans (“FISL”), Health Professional Student Loans (“HPSL”), or Federal Supplemental Loans for Students (“SLS”) indebtedness, allowing one payment per billing period. PLUS loans made after October 17, 1986, can be consolidated by parent borrowers. Effective January 1, 1993, defaulted loans, where payments are being made, are allowed to be consolidated. Loan consolidation may result in a lower payment, and no insurance premium is charged. Since inception of this program, 34,988 consolidation loans have been made totaling over \$657.3 million.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

DISPOSITION OF PRIOR YEAR AUDIT RECOMMENDATIONS
For the Year Ended June 30, 2001

Following are audit recommendations made as part of the financial audit for the year ended June 30, 1999 and the disposition of these recommendations.

Recommendation No. 1:

Disposition

We recommend the Division work with the State Treasurer's Office to resolve the reasons why the outstanding check balance changes from one month to the next. The Division should ensure that differences are resolved in a timely manner.

Implemented.

Recommendation No. 2:

CSLP should continue to exercise due diligence to obtain information from the lenders on loans closed by the lender.

Partially implemented. The Division took steps to identify and resolve loans where no reporting has occurred by assigning their Compliance, Training, and Investigation Division to focus on unreported loans while performing lender audits in Fiscal Year 2001. However, we found that there are still differences between the lender's records and CSLP's records. Full implementation is planned for Fiscal Year 2002.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

DISPOSITION OF PRIOR YEAR AUDIT RECOMMENDATIONS (Continued)
For the Year Ended June 30, 2001

Following are audit recommendations made by the Office of the State Auditor in a Performance Review performed in March 1999 on the Defaulted Student Loans and the disposition of these recommendations.

Recommendation No. 3:

Disposition

The Colorado Student Loan Program should implement additional quality control measures to timely detect problems in maintaining its defaulted loan accounts. These measures should include additional levels of review to help ensure that programming errors affecting borrowers' accounts do not occur in the future.

Not implemented. Integration of consolidated loans is being addressed by a new web based system to be implemented in Fiscal Year 2003.

Recommendation No. 4:

The Colorado Student Loan Program should continue in its efforts to upgrade the mainframe system. As part of this upgrade, all defaulted loans should be accounted for in an integrated system. Also, while the transition to the new system is taking place, CSLP staff should ensure that consolidation loans are included in all important notification processes and that the consolidation database is maintained appropriately.

Not implemented. See disposition in Recommendation No. 3 above.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

DISPOSITION OF PRIOR YEAR AUDIT RECOMMENDATIONS (Continued)
For the Year Ended June 30, 2001

Recommendation No. 6:

The Colorado Student Loan Program should implement measures to ensure that borrowers whose accounts have been assigned to outside collection agencies or legal groups will be offered the same opportunity to rehabilitate their loans out of default as borrowers whose accounts are serviced by CSLP. These measures should include:

Implemented.

- a. Testing methods in a pilot study for notifying borrowers who are paying through wage garnishment of the benefits of entering into voluntary repayment so that they can become eligible to rehabilitate their loans.
- b. A contractual requirement or other internal method of requiring collection agencies to notify borrowers who have met the requirements for rehabilitation and consolidation.

**Members of the Legislative
Audit Committee**

Independent Auditors' Report

We have audited the accompanying financial statements (as listed in the table of contents) of the Student Loan Division, Department of Higher Education, State of Colorado (the “Division”) as of and for the years ended June 30, 2001 and 2000. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 evaluation of the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Division are intended to present the financial position and results of operations and cash flows of proprietary fund types of only that portion of the financial reporting entity of the Student Loan Division, Department of Higher Education, State of Colorado, that is attributable to the transactions of the Division.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Division as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Members of the Legislative
Audit Committee**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2001 on our consideration of the Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

August 30, 2001

BONDI & Co. LLP

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

BALANCE SHEET
June 30, 2001 and 2000

ASSETS	2001	2000
Current Assets		
Cash and Temporary Cash Investments (Notes 2 and	\$ 49,520,420	\$ 49,447,000
Receivables		
Federal Reinsurance	6,627,763	4,778,200
Federal Account Maintenance Fee	576,108	651,659
Federal Loan Processing and Issuance Fee	264,830	372,204
Other Federal Receivables	154,509	267,303
Other Receivables, Net	1,734,668	928,024
Supplies Inventory	96,273	98,499
Prepaid Expenses	85,593	119,797
	59,060,164	56,662,686
Total Current Assets		
Property and Equipment		
Office Furniture and Equipment	907,098	1,354,493
Computer Hardware	2,805,262	5,607,863
Property Held Under Capital Lease (Note 4)	658,740	656,367
Leasehold Improvements	97,946	99,945
	4,469,046	7,718,668
Accumulated Depreciation	(3,010,381)	(5,250,393)
	1,458,665	2,468,275
Net Property and Equipment		
Total Assets	\$ 60,518,829	\$ 59,130,961

(Continued)

See the accompanying notes to the financial statements.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

BALANCE SHEET (Continued)
June 30, 2001 and 2000

	2001	2000
LIABILITIES AND FUND EQUITY		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 814,985	\$ 2,326,697
Loan Collections and Other Liabilities Due to Federal Government	5,709,360	5,448,400
Other Current Liabilities		
Current Portion of Obligation Under Capital Leases (Note 4)	139,340	128,948
Current Portion of Note Payable (Note 4)	346,000	173,000
Other	786,325	613,835
Accrued Compensated Absences	751,472	693,818
Interfund Payable Other Agencies	840,558	600
Deferred Revenue	5,025	
Total Current Liabilities	9,393,065	9,385,298
Obligation Under Capital Leases, Net of Current Portion (Note 4)		
	306,786	299,333
Note Payable, Net of Current Portion (Note 4)	173,000	346,000
Total Liabilities	9,872,851	10,030,631
Fund Equity		
Contributed Capital	15,000	15,000
Retained Earnings Reserve for Federal Drawdown (Note 5)	18,614,426	13,960,819
Unreserved Retained Earnings	32,016,552	35,124,511
Total Fund Equity	50,645,978	49,100,330
Total Liabilities and Fund Equity	\$ 60,518,829	\$ 59,130,961

See the accompanying notes to the financial statements.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS

For the Years Ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating Revenues		
Federal Grants and Contracts		
Division's Share of Collections on Defaulted Loans and Bankruptcies	\$ 9,705,921	\$ 9,369,745
Federal Account Maintenance Fee	2,253,271	2,464,867
Federal Loan Processing and Issuance Fee	1,720,801	1,459,892
Charges for Goods and Services		
Contractual Service Fees	4,530,870	4,846,712
Guarantee Fees	7,088	174,575
Interest on Purchased Loans and Other	503,775	487,152
Other Revenue	23,061	137,011
Total Operating Revenues	<u>18,744,787</u>	<u>18,939,954</u>
Operating Expenses		
Guarantee Claims Paid to Lending Institutions	43,040,485	31,573,721
Less: Reinsurance From Federal Government	(42,266,086)	(31,213,440)
Salaries and Fringe Benefits	11,873,504	10,994,727
Operating and Travel		
Contracted Collection Costs	3,012,884	4,312,729
Other Operating and Travel	4,638,336	4,446,255
Depreciation	568,147	815,316
Operating Transfers to Other Agencies	87,847	139,107
Total Operating Expenses	<u>20,955,117</u>	<u>21,068,415</u>
Operating Income (Loss)	<u>(2,210,330)</u>	<u>(2,128,461)</u>
Non-Operating Revenues		
Interest on Temporary Cash Investments	4,346,390	2,673,933
Total Non-Operating Revenue	<u>4,346,390</u>	<u>2,673,933</u>
Net Income	2,136,060	545,472
Cumulative Effect of Change in Capitalization Policy on Years Prior to 2001 (Note 1)	(590,413)	
Unreserved Retained Earnings, Beginning of Year	35,124,511	39,232,645
Transfer to Reserve for Drawdown	(4,653,606)	(4,653,606)
Unreserved Retained Earnings, End of Year	<u>\$ 32,016,552</u>	<u>\$ 35,124,511</u>

See the accompanying notes to the financial statements.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash Flow From Operating Activities:		
Cash Received From		
Fees for Services	\$ 3,736,339	\$ 5,031,318
Federal Grants and Contracts	54,653,195	43,384,383
Interest on Purchased Loans and Other	503,775	487,152
Other Sources	23,061	137,011
	<u>58,916,370</u>	<u>49,039,864</u>
Cash Disbursed For		
Guarantee Claims Paid to Lending Institutions	43,040,485	31,573,721
Employees	10,126,197	9,610,553
Suppliers	6,733,600	6,627,726
Contracted Collection Costs	3,012,884	4,312,729
	<u>62,913,166</u>	<u>52,124,729</u>
Net Cash (Used) by Operating Activities	<u>(3,996,796)</u>	<u>(3,084,865)</u>
Cash Flow From Noncapital Activities:		
Transfers Out	<u>(87,847)</u>	<u>(139,107)</u>
Cash Flow From Investing Activities:		
Interest on Temporary Cash Investments	<u>4,346,391</u>	<u>2,673,933</u>
Cash Flow From Capital and Related Financing Activities:		
Principal Paid on Capital Debt		(346,000)
Proceeds from Capital Leases and Note Payable	178,373	
Acquisition of Capital Assets	(206,173)	(211,560)
Capital Lease Payments	(160,528)	(153,647)
Net Cash Used In Capital and Related Financing Activities	<u>(188,328)</u>	<u>(711,207)</u>
Net Increase (Decrease) in Cash and Temporary Cash Investments	73,420	(1,261,246)
Cash and Temporary Cash Investments, Beginning of Year	<u>49,447,000</u>	<u>50,708,246</u>
Cash and Temporary Cash Investments, End of Year	<u>\$ 49,520,420</u>	<u>\$ 49,447,000</u>

(Continued)

See the accompanying notes to the financial statements.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

STATEMENT OF CASH FLOWS (Continued)
For the Years Ended June 30, 2001 and 2000

	2001	2000
Reconciliation of Net Income (Loss) to Net Cash Provided (Used) By Operating Activities		
Net Operating Income (Loss)	\$ (2,210,330)	\$ (2,128,461)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) By Operating Activities		
Depreciation Expense	568,147	815,316
Loss on Sale of Equipment	57,223	3,778
Transfers - Out	87,847	139,107
Changes in Assets and Liabilities		
Decrease (Increase) in Receivables	(2,360,488)	5,280,685
Decrease in Supplies Inventory	2,226	9,695
Decrease (Increase) in Prepaid Expenses	34,204	(62,994)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(1,511,712)	413,910
Increase (Decrease) in Other Current Liabilities	172,490	(1,177,963)
Increase (Decrease) in Loan Collections and Other Liabilities Due to Federal Government	260,960	(6,394,215)
Increase in Accrued Compensated Absences	57,654	16,879
Increase (Decrease) in Interfund Payable Other Agencies	839,958	(602)
Increase in Deferred Revenue	5,025	
Net Cash Provided (Used) By Operating Activities	\$ (3,996,796)	\$ (3,084,865)

See the accompanying notes to the financial statements.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose of the Organization

The Student Loan Division (the "Division") is an agency of the Department of Higher Education, State of Colorado, established pursuant to *Title 23, Article 3.1, Part 1, Colorado Revised Statutes, 1973*, as amended and was created July 1, 1979. The Division administers the Federal Family Education Loan Program ("FFEL"), which consists of Stafford, Parent Loans for Undergraduate Students ("PLUS"), Supplemental Loans for Students ("SLS"), and Consolidation Loan Programs. The Division guarantees loans by certain lending institutions to students attending post-secondary schools, in compliance with operating agreements (the "Agreements") with the U.S. Department of Education (the "DE"), pursuant to *Section 428 of the Higher Education Act of 1965* (the "Act"). In addition, the Division must comply with provisions of the *1998 Reauthorization of Higher Education Act*.

Method of Accounting and Reporting

The operations and accounts of the Division are accounted for under accounting principles generally accepted in the United States of America as an enterprise fund of the State of Colorado. The Division uses the accrual basis of accounting.

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.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Enterprises. Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of their annual revenue in grants from all state and local governments combined, are excluded from the provisions of the Amendment. The Division qualifies as an Enterprise pursuant to *Title 23, Article 3.1, Part 103.5, Colorado Revised Statutes, 1988*, as amended.

Supplies Inventory

Supply commodities are carried in an inventory account at cost, which approximates market, and are subsequently charged to expense when consumed.

Compensated Absences

Employees of the Division are entitled to paid vacations, sick days, and personal days off, depending on job classification, length of service, and other factors. The Division has recorded the amount of compensation for future absences as an accrued liability in the accompanying financial statements.

Loan Processing and Issuance Fee

In accordance with the 1998 Reauthorization of the Act, the Division is paid a loan processing and issuance fee of .65% of the net loans guaranteed by the Division, effective October 1, 1998 through September 30, 2003. Beginning October 1, 2003, the fee will be reduced to .40%.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Account Maintenance Fee

In accordance with the Reauthorization of Higher Education Act of 1998, the Division is paid an Account Maintenance Fee of .12% of the original principal amount of outstanding loans, effective October 1, 1998 through September 30, 2000. Beginning October 1, 2000, the fee was reduced to .10%.

Loan Defaults

Loan defaults, which result in claims on guarantees made by the Division result in the assignment of student loans to the Division. Although claim payments are made on defaults, deaths, disabilities and bankruptcies, only loans in default and loans included under Chapter 7 and Chapter 13 bankruptcies are collectible by the Division. The Division retains 24% of subsequent loan collections to cover the costs associated with the collection efforts. The balance is remitted to the U.S. Department of Education.

Defaulted Loans

During the years ended June 30, 2001 and 2000, the Division assigned certain loans to the U.S. Secretary of Education under the *Federal Income Tax Refund Offset Program*. Under this program, defaulted loans meeting certain criteria are assigned to the Federal government for offset with Federal income tax refunds against outstanding defaulted student loan balances owed. The amount of loans assigned to the Secretary of Education at June 30, 2001 was \$139,069,684 and \$187,633,360 at June 30, 2000.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Reinsurance and Reinsurance Fees

Under the agreements with the U.S. Department of Education (DE), in accordance with Section 428 of the Act, the Division is reimbursed by the DE for 100% of claims due to deaths, disabilities, and bankruptcies. The Student Loan Reform Act of 1993 reduced federal reinsurance for loans made on or after October 1, 1993. Federal reinsurance on defaulted loans is paid according to the following schedule:

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

The rate of annual losses (defaults) 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. The annual rate of default for the Federal year ending September 30, 2000 did not exceed 5% as of June 30, 2001 and 2000.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalization Policy

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

In fiscal year 2001, the Division changed its capitalization threshold from \$1,000 to \$5,000. The net cumulative effect of the change in capitalization policy was a reduction in assets of \$590,413.

Depreciation

Depreciation is charged using a straight-line method over the estimated useful five year lives of the assets. Depreciation expense charged to operations was \$568,147 and \$815,316 for the years ended June 30, 2001 and 2000, respectively.

Statement of Cash Flows

For purposes of the statement of cash flows, cash equivalents are defined as investments with maturities of three months or less at date of acquisition and pooled cash held by the Colorado State Treasurer.

Basis of Accounting

Proprietary activities are accounted for, and reported on, in accordance with all Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Reclassifications

Certain amounts in the 2000 financial statements have been reclassified to conform to the 2001 presentation.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 2: CASH AND TEMPORARY CASH INVESTMENTS

The Division deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The Division reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's pool. All of the investments are reported at fair value, which is determined based on quoted market prices at June 30, 2001. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool.

Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

During the year ended June 30, 2001 the Division had a monthly average balance of approximately \$48,773,000 (\$49,803,000 for the year ended June 30, 2000). This balance was invested with the State Treasury at an average rate of 6.0% (5.9% for the year ended June 30, 2000). The temporary cash investments are carried at cost, which approximates fair value.

The Division maintains an agency operating fund cash account (\$18,233,623 at June 30, 2001 and \$13,960,819 at June 30, 2000) and a federal reserve cash account (\$4,500,233 at June 30, 2001 and \$11,427,869 at June 30, 2000) with the State Treasury. The federal reserve cash account is designated for purchasing defaulted student loans. In addition, the Other Educational Loan Fund has a cash account with the State Treasury (\$2,871,034 at June 30, 2001 and \$3,873,359 at June 30, 2000) which can be used to fund the Division's administration expenses.

The Division had \$47,870,951 and \$48,639,885 on deposit with, and \$14,672 and \$154,440 on hand or in transit to the State Treasury at June 30, 2001 and June 30, 2000, respectively. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 2: CASH AND TEMPORARY CASH INVESTMENTS (Continued)

At June 30, 2001 and 2000, the Division had \$1,634,797 and \$652,675, respectively on deposit with banks, none of which was covered by federal insurance or by collateral held by the Division's agent in the Division's name. However, \$2,911,491, and \$2,786,760, respectively, was covered by the collateral held in the pledging institution's trust department in the name of the public deposit pool as required by statute, and none was uninsured or uncollateralized.

	<u>2001</u>	<u>2000</u>
Cash Accounts on Deposit	\$ 47,086,138	\$ 49,125,102
Cash on Hand/Transit	14,672	154,440
Deposits with Banks	1,634,797	652,675
Changes in Market Value	<u>784,813</u>	<u>(485,217)</u>
Total Cash and Temporary Cash Investments	<u>\$ 49,520,420</u>	<u>\$ 49,447,000</u>

The Colorado Public Deposit Protection Act (PDPA) 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 to be 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.

The bank balance of the deposits listed is classified in three categories of credit risk as follows:

- 1) Insured or collateralized with securities held by the entity or by its agent in the Authority's name;
- 2) Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name;

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 2: CASH AND TEMPORARY CASH INVESTMENTS (Continued)

- 3) Uncollateralized includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the authority's name.

NOTE 3: PURCHASED LOANS RECEIVABLE

Purchased loans receivable represent loan balances not reinsured by the Department of Education that are the property of the Division. An allowance for loan losses equal to 80% of the purchased loans receivable has been recorded due to the significant uncertainty of the collectibility of the loans. Net purchased loans receivable at June 30, 2001 and 2000, were \$203,929 and \$218,116, respectively.

NOTE 4: CAPITAL LEASES AND NOTE PAYABLE

Capital Leases

The Division is the lessee of equipment under capital leases expiring in Fiscal Years 2004 and 2005. The following is a summary of property held under capital leases:

	<u>2001</u>	<u>2000</u>
Equipment	\$ 658,740	\$ 656,367
Accumulated Amortization	<u>(240,563)</u>	<u>(202,846)</u>
Total	<u>\$ 418,177</u>	<u>\$ 453,521</u>

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 4: CAPITAL LEASES AND NOTE PAYABLE (Continued)

Capital Leases (Continued)

At June 30, 2001 and 2000, future minimum capital lease payments and the present value of the net minimum lease payments are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>2001</u>	<u>2000</u>
2001	\$	\$ 143,266
2002	153,714	105,874
2003	153,714	105,874
2004	153,714	105,874
2005	<u>11,961</u>	<u> </u>
Total minimum lease payments	473,103	460,888
Amount representing interest	<u>(26,977)</u>	<u>(32,607)</u>
Present value of net minimum lease payments	446,126	428,281
Less: Current portion	<u>139,340</u>	<u>128,948</u>
Long-term portion	<u>\$ 306,786</u>	<u>\$ 299,333</u>

Note Payable

The Division entered into a note to obtain imaging software and hardware. Under the terms of the agreement, the Division will return the software to the vendor when the agreement is terminated. The note is non-interest bearing. The Division is to make annual payments of \$173,000 over a five-year time period. The Division made the fiscal 2001 payment in July 2001, leaving a notes payable current balance of \$346,000 at June 30, 2001. At June 30, 2001 and 2000, future minimum payments are as follows:

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 4: CAPITAL LEASES AND NOTE PAYABLE (Continued)

Note Payable (Continued)

Fiscal Year Ending <u>June 30,</u>	<u>2001</u>	<u>2000</u>
2001	\$	\$ 173,000
2002	346,000	173,000
2003	<u>173,000</u>	<u>173,000</u>
Total	<u>\$ 519,000</u>	<u>\$ 519,000</u>

NOTE 5: COMMITMENTS

Statutory Guarantee Fund Requirements

For Federal Fiscal Year 2000, the Division is required by Federal statute to maintain a reserve fund balance of .25% of the unpaid balance of outstanding loans. As of June 30, 2001 and 2000, this balance was \$18,614,426 and \$13,960,819, respectively.

State statute requires the Division to maintain a minimum balance of no less than 1% of the unpaid principal balance of all outstanding loans guaranteed by the Division, less the federal reinsurance receivable, provided the receivable does not exceed .5% of the unpaid principal balance of all outstanding loans guaranteed by the Division. The guarantee reserve account is to be used for purchasing defaulted loans.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 5: COMMITMENTS (Continued)

Loans from Federal Reserve Fund

As part of the provisions of the 1998 Reauthorization of the Higher Education Act, the Division's Agency Operating Fund is allowed to borrow from its Federal Reserve Fund, an amount equal to 180 days' expenses. The Division borrowed \$10,921,058 from its Federal Reserve Fund and deposited the funds into its Agency Operating Fund. The Division intends to repay the loan according to the following payment schedule:

Fiscal Year Ending <u>June 30,</u>	
2002	\$ 3,640,353
2003	4,853,803
2004	<u>2,426,902</u>
Total	<u>\$ 10,921,058</u>

Rental Commitment and Expense

The Division rents its office facilities under a non-cancelable operating lease expiring in 2006. The minimum future rental payments under the non-cancelable operating lease in excess of one year as of June 30, 2001 and 2000 is as follows:

Fiscal Years Ending <u>June 30</u>	<u>2001</u>	<u>2000</u>
2001	\$	\$ 604,120
2002	604,120	604,120
2003	604,120	604,120
2004	604,120	604,120
2005	641,765	641,765
2006	<u>679,410</u>	<u>679,410</u>
Total	<u>\$ 3,133,535</u>	<u>\$ 3,737,655</u>

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 5: COMMITMENTS (Continued)

Rental Commitment and Expense (Continued)

Total rental expense for all rentals, for the years ended June 30, 2001 and 2000, was \$667,698 and \$678,374, respectively.

The Division is also charged for operating expenses under its office facility lease.

NOTE 6: CONTINGENCIES

Loan Guarantees

The outstanding principal balances of student loans guaranteed by the Division through June 30, 2001 is approximately \$2.3 billion. As disclosed in Note 1, the Federal government reinsures new loans guaranteed at a minimum rate of 95% until the Division's rate of annual losses (defaults) exceeds 5%. However, in the event of future adverse loss experience, the Division could be liable for up to 25% of the outstanding balance of loans in repayment status at the beginning of each year.

U.S. Department of Education Contract

In 1991, the U.S. Department of Education (DE) reviewed the Division's compliance with the Act, and the FFEL Program regulations related to claims paid from January 1988 through September 1989. As a result of the review, the DE assessed the Division an initial liability of \$6,240,166, which was subsequently settled for \$50,000 plus interest pursuant to a 1994 Settlement Agreement (the "Settlement Agreement"). Terms of the Settlement Agreement required the Division to restart and re-perform collection activities on the 1988/1989 loan portfolio.

The Settlement Agreement stated that if the Division did not comply with the terms of the Settlement Agreement and Federal regulations, the DE would assess an additional liability.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 6: CONTINGENCIES (Continued)

U.S. Department of Education Contract (Continued)

The Division performed procedures pursuant to the Settlement Agreement including contracting with a third-party for performance of certain required procedures. The Division has evaluated compliance of the contractor's performance of the procedures with the terms of the agreement and regulations and has found areas of non-compliance. The Division does not have sufficient information to reasonably estimate the amount of additional liability, if any. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements.

NOTE 7: EMPLOYEE PENSION PLAN

Plan Description

Virtually all of the division's employee's 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 of Colorado (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 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 1300 Logan Street, Denver, Colorado 80203.

Plan members vest after 5 years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. Monthly benefits are calculated as a percentage of highest average salary(HAS). HAS is one-twelfth of the average of the highest salaries on which

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 7: EMPLOYEE PENSION PLAN (Continued)

Plan Description (Continued)

contributions were paid, associated with three periods of 12 consecutive months of service credit. Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under the age of 18 (23 if a full time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy

Most employees contribute 8.0 percent of their gross covered wages to an individual account in the plan.

During FY00-01, the state contributed 10.4% of the employee's gross covered wages which was allocated by PERA before January 1, 2001, as follows:

- 1.1 percent was allocated to the Health Care Trust Fund.
- 9.3 percent was allocated to the defined benefit plan.

After January 1, 2001, the state contribution was allocated to three separate programs by PERA according to a statutory change in funding policy:

- 1.42 percent was allocated to the Health Care Trust Fund.
- The amount needed to match the match requirement established by the PERA Board was allocated to the Matchmaker Program (See Note 8 below).
- The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

The annual gross covered wages subject to PERA is the gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code. The contribution

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 7: EMPLOYEE PENSION PLAN (Continued)

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

The division's contributions to the three programs described above for the fiscal years ending June 30, 2001, 2000, and 1999 were \$871,618, \$808,509 and \$798,094 respectively. These contributions met the contribution requirement each year.

NOTE 8: VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The match was 100 percent of up to 3 percent of the employee's gross wages paid during the month. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. PERA offers a voluntary 401K plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer a 403(b) plan. Members who contributed to any of these plans also receive the State match.

NOTE 9: POST RETIREMENT HEALTH CARE AND LIFE INSURANCE PROGRAMS

Health Care Program

The PERA Health Care 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. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During FY00-01, premium subsidy was \$115.00

NOTE 9: POST RETIREMENT HEALTH CARE AND LIFE INSURANCE PROGRAMS
(Continued)

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

for those with 20 years of service credit (\$230.00 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care trust Fund is maintained by an employer's contribution as discussed above in Note 7.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 1999 there were 31,266 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Rocky Mountain Life. Members may join one or both plans and they may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

NOTE 10: LITIGATION

The Division is involved in various legal proceedings and claims. The Division is vigorously defending its position in all such proceedings and believes the potential liabilities will not be significant.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 11: FEDERAL LEGISLATIVE IMPACTS ON THE DIVISION

Balanced Budget Act of 1997

As a result of the Balanced Budget Act of 1997, guarantee agencies will be required to transfer approximately \$1 billion of guarantor reserves to the Federal Treasury in Federal Fiscal Year 2002. Beginning in Fiscal Year 1998, each guarantee agency was required to establish a restricted account in which each agency will be required to make an annual transfer of funds. The principal amount in the restricted accounts will not be available for use; however, interest earnings may be utilized for default reduction activities. The Division estimates that it will be required to transfer approximately \$23.2 million in 2002 and will reserve approximately \$4.7 million per year, for 5 years, beginning in 1998.

The Division's management believes that it will be able to maintain the proposed Federally required operating and default reserve ratios. However, the Division anticipates the need to further reduce operating expenses in order to make required contributions to the reserve fund. CSLP has established a three member management-level planning team to direct the effort to operate more efficiently with minimal impact on clients, yet with reduced costs. CSLP is also refining its strategic planning process to redefine its role and to assist in standardizing and simplifying FFEL program operations.

1998 Reauthorization of the Higher Education Act

In October 1998, legislation was passed re-authorizing the Higher Education Act. One of the provisions of reauthorization requires the guarantee agencies to pay back reserves to the Federal Treasury of \$250 million by September 30, 2007.

The legislation also required the Division to set up an Agency Operating Fund and a Federal Reserve Fund. These funds are maintained on the state's accounting system. The funds have been combined for financial reporting purposes.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2001 and 2000

NOTE 12: RISK MANAGEMENT

The state 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 Division 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 for 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 reevaluated 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.

REQUIRED SUPPLEMENTARY INFORMATION

Members of the Legislative
Audit Committee

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards**

We have audited the financial statements (as listed in the table of contents) of the Student Loan Division, Department of Higher Education, State of Colorado (the "Division") as of and for the year ended June 30, 2001, and have issued our report thereon dated August 30, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the

**Members of the Legislative
Audit Committee**

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

This report is intended for the information of the members of the Legislative Audit Committee, management of the Division, others within the Division, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

August 30, 2001

BONDI & Co. LLP

Members of the Legislative
Audit Committee

**Report on Compliance With Requirements Applicable to Each
Major Program and Internal Controls Over Compliance
in Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of the Student Loan Division, Department of Higher Education, State of Colorado (the "Division") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2001. The Division's major federal programs include the Federal Family Education Loans (FFEL) reinsurance, FFEL collection offset, FFEL origination fee and FFEL maintenance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Division's management. Our responsibility is to express an opinion on the Division's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Division's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Division's compliance with those requirements.

**Members of the Legislative
Audit Committee**

In our opinion, the Division complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the Division is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Division's internal controls over compliance with requirements that could have a direct and material effect on a major award program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal controls over compliance in accordance with OMB Circular A-133.

Our consideration of the internal controls over compliance would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the members of the Legislative Audit Committee, management of the Division, others within the Division, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

August 30, 2001

BONDI & Co. LLP

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2001

Federal Grant/Program Title	Federal CFDA Number	Accrued Revenue at June 30, 2000	Receipts	Federal Disbursements	Accrued Revenue at June 30, 2001
U. S. Department of Education					
Federal Family Education Loans Program-Guarantee Agencies					
Federal Family Education Loans					
Reinsurance	84.032	\$ 4,778,200	\$ 40,416,523	\$ 42,266,086	\$ 6,627,763
Federal Family Education Loans					
Collection Offset	84.032		9,705,921	9,705,921	
Federal Family Education Loans					
Origination Fee	84.032	372,204	1,828,175	1,720,801	264,830
Federal Family Education Loans					
Maintenance	84.032	651,659	2,328,822	2,253,271	576,108
Total Federal Awards		<u>\$ 5,802,063</u>	<u>\$ 54,279,441</u>	<u>\$ 55,946,079</u>	<u>\$ 7,468,701</u>

Note 1: Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Student Loan Division, Department of Higher Education and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB **Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2001

Component 1

- (i) An unqualified opinion was issued on the Student Loan Division's financial statements.
- (ii) The audit disclosed no instances of noncompliance that are material to the Student Loan Division's financial statements.
- (iii) An unqualified opinion on compliance was issued on the Student Loan Division's major federal programs.
- (iv) Major federal program of the Student Loan Division is: U.S. Department of Education, CFDA #84.032, Federal Family Education Loans Program – Guarantee Agencies.
- (v) The dollar threshold used to determine Type A and Type B programs was \$300,000.
- (vi) The Student Loan Division is categorized as a high risk auditee for the statewide single audit purposes.

Component 2

- (vii) There were no findings related to the audit of the Student Loan Division that are required to be reported under *Generally Accepted Government Auditing Standards*.

Component 3

- (viii) There were no findings or questioned costs relating to the Division's major federal programs.

DISTRIBUTION PAGE

STUDENT LOAN DIVISION
DEPARTMENT OF HIGHER EDUCATION
STATE OF COLORADO
For the Year Ended June 30, 2001

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