

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
Denver, Colorado**

**FINANCIAL STATEMENTS  
June 30, 2002 and 2001**

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Members of the Legislative Audit Committee:

This report contains the results of a financial audit of the Student Loan Division, Department of Higher Education, State of Colorado for the fiscal year ended June 30, 2002. The audit was conducted pursuant to Section 23-3.1-109, C.R.S., which authorizes the State Auditor to conduct an annual audit of the Student Loan Division, Department of Higher Education, State of Colorado. The report presents our conclusions, findings and recommendations and the responses of the Student Loan Division, Department of Higher Education, State of Colorado.

*Clifton Henderson LLP*

Denver, Colorado  
September 4, 2002

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**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
Fiscal Year Ended June 30, 2002**

**Authority, Purpose, and Scope**

This audit was conducted under Section 23-3.1-109, C.R.S., which authorizes the State Auditor to conduct an annual audit of the Student Loan Division, Department of Higher Education, State of Colorado, (the “Division”). The State Auditor contracted with Clifton Gunderson LLP to perform this audit. 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. The purpose of this report is to present the results of the financial audit of the Student Loan Division, Department of Higher Education, State of Colorado for the fiscal year ended June 30, 2002 and to report on current year findings and on the implementation status of the prior year recommendations.

**Audit Opinions and Reports**

We expressed an unqualified opinion on the Division’s financial statements, as of and for the fiscal year ended June 30, 2002.

**Additional Required Communications**

**Accounting Policies.** The Division increased its capitalization policy from \$1,000 to \$5,000 during the year ended June 30, 2001.

**Management Judgments and Accounting Estimates.** There were no significant accounting estimates of financial data which would be particularly sensitive and require substantial judgment by management.

**Significant Audit Adjustments.** The Division posted an adjustment arising from the audit that had a significant effect on the Division’s financial reporting process. This adjustment was to record the recall payments due to the U.S. Department of Education as a liability of \$27,909,082.

**Disagreements with Management.** There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the Division’s financial statements or our report on those financial statements.

**Current Year Findings and Recommendations**

The Division had four current year findings and recommendations relating to the billings of default aversion fees, interest calculations for defaulted loans, and the implementation of an integrated computer system. The Division agreed with the recommendations.

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

In regard to the findings and recommendations from prior years, one was implemented and two are to be implemented in future years in conjunction with the implementation of an integrated system. These two recommendations have been incorporated as current year findings.

## RECOMMENDATION LOCATOR

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<b><u>Rec. No.</u></b>	<b><u>Page No.</u></b>	<b><u>Recommendation Summary</u></b>	<b><u>Division's Response</u></b>	<b><u>Implementation Date</u></b>
1	6	CSLP should develop and implement procedures to identify future errors in the default aversion fee ("DAF") billing system.	Agree	July 2002
2	7	CSLP should develop procedures to detect and correct DAF fees from being assessed on incorrect balances.	Agree	July 2002
3	8	CSLP should refund excess interest to borrowers and develop and implement procedures to detect and correct interest calculation transactions.	Agree	September 2002
4	9	CSLP should continue in its efforts for an integrated computer system for defaulted loans.	Agree	December 2003

# Student Loan Division, Department of Higher Education

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## Background

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 31 private lenders – banks, savings and loan associations, credit unions, pension funds, insurance companies, or secondary markets, plus three schools for graduate borrowers. 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 78 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 repayments, 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 uncollected 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 pays 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.

## 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 as described below.



### **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 1.3 million loans totaling over \$3.8 billion have been made to students. In Fiscal Year 2002, students borrowed over \$285.8 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 2002, PLUS Loan borrowings approximated \$28.5 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, 39,484 consolidation loans have been made totaling over \$717.5 million.

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## **Findings and Recommendations**

### **Duplicate Billings for Default Aversion Fees**

The Colorado Student Loan Program (the “CSLP” or the “Division”) engages in default aversion activities designed to prevent the default on a loan by a borrower. Default aversion activities are activities of a guaranty agency, such as the CSLP, that provide collection assistance to the lender on a delinquent loan, including due diligence activities, prior to the loan being legally in a default status. In general, the CSLP may transfer a default aversion fee (“DAF”) from its Federal Fund to its Operating Fund to be used in the operations of the Division. The fee is based on one percent of the total unpaid principal and accrued interest owed on the loan in cases where the lender requests default aversion assistance. The DAF should be paid only once on each loan. During our audit procedures, we noted instances where the CSLP was billing for the DAF more than once for the same loan.

When the CSLP was notified by us of the problem, the CSLP investigated and found that the duplicate billing problem began with the implementation of a new automated process called Common Account Maintenance (CAM) in January 2002 to support the addition and updating of pre-claim information. This billing duplication was caused by incorrectly setting a DAF indicator required for loans to be eligible for billing in the new system beginning January 2002. The indicator pulled loans into the new billing even though the DAF billing had already occurred on a previous pre-claim for the same loan. As a result of the duplicate billings, excess funds were transferred and used for the operations of the CSLP. The CSLP identified that total errors accumulated to \$420,643. The errors were corrected and adjusted accordingly at June 30, 2002.

#### **Recommendation No. 1:**

The CSLP should ensure that all new processes affecting the DAF billing system are adequately tested to avoid unforeseen impacts on the system and possible errors. Additionally, the CSLP should continue to implement and follow established control and system procedures to correct the duplicate billing errors within the system.

#### **Division’s Response:**

Agree. The Division has developed processes to identify all duplicate DAF billings. The Division ran a one-time system correction to delete the DAF billing information for the second claims that had been erroneously billed. In addition, a CAM update process was revised so that it will identify a loan that has previously been billed for the DAF and contain the correct billing indicator. To prevent further problems with DAF billing, the CSLP has proposed the following processes to eliminate these errors.

- A process to identify potential duplicate DAF billings will be run each month prior to the running of the DAF billing process. If any records are selected for this report, DAF billing will not be run until the problems can be researched and resolved.

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## **Findings and Recommendations (continued)**

- A process has been developed to audit the DAF information for all active and cancelled pre-claims. This process will be run prior to running the DAF billing process. If any records are selected for this report, DAF billing will not be run until the problems can be researched and resolved.
- A process to identify duplicate DAF billings will be run after running the DAF billing process. If any records are selected for this report, they will be researched and corrected before running any additional DAF billing cycles.

These procedures were adopted by the Division in July 2002.

### **Default Aversion Fee Computed on Incorrect Loan Balance**

In another problem related to the default aversion fee (“DAF”), we noted that in some instances the DAF was not calculated on the principal and interest amounts owed at the time the default claim was filed as it should be, but rather on the current principal and interest amounts at billing. Using incorrect principal and interest amounts in computing the DAF resulted in over-billing \$731 in fees. Excess fees were billed because the computation was based on additional accrued interest on the loan(s). Subsequent to our test work, the Division identified that the problem began with the implementation of the new CAM automated process in January 2002. When the CAM system was updated and the transactions for existing pre-claims were processed, the DAF billing amounts were updated so that they no longer reflected the original principal and interest amounts on which the DAF should have been calculated. The error in the system was corrected and the adjustment to the financial statements was made as of June 30, 2002.

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

The CSLP should develop and implement a process and procedures to ensure that the default aversion fees are computed on the correct base amounts. Additionally, the CSLP should develop procedures to identify problems and prevent errors before they occur.

### **Division’s Response:**

Agree. The Division has developed processes to identify all incorrect DAF billings. Procedures were developed to identify all claims where the current DAF principal and interest amounts were not equal to the DAF amounts when the claim was initiated. A one-time fix was also run to correct the DAF principal and interest amounts within the system and the Division verified that all corrections to the system were performed correctly. In addition, the procedures have been changed so that when a claim is added to the system, the CAM process will initially set the DAF principal and interest. However, when subsequent transactions are received for the same claim, the transactions will not update the DAF principal and interest amounts. These procedures were adopted by the Division in July 2002.

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## **Findings and Recommendations (continued)**

### **Accrued Interest on Defaulted Loans Not Computed Correctly**

The CSLP files a claim with the U.S. Department of Education (“DE”) for reinsurance for defaulted loans after a lender files a claim for payment on the defaulted loan with the CSLP. The CSLP will continue to collect from the borrower. A certain amount of subsequent collections received from the borrower on defaulted loans are retained by the CSLP. The collections from the borrower are split between principal and interest. As interest rates change, the new rate is entered into the system via a table. When the interest rate for a variable rate claim changes, an interest calculation (“IC”) transaction is created to accrue the interest to the effective date of the new interest rate. IC transactions are used to ensure the accuracy of interest accruals and provide a trail for changes to interest rates for specific claims. After the IC transaction occurs, the claim is updated with the new rate.

Through a process where the CSLP assigned an interest indicator to each claim, the CSLP identified instances where certain claims dating back to 1994 had missing IC transactions. Due to the missing IC transactions, payments received subsequent to the IC transactions were not applied using the correct interest rates. The CSLP identified that the IC transactions were not correctly applied primarily due to errors in the computer system.

The CSLP identified the estimated amount of under-accrued interest on affected claims was approximately \$39,082, which resulted in the CSLP collecting less than what was actually due from the borrowers. The CSLP has decided to absorb the cost of the under-accrual error. In addition, the CSLP identified that it had estimated a total of \$13,008 in over-accrued interest. This resulted in the CSLP collecting more than what was actually due from the borrowers. The CSLP is required by its policy to repay amounts to borrowers that are over-collected in excess of \$20. The aggregate amount that the CSLP will refund to borrowers over this limit is \$4,858. The under- and over-accrued interest amounts are not reflected as of June 30, 2002.

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

The CSLP should refund the appropriate amounts to the borrowers who were charged excess interest. The CSLP should develop procedures to prevent future IC transaction errors and to identify and correct inaccurate IC transactions within the computer system so that the proper interest accruals are made to the appropriate claims.

### **Division’s Response:**

Agree. The Division believes it has identified the extent of the problem with the missing IC transactions. The CSLP has corrected all interest rates through July 1, 2002. The CSLP has decided to absorb the cost of the under-accrual error. Since CSLP has corrected the interest rates as of July 1, 2002 for all of the affected claims with under-accrual errors, the interest will be accruing correctly from July 1, 2002 forward on the reduced loan balances. The CSLP will make a one-time correction to those accounts where the proper IC transaction was not applied

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## **Findings and Recommendations (continued)**

### **Division's Response: (continued)**

and resulted in over-accrued interest; plus, the CSLP will refund over-accruals in excess of \$20. The Division will implement changes that need to be made to the ongoing system to prevent these errors from occurring in the future. This includes changes to procedures to ensure that interest rate tables are updated correctly prior to the start of a new fiscal year, changes in the interest rate audit process, and the weekly generation of a missing IC audit report for further analysis.

In addition, an internal change-control process involving multiple departments in the agency responsible for ensuring entry of correct interest rate changes in the future has been established. These procedures were adopted by the Division in September 2002.

### **Implementation of Integrated Computer System**

In Fiscal Year 1999, a performance audit conducted by the Office of the State Auditor on CSLP defaulted loans made a recommendation in connection with the CSLP assessing collection fees to several accounts that should not have been charged those fees. The CSLP stated that this error was a result of a programming error made in the loan consolidation database, which was not a part of the mainframe system for tracking loans. The CSLP stated at that time that the above problem of incorrectly assessing collection fees would be resolved when the new loan tracking system is implemented.

During our audit procedures for Fiscal Year 2002, we noted that the CSLP has corrected the error in the system which now automatically calculates the collection fees. However, loans in default status are still maintained separately. Integrating loans in default status into the same mainframe system will help prevent further programming errors. The CSLP is in the process of updating its computer system related to defaulted loans. The CSLP has contracted with an outside party for an integrated system for defaulted loans to be implemented in 2003. The outside contractor is currently testing and converting data into the new system.

As part of the implementation of the new system, the CSLP indicates that quality control measures will be implemented to detect problems in maintaining defaulted loan accounts. The new system will integrate all loans in default status, which are currently on separate systems.

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

The CSLP should continue efforts to integrate all information for defaulted loans into a single system. The CSLP should implement the necessary control procedures to timely identify problems and prevent errors in maintaining the defaulted loans.

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## **Findings and Recommendations (continued)**

### **Division's Response:**

Agree. The agency is currently doing an analysis on the hours of programming required to integrate the consolidation loans into the existing system. Assuring the integrity of this data as the agency converts to a web-based, relational database system is an important element of the interagency systems development planning process.

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## **Disposition of Prior Year Audit Findings**

The following is an audit recommendation made as part of the financial audit for the year ended June 30, 1999 and the disposition of this recommendation.

### **Recommendation No. 2**

### **Disposition**

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

Implemented

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

### **Recommendation No. 3**

### **Disposition**

The CSLP 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.

Partially implemented. See current year recommendation Nos. 1, 2, 3 and 4.

### **Recommendation No. 4**

### **Disposition**

The CSLP 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, the 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 current year recommendation No. 4.

## Independent Auditor's Report

Members of the Legislative Audit Committee

We have audited the accompanying combined statement of net assets of the Student Loan Division, Department of Higher Education, State of Colorado (the "Division") as of June 30, 2002 and the combined statements of revenues, expenses, and changes in net assets and cash flows for the year ended June 30, 2002. 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 audit. The financial statements of the Division as of June 30, 2001 were audited by other auditors whose report dated August 30, 2001 expressed an unqualified opinion on those financial statements. As discussed above, the financial statements of the Division as of June 30, 2001 and for the year then ended were audited by other auditors. As discussed in Note 14, these financial statements have been restated. We audited the adjustments described in Note 14 that were applied to restate the 2001 financial statements. However, we were not engaged to audit, review or apply any procedures to the 2001 financial statements of the Division other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as whole.

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 opinion.

As discussed in the Summary of Significant Accounting Policies, the financial statements of the Division are intended to present the financial position, and the results of operations and cash flows for only that portion of the financial reporting entity of the Department of Higher Education, State of Colorado that is attributable to the transactions of the Division.



In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of June 30, 2002, and the results of its operations and cash flows 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 September 4, 2002, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Division adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2001. This results in a change in the format and content of the financial statements as of and for the years ended June 30, 2002 and 2001.

The Management's Discussion and Analysis (MD&A) is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as whole.

*Clifton Henderson LLP*

Denver, Colorado  
September 4, 2002

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Management's Discussion and Analysis (MD & A) is required by Governmental Accounting Standards. It was prepared by Colorado Student Loan Program's management and is designed to provide an analysis of the Colorado Student Loan Program's financial condition and operating results for the fiscal year ended June 30, 2002, and to inform the reader on the Colorado Student Loan Program's financial issues and activities.

The MD & A should be read in conjunction with the Colorado Student Loan Program's financial statements, which begin on page 20.

### **Basic Financial Statements**

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement Number 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments. The new reporting standards require a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows. The financial statements differ in form compared to prior years' financial statements.

The financial report includes the report of independent auditors, the management's discussion and analysis, the basic financial statements in the new format and notes to financial statements. The financial statements are interrelated and represent the financial status of the Colorado Student Loan Program.

The Balance Sheet is now referred to as the Statement of Net Assets, which includes the assets, liabilities and net assets at the end of the year. Over time, increases or decreases in the net assets continue to serve as a useful indicator of whether the financial position of the Colorado Student Loan Program is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. 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 Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital, investing and capital and related financing activities. Operating activities represent the day-to-day activities of the Colorado Student Loan Program. Noncapital activities represent transfers to other agencies. Capital and related financing activities represent acquisitions of capital assets and payments on capital debt and capitalized leases. Investing activities represent investment earnings on temporary cash investments.

### **Financial Overview**

The Colorado Student Loan Program is an Enterprise Fund of the State of Colorado and its funds are accounted for in the Agency Operating and Loan Servicing Funds and Federal Reserve and Drawdown Funds. The following condensed financial statements distinguish between the

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Agency Operating and Loan Servicing Funds, which are operating funds for the guarantor and lender servicing functions of the agency, and the Federal Reserve and Drawdown Funds, which are designated for paying lender claims and returning funds to the United States Department of Education (DE). The Federal Reserve and Drawdown Funds are the property of DE.

### Management Highlights

The Colorado Student Loan Program's largest source of revenue in the Federal Reserve and Drawdown Funds is reinsurance from the DE on claims paid to lenders. CSLP receives from 95% to 100% of the amount of lender claims paid, in reinsurance from DE.

The Colorado Student Loan Program's largest source of revenue in the Agency Operating and Loan Servicing Funds is the Division's share of collections on defaulted loans and bankruptcies. CSLP retains 24% of subsequent loan collections on defaulted loans to cover costs associated with the collection efforts.

In August 2002, a total of \$24,845,989 was paid from the Federal Reserve and Drawdown Funds to the DE as part of two separate recalls of reserve funds from the Division. The Balanced Budget Act of 1997 required the Division to return \$23,268,032 to the DE and the 1998 Reauthorization of the Higher Education Act required the Division to return \$1,577,957 to the DE in Fiscal Year 2002, with two additional installments of \$1,531,547 and \$1,531,546 to be paid in Fiscal Year 2007 and Fiscal Year 2008, respectively.

#### CONDENSED STATEMENT OF NET ASSETS

<u>June 30,</u>	Agency Operating and Loan Servicing Funds		Percent Change	Federal Reserve and Drawdown Funds		Percent Change
	2002	2001		2002	2001	
<b>ASSETS</b>						
Current Assets	\$ 18,305,532	\$ 15,499,991	18%	\$ 2,684,001	\$ 10,921,058	-75%
Restricted Assets	-	-	-%	37,880,402	32,639,115	16%
Capital Assets	1,127,491	1,458,665	-23%	-	-	
Total Assets	\$ 19,433,023	\$ 16,958,656	15%	\$ 40,564,403	\$ 43,560,173	-7%
<b>LIABILITIES</b>						
Current Liabilities	\$ 3,251,288	\$ 3,525,013	-8%	-	-	-%
Noncurrent Liabilities	1,050,544	1,231,258	-15%	-	-	-%
Liabilities Payable from Restricted Assets	-	-		31,491,109	33,025,662	-5%
Total Liabilities	\$ 4,301,832	\$ 4,756,271	-10%	\$ 31,491,109	\$ 33,025,662	-5%
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	\$ 353,452	\$ 493,539	-28%	-	-	-%
Restricted	-	-		9,073,294	10,534,511	-14%
Unrestricted	14,777,739	11,708,846	26%	-	-	
Total Net Assets	\$ 15,131,191	\$ 12,202,385	24%	\$ 9,073,294	\$ 10,534,511	-14%

**MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)**

*Agency Operating and Loan Servicing Funds*

Unrestricted Net Assets of the Agency Operating and Loan Servicing Funds increased by \$3,068,893 (26%) in Fiscal Year 2002 due to the excess of revenues over expenses for the fiscal year. (See condensed Statement of Revenues and Condensed Statement of Expenses on the following pages.) Due to the implementation of GASB 34, a new category entitled “Invested in Capital Assets, Net of Related Debt” is listed under Net Assets section of the Condensed Statement of Net Assets. This category consists of the Capital Assets less any debt related to the Capital Assets, such as Notes Payable and Capital Leases Payable.

*Federal Reserve and Drawdown Funds*

Current Assets (interfund receivables) decreased by \$8,237,057 (75%) while cash recorded as a restricted asset increased by the same amount. This was due to the partial payment of a loan from the Agency Operating Fund. Net assets of the Federal Reserve and Drawdown Funds decreased by \$1,461,217 (14%).

**CONDENSED STATEMENT OF REVENUES**

<u>Years Ended June 30,</u>	<u>Agency Operating and Loan Servicing Funds</u>		<u>Percent Change</u>	<u>Federal Reserve and Drawdown Funds</u>		<u>Percent Change</u>
	<u>2002</u>	<u>2001</u>		<u>2002</u>	<u>2001</u>	
<b>OPERATING REVENUES</b>						
Federal Grants and Contracts	\$ 13,788,378	\$ 13,548,165	2%	\$ 52,707,215	\$ 42,397,894	24%
Charges for Goods and Services	4,390,395	4,530,870	-3%	-	7,088	-100%
Interest on Purchased Loans	760,932	503,775	51%	-	-	-%
Other (Loan Sales)	32,965	23,061	43%	-	-	-%
Total Operating Revenues	<u>\$ 18,972,670</u>	<u>\$ 18,605,871</u>	2%	<u>\$ 52,707,215</u>	<u>\$ 42,404,982</u>	24%
<b>NON OPERATING REVENUES</b>	<u>1,204,299</u>	<u>2,319,475</u>	-48%	<u>\$ 2,034,933</u>	<u>2,026,916</u>	5%
<b>TOTAL REVENUES</b>	<u>\$ 20,176,969</u>	<u>\$ 20,925,346</u>	-4%	<u>\$ 54,742,148</u>	<u>\$ 44,431,898</u>	23%

*Agency Operating and Loan Servicing Funds*

Federal Grants and Contracts increased by \$240,213 in the Agency Operating and Loan Servicing Funds primarily due to increased defaulted loan collections. The Division is allowed to retain 24% of all borrower payments collected on defaulted loans. Interest on Purchased Loans in the Agency Operating and Loan Servicing Funds increased by \$257,157 due to an increase in the number of loans repurchased by lenders. Non-operating revenues in the Agency Operating and Loan Servicing Funds consist of interest on temporary cash investments. Interest earnings decreased by \$1,115,176 in Fiscal Year 2002 primarily because the Agency Operating Fund paid back \$8.2 million of a loan owed to the Federal Reserve Fund. Therefore, the Agency Operating Fund had fewer funds to invest.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### *Federal Reserve and Drawdown Funds*

Federal Grants and Contracts increased in the Federal Reserve and Drawdown Funds by \$10,309,321 because of increased reinsurance received from DE. The Division receives from 95% to 100% reinsurance on all claims paid to lending institutions. Claim payments increased in Fiscal Year 2002, causing reinsurance to increase also. Non-operating revenues in the Federal Reserve and Drawdown Funds consist of Interest on temporary cash investments and increased by \$8,017. Interest was essentially the same as the previous fiscal year. In Fiscal Year 2002, the Agency Operating Fund paid back \$8.2 million of the loan from the Federal Reserve Fund increasing the Federal Reserve and Drawdown Funds cash balance. However, the Federal Reserve Fund made transfers of \$2.4 million to the Agency Operating and Loan Servicing Funds and showed a change in net assets of negative \$1.4 million. The earnings rate on investments was 5.3% in Fiscal Year 2002 compared to 6.0% in Fiscal Year 2001. These factors caused the interest earnings to decrease.

#### CONDENSED STATEMENT OF EXPENSES

Years Ended June 30,	Agency Operating and Loan Servicing Funds		Percent Change	Federal Reserve and Drawdown Funds		Percent Change
	2002	2001		2002	2001	
<b>OPERATING EXPENSES</b>						
Guarantee Claims Paid						
to Lending Institutions	\$ -	\$ -	-%	\$ 53,769,267	\$ 43,040,485	25%
Salaries and Fringe Benefits	12,280,362	11,873,504	3%	-	-	-%
Contracted Collection Costs	1,497,729	3,012,884	-50%	-	-	-%
Other Operating and Travel	5,155,679	4,638,336	11%	15,567	-	-%
Depreciation	566,270	568,147	-%	-	-	-%
Total Operating Expenses	<u>\$ 19,500,040</u>	<u>\$ 20,092,871</u>	-3%	<u>\$ 53,784,834</u>	<u>\$ 43,040,485</u>	25%
<b>NON OPERATING EXPENSES</b>	<u>166,654</u>	<u>87,847</u>	90%	<u>-</u>	<u>-</u>	-%
<b>TOTAL EXPENSES</b>	<u>\$ 19,666,694</u>	<u>\$ 20,180,718</u>	-3%	<u>\$ 53,784,834</u>	<u>\$ 43,040,485</u>	25%

### *Agency Operating and Loan Servicing Funds*

Contracted Collection Costs decreased by \$1,515,155 (50%) due to new collection agency contracts that pay a lower commission on collections. Other Operating and Travel increased by \$517,343 (11%) primarily due to new charges related to the Colorado Mentor System paid for in Fiscal Year 2002. The Mentor System is a student services website designed to help students select and apply for admission to a college or university and plan to finance their education. Non-operating expenses increased by \$78,807 (90%) due to an increase in the statewide indirect cost allocation of expenses to CSLP.

### *Federal Reserve and Drawdown Funds*

Guarantee Claims Paid to Lending Institutions increased by \$10,728,782 (25%) as noted under the revenue analysis above.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

### **Budget versus Actual**

The Colorado Student Loan Program prepares an annual budget, based on fiscal year projected revenues and expenses that is approved by the Executive Director of the Department of Higher Education.

#### *Agency Operating and Loan Servicing Funds*

The original budgeted net income for the Agency Operating and Loan Servicing Funds was \$841,186. The budget for net income was later revised upward to \$1,474,273. The actual net income was \$2,928,806, which exceeded the original budget due to increased investment earnings and default collections. The actual net income includes nonoperating revenue of \$2,418,531 in interfund transfers from the Federal Reserve and Drawdown Funds.

#### *Federal Reserve and Drawdown Funds*

The original budgeted net loss for the Federal Reserve and Drawdown Funds was \$1,600,128. The budget was later revised to a loss of \$2,172,910. The actual change in net assets was a negative \$1,461,217 due to unanticipated interest revenue.

### **Capital Assets**

The Division entered into a capital lease for an Enterprise Server (mainframe computer) in Fiscal Year 2002. This transaction was the only significant change in capital outlay items in Fiscal Year 2002.

### **Economic facts and conditions for the future**

As noted previously, the Colorado Student Loan Program paid \$23,268,032 in August 2002 of reserves to the U.S. Department of Education (DE) as required by the Balanced Budget Act of 1997. This Act requires guarantors nationally to pay \$1 billion of reserves to the U.S. Department of Education.

Colorado Student Loan Program will pay another recall, required by the 1998 Reauthorization of the Higher Education Act, to DE in three installments. This recall will be for a total of \$4,641,050 and the first installment was sent to DE in the amount of \$1,577,957 in August 2002. Future installments are due as follows: \$1,531,547 in Fiscal Year 2007 and \$1,531,546 in Fiscal Year 2008.

Additionally, the loan processing and issuance fee that the Division is paid based on the net loans guaranteed will decrease from .65% to .40% beginning in October 1, 2003.

## **Financial Contact**

If you have any questions about this report please contact:

Colorado Student Loan Program  
999 18<sup>th</sup> Street, Suite 425  
Denver, CO 80202  
Attention: Manager of Accounting

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
COMBINED STATEMENTS OF NET ASSETS  
June 30, 2002 and 2001**

**ASSETS**

	<u>2002</u>	<u>2001</u>
<b>CURRENT ASSETS</b>		
Cash and pooled cash investments	\$ 18,938,974	\$ 23,925,529
Due from other governments		
Federal account maintenance fee	593,615	576,108
Federal loan processing and issuance fee	312,745	264,830
Other federal receivables	38,680	154,509
Other receivables, net	856,381	1,318,207
Due from other funds	5,500	-
Supplies inventory	91,073	96,273
Prepaid expenses	152,565	85,593
Total current assets	<u>20,989,533</u>	<u>26,421,049</u>
<b>RESTRICTED ASSETS</b>		
Restricted cash and pooled cash investments	34,865,299	25,594,891
Federal reinsurance receivable	3,015,103	6,627,763
Other receivables, net	-	416,461
Total restricted assets	<u>37,880,402</u>	<u>32,639,115</u>
<b>CAPITAL ASSETS</b>		
Office furniture and equipment	907,098	907,098
Computer hardware	2,744,931	2,805,262
Property held under capital lease	829,472	658,740
Leasehold improvements	97,946	97,946
	<u>4,579,447</u>	<u>4,469,046</u>
Less accumulated depreciation	<u>(3,451,956)</u>	<u>(3,010,381)</u>
Capital assets, net	<u>1,127,491</u>	<u>1,458,665</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 59,997,426</u></u>	 <u><u>\$ 60,518,829</u></u>



**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
COMBINED STATEMENTS OF NET ASSETS  
June 30, 2002 and 2001**

**LIABILITIES AND NET ASSETS**

	<b>2002</b>	<b>2001</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 646,048	\$ 813,187
Payable to the U.S. Department of Education (DE):		
Loan collections and other liabilities due to federal government	709,706	594,578
Other current liabilities		
Current portion of obligation under capital lease	201,304	139,340
Current portion of note payable	346,000	346,000
Other	702,630	786,325
Interfund payable - other agencies	524,230	840,558
Deferred revenue	121,370	5,025
Total current liabilities	3,251,288	3,525,013
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Recall reserves due to DE	27,909,082	27,909,082
Accounts payable and accrued liabilities	141,737	1,798
Loan collections and other liabilities due to federal government	3,440,290	5,114,782
Total liabilities payable from restricted assets	31,491,109	33,025,662
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	823,809	751,472
Obligation under capital leases, net of current portion	226,735	306,786
Note payable, net of current portion	-	173,000
Total noncurrent liabilities	1,050,544	1,231,258
Total liabilities	35,792,941	37,781,933
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	353,452	493,539
Restricted	9,073,294	10,534,511
Unrestricted	14,777,739	11,708,846
Total net assets	24,204,485	22,736,896
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 59,997,426</b>	<b>\$ 60,518,829</b>

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
For the Years Ended June 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>OPERATING REVENUES</b>		
Federal grants and contracts		
Division's share of collections on		
loans and bankruptcies	\$ 9,699,508	\$ 9,705,921
Federal account maintenance fee	2,215,008	2,253,271
Federal loan processing and issuance fee	2,059,574	1,720,801
Federal reinsurance	52,521,503	42,266,086
Charges for goods and services		
Contractual service fees	4,390,395	4,530,870
Guarantee fees	-	7,088
Interest on purchased loans and other	760,932	503,775
Other revenue	32,965	23,061
	<u>71,679,885</u>	<u>61,010,873</u>
<b>OPERATING EXPENSES</b>		
Guarantee claims paid to lending institutions	53,769,267	43,040,485
Salaries and fringe benefits	12,280,362	11,873,504
Operating and travel		
Contracted collection costs	1,497,729	3,012,884
Other operating and travel	5,171,246	4,638,336
Depreciation	566,270	568,147
	<u>73,284,874</u>	<u>63,133,356</u>
	<u>(1,604,989)</u>	<u>(2,122,483)</u>
<b>OPERATING LOSS</b>		
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest on temporary cash investments	3,239,232	4,346,391
	<u>1,634,243</u>	<u>2,223,908</u>
Income before operating transfer		
Operating transfers to other agencies	(166,654)	(87,847)
	<u>1,467,589</u>	<u>2,136,061</u>
<b>CHANGE IN NET ASSETS</b>		
Cumulative effect of change in accounting policy	-	(590,413)
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED AS OF JUNE 30, 2000</b>	<u>22,736,896</u>	<u>21,191,248</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 24,204,485</u>	<u>\$ 22,736,896</u>

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
COMBINED STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from		
Fees for service	\$ 4,963,067	\$ 3,736,339
Federal grants and contracts	68,599,296	54,653,195
Interest on purchased loans and other	760,932	503,775
Other sources	32,965	23,061
	<u>74,356,260</u>	<u>58,916,370</u>
Cash disbursed for		
Guarantee claims paid to lending institutions	53,212,867	43,040,485
Employees	12,208,025	10,126,197
Suppliers	5,748,876	6,733,600
Contracted collection costs	1,497,729	3,012,884
	<u>72,667,497</u>	<u>62,913,166</u>
Net cash provided (used) by operating activities	<u>1,688,763</u>	<u>(3,996,796)</u>
<b>CASH FLOW FROM NONCAPITAL ACTIVITIES</b>		
Transfers - out	<u>(166,654)</u>	<u>(87,847)</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on capital debt	(173,000)	-
Proceeds from capital leases and note payable	170,732	178,373
Acquisition of capital assets	(286,401)	(206,173)
Capital lease payments	<u>(188,819)</u>	<u>(160,528)</u>
Net cash used in capital and related financing activities	<u>(477,488)</u>	<u>(188,328)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Interest on temporary cash investments	3,239,232	4,346,391
<b>NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS</b>	4,283,853	73,420
<b>CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF YEAR</b>	<u>49,520,420</u>	<u>49,447,000</u>
<b>CASH AND TEMPORARY CASH INVESTMENTS, END OF YEAR</b>	<u><u>\$ 53,804,273</u></u>	<u><u>\$ 49,520,420</u></u>

	<u>2002</u>	<u>2001</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Net operating loss	\$ (1,604,989)	\$(2,122,483)
Adjustments to reconcile net operating loss to net cash provided (used) in operating activities		
Depreciation	566,270	568,147
Loss on sale of equipment	51,305	57,223
Effects of changes in net assets and liabilities	-	
Receivables	4,541,355	(2,360,488)
Due from other funds	(5,500)	-
Supplies inventory	5,200	2,226
Prepaid expenses	(66,972)	34,204
Accounts payable and accrued liabilities	(27,201)	(1,511,712)
Other current liabilities	(83,695)	172,490
Loan collections and other liabilities due to federal government	(1,559,364)	260,960
Accrued compensated absences	72,337	57,654
Interfund payable other agencies	(316,328)	839,958
Deferred revenue	116,345	5,025
<b>NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES</b>	<u>\$ 1,688,763</u>	<u>\$(3,996,796)</u>

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
June 30, 2002 and 2001**

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* 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 Loans 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 generally accepted accounting principles as an enterprise fund of the State of Colorado. The Division uses the accrual basis of accounting. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a enterprise fund’s principal ongoing operations.

**USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**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*, as amended.

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
June 30, 2002 and 2001**

**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%.

**ACCOUNT MAINTENANCE FEE**

In accordance with the Reauthorization of Higher Education Act of 1998, the Division is paid an account maintenance fee of .10% of the original principal amount of outstanding loans.

**LOAN DEFAULTS**

A claim is made when a loan goes into default status which results 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.

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
June 30, 2002 and 2001**

**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.

**FEDERAL REINSURANCE AND REINSURANCE FEES**

Under the agreement 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:

<u>Rate of Annual Losses (Defaults)</u>	<u>Federal Reinsurance on Loans Made Prior to October 1, 1993</u>	<u>Federal Reinsurance on Loans Made October 1, 1993 Through September 30, 1998</u>	<u>Federal Reinsurance on Loans Made October 1, 1998 and Thereafter</u>
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, 2002 and 2001 did not exceed 5% as of June 30, 2002 and 2001.

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
June 30, 2002 and 2001**

**CAPITALIZATION POLICY**

During the year ended June 30, 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 lives of the assets. Depreciation expense charged to operations was \$566,270 and \$568,147 for the years ended June 30, 2002 and 2001, 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 Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**BUDGETS AND BUDGETARY ACCOUNTING**

By statute, the Division is continuously appropriated through user charges. Therefore, the budget is not legislatively adopted and Statements of Revenues and Expenses – Budget to Actual is not a required part of these financial statements. Total budgeted expenses for the Division for the fiscal year ended June 30, 2002 were \$80.6 million, compared to actual expenses of \$73.4 million. Total budgeted revenues of the Division were \$81.2 million as compared with actual revenues of \$ 74.9 million for the fiscal year ended June 30, 2002.



**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002 and 2001**

**NOTE 1 – CASH AND TEMPORARY CASH INVESTMENTS**

The Division deposits cash with the Colorado State Treasurer as required by the Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. 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, 2002 and 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. The unrealized gains included in interest income reflect only the change in fair value during the current fiscal year.

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, 2002, the Division had a monthly average balance of approximately \$48,914,000 and \$48,773,000 for the years ended June 30, 2002 and 2001, respectively. This balance was invested with the State Treasury at an average rate of 5.3% and 6.0% for the years ended June 30, 2002 and 2001, respectively. The temporary cash investments are carried at cost which approximates fair value.

The Division had \$52,498,495 and \$47,870,951 on deposit and \$15,330 and \$14,672 on hand or in transit to the State Treasury at June 30, 2002 and 2001, respectively. Detailed information on the State Treasurer’s pooled cash and investments is available from that office.

At June 30, 2002 and 2001, the Division had carrying balances of \$1,290,448 and \$1,634,797, 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, bank balances of \$1,973,117 and \$2,911,491, respectively, were 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>2002</u>	<u>2001</u>
Cash accounts on deposit in State Treasurer’s pool	\$ 51,243,762	\$ 47,086,138
Cash on hand/transit	15,330	14,672
Deposits with banks	1,290,448	1,634,797
Changes in market value	<u>1,254,733</u>	<u>784,813</u>
<b>Total</b>	<u>\$ 53,804,273</u>	<u>\$ 49,520,420</u>

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002 and 2001**

**NOTE 1 – CASH AND TEMPORARY CASH INVESTMENTS (CONTINUED)**

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

	<u>2002</u>	<u>2001</u>
Cash and pooled cash investments	\$ 18,938,974	\$ 23,925,529
Restricted cash and pooled cash investments	<u>34,865,299</u>	<u>25,594,891</u>
<b>Total</b>	<u>\$ 53,804,273</u>	<u>\$ 49,520,420</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 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
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 2 – 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 included in net other receivables at June 30, 2002 and 2001 were \$218,454 and \$203,929, respectively.

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
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**NOTE 3 – CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
Office furniture and equipment	\$ 907,098	\$ -	\$ -	\$ 907,098
Computer hardware	2,805,262	115,669	(176,000)	2,744,931
Property held under capital lease	658,740	170,732	-	829,472
Leasehold improvements	97,946	-	-	97,946
<b>Total</b>	<b>4,469,046</b>	<b>286,401</b>	<b>(176,000)</b>	<b>4,579,447</b>
Less accumulated depreciation	<u>(3,010,381)</u>	<u>(566,270)</u>	<u>124,695</u>	<u>(3,451,956)</u>
<b>Capital assets, net</b>	<u><u>\$ 1,458,665</u></u>	<u><u>\$ (279,869)</u></u>	<u><u>\$ (51,305)</u></u>	<u><u>\$ 1,127,491</u></u>

**NOTE 4 – 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 and requires annual payments of \$173,000 over a five-year time period. The Division recorded a notes payable balance of \$346,000 at June 30, 2002 and made the 2002 payment in July 2002.

Future maturities of the note payable are as follows:

<b>Fiscal Year Ending June 30, 2003</b>	<u><u>\$ 346,000</u></u>
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**NOTE 5 – LEASES**

The Division leases various equipment with a total original cost of \$829,472 and \$658,740, and accumulated depreciation of \$405,054 and \$240,563 at June 30, 2002 and 2001, respectively, under capital leases which expire from 2004 to 2005.

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**NOTE 5 – LEASES (CONTINUED)**

The Division also leases its office space and various other office equipment under operating leases which expire through 2006.

Future minimum rentals under capital leases and noncancellable operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2003	\$ 215,127	\$ 604,120
2004	215,127	604,120
2005	17,078	641,765
2006	<u>-</u>	<u>679,410</u>
Total	447,332	<u>\$ 2,529,415</u>
Less interest	<u>(19,293)</u>	
	428,039	
Less current portion	<u>(201,304)</u>	
<b>Long-term portion</b>	<u>\$ 226,735</u>	

Total rent expense for the years ended June 30, 2002 and 2001 was \$721,894 and \$678,374, respectively.

During the fiscal year ended June 30, 2002, the following changes occurred with long-term debt.

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance June 30, 2002</u>
Note payable	\$ 519,000	\$ -	\$ (173,000)	\$ 346,000
Capital lease obligations	446,126	170,732	(188,819)	428,039
Accrued compensated absences	<u>751,472</u>	<u>72,337</u>	<u>-</u>	<u>823,809</u>
<b>Total</b>	<u>\$ 1,716,598</u>	<u>\$ 243,069</u>	<u>\$ (361,819)</u>	<u>\$ 1,597,848</u>

**STUDENT LOAN DIVISION  
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**NOTE 6 – COMMITMENTS**

**Statutory Guarantee Fund Requirements**

For Federal Fiscal Year 2002 and 2001, the Division is required by Federal and State statute to maintain a reserve cash fund balance of .25% of the unpaid balance of outstanding loans. The required reserve balance at June 30, 2002 and 2001 based on the respective outstanding loan balances was \$6,141,649 and \$5,864,521, respectively. The total reserve balance reported as restricted cash and pooled cash investments at June 30, 2002 and 2001 was \$34,865,299 and \$25,594,891, respectively.

**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. In Fiscal Year 2000, the Division borrowed \$10,921,058 from its Federal Reserve Fund and deposited the funds into its Agency Operating Fund. The Division repaid \$8,237,057 of the loan during the year ended June 30, 2002. The Division intends to repay the balance of the loan according to the following payment schedule:

**Fiscal Year Ending June 30**

2003	\$ 257,099
2004	<u>2,426,902</u>
<b>Total</b>	<b><u>\$ 2,684,001</u></b>

**NOTE 7 – CONTINGENCIES**

**Loan Guarantees**

The outstanding principal balances of student loans guaranteed by the Division through June 30, 2002 is approximately \$2.5 billion. As disclosed in the summary of significant accounting policies, 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.

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**NOTE 7 – CONTINGENCIES (CONTINUED)**

**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.

The Division performed procedures in July of 1996, 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.

**U.S. Department of Education Review**

DE is also currently performing a review of the Division which is primarily focused on the Division's treatment of establishing the Agency Operating Fund and Federal Reserve Fund in accordance with the 1998 Reauthorization of Higher Education Act (see Note 12). DE has communicated various potential findings primarily related to the improper allocation of costs between the Division's Operating and Federal funds and unallowable operating costs paid with federal funds.

The final resolution of these potential findings from DE is also currently in process. Accordingly, no provision for any additional liability that may result from DE's review has been made to the accompanying financial statements.

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**NOTE 8 – EMPLOYEE PENSION PLAN**

**Plan Description**

Virtually all of the State's employees participate in a Defined Benefit Pension Plan. The purpose of the Defined Benefit Pension Plan is to provide income to members and their families at retirement or in case of death or disability. This Plan is a cost-sharing multiple-employer deferred benefit plan administered by the Public Employee's 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 legislation by the General Assembly. The State Plan, as well as the other division's 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 five 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. State troopers and judges comprise a small percentage of Plan members but have higher contribution rates and are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Members disabled, who have five or more years of service credit, six months of which 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 (10.0 percent for State troopers) of their gross covered wages to an individual account in the Plan. During Fiscal Year 2002, the State contributed 9.9 percent (12.6 percent for State troopers and 13.5 percent for the Judicial Branch) of the employee's gross covered. Before January 1, 2002, 1.42% was allocated to the Health Care Trust Fund and after January 1, 2002, 1.64% was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board

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**NOTE 8 – EMPLOYEE PENSION PLAN (CONTINUED)**

was allocated to the Matchmaker program (see Note 9). 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 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, 2002, 2001, and 2000 were \$891,355, \$871,618, and \$808,509, respectively. These contributions met the required contributions for each year.

**NOTE 9 – 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. For the calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month (7 percent for judges in the Judicial Branch). 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 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 Deferred Compensation Plan and certain agencies and institutions of the State offer a 403(b) Plan. Members who contribute to any of these plans also receive the State match.

**NOTE 10 - POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

**Health Care Program**

PERACare (formerly known as The PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays



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**NOTE 10 - POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS  
(CONTINUED)**

any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During Fiscal Year 2002, the premium subsidy was \$115 for those with 20 years of service credit (\$230 for members under age 65), and it was reduced by 5 percent for each year of service fewer under 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by a contribution as discussed in Note 8.

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of retiree service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans and with health maintenance organizations to provide services within Colorado. As of December 31, 2001, there were 34,235 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.

**Other Programs**

Separate post-retirement health care and life insurance benefit plans exist in some State colleges and universities but are small in comparison to the PERA plan for State employees. The State has no liability for any of these post-retirement health care and life insurance plans.

**NOTE 11 – LITIGATION**

The Division is involved in various legal proceedings primarily for personnel related actions. The Division believes the actions are without merit and intends to vigorously defend against the actions. The amount of liability, if any, from the outcome of these actions cannot presently be estimated; however, management believes the ultimate impact on the Division's financial position will not be material. Nevertheless, due to uncertainties in the settlement process, it is at least reasonably possible that management's view of the outcome may change in the near term.

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June 30, 2002 and 2001**

**NOTE 12 – 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 Federal 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 will be utilized for default reduction activities. The Division has transferred \$23,268,032 million to its internal Recall Fund at June 30, 2002. This fund is part of the Division's Federal Reserve and Drawdown Fund. In August 2002, the Division paid \$23,268,032 million to DE for this recall.

The Division's management believes that it will be able to maintain the Federal Reserve Fund requirements. However, the Division anticipates the need to further reduce operating expenses in order to make required contributions to the Recall Fund. CSLP has established a management level finance committee 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 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 Division's share of this recall is \$4,641,050 which will be paid to DE in the amounts of \$1,577,957 in August 2002, \$1,531,547 in Fiscal Year 2007 and \$1,531,546 in Fiscal Year 2008. The August 2002 payment has been made to DE.

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.

**NOTE 13 – 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.

**STUDENT LOAN DIVISION  
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June 30, 2002 and 2001**

**NOTE 13 – RISK MANAGEMENT (CONTINUED)**

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 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 14 – PRIOR PERIOD ADJUSTMENT**

Restricted Net Assets of the Federal Reserve and Drawdown Funds as of June 30, 2000 have been reduced by \$27,909,082 for the reclassification to a liability for the same amount for two separate recall payments due to DE (see Note 12).

**NOTE 15 – FISCAL YEAR 2001 FINANCIAL STATEMENT PRESENTATION**

Certain reclassifications have been made to the Fiscal Year 2001 amounts to conform to the Fiscal Year 2002 presentation under *Government Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* .

This information is an integral part of the accompanying financial statements.

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

Members of the Legislative Audit Committee

We have audited the financial statements of the Student Loan Division, Department of Higher Education, State of Colorado (the "Division") as of and for the year ended June 30, 2002, and have issued our report thereon dated September 4, 2002. 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 instances of noncompliance that required to be reported under *Government Auditing Standards* which are described in the findings and recommendations.

**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 internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Division's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the findings and recommendations No. 1, 2 and 3 and relate to incorrect default aversion fees and interest calculations.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding and recommendation No. 1 to be a material weakness.

This report is intended solely for the information and use of the Legislative Audit Committee and is not intended to be and should not be used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited.

*Clifton Gunderson LLP*

Denver, Colorado  
September 4, 2002

**SUPPLEMENTAL INFORMATION**

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
COMBINING SCHEDULES OF NET ASSETS  
June 30, 2002  
(With Comparative Totals for June 30, 2001)**

<b>ASSETS</b>				
	<b>Agency Operating and Loan Servicing Funds</b>	<b>Federal Reserve and Drawdown Funds</b>	<b>Totals</b>	
			<b>2002</b>	<b>2001</b>
<b>CURRENT ASSETS</b>				
Cash and pooled cash investments	\$ 18,938,974	\$ -	\$ 18,938,974	\$ 23,925,529
Due from other governments				
Federal account maintenance fee	593,615	-	593,615	576,108
Federal loan processing and issuance fee	312,745	-	312,745	264,830
Other federal receivables	38,680	-	38,680	154,509
Other receivables, net	856,381	-	856,381	1,318,207
Due from other funds	5,500	-	5,500	-
Supplies inventory	91,073	-	91,073	96,273
Prepaid expenses	152,565	-	152,565	85,593
Interfund receivable (payable)	(2,684,001)	2,684,001	-	-
Total current assets	<u>18,305,532</u>	<u>2,684,001</u>	<u>20,989,533</u>	<u>26,421,049</u>
<b>RESTRICTED ASSETS</b>				
Restricted cash and pooled cash investments	-	34,865,299	34,865,299	25,594,891
Federal reinsurance receivable	-	3,015,103	3,015,103	6,627,763
Other receivables, net	-	-	-	416,461
Total restricted assets	<u>-</u>	<u>37,880,402</u>	<u>37,880,402</u>	<u>32,639,115</u>
<b>CAPITAL ASSETS</b>				
Office furniture and equipment	907,098	-	907,098	907,098
Computer hardware	2,744,931	-	2,744,931	2,805,262
Property held under capital lease	829,472	-	829,472	658,740
Leasehold improvements	97,946	-	97,946	97,946
	<u>4,579,447</u>	<u>-</u>	<u>4,579,447</u>	<u>4,469,046</u>
Less accumulated depreciation	(3,451,956)	-	(3,451,956)	(3,010,381)
Capital assets, net	<u>1,127,491</u>	<u>-</u>	<u>1,127,491</u>	<u>1,458,665</u>
<b>TOTAL ASSETS</b>	<u>\$ 19,433,023</u>	<u>\$ 40,564,403</u>	<u>\$ 59,997,426</u>	<u>\$ 60,518,829</u>

## LIABILITIES AND NET ASSETS

	Agency Operating and Loan Servicing Funds	Federal Reserve and Drawdown Funds	Totals	
			2002	2001
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 646,048	\$ -	\$ 646,048	\$ 813,187
Payable to the U.S. Department of Education (DE):				
Loan collections and other liabilities due to federal government	709,706	-	709,706	594,578
Other current liabilities			-	
Current portion of obligation under capital lease	201,304	-	201,304	139,340
Current portion of note payable	346,000	-	346,000	346,000
Other	702,630	-	702,630	786,325
Interfund payable - other agencies	524,230	-	524,230	840,558
Deferred revenue	121,370	-	121,370	5,025
Total current liabilities	<u>3,251,288</u>	<u>-</u>	<u>3,251,288</u>	<u>3,525,013</u>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>				
Recall reserves due to DE	-	27,909,082	27,909,082	27,909,082
Accounts payable and accrued liabilities	-	141,737	141,737	1,798
Loan collections and other liabilities due to federal government	-	3,440,290	3,440,290	5,114,782
Total liabilities payable from restricted assets	<u>-</u>	<u>31,491,109</u>	<u>31,491,109</u>	<u>33,025,662</u>
<b>NONCURRENT LIABILITIES</b>				
Accrued compensated absences	823,809	-	823,809	751,472
Obligation under capital leases, net of current portion	226,735	-	226,735	306,786
Note payable, net of current portion	-	-	-	173,000
Total noncurrent liabilities	<u>1,050,544</u>	<u>-</u>	<u>1,050,544</u>	<u>1,231,258</u>
Total liabilities	<u>4,301,832</u>	<u>31,491,109</u>	<u>35,792,941</u>	<u>37,781,933</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	353,452	-	353,452	493,539
Restricted	-	9,073,294	9,073,294	10,534,511
Unrestricted	14,777,739	-	14,777,739	11,708,846
Total net assets	<u>15,131,191</u>	<u>9,073,294</u>	<u>24,204,485</u>	<u>22,736,896</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 19,433,023</u>	<u>\$ 40,564,403</u>	<u>\$ 59,997,426</u>	<u>\$ 60,518,829</u>



**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
COMBINING SCHEDULES OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
For the Year Ended June 30, 2002  
(With Comparative Totals for the Year Ended June 30, 2001)**

	Agency Operating and Loan Servicing Funds	Federal Reserve and Drawdown Funds	Totals	
			2002	2001
<b>OPERATING REVENUES</b>				
Federal grants and contracts				
Division's share of collections on loans and bankruptcies	\$ 9,513,796	\$ 185,712	\$ 9,699,508	\$ 9,705,921
Federal account maintenance fee	2,215,008	-	2,215,008	2,253,271
Federal loan processing and issuance fee	2,059,574	-	2,059,574	1,720,801
Federal reinsurance	-	52,521,503	52,521,503	42,266,086
Charges for goods and services				
Contractual service fees	4,390,395	-	4,390,395	4,530,870
Guarantee fees	-	-	-	7,088
Interest on purchased loans and other	760,932	-	760,932	503,775
Other revenue	32,965	-	32,965	23,061
	<u>18,972,670</u>	<u>52,707,215</u>	<u>71,679,885</u>	<u>61,010,873</u>
<b>OPERATING EXPENSES</b>				
Guarantee claims paid to lending institutions	-	53,769,267	53,769,267	43,040,485
Salaries and fringe benefits	12,280,362	-	12,280,362	11,873,504
Operating and travel				
Contracted collection costs	1,497,729	-	1,497,729	3,012,884
Other operating and travel	5,155,679	15,567	5,171,246	4,638,336
Depreciation	566,270	-	566,270	568,147
	<u>19,500,040</u>	<u>53,784,834</u>	<u>73,284,874</u>	<u>63,133,356</u>
	<u>(527,370)</u>	<u>(1,077,619)</u>	<u>(1,604,989)</u>	<u>(2,122,483)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest on temporary cash investments	1,204,299	2,034,933	3,239,232	4,346,391
Income before operating transfer	676,929	957,314	1,634,243	2,223,908
Operating transfers to other agencies	(166,654)	-	(166,654)	(87,847)
Interfund transfers	2,418,531	(2,418,531)	-	-
	<u>2,251,877</u>	<u>(2,418,531)</u>	<u>(166,654)</u>	<u>(87,847)</u>
<b>CHANGE IN NET ASSETS</b>	2,928,806	(1,461,217)	1,467,589	2,136,061
Cumulative effect of change in capitalization policy on years prior to 2001	-	-	-	(590,413)
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED AS OF JUNE 30, 2000</b>	12,202,385	10,534,511	22,736,896	21,191,248
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 15,131,191</u>	<u>\$ 9,073,294</u>	<u>\$ 24,204,485</u>	<u>\$ 22,736,896</u>

**STUDENT LOAN DIVISION  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
COMBINING SCHEDULES OF CASH FLOWS  
For the Years Ended June 30, 2002  
(With Comparative Totals for the Year Ended June 30, 2001)**

	Agency Operating and Loan Servicing Funds	Federal Reserve and Drawdown Funds	Totals	
			2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from				
Fees for service	\$ 4,963,067	\$ -	\$ 4,963,067	\$ 3,736,339
Federal grants and contracts	13,953,913	54,645,383	68,599,296	54,653,195
Interest on purchased loans and other	760,932	-	760,932	503,775
Other sources	32,965	-	32,965	23,061
	<u>19,710,877</u>	<u>54,645,383</u>	<u>74,356,260</u>	<u>58,916,370</u>
Cash disbursed for				
Guarantee claims paid to lending institutions	-	53,212,867	53,212,867	43,040,485
Employees	12,208,025	-	12,208,025	10,126,197
Suppliers	5,733,309	15,567	5,748,876	6,733,600
Contracted collection costs	1,497,729	-	1,497,729	3,012,884
	<u>19,439,063</u>	<u>53,228,434</u>	<u>72,667,497</u>	<u>62,913,166</u>
Net cash provided (used) by operating activities	<u>271,814</u>	<u>1,416,949</u>	<u>1,688,763</u>	<u>(3,996,796)</u>
<b>CASH FLOW FROM NONCAPITAL ACTIVITIES</b>				
Transfers - out	<u>(166,654)</u>	<u>-</u>	<u>(166,654)</u>	<u>(87,847)</u>
Interfund transfers	(5,818,526)	5,818,526	-	-
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on capital debt	(173,000)	-	(173,000)	-
Proceeds from capital leases and note payable	170,732	-	170,732	178,373
Acquisition of capital assets	(286,401)	-	(286,401)	(206,173)
Capital lease payments	<u>(188,819)</u>	<u>-</u>	<u>(188,819)</u>	<u>(160,528)</u>
Net cash used in capital and related financing activities	<u>(477,488)</u>	<u>-</u>	<u>(477,488)</u>	<u>(188,328)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Interest on temporary cash investments	1,204,299	2,034,933	3,239,232	4,346,391
<b>NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS</b>				
	(4,986,555)	9,270,408	4,283,853	73,420
<b>CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF YEAR</b>				
	<u>23,925,529</u>	<u>25,594,891</u>	<u>49,520,420</u>	<u>49,447,000</u>
<b>CASH AND TEMPORARY CASH INVESTMENTS, END OF YEAR</b>				
	<u>\$ 18,938,974</u>	<u>\$ 34,865,299</u>	<u>\$ 53,804,273</u>	<u>\$ 49,520,420</u>

	<b>Agency Operating and Loan Servicing Funds</b>	<b>Federal Reserve and Drawdown Funds</b>	<b>Totals</b>	
			<b>2002</b>	<b>2001</b>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>				
Net operating loss	\$ (527,370)	\$ (1,077,619)	\$ (1,604,989)	\$ (2,122,483)
Adjustments to reconcile net operating loss to net cash provided (used) in operating activities			-	
Depreciation	566,270	-	566,270	568,147
Loss on sale of equipment	51,305	-	51,305	57,223
Effects of changes in net assets and liabilities			-	
Receivables	512,234	4,029,121	4,541,355	(2,360,488)
Due from other funds	(5,500)	-	(5,500)	
Supplies inventory	5,200	-	5,200	2,226
Prepaid expenses	(66,972)	-	(66,972)	34,204
Accounts payable and accrued liabilities	(167,140)	139,939	(27,201)	(1,511,712)
Other current liabilities	(83,695)	-	(83,695)	172,490
Loan collections and other liabilities due to federal government	115,128	(1,674,492)	(1,559,364)	260,960
Accrued compensated absences	72,337	-	72,337	57,654
Interfund payable other agencies	(316,328)	-	(316,328)	839,958
Deferred revenue	116,345	-	116,345	5,025
<b>NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES</b>	<b>\$ 271,814</b>	<b>\$ 1,416,949</b>	<b>\$ 1,688,763</b>	<b>\$ (3,996,796)</b>

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