



COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

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COLORADO COMMUNITY COLLEGE SYSTEM

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Report Summary

Year ended June 30, 2005

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado Community College System (CCCS) for the year ended June 30, 2005. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from April to December 7, 2005.

The purpose and scope of our audit was to:

- Express opinions on the basic financial statements of CCCS as of and for the year ended June 30, 2005. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Express an opinion on CCCS' compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of CCCS for the year ended June 30, 2005.
- Evaluate progress in implementing prior audit findings and recommendations.

CCCS' schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in the June 30, 2005 Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on CCCS' basic financial statements and its Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 2005. In Fiscal Year 2005, CCCS implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. As a result, CCCS modified its note disclosure.

No audit adjustments were proposed and made to the basic financial statements. Five audit adjustments were not made to the basic financial statements totaling \$180,000 which is less than 1% of current year net assets. These passed differences are not considered material to CCCS' basic financial statements.

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We issued a report on CCCS' compliance and internal control over financial reporting based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*. We noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions are 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 CCCS' ability to record, process, and report financial data consistent with the assertions of management in the basic financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable condition summarized below and described in the Findings and Recommendations section as Recommendation No. 1 is not considered to be a material weakness.

Summary of Key Findings

Reportable Condition over Information Technology

We tested information technology general controls including change management and access controls. Based on our review, CCCS has not implemented adequate policies and control procedures to ensure changes made to systems are appropriate and user access is tracked and appropriate given the employees' job responsibilities. Certain deficiencies were repeat findings from the prior year. Failure to ensure adequate general controls are in place and operating effectively could impact proper operation of information systems and financial reporting.

Student Financial Aid

We performed procedures required by the Office of Management and Budget (OMB) Circular A-133 and the Compliance Supplement for *Student Financial Aid (SFA)*. We also performed procedures as required by the *Colorado Handbook for State-Funded Student Financial Assistance Programs*, issued by the Colorado Commission on Higher Education (CCHE), 2005 revision. We noted that CCCS needs to improve controls over its SFA processes and ensure compliance with certain regulations. Specifically, we noted findings with regard to the return of Title IV funds to the federal government for students not eligible for such funds. Our findings noted no questioned costs related to CCCS' student financial aid programs.

Recommendations and CCCS Responses

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

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Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2004 included 19 recommendations. The audit report for the year ended June 30, 2003 included three recommendations that were reported as not implemented in the 2004 audit report. The disposition of these audit recommendations as of December 7, 2005 was as follows.

Implemented	17
Partially implemented	4
Not implemented	1
Total	<u>22</u>

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Recommendation Locator

Year ended June 30, 2005

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	11	Improve its information technology controls, including user access.	Colorado Community College System	Agree	December 2006
2	13	Ensure Community College of Aurora (CCA), Pikes Peak Community College (PPCC), and the System Office accurately and completely calculate the compensated absences liability. Colleges should implement automated procedures to calculate the compensated absences liability.	Colorado Community College System	Agree	June 2006
3	13	Implement procedures to ensure capital assets are fairly stated. Specifically, the Colorado Community College System (CCCS) should ensure agreements are properly obtained and reviewed for assets managed by other entities and that software in development is reviewed for inclusion in CIP and reconciled at year-end, including year-end accounts payable entries.	Colorado Community College System	Agree	June 2006
4	15	Ensure Pueblo Community College (PCC) communicates to students the proper amount to be returned.	Colorado Community College System	Agree	March 2006

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Recommendation Locator

Year ended June 30, 2005

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
5	16	Ensure Arapahoe Community College (ACC) establishes procedures to ensure that students are not allowed additional days of eligibility before they are reported to NSLDS and that breaks are correctly calculated.	Colorado Community College System	Agree	February 2006
6	17	Ensure Front Range Community College (FRCC) establishes procedures to have a supervisory review of the Return of Title IV calculations.	Colorado Community College System	Agree	June 2006
7	18	Ensure FRCC establishes procedures to ensure that the institution's portion of a student's unearned Title IV funds are returned within 30 days after FRCC has determined a student has withdrawn and that proper amounts are used in the calculation.	Colorado Community College System	Agree	June 2006

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Description of the Colorado Community College System

Year ended June 30, 2005

Organization

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

- The Board is the governing board of the state system of community and technical colleges.
- The Board administers the occupational education programs of the state at both secondary and postsecondary levels.
- The Board administers the state's program of appropriations to local district colleges and area vocational schools.

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

State funds are provided to the Board for the fulfillment of these responsibilities under two methodologies. A lump-sum appropriation is made in the Long Bill pursuant to Colorado Revised Statutes 23-1-104. The lump-sum appropriation is made to the Board to provide funds for the operation of the 13 colleges, and for the Board administrative oversight. Line item appropriations are made to the Board for other activities including occupational education and local district junior college grants. The accompanying basic financial statements of the Colorado Community College System (CCCS) report the operations of 13 state community colleges, the System Office, and distributions of state appropriations to area vocational schools and local district colleges. Funding for local district colleges and area vocational schools is passed through CCCS.

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

<u>College</u>	<u>Main Campus Location</u>
Arapahoe Community College	Littleton
Community College of Aurora	Aurora
Community College of Denver	Denver
Colorado Northwestern Community College	Rangely
Front Range Community College	Westminster
Lamar Community College	Lamar
Morgan Community College	Fort Morgan
Northeastern Junior College	Sterling
Otero Junior College	La Junta
Pikes Peak Community College	Colorado Springs
Pueblo Community College	Pueblo
Red Rocks Community College	Lakewood
Trinidad State Junior College	Trinidad

Enrollment, tuition, and faculty and staff information is presented below. Enrollment information was obtained from the Colorado Commission on Higher Education (CCHE), Final Student FTE Enrollment Report. Staff information was obtained from Format 10 and 40 for the Budget Data Book for Fiscal Year 2004-2005, as prepared for CCHE.

CCCS reports full-time equivalent (FTE) student, faculty, and staff for three continuous fiscal years as follows:

FTE Student Enrollment

	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal Year:			
2004 – 2005	44,564	2,122	46,686
2003 – 2004	44,573	2,002	46,575
2002 – 2003	41,914	1,965	43,879

FTE Faculty and Staff

	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal Year:			
2004 – 2005	3,211	1,362	4,573
2003 – 2004	3,123	1,535	4,658
2002 – 2003	2,929	1,557	4,486

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Findings and Recommendations

Year ended June 30, 2005

We have audited the basic financial statements of the Colorado Community College System (CCCS) as of and for the year ended June 30, 2005, and have issued our report thereon, dated December 7, 2005. In planning and performing our audit of the basic financial statements, we considered CCCS' internal control solely to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated December 7, 2005 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since December 7, 2005.

We noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions are 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 CCCS' ability to record, process, and report financial data consistent with the assertions of management in the basic financial statements. Material weaknesses are reportable conditions 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. The reportable condition described in this Findings and Recommendations section as Recommendation No. 1 is not considered to be a material weakness.

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

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

Reportable Condition over Information Technology

CCCS utilizes a number of information systems for accounting and financial reporting including the following:

- Financial Reporting System (FRS) – the general ledger and accounts payable system.
- Student Information System (SIS) – the system used to track student information, enrollment, credit hours, classes, student financial aid, etc.
- Billing and Receivable System (BRS) – the system used to bill and collect student tuition and fees.
- Central Payroll Processing System (CPPS) – the payroll processing system.

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General controls are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General controls commonly include controls over data center and network operations; system software acquisition and maintenance; access security; and application system acquisition, development, and maintenance.

The scope of our audit related to information technology general controls included change management and access controls. Based on our review, CCCS has not implemented adequate policies and control procedures to ensure changes made to systems are appropriate and user access is tracked and appropriate given the employees' job responsibilities. Certain deficiencies noted below are repeat findings from the prior year. Failure to ensure adequate general controls are in place and operating effectively could impact proper operation of information systems and financial reporting. Our specific observations are described below.

Change Management

The CCCS computer services department has standardized its change management procedures for any changes to the FRS or SIS. However, this policy is not formally documented. In addition, there are several generic VMS (mainframe) users with access to the development environment which results in a lack of segregation of duties between development and implementation of changes. During our test work, we also noted the following:

- Testing evidence is not maintained for each change to SIS or FRS. In our sample of five changes, two lacked testing evidence for the change.
- Approval evidence is not maintained for each change to SIS or FRS. In our sample of five changes, three changes did not have evidence of approval.
- We did note that in 2005, CCCS limited the exposure to unauthorized changes by limiting the number of changes accepted.

Access Controls

We also evaluated user administration procedures for maintaining access at the information system and application level. Each user that needs an account on the FRS or SIS must have a network account. We examined password settings for the System and two colleges, Front Range Community College (FRCC) and Community College of Denver, and noted FRCC has its passwords expire after 120 days but password complexity is not enabled.

We tested terminated employees and noted 7 of 21 terminated employees of Lamar Community College have current access/user accounts to VMS (mainframe). Seventeen of 22 users at Pueblo Community College (PCC) have user accounts in the network. There are several generic user IDs within the PCC network and several generic user IDs within VMS. Such access could result in inappropriate changes to information.

We also tested system access controls to the FRS and the SIS, which includes the Billing Receivable System (BRS). At the Arapahoe Community College (ACC), Community College of Aurora (CCA), FRCC, Pikes Peak Community College (PPCC), PCC, and the System Office, we noted 62 personnel across the six sites that have the ability to both create a vendor and a voucher. This does not allow for proper segregation of duties and can increase the risk of fraud in the accounts payable process.

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At ACC, we noted 51 instances in which employees' system access was not established based on job responsibilities and business policy, where access was granted to functions that were incompatible, or where terminated employees had access to accounting systems.

The System IT Office informed us that a monthly ZBA110 report, which provides a list of current users for each college of FRS and SIS, is available for review. Each college is asked to inform the System IT Office if users should be removed from the network. The System IT Office noted that this process is not always followed and few colleges provide feedback.

The conditions noted above are the result of inadequate procedures to evaluate user access on a periodic basis and failure to remove user's access upon termination. Inappropriate access to programs and data may result in loss, damage, or theft of valuable information and/or resources. At a minimum, users may obtain access to sensitive data and systems that are not commensurate with their job requirements.

Recommendation No. 1:

CCCS should perform the following to improve information technology general controls and access controls:

- a. Document the software development and change process, including testing performed and changes approved.
- b. Maintain testing evidence for changes to SIS and FRS.
- c. Evaluate passwords on the FRCC network.
- d. Implement a process to ensure that access is removed upon termination of employment.
- e. Evaluate generic user IDs on the PCC network and VMS.
- f. Perform an analysis of system access and users' accounts and make changes as appropriate to ensure system access is restricted to appropriate users' files and that user profiles are commensurate with job responsibilities and policies.
- g. Complete an annual review of system access for all users and remove and update necessary access rights.

CCCS Response:

Agree. Formal change management procedures were put in place in March 2005 and were documented in April 2005. Currently, the procedures are manual; they will be automated using a new software application by December 2006.

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Testing and approval evidence was maintained after the March 2005 procedures were put in place. Additionally, effective February 2005, changes to FRS/SIS/BRS have been limited to the absolutely essential; that is, changes mandated by law (for example, the Colorado Opportunity Fund (COF)) or are imperative for continuing business operations. Only break-fixes are generally allowed. Therefore, exposure related to programming changes has been evaluated and deemed minimal by management.

The password complexity function has now been enabled at all colleges.

Although some terminated users still have access to the VMS mainframe, none can access the mainframe unless their network password is still active. Some of these individuals were retired employees who were working on contract and therefore properly had access to the system. Further, some of these accounts, while not terminated, were 'disabled'. This was not communicated well during the audit and once deleted from the system no audit trail existed to provide documentation of the date of disabling the user access. The System President is requiring each college President to ensure that their existing computer access accounts are appropriate in level and are given only to current employees or contractor employees with a need for the access.

The generic VMS user-IDs are used for testing changes in the development environment. These generic user-IDs do not have access to the live production environment or data, but to development only. Management has evaluated this risk and determined exposure to be minimal.

Access profiles have been evaluated and will be evaluated on an on-going basis throughout the year. Management has taken steps to correct this condition in the current fiscal year, even prior to the implementation of the new computer system.

Compensated Absences

CCCS records a compensated absences liability for sick and annual leave earned and payable to employees at year-end. The liability at June 30, 2005 totaled \$11 million covering approximately 4,000 employees. The liability is calculated in accordance with State Fiscal Rules and CCCS policy. At year-end, each college prepares an Excel worksheet to calculate the compensated absences accrual by individual employee. These calculations are based on leave balances and current pay rates. We tested a sample of 20 employees across five colleges and the System Office and noted exceptions in the accuracy and completeness of individual calculations. Specifically, we noted the following:

- Community College of Aurora (CCA) – CCA used a numerical factor to allocate individual liability and related expense by functional category. However, in the worksheet, all employees' factors did not total to 100%. As a result, the liability was understated for certain employees. The employees calculated in error were partially funded with grant monies. We recalculated this entire group and noted the liability was understated by \$6,000.
- Pikes Peak Community College (PPCC) – PPCC's annual leave calculation was misstated as a result of using an incorrect formula in the worksheet for calculation of annual leave. PPCC's calculated the annual leave as the lesser of annual leave or maximum annual leave multiplied by a factor for benefits of 1.015 instead of 1.1015. We recalculated all employees and noted the liability was understated by \$53,000.

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- System Office – The System Office did not include PERA and Medicare for CCCOnline employees. We recalculated this employee class and noted the liability was overstated by \$5,000. We also noted that an incorrect annual leave balance was used for one System Office employee resulting in an overstatement of \$2,000. We reviewed other System Office employees noting one additional error which understated the liability by \$300.

The errors noted above resulted from an inadequate management review of the detailed compensated absences worksheet.

Recommendation No. 2:

CCCS should ensure CCA, PPCC, and the System Office accurately and completely calculate the compensated absences liability. Colleges should implement automated procedures to calculate the compensated absences liability.

CCCS Response:

Agree. This process is currently performed manually through spreadsheets which makes detailed review onerous. Although the net errors were approximately .53% of the total compensated absences liability, CCCS recognizes the significance of the controls over creating this estimate and will review fiscal 2006 estimates more closely as well as automate the report in the new ERP system to be implemented during fiscal year 2007.

System Office Capital Assets

CCCS took steps in fiscal year 2005 to ensure its capital asset records were accurate and complete. However, during our audit, we noted two misstatements in the System Office's capital assets balance. In 2005, the System Office began capitalizing software development costs for its new accounting system as construction work in progress (CIP). CCCS did not record approximately \$774,000 of accounts payable for the implementation of its new accounting system as CIP. Instead, this amount was recorded as operating expense on a year-end closing journal entry which was not properly reviewed and approved. We also noted that the buildings and improvements balance was overstated by approximately \$426,000 for a water line that was funded by state capital appropriations. This water line should not have been recorded as an asset because under a memorandum of understanding the asset is to be managed and maintained by the City of Aurora. This error resulted from the failure to obtain and review the memorandum of understanding between the System Office and the City of Aurora. As a result of these two errors, capital assets and expense were understated by \$348,000.

Recommendation No. 3:

CCCS should implement procedures to ensure capital assets are fairly stated. Specifically, CCCS should ensure agreements are properly obtained and reviewed for assets managed by other entities and that software in development is reviewed for inclusion in CIP and reconciled at year-end, including year-end accounts payable entries.

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CCCS Response:

Agree. While these errors do not individually or in the aggregate constitute material amounts for the purpose of the financial statements, CCCS recognizes the need to ensure the process and controls surrounding recording capital equipment are adequate and ensure each item is reflected appropriately in the accounting records. Additional procedures will be in place prior to June 30, 2006.

Student Financial Assistance

We performed procedures required by federal Office of Management and Budget (OMB) Circular A-133 and the Compliance Supplement for Federal Student Aid. We also performed procedures as required by the 2004-2005 Audit Guide for Colorado Funded Student Aid, issued by the Colorado Commission on Higher Education (CCHE). For Fiscal Year 2005, CCCS received approximately \$68 million of federal and state student financial assistance. The five findings and recommendations below result from this work and are presented in the format required under OMB Circular A-133 and *Government Auditing Standards*. In the prior year, we also noted ten findings and recommendations. The implementation status of those comments is located in the Disposition of Prior Year Findings and Recommendation section of this report.

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Federal Student Aid Cluster Student Eligibility

Criteria:	The amount a student is responsible for returning is calculated by subtracting the amount of unearned aid that the institution is required to return from the total amount of unearned Title IV assistance to be returned. However, the student need only return 50 percent of the unearned grant assistance received by the student that is the student's responsibility to repay (34 CFR sections 668.22(g) and 668.22(h)(3) and (4)).
Condition:	PCC can improve controls to ensure communication to students that the amount to be returned is proper.
Questioned Costs:	None. The students have not returned their portion of aid. The college returned the correct amounts.
Context:	In a sample of 30 students (6 from PCC), PCC communicated to 2 students an incorrect return amount.
Effect:	Students may be requested to return an incorrect amount.
Cause:	PCC did not have proper procedures in place to ensure letters sent to students contained accurate information.

Recommendation No. 4:

CCCS should ensure PCC communicates to students the proper amount to be returned.

CCCS Response:

Agree. Action has been taken to ensure only the amount of the Pell overpayment is documented on the letter to the student. If the student owes additional monies, other mechanisms will be offered to provide that information. Implemented as of March 2006.

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Federal Student Aid Cluster Timely Reporting to NSLDS

Criteria:	Students who owe grant overpayments as a result of withdrawals generally will retain their eligibility for Title IV funds for a maximum of 45 days. The student’s eligibility for additional Title IV funds will end if the student fails to take positive action by the 45th day following the date the school sent or was required to send notification to the student. If the student takes no positive action during the 45-day period, the school should report the overpayment to the National Student Loan Data System (NSLDS) immediately after the 45-day period has elapsed. (2004 – 2005 United States Department of Education Federal Student Aid Handbook Volume 2 Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds). Institutionally scheduled school day breaks of five or more consecutive days are excluded from the total number of calendar days in the term in Return of Title IV Funds calculations and therefore do not affect the calculation of the amount of Title IV aid earned. This provides for more equitable treatment of students who withdraw near each end of a scheduled break. All days between the last scheduled day of classes before a scheduled break and the first day classes resume are excluded from both the numerator and denominator in calculating the percentage of the term completed. (34 CFR 668.22; 2003-2004 United States Department of Education Student Financial Aid Handbook Volume 2 Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds.)
Condition:	ACC can improve controls over reporting of overpayments to NSLDS in a timely manner as well as calculation of breaks.
Questioned Costs:	None
Context:	In a sample of 30 students (3 from ACC), 1 student was reported to NSLDS after 63 days or 18 days after the expiration of the 45-day period of extended eligibility to NSLDS. The student did not receive any additional Title IV funds during this time period. Two students also had breaks calculated incorrectly for Thanksgiving.
Effect:	Students’ eligibility for Title IV aid ceases when reported to NSLDS. Therefore, by reporting a student late, a student’s eligibility is extended and he could apply for aid to which the student is not entitled. Also, incorrect calculation of breaks causes incorrect amounts to be returned.
Cause:	ACC did not have proper procedures in place over reporting overpayments and calculation of breaks.

Recommendation No. 5:

CCCS should ensure ACC establishes procedures to ensure that students are not allowed additional days of eligibility before they are reported to NSLDS and that breaks are correctly calculated.

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Year ended June 30, 2005

CCCS Response:

Agree. As a result of staff turnover, this aspect of reporting did not consistently occur in a timely fashion. Personnel have been trained and are now in place to implement controls surrounding this process. Implemented as of February 2006.

Federal Student Aid Cluster Return of Title IV Funds

Criteria:	To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution – (c)(1) Administers Title IV, HEA programs with adequate checks and balances in its system of internal controls.
Condition:	Front Range Community College (FRCC) did not have adequate controls in place to ensure that Return of Title IV calculations were accurately performed.
Questioned Costs:	None
Context:	In a sample of 30 students (7 from FRCC) who had withdrawn from the College, there was no indication of review or approval of the Return of Title IV calculations.
Effect:	The College may return dollars for an incorrect amount or an incorrect program. Also, the College may hold federal funds too long and owe interest.
Cause:	The Director of Financial Aid performed the calculation; therefore, there was no separate review.

Recommendation No. 6:

CCCS should ensure FRCC establishes procedures to have a supervisory review of the Return of Title IV calculations.

CCCS Response:

Agree. Calculations at FRCC were prepared by the Director of Financial Aid as the report was due during a period when the department had experienced turnover and was short staffed. Therefore, there was no separate review of calculation.

CCCS concurs and will train appropriate staff and implement procedures no later than June 30, 2006.

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Federal Student Aid Cluster Return of Title IV Funds

Criteria:	A school must return its portion of unearned Title IV funds by no later than 30 days after the date the school determined the student withdrew. <i>(34 CFR 668.22; 2004-2005 United States Department of Education Student Financial Aid Handbook Volume 2 Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds.)</i> In a Return of Title IV Funds calculation, the school must return the lesser of (1) the amount of Title IV Funds that the school does not earn or (2) the amount of institutional charges that the student incurred for the payment period or period of enrollment multiplied by the percentage of funds that was not earned. Institutional charges are tuition and other educationally related expenses assessed by the institution. The institutional charges used in the calculation are always the charges that were initially assessed the student for the payment period or period of enrollment. The charges used in the Return calculation are always the charges on the student’s account prior to withdrawal. <i>(34 CFR 668.22(g)(1)(ii); 2003-2004 United States Department of Education Student Financial Aid Handbook Volume 2 Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds.)</i>
Condition:	FRCC did not return its portion of unearned Title IV funds by 30 days from the date the school determined the student withdrew and incorrectly calculated the return.
Questioned Costs:	\$75
Context:	In a sample of 30 students (7 from FRCC), 1 student did not have the return made timely. The return was made 3 days late. One student’s calculation also used budgeted amounts for tuition and books rather than actual.
Effect:	FRCC returned its portion of unearned Title IV funds beyond the timeframe established by the regulations and did not recalculate the return accurately.
Cause:	FRCC did not have proper procedures in place over Title IV returns.

Recommendation No. 7:

CCCS should ensure FRCC establishes procedures to ensure that the institution’s portion of a student’s unearned Title IV funds are returned within 30 days after FRCC has determined a student has withdrawn and that proper amounts are used in the calculation.

CCCS Response:

Agree. Procedures will be established and implemented no later than June 30, 2006.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2005

Following are the audit recommendations made for the year ended June 30, 2004 and certain recommendations from the fiscal year 2003 audit and their disposition as of December 7, 2005.

Recommendation	Disposition
1. CCCS should ensure Community College of Aurora (CCA) develops and implements a plan to address the accounting and internal control weaknesses noted in this audit. This plan should address CCA business processes as well as supervision, training, and skill levels of employees responsible for accounting and financial reporting. CCA should submit this plan to the System President for approval. The System President should monitor implementation of the plan, and require at least quarterly updates from CCA.	Partially implemented. CCA should complete all account reconciliations.
2. CCCS should improve controls over access to computer information systems.	Not implemented. See current year Recommendation No. 1.
3. CCCS should ensure Pueblo Community College (PCC) implements controls over grant accounting to ensure account balances are fairly stated in accordance with applicable accounting standards. PCC should also ensure the cash flow statement is properly reviewed for accuracy.	Implemented.
4. CCCS should work with Colorado Northwestern Community College to ensure FTE information is accurately tracked and maintained.	Implemented.
5. CCCS should ensure Community College of Denver (CCD) implements procedures to improve controls over its accounting and financial reporting. CCD should ensure management review is performed over journal entries and calculations such as the allowance for doubtful accounts, the scholarship allowance, and revenue and deferred revenue. CCD should also ensure that someone who does not have check writing privileges on the account prepares the imprest account bank reconciliation.	Implemented.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2005

Recommendation	Disposition
6. CCCS should ensure that Red Rocks Community College (RRCC) implements procedures to ensure manual journal entries are reviewed and approved by a person other than the preparer prior to posting to the general ledger. RRCC should also evaluate all cash controls and make changes as considered necessary to safeguard assets.	Implemented.
7. CCCS should develop and implement a policy for the colleges to account and report on the student loan programs and gifts from the Foundation.	Implemented.
8. CCCS should ensure that its hotline for anonymous callers to report suspected waste, fraud, or abuse is properly communicated on a regular basis and is available to employees.	Implemented.
9. To improve information technology general controls, CCCS should perform the following: <ul style="list-style-type: none"> a. Document the software development and change process. b. Document all emergency fixes. c. Ensure remote access requests are submitted on an approved form and that all are tracked. d. Establish a single anti-virus server and distribute updates to all other servers, including the colleges. e. Document the mainframe user administration procedure so that users are aware of the process for granting, modifying, and removing access and password parameters. f. Consider installing cameras in the computer room to monitor activity. 	Partially implemented. Recommendations (b), (c), (d), (e), and (f) were implemented. See current year Recommendation No. 1.
10. CCCS should ensure Arapahoe Community College establishes procedures to ensure that declined awards are returned to the federal government in a timely manner.	Implemented.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2005

Recommendation	Disposition
11. CCCS should ensure Front Range Community College (FRCC) and Trinidad State Junior College (TSJC) establish procedures to ensure that Return of Title IV calculations are processed correctly with accurate charges and period-end dates.	Implemented.
12. CCCS should ensure TSJC establishes procedures to ensure that the withdrawal date of students who withdraw without providing notification is determined within 30 days after the end of the term and the resulting return is made no later than 30 days after the date of this determination.	Implemented.
13. CCCS should ensure Community College of Denver establishes procedures to ensure that the institution's portion of a student's unearned Title IV funds are returned within 30 days after the College has determined a student has withdrawn.	Implemented.
14. CCCS should ensure Pikes Peak Community College (PPCC) establishes procedures to ensure that term breaks are calculated properly on the Return of Title IV funds calculations.	Implemented.
15. CCCS should ensure FRCC establishes procedures to ensure that return calculations are made and that students are requested to repay grant overpayments.	Implemented.
16. CCCS should ensure FRCC establish procedures to properly verify student financial aid application information.	Implemented.
17. CCCS should ensure PPCC implements procedures such that the appropriate supervisor reviews cash draw-downs and entries and documentation of the review should be affixed to the reconciliation. The supervisory review should include clerical testing of the reconciliations, as well as follow-up procedures to help ensure all errors are investigated and resolved. These procedures will ensure cash is properly reflected for financial reporting purposes.	Implemented.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2005

Recommendation	Disposition
18. CCCS should ensure TSJC establishes procedures that require Government Opportunity Scholarship (GOS) recipients to agree not to take out a loan while receiving GOS awards and document such agreement.	Implemented.
19. CCCS should ensure FRCC develops and implements a plan to improve internal control and compliance over student financial aid. This plan should review the organization structure, business process, and policies and procedures in place in the Financial Aid department to ensure compliance with applicable laws and regulations. Students who received aid inappropriately should be required to repay these funds.	Partially implemented. See current year Recommendation Nos. 6 and 7.
20. Ensure that CCD, FRCC, TSJC, and PCC establish procedures to ensure that the institution's portion of a student's unearned Title IV funds are returned within 30 days after the school has determined a student has withdrawn. (2003 comment)	Partially implemented. See current year Recommendation Nos. 6 and 7.
21. Ensure that TSJC and PCC establish procedures to ensure that the withdrawal dates of students who withdraw without providing notification are determined by 30 days after the end of the term, at the latest. (2003 comment)	Implemented.
22. Ensure that TSJC establishes procedures to ensure that GOS recipients agree not to take out a student loan while receiving GOS awards and to ensure that this agreement is documented. Further, offers for work-study, whether accepted by the student or not, should be documented in the student's records. (2003 comment)	Implemented.



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Colorado Community College System (CCCS), a component unit of the state of Colorado, as of and for the years ended June 30, 2005 and 2004, which collectively comprise CCCS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of CCCS management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of certain discretely presented component units discussed in note 1, which represent 99%, 99%, and 97%, and 99%, 99%, and 98% of the 2005 and 2004 assets, net assets, and revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities and of the aggregate discretely presented component units of CCCS as of June 30, 2005 and 2004, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 21, CCCS restated the 2004 financial statements of the aggregate discretely presented component units.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2005 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

KPMG LLP

December 7, 2005

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004

The following discussion and analysis provides management's view of the financial position and results of operations for the Colorado Community College System (CCCS) as of June 30, 2005 and 2004 (fiscal years 2005 and 2004, respectively), with comparative information presented for fiscal year 2003. This analysis should be read in conjunction with CCCS' financial statements and notes to the basic financial statements. This analysis is intended to make CCCS' financial statements easier to understand and communicate our financial situation in an open and accountable manner.

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

CCCS is Colorado's largest institution of higher-education and served approximately 117,500 students during the fiscal year ended June 30, 2005. The System has approximately 5,500 employees, of which approximately two-thirds are faculty. The colleges offer a wide variety of both academic and career programs leading either to degrees and certificates, or otherwise enhancing personal and professional growth. In addition to the 13 community colleges, CCCS also assists the State Board for Community Colleges and Occupational Education (Board) in exercising certain curriculum and funding authority over four area vocational schools, two local district colleges, and secondary career and technical programs in over 160 school districts throughout the state.

Financial Highlights

- At June 30, 2005, CCCS' assets of \$436,407,855 exceeded its liabilities of \$99,712,825 by \$336,695,030. At June 30, 2004, CCCS' assets of \$408,343,209 exceeded its liabilities of \$98,073,205 by \$310,270,004. The resulting net assets are summarized into the following categories:

	June 30		
	2005	2004	2003
Invested in capital assets, net of related debt	\$ 260,645,079	249,355,846	254,366,247
Restricted, expendable	21,868,967	19,501,563	19,994,698
Unrestricted	54,180,984	41,412,595	34,654,553
Total net assets	\$ 336,695,030	310,270,004	309,015,498

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

During fiscal year 2005, the CCCS' total net assets increased by \$26,425,026. \$17,245,994 of the increase in net assets is related to a one-time adjustment to buildings and accumulated depreciation to correct the valuation of assets acquired under conveyance. The remaining \$9,179,032 increase in net assets is the result of increased tuition revenue and expense containment, compensating for reductions in state appropriations.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004

The Basic Financial Statements

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

The *Statement of Net Assets* presents information on all of the CCCS' assets and liabilities at a point in time (June 30, 2005 and 2004), with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. A reader of the financial statements should be able to determine the assets available to continue CCCS' operations, how much CCCS owes to vendors and lending institutions, and a picture of net assets and their availability for expenditure in CCCS.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the CCCS' net assets changed during the fiscal period (the fiscal years ended June 30, 2005 and 2004). All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

CCCS reports its activity as a special purpose government engaged only in business-type activities using the economic resources measurement focus and the accrual basis of accounting. CCCS is a component of the State of Colorado.

The *Statement of Cash Flows* presents cash receipts and payments to CCCS for the reporting period (the fiscal years ended June 30, 2005 and 2004) using the direct method. The direct method of cash flow reporting portrays cash flows from operations, noncapital financing, capital and related financing, and investing activities.

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

Financial Analysis

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

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004

The assets reported by CCCS exceeded liabilities at June 30, 2005 and 2004, resulting in net assets of \$336,695,030 and \$310,270,004, respectively. The majority (77% and 80%, respectively) of CCCS' net assets are invested in capital assets (e.g., land, buildings, and equipment), net of related debt. These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

	June 30		
	2005	2004	2003
Current assets	\$ 137,647,820	121,709,016	115,337,940
Noncurrent assets, including capital assets of \$295,474,498, \$283,375,622, and \$288,414,419 respectively	298,760,035	286,634,193	289,524,738
Total assets	<u>\$ 436,407,855</u>	<u>408,343,209</u>	<u>404,862,678</u>
Current liabilities	\$ 60,092,153	57,616,029	49,046,500
Noncurrent liabilities	39,620,672	40,457,176	46,800,680
Total liabilities	<u>\$ 99,712,825</u>	<u>98,073,205</u>	<u>95,847,180</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 260,645,079	249,355,846	254,366,247
Restricted – expendable	21,868,967	19,501,563	19,994,698
Unrestricted	54,180,984	41,412,595	34,654,553
Total net assets	<u>\$ 336,695,030</u>	<u>310,270,004</u>	<u>309,015,498</u>

Noncurrent assets increased \$12.1 million, the majority of which related to an adjustment to capital assets to correct the valuation of assets acquired under conveyance. There was no cash impact to CCCS and the result of the adjustment increased invested in capital assets net of related debt.

Front Range Community College refinanced a portion of its long-term debt and issued advance refunding bonds in December 2004 in the amount of \$4,695,000. The proceeds were deposited in escrow and are held in trust until bond series 1995 and 1996 are defeased.

Net assets may have restrictions imposed by external parties, such as donors, who specify how the assets must be used. Restricted net assets (6.5% and 6.3% of total net assets, respectively) are primarily restricted for auxiliary programs, scholarships, loans, capital projects, and community training programs.

Unrestricted net assets (16.1% and 13.3% of total net assets, respectively) are available for general operations at the discretion of the Board. However, the Board has placed some limitations on future use by designating unrestricted net assets for certain purposes, including capital maintenance and equipment expansion and repair, new programs, and compensated absences liability.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004

The *Statement of Revenues, Expenses, and Changes in Net Assets* reports the results of operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net assets at the end of the year. A key component of this statement is the differentiation between operating and nonoperating activities. Operating revenues are received for providing goods and services to the various constituencies of CCCS. Operating expenses are paid to acquire or produce goods and services provided in return for operating revenue, and to carry out the mission of CCCS. Nonoperating revenues are received when goods or services are not provided. Thus, State appropriations are nonoperating because they are provided by the State without the State directly receiving goods and services. For similar reasons, most gifts and investment income are also nonoperating revenue. In fiscal year 2005, nonoperating revenue also includes a one-time adjustment to correct the valuation of capital assets acquired by conveyance.

State appropriations (net of distributions to Local District Colleges and Area Vocational Schools) represent approximately 32.8% and 34.5% of CCCS' total revenue from all sources in fiscal year 2005 and 2004, respectively. State appropriations are CCCS' largest revenue source as detailed in the charts on the following pages. Public institutions of higher education are likely to report an operating loss because the cost of operations is offset through public support in the form of state appropriations. CCCS experienced a \$121 million loss from operations in fiscal year 2005 and a \$131 million loss from operations in fiscal year 2004. In fiscal year 2005, this operating loss was offset by net state appropriations of \$130 million. In fiscal year 2004, this operating loss was offset by net state appropriations of \$129 million and other nonoperating net revenues of \$3 million, including \$1.8 million in capital appropriations.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004

The downtrend in the operating loss is a result of CCCS budget reductions in response to declining state financial support. While general fund appropriations during fiscal year 2005 remained consistent with 2004, CCCS' general fund appropriation decreased 9.4% in fiscal year 2004. In fiscal 2005, student enrollment was consistent with fiscal year 2004; however, the fiscal year 2004 reduction was affected by student FTE enrollment growth of 6.1% in that fiscal year.

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

	June 30		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Tuition and fees, net	\$ 94,750,747	91,955,294	83,175,146
Grants and contracts	118,961,395	116,991,273	111,051,145
Auxiliary services, net	28,333,105	27,731,242	25,352,015
Other	5,682,951	5,899,041	7,212,847
Total operating revenues	<u>247,728,198</u>	<u>242,576,850</u>	<u>226,791,153</u>
Operating expenses:			
Instruction	173,377,158	175,858,587	177,446,584
Public service	2,597,233	2,636,774	2,596,578
Academic support	24,939,234	24,375,020	26,071,203
Student services	31,061,700	31,544,586	31,220,403
Institutional support	31,354,039	32,224,848	36,615,513
Operation and maintenance of plant	34,673,421	34,034,705	40,563,953
Scholarships and fellowships	25,663,485	26,864,413	25,925,497
Auxiliary enterprises	28,353,671	29,787,739	28,838,065
Depreciation	16,845,123	16,268,631	15,008,950
Total operating expenses	<u>368,865,064</u>	<u>373,595,303</u>	<u>384,286,746</u>
Operating loss	<u>(121,136,866)</u>	<u>(131,018,453)</u>	<u>(157,495,593)</u>
Nonoperating revenues:			
State appropriations	149,070,456	148,853,289	164,357,792
Distributions to local district colleges and area vocational schools	(19,543,862)	(19,543,862)	(23,311,739)
Other net nonoperating revenues	16,483,956	628,795	4,861,952
Net nonoperating revenues	<u>146,010,550</u>	<u>129,938,222</u>	<u>145,908,005</u>
Gain/loss before other revenues, expenses, gains, or losses	24,873,684	(1,080,231)	(11,587,588)
State capital contributions	560,217	1,812,010	7,151,160
Capital grants and gifts	991,125	522,727	47,957
Increase (decrease) in net assets	<u>26,425,026</u>	<u>1,254,506</u>	<u>(4,388,471)</u>
Net assets:			
Beginning of year	310,270,004	309,015,498	313,403,969
End of year	<u>\$ 336,695,030</u>	<u>310,270,004</u>	<u>309,015,498</u>

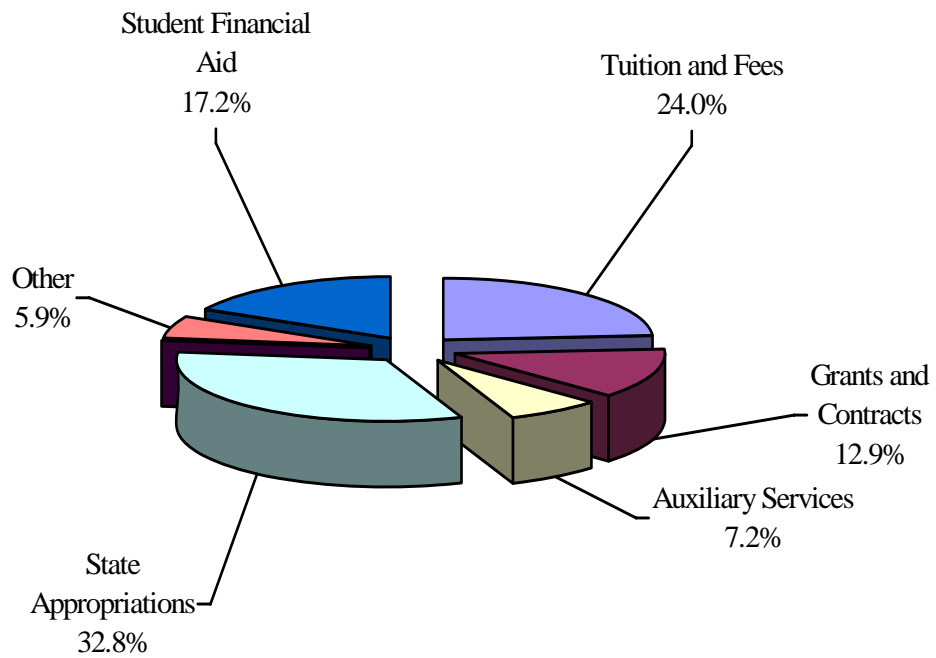
COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004

The charts below give a summary of the total CCCS revenues and expenses with no delineation between operating and nonoperating revenue and expense streams.

**Sources of Revenue
Fiscal Year 2005**

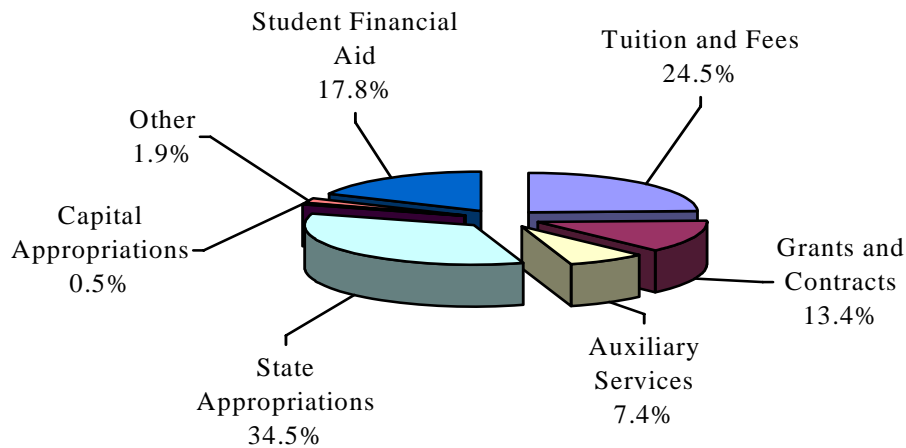


COLORADO COMMUNITY COLLEGE SYSTEM

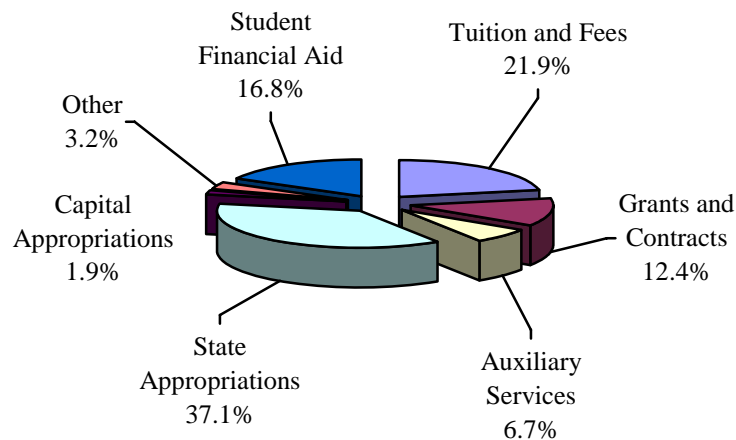
Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004

Sources of Revenue Fiscal Year 2004



Sources of Revenue Fiscal Year 2003



As the above charts demonstrate, State appropriations are the largest revenue source for CCCS in fiscal years 2005, 2004, and 2003. The operating loss of approximately \$121 million and \$131 million in fiscal year 2005 and 2004 respectively, noted above, are the result of operating expenses exceeding operating revenues. CCCS uses State appropriations, which are classified as nonoperating revenues, to fund operations.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004

Revenue activity highlights for fiscal year 2005 include:

- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately \$2.8 million or 3.0%. The increase is primarily a combination of a 1.1% tuition increase, a slight increase in enrollment, and increases in some student fees. This increase was offset by an increase in scholarship allowances.
- General state appropriations remained consistent with fiscal year 2004, but are down 9.3% from 2003, reflecting the State's decreasing financial support.
- State capital appropriations decreased by \$1.2 million or 69% from fiscal year 2004 and are down by \$6.5 million or 92% from fiscal year 2003, as a result of State revenue shortfalls limiting the State's ability to fund capital projects.
- Grants and contracts revenue increased by \$1.9 million or 1.6%. This increase was due to a 4.4% increase in federal student financial aid which offset a 5.7% decrease in State-funded student financial aid and increases in grants at the colleges.
- A one-time adjustment of approximately \$17 million to buildings and accumulated depreciation was recorded to correct the valuation of assets acquired by conveyance. This adjustment was included with other nonoperating revenue.

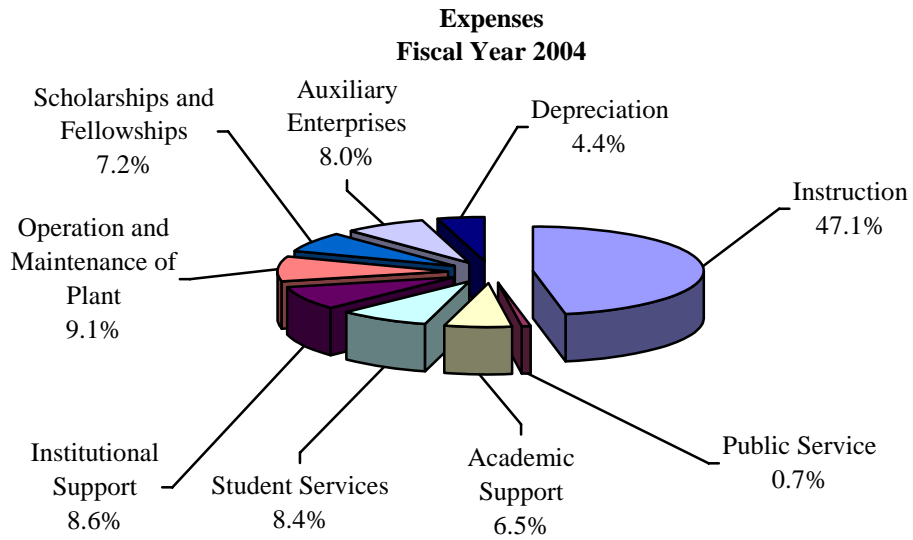
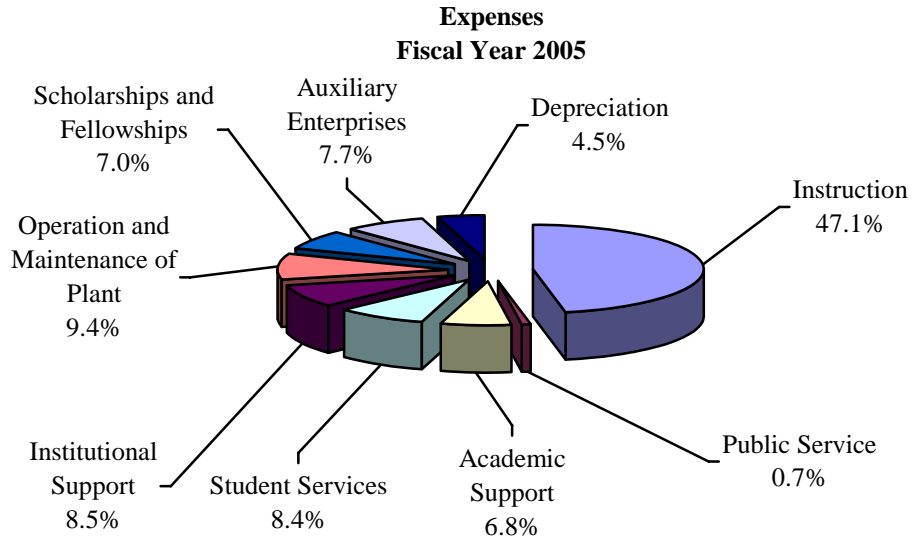
Revenue activity highlights for fiscal year 2004 include:

- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately \$8.8 million or 10.6%. This increase was due to increases of approximately 6.1% in full-time equivalent enrollments and an increase in tuition rates of approximately 5%.
- General state appropriations decreased by \$15.5 million or 9.4% due to state budget cuts.
- State capital contributions decreased by \$5.3 million or 75% as a result of state revenue shortfalls limiting the State's ability to fund capital projects.
- Grants and contracts revenue increased approximately \$5.9 million or 5.4%. About half of this increase was due to increased financial aid related to increased student enrollments, and the other half was related to more grants being awarded to the system office and several colleges.
- Auxiliary enterprise revenue, net of scholarship allowances, increased by \$2.4 million or 9.4% due primarily to increased enrollment, rate changes, and the opening of new childcare facilities.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

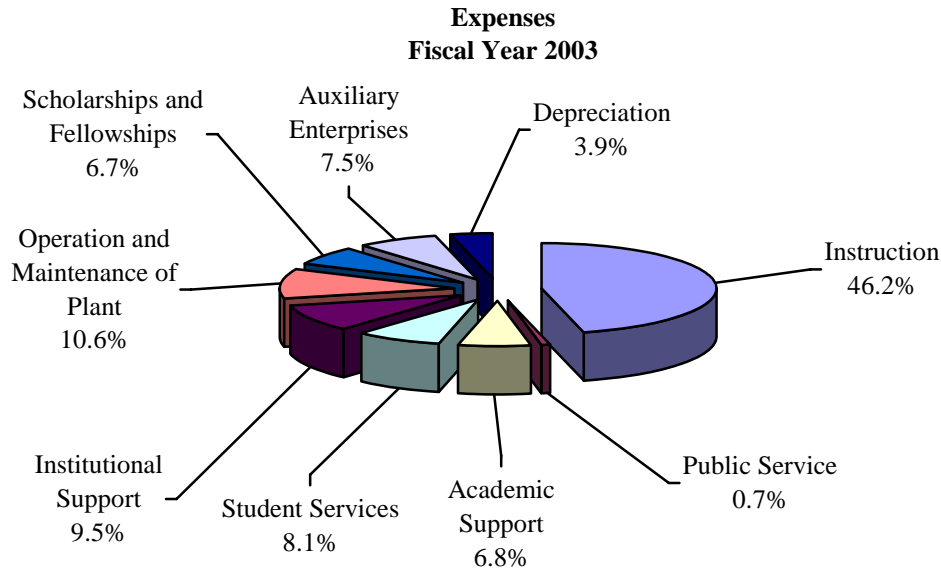
June 30, 2005 and 2004



COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004



Expense activity highlights for fiscal year 2005 include:

- Decreases ranging from 1% to 2.3% from fiscal year 2004 in instruction, public service, student services, and institutional support as a result of CCCS' continued emphasis on reducing spending in response to state budget cuts, while still providing a quality educational opportunity for students.
- From fiscal year 2003 spending levels, overall expenses have decreased by over \$15 million or 4%, while enrollment system-wide increased by 6.4% during the same period.

Expense activity highlights for fiscal year 2004 include:

- Academic support expenses decreased by \$1.7 million or 6.5% due to reduced spending related to budget cuts.
- Decreases of approximately \$4.3 million or 12.0% in institutional support resulting from reductions of spending in response to state budget cuts.
- Operation and maintenance of plant expenses decreased by \$6.5 million or 16.1%. The decrease results from cuts in spending related to plant operations and construction projects.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004

Capital Assets

At June 30, 2005, CCCS had \$295,474,498 of capital assets, net of accumulated depreciation of \$171,210,694, and including current year depreciation of \$16,845,123. At June 30, 2004, CCCS had \$283,375,622 of capital assets, net of accumulated depreciation of \$181,098,916, and including depreciation expense of \$16,268,631. As noted above, during fiscal year 2005, a one-time adjustment of approximately \$17 million to buildings and accumulated depreciation was made to correct the valuation of assets acquired under conveyance. A breakdown of assets by category, net of accumulated depreciation, is provided below:

	June 30		
	2005	2004	2003
Land	\$ 20,073,667	20,073,667	19,731,203
Land improvements	9,214,937	6,664,543	6,226,242
Buildings and improvements	242,089,691	229,433,009	232,861,398
Leasehold improvements	3,433,652	3,855,514	1,501,600
Construction in progress	8,724,380	7,700,749	8,841,494
Equipment	6,667,654	10,503,471	12,253,257
Library materials	4,654,691	4,540,481	4,648,580
Collections	615,826	604,188	598,188
Total capital assets	<u>\$ 295,474,498</u>	<u>283,375,622</u>	<u>286,661,962</u>

At June 30, 2005, there were no significant new building projects under construction.

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

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

Debt

CCCS had \$33,392,138 and \$34,145,407 in debt outstanding at June 30, 2005 and 2004, respectively.

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

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2005 and 2004

The breakdown of the debt follows:

	June 30		
	2005	2004	2003
Auxiliary revenue bonds	\$ 19,239,650	20,017,171	20,953,530
Capital lease obligations	14,152,488	14,128,236	14,417,423
Total debt	\$ 33,392,138	34,145,407	35,370,953

Colorado Community College System Future

The CCCS funding relies on three primary drivers: enrollment, tuition rates, and state funding. Significant events impacting two of those drivers occurred in calendar year 2005: Enterprise Status and the College Opportunity Fund.

Enrollment: As the economy strengthens, enrollment in community colleges typically plateaus or decreases slightly. CCCS resident enrollment of 44,564 declined 0.01% from fiscal year 2004 to fiscal year 2005. Continued declines in enrollment are anticipated this year and next year as the Colorado economy strengthens. Nonresident enrollment increased over the same period 5.9% resulting in total enrollment growth of 0.2%.

Tuition Rates: In an effort to mitigate increased costs and decreased state support, the State Board for Community Colleges and Occupational Education (SBCCOE) raised tuition 8.9% in fiscal year 2006. No tuition rate increases are planned at this time for fiscal year 2007.

State Funding: State legislation (passed in fiscal year 2004) provided higher education institutions in the State of Colorado the ability to designate themselves as Enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), given the institution met stated qualifications. CCCS qualified as an Enterprise because it is a government-owned business with legal authority to issue revenue bonds. CCCS received final Enterprise status approval from the State's Legislative Audit Committee in early fiscal year 2006. Enterprise status exempts an entity's revenue from the State's TABOR spending limits, thus providing greater flexibility to the State Legislature and the CCCS Board in establishing tuition rates. However, as one of CCCS' primary missions is access, higher tuition rates impact the institution's constituents.

Legislation additionally provided for a change in the funding mechanism of higher education institutions beginning in fiscal year 2006. The State will no longer appropriate funds directly for higher education. Through the College Opportunity Fund (COF), qualified students will receive State dollars via a per-credit-hour stipend. For fiscal year 2006, the COF stipend is \$80 per credit hour. The receiving students will use the stipend to pay for a portion of their tuition. CCCS also receives funding through a fee-for-service contract with the Department of Higher Education (Department). The Department's contract with CCCS purchases credit hours for Basic Skills, Fast Track classes for high school students, and Post-Secondary Enrollment Options (PSEO) classes. The State's current projections estimate these changes in the funding mechanism will have a neutral effect upon CCCS' funding for fiscal 2006. In fiscal 2007, Basic Skills, Fast Track and PSEO classes will be eligible for the COF stipend. Thus, it is anticipated that a majority of CCCS funding in fiscal 2007 will depend on enrollment.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity
Statements of Net Assets
June 30, 2005 and 2004

Assets	2005	2004
Current assets:		
Cash and cash equivalents	\$ 102,473,169	86,311,947
Restricted cash and cash equivalents	343,568	106,783
Accounts receivable, net	30,343,043	26,603,485
Inventories	3,116,073	2,831,342
Prepaid expenses	1,371,967	5,855,459
Total current assets	<u>137,647,820</u>	<u>121,709,016</u>
Noncurrent assets:		
Restricted cash and cash equivalents	204,110	81,570
Restricted investments	2,821,855	3,043,418
Other assets	259,572	133,583
Capital assets, net	295,474,498	283,375,622
Total noncurrent assets	<u>298,760,035</u>	<u>286,634,193</u>
Total assets	<u>\$ 436,407,855</u>	<u>408,343,209</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 8,398,397	9,824,293
Accrued liabilities	24,529,141	22,607,306
Deferred revenue	9,959,747	9,820,030
Deposits held for others	11,083,237	9,690,731
Bonds payable, current portion	880,000	940,000
Capital leases payable, current portion	454,657	303,146
Other long-term liabilities, current portion	273,516	211,644
Compensated absences liability	4,513,458	4,218,879
Total current liabilities	<u>60,092,153</u>	<u>57,616,029</u>
Noncurrent liabilities:		
Bonds payable	18,359,650	19,077,171
Capital leases payable	13,697,831	13,825,090
Other long-term liabilities	1,388,491	1,783,217
Compensated absences liability	6,174,700	5,771,698
Total noncurrent liabilities	<u>39,620,672</u>	<u>40,457,176</u>
Total liabilities	<u>99,712,825</u>	<u>98,073,205</u>
Net assets:		
Invested in capital assets, net of related debt	260,645,079	249,355,846
Restricted for expendable purposes:		
Auxiliary pledged revenue	14,323,667	13,245,121
Scholarships/fellowships	892,892	398,271
Loans	1,229,382	1,192,933
Capital projects	70,000	40,000
Training programs	4,269,688	4,197,093
Other	1,083,338	428,145
Total restricted for expendable purposes	<u>21,868,967</u>	<u>19,501,563</u>
Unrestricted	54,180,984	41,412,595
Total net assets	<u>\$ 336,695,030</u>	<u>310,270,004</u>

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statements of Financial Position

June 30, 2005 and 2004

Assets	2005	2004
Cash and cash equivalents	\$ 5,782,797	5,029,648
Accounts and pledges receivable	1,396,311	841,728
Due from primary government	15,939	674,605
Investments	18,606,926	16,845,739
Investment in direct financing leases	14,100,000	14,520,000
Other assets	664,181	241,298
Capital assets, net of depreciation	12,712,321	13,281,011
Total assets	\$ 53,278,475	51,434,029
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,109,300	236,067
Due to primary government	154,343	305,351
Accrued liabilities	95,329	134,709
Deferred revenue	870,936	868,531
Bonds payable	9,484,244	9,490,000
Other long-term liabilities	13,781,145	15,128,044
Total liabilities	25,495,297	26,162,702
Net assets:		
Unrestricted	7,518,983	7,184,530
Temporarily restricted	15,249,947	13,446,541
Permanently restricted	5,014,248	4,640,256
Total net assets	27,783,178	25,271,327
Total liabilities and net assets	\$ 53,278,475	51,434,029

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$36,986,925 in 2005 and \$35,799,460 in 2004; including revenues pledged for bonds of \$4,420,680 in 2005 and \$4,094,854 in 2004	\$ 94,750,747	91,955,294
Grants and contracts	118,961,395	116,991,273
Gifts	484,641	567,285
Sales and services of educational activities	1,127,905	1,005,937
Auxiliary enterprises, net of scholarship allowances of \$7,018,772 in 2005 and \$6,583,588 in 2004; including revenues pledged for bonds of \$28,812,808 in 2005 and \$28,023,020 in 2004	28,333,105	27,731,242
Other operating revenues, including revenues pledged for bonds of \$151,700 in 2005 and \$148,384 in 2004	4,070,405	4,325,819
Total operating revenues	<u>247,728,198</u>	<u>242,576,850</u>
Operating expenses:		
Instruction	173,377,158	175,858,587
Public service	2,597,233	2,636,774
Academic support	24,939,234	24,375,020
Student services	31,061,700	31,544,586
Institutional support	31,354,039	32,224,848
Operation and maintenance of plant	34,673,421	34,034,705
Scholarships and fellowships	25,663,485	26,864,413
Auxiliary enterprises	28,353,671	29,787,739
Depreciation	16,845,123	16,268,631
Total operating expenses	<u>368,865,064</u>	<u>373,595,303</u>
Operating loss	<u>(121,136,866)</u>	<u>(131,018,453)</u>
Nonoperating revenues (expenses):		
State appropriations	149,070,456	148,853,289
Distributions to Local District College and Area Vocation Schools	(19,543,862)	(19,543,862)
Gifts	573,483	698,653
Investment income (loss)	2,007,822	(178,083)
Interest expense on capital debt	(1,568,301)	(1,270,075)
Gain (loss) on disposal of assets	(2,026,338)	1,190,109
Other nonoperating revenues	17,497,290	188,191
Net nonoperating revenues	<u>146,010,550</u>	<u>129,938,222</u>
Gain (loss) before other revenues, expenses, gains, or losses	24,873,684	(1,080,231)
Other revenues, expenses, gains, or losses:		
State capital contributions	560,217	1,812,010
Capital grants	935,450	433,355
Capital gifts	55,675	89,372
Increase in net assets	<u>26,425,026</u>	<u>1,254,506</u>
Net assets, beginning of year	<u>310,270,004</u>	<u>309,015,498</u>
Net assets, end of year	<u>\$ 336,695,030</u>	<u>310,270,004</u>

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Contributions	\$ 559,524	3,777,651	370,261	4,707,436
Grants	10,400	1,210,913	—	1,221,313
Investment income	1,395,503	620,521	3,731	2,019,755
Rental income	2,005,917	35,100	—	2,041,017
Special events	299,970	116,432	—	416,402
Net assets released from restrictions	3,958,225	(3,958,225)	—	—
Other income	473,284	1,014	—	474,298
Total revenues	<u>8,702,823</u>	<u>1,803,406</u>	<u>373,992</u>	<u>10,880,221</u>
Expenses:				
Program services	7,060,553	—	—	7,060,553
Fundraising services	638,832	—	—	638,832
Administrative services	668,985	—	—	668,985
Total expenses	<u>8,368,370</u>	<u>—</u>	<u>—</u>	<u>8,368,370</u>
Change in net assets	334,453	1,803,406	373,992	2,511,851
Net assets, beginning of year	<u>7,184,530</u>	<u>13,446,541</u>	<u>4,640,256</u>	<u>25,271,327</u>
Net assets, end of year	<u>\$ 7,518,983</u>	<u>15,249,947</u>	<u>5,014,248</u>	<u>27,783,178</u>

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Contributions	\$ 448,758	2,387,944	59,175	2,895,877
Grants	200,161	484,198	—	684,359
Investment income	1,379,194	1,052,908	1,315	2,433,417
Rental income	1,999,997	51,883	—	2,051,880
Special events	459,268	150,184	—	609,452
Net assets released from restrictions	2,934,294	(2,934,294)	—	—
Other income	243,736	33,666	—	277,402
Total revenues	<u>7,665,408</u>	<u>1,226,489</u>	<u>60,490</u>	<u>8,952,387</u>
Expenses:				
Program services	5,791,614	—	—	5,791,614
Fundraising services	338,733	—	—	338,733
Administrative services	692,942	—	—	692,942
Total expenses	<u>6,823,289</u>	<u>—</u>	<u>—</u>	<u>6,823,289</u>
Change in net assets	<u>842,119</u>	<u>1,226,489</u>	<u>60,490</u>	<u>2,129,098</u>
Net assets, beginning of year, as restated (note 21)	6,342,411	12,220,052	4,579,766	23,142,229
Net assets, end of year	<u>\$ 7,184,530</u>	<u>13,446,541</u>	<u>4,640,256</u>	<u>25,271,327</u>

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Cash Flow

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 97,434,328	96,081,326
Student loans collected	468,522	180,411
Sales of products	13,430,665	13,514,900
Sales of services	17,801,041	16,352,022
Grants, contracts, and gifts	117,803,398	116,465,526
Other operating receipts	4,508,202	5,178,867
Cash payments:		
Scholarships disbursed	(25,326,119)	(23,900,860)
Student loans disbursed	(275,128)	(176,627)
Payments for employees	(206,572,914)	(210,230,539)
Payments to suppliers	(120,084,394)	(126,674,435)
Net cash used by operating activities	<u>(100,812,399)</u>	<u>(113,209,409)</u>
Cash flows from noncapital financing activities:		
State appropriations – noncapital	149,070,456	148,853,289
Distributions to Local District College and Area Vocation Schools	(19,543,862)	(19,543,862)
Gifts and grants for other than capital purposes	1,057,620	1,039,157
Agency (inflows)	48,717,145	20,164,459
Agency (outflows)	(48,434,834)	(20,830,195)
Net cash provided by noncapital financing activities	<u>130,866,525</u>	<u>129,682,848</u>
Cash flows from capital and related financing activities:		
State appropriations – capital	479,463	671,922
Capital grants, contracts, and gifts	1,170,177	442,273
Proceeds from capital debt	4,725,528	—
Payments to escrow for advance bond refunding	(4,587,199)	—
Bond issuance costs	(138,329)	—
Proceeds from sale of capital assets	45,202	1,230,852
Acquisition and construction of capital assets	(14,165,451)	(11,966,509)
Principal paid on capital debt	(1,563,984)	(1,246,408)
Interest on capital debt	(1,506,808)	(1,298,116)
Net cash used by capital and related financing activities	<u>(15,541,401)</u>	<u>(12,165,986)</u>
Cash flows from investing activities:		
Investment earnings (losses)	2,007,822	(178,083)
Net cash provided (used) by investing activities	<u>2,007,822</u>	<u>(178,083)</u>
Net increase in cash and cash equivalents	16,520,547	4,129,370
Cash and cash equivalents, beginning of the year	<u>86,500,300</u>	<u>82,370,930</u>
Cash and cash equivalents, end of the year	<u>\$ 103,020,847</u>	<u>86,500,300</u>

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Cash Flow

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (121,136,866)	(131,018,453)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	16,845,123	16,268,631
Increase in other nonoperating assets	89,259	360,981
Decrease (increase) in assets:		
Receivables, net	717,057	(336,724)
Inventory and prepaids	4,185,123	(1,001,889)
Increase (decrease) in liabilities:		
Accounts payable	(3,821,034)	542,078
Accrued liabilities	1,706,749	(663,591)
Deferred revenues	(1,169,728)	987,781
Deposits held for others	1,157,197	2,739,493
Compensated absences liability	697,577	(805,491)
Other liabilities	(82,856)	(282,225)
Net cash used by operating activities	<u>\$ (100,812,399)</u>	<u>(113,209,409)</u>
Noncash investing, capital, and noncapital financing activities:		
Acquisitions of capital assets	\$ 320,177	1,149,305
Adjustment to capital assets acquired under conveyance	17,245,994	—
Equipment donations and capital gifts	540,208	65,236
Loss on disposal of capital assets	1,953,819	24,243
Amortization of bond premium/discount, issuance costs, and gain or loss on refunding	46,262	—

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

(1) Governance and Reporting Entity

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

The CCCS is an institution of higher education of the state of Colorado. Thus, for financial reporting purposes, CCCS is included as part of the state of Colorado's primary government. CCCS' operations and activities are funded primarily through state appropriations, federal, state, and local grants, and tuition revenue. Pursuant to Colorado Revised Statute (CRS) 23-1-104, state appropriations for the operation of CCCS are made to the SBCCOE, which is responsible for the allocation to the individual colleges. In addition, the SBCCOE receives and distributes state appropriations for local district colleges, area vocational schools, and school districts offering vocational programs.

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

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

As an institution of higher education in the state of Colorado, the income of CCCS is generally exempt from income taxes under Section 115 of the Internal Revenue Code. However, income unrelated to the exempt purpose of CCCS would be subject to tax under Section 511(a)(2)(B). CCCS management does not believe there is any material unrelated income in the years ended June 30, 2005 or 2004.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

During fiscal year 2005, CCCS implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3. The standard primarily changes the required disclosures of investment custodial risk and adds disclosures of credit quality risk and interest rate risk. CCCS also implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which did not have an impact on the financial statements. During fiscal year 2004, CCCS implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*-an amendment to GASB Statement No. 14.

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

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

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

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

The SBCCOE Employee Benefit Trust Fund (the Benefit Trust) is included in the accompanying basic financial statements as a blended component unit. The Benefit Trust was established on February 1, 1983 as a legally and financially independent entity whose governing committee is appointed by the SBCCOE. The Benefit Trust was established to provide benefits under the Health and Welfare Program. Benefits are determined by the Benefit Trust committee, and may include life, accidental death and dismemberment, short-term and/or long-term disability, basic or major medical, dental or other sick or accident benefits.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

Other benefits, as determined by the Benefit Trust committee, may be provided for employees and their dependent families through self-funded or insured programs, or a combination of the two, provided that such other benefits are permissible under Section 501(c)(9) of the Internal Revenue Code. The Benefit Trust is a 501(c)(3) not-for-profit corporation. Separate unaudited financial statements of the Benefit Trust are available upon request.

(2) **Basis of Presentation**

CCCS applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements.

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

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

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

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

(b) ***Accounts Receivable***

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

(c) ***Investments***

Investments are reported at fair value, which is determined based on quoted market prices.

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

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

(e) ***Inventories***

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

(f) ***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. CCCS uses a capitalization threshold of \$5,000 and estimated useful lives in

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

accordance with the State Fiscal Procedures Manual. CCCS' estimated useful lives are as follows: 20-50 years for buildings, 20-40 years for improvements other than buildings, 3-10 years for equipment, and 7-15 years for library collections. Depreciation expense is not allocated among functional categories.

Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or their estimated useful life.

(g) Deposits Held for Others

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

In fiscal 2004, CCCS participated in the federal government's Direct Loan Program, which provides loans to qualifying students. While CCCS assisted students in obtaining these loans, CCCS is not a party to the loans and is not responsible for collection of monies owed or for default by borrowers. The U.S. Department of Education performs these functions.

CCCS accounted for its direct loans in an internal agency fund. The amount of direct loans for the 13 CCCS colleges participating in the program was approximately \$343,000 in 2004. None of the 13 CCCS colleges had direct loans in 2005.

(h) Accrued Liabilities

Accrued liabilities primarily represent accrued payroll and benefits payable June 30, 2005 and 2004.

(i) Compensated Absences Liability

The current portion of compensated absences liability is the portion that is estimated to be paid out within one year. This estimate is based upon the average expended over the preceding three years.

(j) Net Assets

GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, requires that resources be classified for accounting purposes into the following net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted: Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the college or by the passage of time.
- Unrestricted: All other categories of net assets. Unrestricted net assets include assets designated by the SBCCOE for certain purposes.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

(k) *Classification of Revenues and Expenses*

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

- Operating revenues and expenses: Operating revenues and expenses generally result from providing goods and services for instruction, public service, or related support services to an individual or entity separate from CCCS.
- Nonoperating revenues and expenses: Nonoperating revenues and expenses are those that do not meet the definition of operating. Nonoperating revenues include state appropriations for operations, gifts, investment income, and insurance recoveries. In fiscal 2005, nonoperating revenue also includes a one-time adjustment to correct the valuation of assets acquired under conveyance. Nonoperating expense includes interest expense.
- Other revenues, expenses, gains, and losses include state capital construction contributions and controlled maintenance appropriations, gifts, and grants restricted for capital purposes.

(l) *Summer Session Revenues and Related Expenses*

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

(m) *Application of Restricted and Unrestricted Resources*

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

(n) *Scholarship Allowances*

CCCS calculates scholarship allowances on a student-by-student basis.

(o) *Use of Estimates*

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

(p) *Reclassifications*

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

(4) *Appropriations*

The Colorado State Legislature establishes spending authority for CCCS in its annual Long Appropriations Bill. Appropriated funds include an amount from the state of Colorado's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources, which are

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recognized in various revenue categories, as appropriate, in the accompanying statements of revenues, expenses, and changes in net assets. Nonappropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the years ended June 30, 2005 and 2004, appropriated expenditures were within authorized spending authority. CCCS received a total general fund appropriation of \$149,070,456 and \$148,853,289, respectively, for 2005 and 2004. Included in the general fund appropriations for both 2005 and 2004 are \$19,543,862 of State appropriations specified to be passed through to two Local District Colleges and four Area Vocational Schools: \$11,038,334 for Local District Colleges and \$8,505,528 for Area Vocational Schools. CCCS also received capital contributions of \$560,217 in 2005 and \$1,812,010 in 2004.

(5) Tuition, Fees, and Auxiliary Revenue

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

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

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

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Tuition, fees, and auxiliary revenue and the related scholarship allowance for the year ended June 30, 2004 were as follows:

	<u>Tuition and fees</u>	<u>Auxiliary revenue</u>	<u>Total</u>
Gross revenue	\$ 127,754,754	34,314,830	162,069,584
Scholarship allowances:			
Federal	(25,377,419)	(4,564,747)	(29,942,166)
State	(7,578,808)	(1,358,383)	(8,937,191)
Private	(826,595)	(119,713)	(946,308)
Institutional	<u>(2,016,638)</u>	<u>(540,745)</u>	<u>(2,557,383)</u>
Total allowances	<u>(35,799,460)</u>	<u>(6,583,588)</u>	<u>(42,383,048)</u>
Net revenue	\$ <u>91,955,294</u>	<u>27,731,242</u>	<u>119,686,536</u>

(6) Cash and Cash Equivalents, and Investments

CCCS' cash and cash equivalents are detailed in the table below.

	<u>2005</u>	<u>2004</u>
Cash on hand and change funds	\$ 383,605	176,087
Deposits with financial institutions	<u>2,091,705</u>	<u>1,320,447</u>
Total	\$ <u>2,475,310</u>	<u>1,496,534</u>

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

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

	<u>Carrying amount</u>	
	<u>2005</u>	<u>2004</u>
Footnote amounts:		
Deposits	\$ 2,475,310	1,496,534
Deposit held with State Treasurer	100,545,537	85,003,766
Restricted investments (Benefit Trust)	<u>2,821,855</u>	<u>3,043,418</u>
Total	<u>\$ 105,842,702</u>	<u>89,543,718</u>
Financial statement amounts:		
Net cash and cash equivalents	\$ 102,473,169	86,311,947
Current restricted cash	343,568	106,783
Noncurrent restricted cash	<u>204,110</u>	<u>81,570</u>
Subtotal cash and cash equivalents	103,020,847	86,500,300
Restricted investments (Benefit Trust)	<u>2,821,855</u>	<u>3,043,418</u>
	<u>\$ 105,842,702</u>	<u>89,543,718</u>

CCCS deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, CRS. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. At June 30, 2005 and 2004, CCCS had cash on deposit with the State Treasurer of \$100,545,537 and \$85,003,766, respectively, which represented approximately 2.5% of the value of all deposits in the State Treasurer's Pool (Pool).

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

For CCCS' deposits with the State Treasury, the net unrealized loss for fiscal year 2005 was \$308,700 and the net unrealized gain for fiscal year 2004 was \$627,325. These unrealized gains or losses are included in cash and cash equivalents on the Statements of Net Assets.

Interest Rate Risk

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively

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manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. The weighted average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in terms of years, weighted to reflect the dollar size of individual investments within an investment type. The overall portfolio weighted average maturity is derived by dollar-weighting the WAM for each investment type. The State has selected WAM as the primary method for reporting interest rate risk. As of June 30, 2005, the WAM of investments in the Treasurer's Pool is 0.10 years for 26% of the Pool, 2.10 years for 47% of the Pool, 2.30 years for 12% of the Pool, and 2.60 years for 15% of the Pool.

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

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

Credit Quality Risks

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies which assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2005, approximately 83% of investments in the Treasurer's Pool are subject to credit quality risk reporting. These investments are rated from upper-medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

Concentration of Credit Risk

The Benefit Trust does have investments (other than U.S. Government or Agency securities, mutual funds, or investment pools) which represent five percent or more of total assets, thus concentrating credit risk. Although all investments intrinsically carry credit risk, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. As of June 30, 2005, the fair value of Benefit Trust investments greater than five percent of total investments consisted of Questar Corporation securities in an amount of \$197,700, or seven percent of total assets. CCCS management does not believe that possible future losses resulting from this Benefit Trust investment would have a material adverse effect on

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CCCS' financial condition or operations. As such, no provision has been made in the accompanying basic financial statements for this item.

The Treasurer's Pool was not subject to a concentration of credit risk in either fiscal 2005.

Additional information on investments of the State Treasurer's Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2005.

2004 Investments

As of June 30, 2004, the Benefit Trust held category one investments of \$3,043,418, which includes \$253,325 of U.S. government and U.S. agency securities, \$1,057,451 of corporate bonds, \$1,498,355 of common stocks, and \$234,287 of mutual funds. Category one investments include insured or registered investments, or securities held by CCCS or its agent in CCCS' name. All of the Benefit Trust investment balance is covered through private insurance.

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

Accounts receivable at June 30, 2005 are as follows:

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

Accounts receivable at June 30, 2004 are as follows:

	Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	\$ 16,268,704	(5,433,597)	10,835,107
Due from other governments	10,546,161	—	10,546,161
Other receivables	5,391,277	(169,060)	5,222,217
Total receivables	<u>\$ 32,206,142</u>	<u>(5,602,657)</u>	<u>26,603,485</u>

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Accounts payable and accrued liabilities at June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Accounts payable, vendors	\$ 8,398,397	9,824,293
Salaries and benefits payable	22,291,524	22,043,926
Accrued interest payable	130,991	105,990
Other payables	<u>2,106,626</u>	<u>457,390</u>
Total accounts payable and accrued liabilities	\$ <u>32,927,538</u>	<u>32,431,599</u>

(8) Capital Assets

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2005. Adjustments reflect one-time adjustments to buildings and accumulated depreciation to correct the valuation of assets acquired under conveyance.

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

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The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Deletions	Transfers	Balance June 30, 2004
Nondepreciable capital assets:					
Land and land improvements	\$ 19,731,203	—	—	342,464	20,073,667
Construction in progress	8,841,494	9,071,770	(9,180)	(10,203,337)	7,700,747
Collections	598,188	6,000	—	—	604,188
Total nondepreciable capital assets	<u>29,170,885</u>	<u>9,077,770</u>	<u>(9,180)</u>	<u>(9,860,873)</u>	<u>28,378,602</u>
Depreciable capital assets:					
Land improvements	11,007,599	547,309	—	376,377	11,931,285
Buildings and improvements	367,500,692	859,242	(358,119)	6,860,145	374,861,960
Leasehold improvements	1,723,219	—	—	2,624,351	4,347,570
Equipment	33,401,308	2,097,786	(2,961,871)	—	32,537,223
Library materials	12,585,912	672,142	(840,156)	—	12,417,898
Total depreciable capital assets	<u>426,218,730</u>	<u>4,176,479</u>	<u>(4,160,146)</u>	<u>9,860,873</u>	<u>436,095,936</u>
Less accumulated depreciation:					
Land improvements	4,694,382	487,559	—	—	5,181,941
Buildings and improvements	134,726,269	11,134,809	(347,328)	—	145,513,750
Leasehold improvements	221,619	270,437	—	—	492,056
Equipment	21,148,051	3,648,414	(2,762,713)	—	22,033,752
Library materials	7,937,332	692,524	(752,439)	—	7,877,417
Total accumulated depreciation	<u>168,727,653</u>	<u>16,233,743</u>	<u>(3,862,480)</u>	<u>—</u>	<u>181,098,916</u>
Net depreciable capital assets	<u>257,491,077</u>	<u>(12,057,264)</u>	<u>(297,666)</u>	<u>9,860,873</u>	<u>254,997,020</u>
Total capital assets, net	<u>\$ 286,661,962</u>	<u>(2,979,494)</u>	<u>(306,846)</u>	<u>—</u>	<u>283,375,622</u>

(9) Long-Term Liabilities

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

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

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The following presents changes in long-term liabilities at June 30, 2004:

	<u>Balance, July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2004</u>	<u>Current portion</u>
Revenue bonds payable	\$ 20,953,530	—	(936,359)	20,017,171	940,000
Capital leases payable	14,417,423	—	(289,186)	14,128,237	303,146
Other long-term liabilities	2,219,047	—	(224,186)	1,994,861	211,644
Compensated absences liability	10,767,409	205,738	(982,570)	9,990,577	4,218,879

(10) Bonds Payable

(a) Systemwide Revenue Bonds

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

Series 1995 Bonds

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

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

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

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Series 1996 Bonds

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

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

Series 1997 Bonds

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

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

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

Series 1998 Bonds

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

Morgan Community College	\$	580,000
Northeastern Junior College		<u>1,050,000</u>
	\$	<u><u>1,630,000</u></u>

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Series 1999 Bonds

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

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

Series 2003 Bonds

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

Series 2004 Bonds

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

(b) Advance Refunding

In fiscal year 1998, Northeastern Junior College Systemwide revenue bonds were advance refunded.

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

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

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

As of June 30, 2005 and 2004, \$12,930,000 and \$8,570,000, respectively, of bonds outstanding are considered advance refunded and not included in the accompanying basic financial statements.

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(c) ***Security***

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

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

(d) ***Earnings Requirement***

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

Total gross revenue pledged for bonds was \$33,385,188 and \$32,266,258 for fiscal year 2005 and 2004, respectively. These amounts consisted of \$4,420,680 and \$4,094,854 of student tuition and fees, \$28,812,808 and \$28,023,020 of auxiliary enterprise revenue, and \$151,700 and \$148,384 of other revenues, respectively.

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

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

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

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

(g) ***Bond Accounting***

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

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June 30, 2005 and 2004

(h) Long-Term Bond Principal Maturities

Bond principal payments to be made during fiscal years through 2010 are enumerated in the following table:

Bond issue	Principal maturing in next five years by year				
	FY06	FY07	FY08	FY09	FY10
Series 1997:					
Community College of Aurora	\$ 45,000	50,000	50,000	55,000	55,000
Northeastern Junior College	90,000	95,000	100,000	105,000	110,000
Trinidad State Junior College	45,000	45,000	50,000	50,000	55,000
Series 1998:					
Morgan Community College	25,000	25,000	25,000	25,000	30,000
Northeastern Junior College	40,000	45,000	45,000	45,000	50,000
Series 1999:					
Pueblo Community College	165,000	175,000	185,000	185,000	200,000
Red Rocks Community College	125,000	130,000	135,000	145,000	150,000
Series 2003:					
Pikes Peak Community College	135,000	135,000	140,000	140,000	145,000
Series 2004:					
Front Range Community College	210,000	380,000	395,000	410,000	425,000
Total revenue bonds payable	880,000	1,080,000	1,125,000	1,160,000	1,220,000
Interest	810,866	776,206	736,981	694,763	649,298
Total annual debt service	\$ 1,690,866	1,856,206	1,861,981	1,854,763	1,869,298

Bond debt service payments from 2011 to maturity are:

	Principal	Interest	Total
2011-2015	\$ 6,835,000	2,460,780	9,295,780
2016-2020	4,965,000	1,090,136	6,055,136
2021-2025	1,105,000	364,056	1,469,056
2026-2030	1,140,000	119,496	1,259,496
2031	75,000	1,547	76,547

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

	Revenue bonds outstanding* June 30, 2005	Interest Rate	Maximum annual principal	Callable	Call premium	Final Payment
State Board for Community Colleges and Occupational Education Systemwide Revenue Bonds:						
Series 1997:						
Northeastern Junior College	\$ 1,560,000	3.75% to 5.5%	150,000	Yes	None	11/1/2019
Community College of Aurora	1,005,000	3.85% to 5.125%	95,000	Yes	None	11/1/2019
Northeastern Junior College	425,000	3.85% to 5.125%	40,000	Yes	None	11/1/2019
Trinidad Junior College	780,000	3.85% to 5.125%	80,000	Yes	None	11/1/2017
Series 1998:						
Morgan Community College	460,000	3.9% to 5.0%	45,000	Yes	None	11/1/2018
Northeastern Junior College	800,000	3.9% to 5.0%	75,000	Yes	None	11/1/2018
Series 1999:						
Pueblo Community College	2,560,000	3.2% to 4.5%	265,000	Yes	None	11/1/2016
Red Rocks Community College	2,600,000	2.0% to 4.125%	235,000	Yes	None	11/1/2019
Series 2003:						
Pikes Peak Community College*	4,540,812	2.08% to 4.125%	285,000	Yes	None	6/30/2031
Series 2004:						
Front Range Community College*	<u>4,508,838</u>	3.08% to 3.65%	525,000	Yes	None	11/1/2016
	<u>\$ 19,239,650</u>					

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

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

(11) Leases

CCCS has acquired land, buildings, and equipment under leases and lease/purchase arrangements with The Education Foundation, a discretely presented component unit of CCCS, which are classified as capital leases. In addition, Arapahoe Community College has recorded capital leases with GE Capital Public Finance and JP Morgan, Pikes Peak Community College has recorded a capital lease with the Colorado Educational and Cultural Facilities Authority, and Morgan Community College has recorded a capital lease with IKON. Stated and/or implicit interest rates on these leases range from zero to 22.5% interest. Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or their estimated useful life. Capitalized assets relating to these leases were approximately \$16,072,896 in 2005 and \$14,379,379 in 2004 with amortization expense of \$416,398 at June 30, 2005 and \$290,897 at June 30, 2004, respectively.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 454,657	699,337	1,153,994
2007	429,647	675,464	1,105,111
2008	375,763	655,264	1,031,027
2009	322,421	639,831	962,252
2010	920,000	1,345,481	2,265,481
2011-2015	2,055,000	2,719,713	4,774,713
2016-2020	2,650,000	2,118,864	4,768,864
2021-2025	3,115,000	1,343,973	4,458,973
2026-2030	2,485,000	666,709	3,151,709
2031-2032	1,345,000	81,270	1,426,270
Total	\$ <u>14,152,488</u>	<u>10,945,906</u>	<u>25,098,394</u>

CCCS also has building and equipment operating leases. One of these leases is by and between Community College of Aurora and a discretely presented component unit, CCA Foundation. Total rent expense for all operating leases for the years ended June 30, 2005 and 2004 were \$4,858,414 and \$4,190,887, respectively. Future minimum rental payments, exclusive of real estate taxes and other expenses, under operating leases are as follows:

Year ending June 30:	
2006	\$ 3,305,822
2007	2,993,855
2008	2,612,029
2009	2,273,360
2010	2,289,281
2011-2015	5,278,521

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

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

(12) Other Long-Term Liabilities

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 273,516	37,889	311,405
2007	256,665	49,092	305,757
2008	240,612	59,388	300,000
2009	230,241	69,759	300,000
2010	660,973	239,027	900,000
Total	\$ <u>1,662,007</u>	<u>455,155</u>	<u>2,117,162</u>

(13) Compensated Absences for Annual and Sick Leave

Employees of CCCS may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The estimated total liability for compensated absences at June 30, 2005 and 2004 is \$10,688,158 and \$9,990,577, respectively.

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

At both June 30, 2005 and 2004, the Public Employees' Retirement Association of Colorado (PERA) estimated that 61% of the State's employees would remain until retirement. This percentage is used to calculate the amount of compensated absence liability to establish for sick leave.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

(14) Retirement Plan

(a) *Plan Description*

Virtually all of CCCS' employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple employer plan administered by PERA (Public Employees' Retirement Association). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-729-PERA (7372), or by visiting <http://www.copera.org/>.

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 five 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 five years of service credit, and their age plus years of service equals 80 or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

(b) *Funding Policy*

Employees contribute 8.0% of their salary, defined in CRS 24-51-101(42), to an individual account in the plan. During fiscal 2004 and 2005, the state contributed 10.15% of the employee's salary. Effective January 1, 2004, 1.02% of the total contribution was allocated to the Health Care Trust Fund.

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

CCCS' contributions to the three programs described above for the fiscal years ended June 30, 2005, 2004, and 2003 were \$16,254,836, \$15,941,485, and \$15,951,087, respectively. These contributions met the contribution requirements for each year.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

(15) Voluntary Tax-Deferred Retirement Plans

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

In January 2001, the MatchMaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan asset is 110% of actuarially accrued plan liabilities. This condition was not met during either fiscal year 2004 or 2005.

(16) Postretirement Health Care and Life Insurance Benefits

(a) Health Care Program

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Trust Fund. Under this program, PERA subsidizes a portion of the monthly premium for healthcare coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal 2004 and 2005, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under age 65 and not eligible for Medicare), and it was reduced by 5% for each year of service fewer than 20. The Health Care Trust Fund is maintained by an employer's contribution as discussed above in note 14.

Monthly premium costs for participants depend on the healthcare plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2004, there were 39,668 enrollees in the plan.

(b) Life Insurance Program

During fiscal 2004-2005, PERA provided its members access to two group decreasing term life insurance plans offered by Prudential Insurance Company and Anthem Life. Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who transition to the new plan may continue coverage into retirement. Premiums are collected by monthly payroll deduction or other means.

(c) Other Programs

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

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

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

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

(17) Employee Benefit Trust Fund

The Trust provides long-term disability benefits to all employees participating in the Employee Choice Flexible Benefit Plan sponsored by the SBCCOE. For fiscal years 2005 and 2004, CCCS made contributions to the Trust of approximately \$213,375 and \$248,179, respectively.

(18) Risk Financing and Insurance-Related Activities

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

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

(19) Commitments and Contingencies

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

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

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Basic Financial Statements

June 30, 2005 and 2004

(20) Tax and Spending Limitations (Tabor Amendment)

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

(21) Restatement

As of July 1, 2003, Trinidad State Junior College (TSJC) Foundation's net assets were restated to correct errors and the presentation of temporarily and permanently restricted net assets. Net asset were restated as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year, as previously reported	\$ 5,720,453	9,721,090	7,600,544	23,042,087
Restatement	621,958	2,498,962	(3,020,778)	100,142
Net assets, beginning of year, as restated	<u>\$ 6,342,411</u>	<u>12,220,052</u>	<u>4,579,766</u>	<u>23,142,229</u>



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the business-type activities and aggregate discretely presented component units of the Colorado Community College System (CCCS), a component unit of the state of Colorado, as of and for the year ended June 30, 2005, and issued our report thereon, dated October 22, 2005. We did not audit the financial statements of certain discretely presented component units, discussed in note 1, which represent 99%, 99%, and 97%, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors. Our report included an explanatory paragraph addressing CCCS' restatement of the 2004 financial statements of its aggregate discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered CCCS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 CCCS' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying findings and recommendations section of this report as Recommendation No. 1, *Reportable Condition over Information Technology*.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their

assigned functions. 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, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

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

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

KPMG LLP

October 22, 2005



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

October 22, 2005

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the Colorado Community College System (CCCS) as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon, dated December 7, 2005. Under auditing standards generally accepted in the United States of America, we are providing you with information related to the conduct of our audit.

Our Responsibility Under Professional Standards

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

In addition, in planning and performing our audit of the basic financial statements, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements. An audit of the basic financial statements does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Significant Accounting Policies

The significant accounting policies used by CCCS are described in note 1 to the basic financial statements. As discussed in note 1, CCCS implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, as of July 1, 2004.

Management Judgments and Accounting Estimates

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

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

Audit Adjustments and Uncorrected Misstatements

Audit Adjustments

We proposed no corrections relating to financial statement balances.

Uncorrected Misstatements

In connection with our audit of CCCS' basic financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in CCCS' books and records as of and for the year ended June 30, 2005. We have reported such misstatements to management on a Summary of Uncorrected Misstatements and have received written representations from management that management believes these misstatements are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. Page 81 includes a copy of the summary that has been provided to, and discussed with, management.

Other Information in Documents Containing Audited Financial Statements

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

Disagreements with Management

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

Consultation with Other Accountants

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

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

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

Difficulties Encountered in Performing the Audit

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

Material Written Communications

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

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

Independence

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

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

Confirmation of Audit Independence

We hereby confirm that as of October 22, 2005, we are independent accountants with respect to CCCS under all relevant professional and regulatory standards.

* * * * *

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

Very truly yours,

KPMG LLP

Summary of Audit Differences – Schedule 1

Summary of Uncorrected Audit Differences

Method Used to Evaluate Audit Differences

(Statement of Revenues, Expenses, and Changes in Net Assets/Statement of Net Assets)

Description	Type of error Known audit difference (KD) most likely audit difference (MLD)	Impact of audit differences on financial statement captions (000's) – Debit/(Credit)							
		Statement of revenues, expenses, and changes in net assets effect			Statement of net assets effect				
		Audit difference arising in			Net assets	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities
		Current period	Prior period	Total					
Current year effect of prior period uncorrected audit differences: None.									
Uncorrected audit differences (before tax) in the current period:									
Construction work in progress	KD	\$ —	—	—	—	—	774,362	—	—
Operating expense To properly record construction work in progress related to the new ERP system.		(774,362)	—	(774,362)	(774,362)	—	—	—	—
Operating expense Construction work in progress To properly record expense related to water lines maintained by the City of Aurora.	KD	426,224	—	426,224	426,224	—	—	—	—
Nonoperating revenue Net assets To record accumulated depreciation corrections in the proper period.	KD	16,067,478	(16,067,478)	16,067,478	16,067,478	—	—	—	—
Net assets Nonoperating revenue To record revenue in the proper period.	KD	—	208,907	208,907	208,907	—	—	—	—
Net assets Operating expense To accrue compensated absences in the proper period.	KD	(1,034,917)	—	(1,034,917)	(1,034,917)	—	—	—	—
Accumulated depreciation Depreciation expense To properly record depreciation expense on Arapahoe Community College capital assets.	KD	(168,000)	—	(168,000)	(168,000)	—	168,000	—	—
Aggregate of uncorrected audit differences		<u>\$ 14,307,516</u>	<u>(14,823,654)</u>	<u>(516,138)</u>	<u>(516,138)</u>	<u>—</u>	<u>516,138</u>	<u>—</u>	<u>—</u>
Financial statement amounts (as per final financial statements)		\$ 26,425,026	—	26,425,026	336,695,030	137,647,820	298,760,035	60,092,153	39,620,672
Uncorrected audit differences as a percentage of financial statement amounts		54.14%	NA	(1.95)%	(0.15)%	NA	0.17%	NA	NA

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2005

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

Our financial and compliance examination of the various state-funded student financial assistance programs at CCCS for the year ended June 30, 2005 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHE) Financial Aid Policy, adopted April 2004. The state student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2005.

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

- Colorado Need-Based Grants awards comprised of:
 - Colorado Student Grant Program
 - Colorado Leveraging Educational Assistance Partnership (CLEAP) (*reported separately on the accompanying statement of appropriations, expenditures, transfers, and reversions*)
- Colorado Merit Scholarships (or merit-based awards) comprised of:
 - Colorado Undergraduate Merit Award Program
- Colorado Work-Study Program
- Governor's Opportunity Scholarships
- Colorado Nursing Grants (or scholarships)
- Loan Matching for the Perkins Loan Programs

The total state-funded student financial assistance expenditures made by CCCS was approximately \$17 million during the year ended June 30, 2005. Of this amount, state-funded matching funds of approximately \$8,600 were transferred to the Perkins Loan Funds during the year ended June 30, 2005.

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

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2005

During the audit period ended June 30, 2005, CCCS obtained authorizations to award federal student financial aid funds as follows:

- Supplemental Educational Opportunity Grant of approximately \$1 million
- College Work Study of approximately \$2 million

In addition to these programs, CCCS also received funding through the Pell Grant Program in the amount of approximately \$48 million. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

Authorizations and expenditures for state-funded student financial aid funds are detailed by program in the accompanying schedules of appropriations, expenditures, transfers, and reversions, for each campus, for the year ended June 30, 2005.



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance (SFSA) Programs of the Colorado Community College System (CCCS), a component unit of the state of Colorado, for the year ended June 30, 2005. The statement is the responsibility of CCCS' management. Our responsibility is to express an opinion on the statement based on our audit.

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

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

In our opinion, the statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance Programs of CCCS for the year ended June 30, 2005, in accordance with the format set forth in the CCHE *Audit Guide*, and in conformity with the provisions of the CCHE *Financial Aid Policy*, as described in note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2005 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance Programs of CCCS. The introduction and report summary are presented for purposes of additional analysis and are not a required part of the statement. The introduction and report summary have not been subjected to the auditing procedures applied in the audit of the statement, and accordingly, we express no opinion on them.

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

KPMG LLP

December 7, 2005

COLORADO COMMUNITY COLLEGE SYSTEM
 State-Funded Student Assistance Programs
 Statement of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2005

	<u>Total Colorado Financial Aid</u>	<u>Student Incentive Grants</u>	<u>Student Grant Program</u>	<u>Work- Study Program</u>	<u>Undergrad. Merit Awards</u>	<u>Governor's Opportunity Scholarship</u>	<u>Loan Match</u>
Appropriations:							
Original	\$ 17,423,412	333,318	9,784,423	4,179,825	1,446,124	1,671,094	8,628
Supplementals	(310,186)	(1,202)	(26,646)	(140,412)	(11,121)	(130,805)	—
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>17,113,226</u>	<u>332,116</u>	<u>9,757,777</u>	<u>4,039,413</u>	<u>1,435,003</u>	<u>1,540,289</u>	<u>8,628</u>
Less expenditures	<u>17,113,226</u>	<u>332,116</u>	<u>9,757,777</u>	<u>4,039,413</u>	<u>1,435,003</u>	<u>1,540,289</u>	<u>8,628</u>
Reversions to state general fund	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2005

(1) Basis of Presentation

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

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

The accompanying statement of appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format set forth and last revised November 1998 in the Colorado Commission on Higher Education (CCHE) *Audit Guides*, and in conformity with the provisions of the CCHE *Financial Aid Policy*, adopted April 2004. The purpose of the Statement is to present, in summary form, the state-funded student financial assistance activities of CCCS' 13 campuses for the year ended June 30, 2005.

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

(2) Basis of Accounting

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

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2005

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

ARAPAHOE COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 1,057,067	32,493	560,135	253,033	153,991	57,415
Supplementals	(4,987)	(153)	(2,633)	(1,189)	(742)	(270)
Transfers	—	—	—	—	—	—
Total appropriations	<u>1,052,080</u>	<u>32,340</u>	<u>557,502</u>	<u>251,844</u>	<u>153,249</u>	<u>57,145</u>
Less expenditures	<u>1,052,080</u>	<u>32,340</u>	<u>557,502</u>	<u>251,844</u>	<u>153,249</u>	<u>57,145</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

COMMUNITY COLLEGE OF AURORA

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 913,428	5,582	490,846	214,035	108,031	94,934
Supplementals	(24,199)	(26)	(2,307)	(1,006)	(508)	(20,352)
Transfers	—	—	—	—	—	—
Total appropriations	889,229	5,556	488,539	213,029	107,523	74,582
Less expenditures	889,229	5,556	488,539	213,029	107,523	74,582
Reversions to state general fund	\$ —	—	—	—	—	—

See accompanying independent auditors' report.

COMMUNITY COLLEGE OF DENVER

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 2,478,087	34,604	1,483,536	632,122	175,414	152,411
Supplementals	(24,623)	(163)	(6,973)	(2,971)	(824)	(13,692)
Transfers	—	—	—	—	—	—
Total appropriations	<u>2,453,464</u>	<u>34,441</u>	<u>1,476,563</u>	<u>629,151</u>	<u>174,590</u>	<u>138,719</u>
Less expenditures	<u>2,453,464</u>	<u>34,441</u>	<u>1,476,563</u>	<u>629,151</u>	<u>174,590</u>	<u>138,719</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

COLORADO NORTHWESTERN COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

	<u>Total Colorado Financial Aid</u>	<u>Student Incentive Grants</u>	<u>Student Grant Program</u>	<u>Work- Study Program</u>	<u>Undergrad. Merit Awards</u>	<u>Governor's Opportunity Scholarship</u>	<u>Loan Match</u>
Appropriations:							
Original	\$ 294,308	10,153	165,726	63,698	25,309	29,422	8,628
Supplementals	(1,383)	(48)	(779)	(299)	(119)	(138)	—
Transfers	—	—	—	—	—	—	—
Total appropriations	<u>292,925</u>	<u>10,105</u>	<u>164,947</u>	<u>63,399</u>	<u>25,190</u>	<u>29,284</u>	<u>8,628</u>
Less expenditures	<u>292,925</u>	<u>10,105</u>	<u>164,947</u>	<u>63,399</u>	<u>25,190</u>	<u>29,284</u>	<u>8,628</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

FRONT RANGE COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 2,747,203	62,851	1,525,314	683,909	285,067	190,062
Supplementals	(135,986)	—	—	(110,214)	—	(25,772)
Transfers	—	—	—	—	—	—
Total appropriations	<u>2,611,217</u>	<u>62,851</u>	<u>1,525,314</u>	<u>573,695</u>	<u>285,067</u>	<u>164,290</u>
Less expenditures	<u>2,611,217</u>	<u>62,851</u>	<u>1,525,314</u>	<u>573,695</u>	<u>285,067</u>	<u>164,290</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

LAMAR COMMUNITY COLLEGE
 State-Funded Student Assistance Programs
 Statement of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 436,925	6,721	223,221	96,423	24,721	85,839
Supplementals	(9,946)	(32)	(1,049)	(453)	(116)	(8,296)
Transfers	—	—	—	—	—	—
Total appropriations	<u>426,979</u>	<u>6,689</u>	<u>222,172</u>	<u>95,970</u>	<u>24,605</u>	<u>77,543</u>
Less expenditures	<u>426,979</u>	<u>6,689</u>	<u>222,172</u>	<u>95,970</u>	<u>24,605</u>	<u>77,543</u>
Reversions to state general fund	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

MORGAN COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

		Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:							
Original	\$	428,463	4,122	247,396	104,972	32,401	39,572
Supplementals		(10,738)	—	—	—	—	(10,738)
Transfers		—	—	—	—	—	—
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total appropriations		417,725	4,122	247,396	104,972	32,401	28,834
Less expenditures		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		417,725	4,122	247,396	104,972	32,401	28,834
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Reversions to state general fund	\$	—	—	—	—	—	—
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying independent auditors' report.

NORTHEASTERN JUNIOR COLLEGE

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 633,594	8,331	354,639	140,858	62,958	66,808
Supplementals	(9,009)	(39)	(1,667)	(662)	(296)	(6,345)
Transfers	—	—	—	—	—	—
Total appropriations	<u>624,585</u>	<u>8,292</u>	<u>352,972</u>	<u>140,196</u>	<u>62,662</u>	<u>60,463</u>
Less expenditures	<u>624,585</u>	<u>8,292</u>	<u>352,972</u>	<u>140,196</u>	<u>62,662</u>	<u>60,463</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

OTERO JUNIOR COLLEGE

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 714,052	13,475	411,022	173,311	39,744	76,500
Supplementals	(5,770)	(63)	(1,932)	(815)	(187)	(2,773)
Transfers	—	—	—	—	—	—
Total appropriations	<u>708,282</u>	<u>13,412</u>	<u>409,090</u>	<u>172,496</u>	<u>39,557</u>	<u>73,727</u>
Less expenditures	<u>708,282</u>	<u>13,412</u>	<u>409,090</u>	<u>172,496</u>	<u>39,557</u>	<u>73,727</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

PUEBLO COMMUNITY COLLEGE
 State-Funded Student Assistance Programs
 Statement of Appropriations, Expenditures, Transfers, and Reversions
 Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 2,182,376	43,358	1,354,711	548,645	115,336	120,326
Supplementals	(7,303)	(204)	(6,367)	(2,579)	2,065	(218)
Transfers	—	—	—	—	—	—
Total appropriations	<u>2,175,073</u>	<u>43,154</u>	<u>1,348,344</u>	<u>546,066</u>	<u>117,401</u>	<u>120,108</u>
Less expenditures	<u>2,175,073</u>	<u>43,154</u>	<u>1,348,344</u>	<u>546,066</u>	<u>117,401</u>	<u>120,108</u>
Reversions to state general fund	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

PIKES PEAK COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 3,054,749	68,217	1,613,920	710,685	210,252	451,675
Supplementals	(43,091)	(375)	—	9,011	(9,627)	(42,100)
Transfers	—	—	—	—	—	—
Total appropriations	<u>3,011,658</u>	<u>67,842</u>	<u>1,613,920</u>	<u>719,696</u>	<u>200,625</u>	<u>409,575</u>
Less expenditures	<u>3,011,658</u>	<u>67,842</u>	<u>1,613,920</u>	<u>719,696</u>	<u>200,625</u>	<u>409,575</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

RED ROCKS COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 1,095,932	21,091	625,358	262,766	163,175	23,542
Supplementals	(5,151)	(99)	(2,939)	(1,235)	(767)	(111)
Transfers	—	—	—	—	—	—
Total appropriations	<u>1,090,781</u>	<u>20,992</u>	<u>622,419</u>	<u>261,531</u>	<u>162,408</u>	<u>23,431</u>
Less expenditures	<u>1,090,781</u>	<u>20,992</u>	<u>622,419</u>	<u>261,531</u>	<u>162,408</u>	<u>23,431</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

TRINIDAD STATE JUNIOR COLLEGE

State-Funded Student Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

	Total Colorado Financial Aid	Student Incentive Grants	Student Grant Program	Work- Study Program	Undergrad. Merit Awards	Governor's Opportunity Scholarship
Appropriations:						
Original	\$ 1,378,600	22,320	728,599	295,368	49,725	282,588
Supplementals	(28,000)	—	—	(28,000)	—	—
Transfers	—	—	—	—	—	—
Total appropriations	1,350,600	22,320	728,599	267,368	49,725	282,588
Less expenditures	1,350,600	22,320	728,599	267,368	49,725	282,588
Reversions to state general fund	\$ —	—	—	—	—	—

See accompanying independent auditors' report.

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

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

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