

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

**FINANCIAL AND COMPLIANCE AUDITS  
Fiscal Years Ended June 30, 2011 and 2010**

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***Clifton Gunderson LLP***  
**Contract Auditors**

**Members of the Legislative Audit Committee:**

We have completed the financial statement audits of the Colorado Student Loan Program dba College Assist, Department of Higher Education, State of Colorado as of and for the years ended June 30, 2011 and 2010. Our audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We were engaged to conduct our audits pursuant to Section 23-3.1-109, C.R.S., which authorizes the State Auditor to conduct an annual audit of the Colorado Student Loan Program dba College Assist, Department of Higher Education, State of Colorado. The reports we have issued as a result of this engagement are set forth in the table of contents which follows.

*Clifton Gunderson LLP*

Denver, Colorado  
December 8, 2011

## TABLE OF CONTENTS

	<b>PAGE</b>
<b>Report Summary</b> .....	1
<b>Recommendation Locator</b> .....	3
<b>Enterprise Background</b> .....	4
<b>Auditor’s Findings and Recommendations</b> .....	8
<b>Independent Auditor’s Report</b> .....	10
<b>Management’s Discussion and Analysis – Proprietary Fund</b> .....	12
<b>Basic Financial Statements – Proprietary Fund</b>	
Statements of Net Assets .....	21
Statements of Revenues, Expenses and Changes in Net Assets .....	23
Statements of Cash Flows .....	24
Notes to Financial Statements .....	26
<b>Management’s Discussion and Analysis – Fiduciary Fund</b> .....	43
<b>Basic Financial Statements – Fiduciary Fund</b>	
Statements of Fiduciary Net Assets .....	46
Statements of Changes in Fiduciary Net Assets .....	47
Notes to Financial Statements .....	48
<b>SUPPLEMENTAL INFORMATION</b> .....	52
Combining Schedules of Net Assets – Proprietary Funds .....	53
Combining Schedules of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds .....	55
Combining Schedules of Cash Flows – Proprietary Funds .....	56
<b>Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the Audit of Financial Statements Performed in Accordance with Government Auditing Standards</b> .....	58
<b>Required Communication to Legislative Audit Committee</b> .....	60
<b>Uncorrected Audit Adjustment Schedule</b> .....	62
<b>Audit Report Distribution Information</b> .....	63

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
Fiscal Years Ended June 30, 2011 and 2010**

**Authority, Purpose, and Scope**

This audit was conducted under Section 23-3.1-109, C.R.S., which authorizes the State Auditor to conduct an annual audit of the Colorado Student Loan Program dba College Assist, Department of Higher Education, State of Colorado. The State Auditor contracted with Clifton Gunderson LLP to perform this audit.

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

The purpose of the audit was to express opinions on the financial statements and present the results of the financial and compliance audits of the Colorado Student Loan Program dba College Assist, Department of Higher Education, State of Colorado, and to report on current year findings and on the implementation status of the prior year recommendations.

**Audit Opinions and Reports**

The independent auditor's reports, included herein, state that the financial statements of the Colorado Student Loan Program dba College Assist (the Enterprise or College Assist) and remaining fund information are fairly stated, in all material respects, in accordance with accounting principles general accepted in the United States of America, and that no material weaknesses in internal controls were discovered during the course of our audits.

We expressed unqualified opinions on College Assist's basic financial statements for the year ended June 30, 2011.

There were two audit adjustments that were proposed and not made to the basic financial statements:

- An adjustment that would have increased assets and revenue by approximately \$217,000 and increased liabilities and expenses by approximately \$226,000 for interest not previously accrued on pending claims.
- An adjustment that would have decreased assets and revenue by approximately \$1,592,000 and decreased liabilities and expenses by approximately \$1,654,000 for claims recalled subsequent to year end.

**Summary of Audit Findings and Recommendations**

There were no findings and recommendations.

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

The audit report for the year ended June 30, 2010 included two recommendations. The progress of the audit recommendations is as follows:

Implemented	2
Partially implemented/In progress	-
Not implemented	-
	<u>2</u>

**Auditor’s Communication to the Legislative Audit Committee**

The auditor’s communication to the Legislative Audit Committee describes the auditor’s responsibility under auditing standards generally accepted in the United States of America and significant management judgments and estimates. It also notes that there were no corrected misstatements as a result of audit procedures for the fiscal year ended June 30, 2011. This communication is located on page 60.

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
Fiscal Years Ended June 30, 2011 and 2010**

There were no findings reported for Fiscal Year 2011.

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
Fiscal Years Ended June 30, 2011 and 2010**

**Background on College Assist**

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

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

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

The existing FFEL loan portfolio consists of student borrowers who attended 53 Colorado schools and schools in various other states. Loan capital was originally provided by approximately 39 remaining private lenders including banks, savings and loan associations, credit unions, pension funds, insurance companies and secondary markets.

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

Through its partnership with the Enterprise, NGS assists borrowers with default prevention activities and outsources collection activities of defaulted loans on behalf of and under the



## **ENTERPRISE BACKGROUND (CONTINUED)**

oversight of the Enterprise. With termination of the FFEL program, the Enterprise will continue to provide guarantee related services to borrowers.

### **Federal Family Education Loan Program**

- ❖ Since inception of the Enterprise in 1979, approximately \$21.5 billion of net loans have been guaranteed. The total net outstanding loan portfolio at June 30, 2011 is \$11.3 billion. The existing FFEL program loans consist of Stafford (Subsidized and Unsubsidized), Parent Loans for Undergraduate Students (PLUS), Federal Supplemental Loans (SLS) and Consolidation Loans with balances as described below (in billions):

<u>Loan Type</u>	<u>Net Guaranteed</u>	<u>Net Outstanding</u>
Federal Stafford Loans	\$ 7.40	\$ 1.40
Federal PLUS Loans	\$ 0.68	\$ 0.14
Federal Supplemental Loans	\$ 0.32	\$ -
Federal Consolidation Loans	\$13.10	\$ 9.80

### **College Opportunity Fund (Fiduciary Fund)**

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

#### Background of the College Opportunity Fund

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

Each eligible student receives 145 lifetime credit hours that may be applied toward the cost of total in-state tuition for undergraduate degree programming. Student eligibility is defined under Colorado Revised Statute 23-18-102.5(a). Undergraduate students enrolled at state colleges are eligible if they are classified as in-state students for tuition purposes. Undergraduate students enrolled at participating private colleges or universities *may* be eligible if the college or university is approved for participation in the College Opportunity Fund by the Colorado

## **ENTERPRISE BACKGROUND (CONTINUED)**

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Commission on Higher Education (CCHE) and the student is classified as an in-state student for tuition purposes, is a graduate of a Colorado high school or has successfully completed a non-public home-based educational program in Colorado as defined under C.R.S. 22-33-104.5, is financially eligible by demonstrating financial need through the student's eligibility for the federal Pell grant, is not pursuing a professional degree in theology; and meets any other eligibility requirements established by the CCHE.

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

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

### Financial Aid

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

### Students Attending Private Institutions

A portion of the COF was established to provide Pell-eligible students attending selected private institutions the ability to receive one half of the stipend per credit hour during the 2010-11 academic year.

### Performance Contracts

Under the COF, all public and participating private institutions are required to enter into a performance contract with the Colorado Department of Higher Education. For public colleges and universities, the intent of the contracts is to eliminate the current one-size-fits-all practice of quality control while enforcing a system of program accountability. Contracts with participating private institutions differ from those signed with the State's public institutions.

The quality assurance reporting that is developed with these institutions focuses specifically on the graduation, retention, and success rates of participating Pell grant-eligible students.

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

## **ENTERPRISE BACKGROUND (CONTINUED)**

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### Fee-for-Service Contracts

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

**AUDITOR'S FINDINGS AND RECOMMENDATIONS**

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**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
Fiscal Years Ended June 30, 2011 and 2010**

**Current Year Findings and Recommendations**

There were no findings during our audit for fiscal year ended June 30, 2011.

**AUDITOR'S FINDINGS AND RECOMMENDATIONS (continued)**

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**Disposition of Prior Year Audit Recommendations**

Following are the audit recommendations and their status for the year ended June 30, 2010:

<b>Recommendation</b>	<b>Disposition</b>
2010 Recommendation No. 1 – College Assist should improve controls over accruals for claims expense and related reinsurance revenue by establishing and implementing proper review procedures. The management of College Assist should review the NGS estimated claims report for accuracy and completeness when using the report to develop the claims payable and reinsurance receivable journal entry.	Implemented.
2010 Recommendation No. 2 – College Assist should improve its controls for identifying accounts eligible for default aversion billings and accounts required for default aversion rebates by:  a. Modifying the loan database system configuration to include all rehabilitated or repurchased loans for eligibility of default aversion fees and required rebates.  b. Establishing procedures to periodically test the accuracy and completeness of the default aversion billing and rebate query reports to ensure proper functioning of the new system. Such periodic reviews should include testing a sample of defaulted loans to ensure the default aversion fees have been properly billed and rebated and the system controls are functioning as designed.	Implemented.

## Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and the remaining fund information of the Colorado Student Loan Program dba College Assist, Department of Higher Education, State of Colorado (College Assist), an enterprise fund of the State of Colorado, as of and for the years ended June 30, 2011 and 2010, which collectively comprise College Assist's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College Assist's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the basic financial statements of College Assist are intended to present the financial position, results of operations and, where applicable, cash flows for only that portion of the financial reporting entity, the State of Colorado, that is attributable to the transactions of College Assist. They do not purport to, and do not present fairly, the financial position of the State of Colorado as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the remaining fund information of College Assist as of June 30, 2011 and 2010, and the respective changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2011, on our consideration of College Assist's 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 audits.

The management's discussion and analysis on pages 12 through 20 and pages 43 through 45 is not a required part of the basic financial statements but is supplemental 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise College Assist's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to College Assist's basic financial statements taken as a whole.

*Clifton Gunderson LLP*

Denver, Colorado  
December 8, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS – PROPRIETARY FUND

### COLORADO STUDENT LOAN PROGRAM dba COLLEGE ASSIST DEPARTMENT OF HIGHER EDUCATION STATE OF COLORADO Fiscal Years Ended June 30, 2011 and 2010

The Management Discussion and Analysis (MD&A) is required by Governmental Accounting Standards. It was prepared by the Colorado Student Loan Program dba College Assist (the Enterprise or College Assist) management and is designed to provide an analysis of the Enterprise's financial condition and operating results for the fiscal years ended June 30, 2011 and 2010. The MD&A also informs the reader of the financial issues and activities related to the Enterprise. It should be read in conjunction with the Enterprise's financial statements, which begin on page 21.

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

#### **Basic Financial Statements**

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

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

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

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

#### **Financial Overview**

College Assist is an enterprise fund of the State of Colorado and is reported as one fund in accordance with generally accepted accounting principles. However, the Enterprise's activities are accounted for in two separate funds – the Agency Operating Fund and the Federal Reserve



## **MANAGEMENT'S DISCUSSION AND ANALYSIS – PROPRIETARY FUND**

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Fund. Management's discussion and analysis will focus on these funds in order to better describe the operations of the entity. The Agency Operating Fund is the property of the guaranty agency, except for funds that have been transferred from the Federal Reserve Fund. During periods in which the Agency Operating Fund contains funds transferred from the Federal Reserve Fund, the Agency Operating Fund may be used only as permitted by the HEA. As of June 30, 2011 and 2010, the Agency Operating Fund did not contain funds transferred from the Federal Reserve Fund.

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

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

In fiscal year 2011, the Enterprise entered into a separate agreement to sell eligible rehabilitated loans to Nelnet Inc. at a discount of 5% and 6% for applicable Stafford, Plus, GradPlus and Consolidation loans, respectively, with no maximum amount, to terminate on January 21, 2012, renewable annually. As of June 30, 2011 and 2010, total rehabilitated loan sales to Nelnet Inc. were \$100.5 and \$76.5 million, net of discounts and adjustments of \$7.1 and \$6.2 million, respectively.

The Enterprise entered into an amendment to its servicing agreement with NLS Holding in fiscal year 2009. The amendment is only relevant for fiscal year 2010 comparative and analysis purposes. The amendment included various changes affecting revenues and expenses. Additional terms included the deferment of billing by NLS Holding and payment of certain amounts for services otherwise due to NLS Holding on December 31, 2010. As of June 30, 2010, the deferred billings are included in current liabilities in the amount of \$4,357,146. The deferred billings were paid in full by December 31, 2010.

### **Management Highlights**

The Enterprise's largest source of revenue in the Federal Reserve Fund is reinsurance from the DE on claims paid to lenders on defaulted loans. Claims are reimbursed at 95%. In fiscal year 2011, claims decreased, causing a related and simultaneous decrease in reinsurance. For fiscal year 2011 the decrease in reinsurance was 2.9% (\$10,284,838) over the prior year, and an 11.1% (\$34,767,609) increase in fiscal year 2010. Total claims paid to lenders for fiscal years

## MANAGEMENT'S DISCUSSION AND ANALYSIS – PROPRIETARY FUND

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2011 and 2010, were \$354,039,699 and \$364,653,191, representing a 2.9% decrease, respectively. Claims are expected to continue to decline as the existing FFEL portfolio matures. The total year end Federal Reserve Fund net assets decreased by 13.0% from \$26,091,951 in fiscal year 2010 to \$22,688,834 in fiscal year 2011, primarily due to the elimination of the federal default fee funding received from new loan originations.

Effective July 1, 2006, the HEA as amended, established a 1% default fee to be collected on new loan originations by the Enterprise from either lenders or borrowers or on behalf of borrowers. The default fee was established for the purpose of sustaining the Federal Reserve Fund. The federal default fees were eliminated when new loan originations were terminated along with the FFEL program. For fiscal years 2011 and 2010, federal default fees from new loan originations were \$0 and \$3,530,941, respectively.

Since the Enterprise is in the business of guaranteeing student loans, the following information is presented and relevant only for comparative discussion and analysis purposes. During fiscal years 2011, 2010 and 2009, new gross loan volume guaranteed totaled \$0, \$441,208,128, and \$788,062,555, respectively. The difference between fiscal years 2011 and 2010 represents the elimination of new loan originations.

In fiscal year 2011, the net loan portfolio (net outstanding loans guaranteed) decreased by 8.6% from \$12,411,918,085 in fiscal year 2010 to \$11,340,316,428 in fiscal year 2011. The net outstanding loans are computed by subtracting loan cancellations, loans paid in full, claims paid, loans transferred out to the DE, and uninsured loans from the gross loan volume. The decrease is due primarily to loans transferred out to the DE. Loans transferred out to the DE are made up of FFEL loans sold to the DE by lenders under the Purchase "PUT" Program. In August 2008 the DE implemented the Loan Purchase Commitment Program ("PUT" or "Purchase Program") and the Loan Participation Program (Participation Program) pursuant to the Ensuring Continued Access to Student Loans Act, Public Law 110-227 (ECASLA) in response to concerns that credit market conditions could disrupt Federal student loan availability. Loans funded under these programs must have been either refinanced by the lender or sold to the DE prior to its expiration date on October 15, 2009. In November 2008, the DE implemented Public Law 10-350 which extended the Purchase and Participation Programs for the 2009-10 academic year under ECASLA II and expired on October 15, 2010. In fiscal years 2011 and 2010, eligible student loans transferred to the DE were \$973.7 and \$568.4 million, respectively, representing approximately 8.6% and 4.6% of the net loan portfolio, respectively. No other loans are anticipated to be transferred under this program which expired on October 15, 2010.

Agency Operating Fund net assets decreased by 12% from \$37,441,812 in fiscal year 2010 to \$32,934,521 in fiscal year 2011. The decrease is primarily due to transfer of funds to the Federal Reserve Fund to meet the minimum federal required reserve. The Enterprise's net assets are expected to continue to decline due to a maturing loan portfolio.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – PROPRIETARY FUND**

**CONDENSED SCHEDULE OF NET ASSETS**

Years Ended June 30,	Agency Operating Fund			Federal Reserve and Drawdown Funds		
	2011	2010	2009	2011	2010	2009
<b>ASSETS</b>						
Current Assets	\$ 37,798,225	\$ 46,824,154	\$ 57,172,892	\$ -	\$ -	\$ 78,339
Restricted Assets	-	-	-	50,901,599	58,056,030	65,401,561
Capital Assets	-	2,419	10,136	-	-	-
Total Assets	<u>\$ 37,798,225</u>	<u>\$ 46,826,573</u>	<u>\$ 57,183,028</u>	<u>\$ 50,901,599</u>	<u>\$ 58,056,030</u>	<u>\$ 65,479,900</u>
<b>LIABILITIES</b>						
Current Liabilities	\$ 4,757,930	\$ 9,283,189	\$ 8,337,517	\$ 111,008	\$ 39,773	\$ -
Noncurrent Liabilities	105,774	101,572	4,380,115	-	-	-
Liabilities Payable from						
Restricted Assets	-	-	-	28,101,757	31,924,306	37,547,400
Total Liabilities	<u>\$ 4,863,704</u>	<u>\$ 9,384,761</u>	<u>\$ 12,717,632</u>	<u>\$ 28,212,765</u>	<u>\$ 31,964,079</u>	<u>\$ 37,547,400</u>
<b>NET ASSETS</b>						
Invested in Capital Assets	\$ -	\$ 2,419	\$ 10,136	\$ -	\$ -	\$ -
Restricted Assets	-	-	-	22,688,834	26,091,951	27,932,500
Unrestricted	32,934,521	37,439,393	44,455,260	-	-	-
Total Net Assets	<u>\$ 32,934,521</u>	<u>\$ 37,441,812</u>	<u>\$ 44,465,396</u>	<u>\$ 22,688,834</u>	<u>\$ 26,091,951</u>	<u>\$ 27,932,500</u>

**Net Assets Analysis**

*Agency Operating Fund – Fiscal Year 2011*

Unrestricted net assets of the Agency Operating Fund decreased from \$37,439,393 to \$32,934,521 or 12% in fiscal year 2011. The decrease was primarily due to cash transfers of \$10 million to the Federal Reserve Fund to meet the 0.25% minimum Federal Reserve requirement, reduction in federal fee revenue due to decreased portfolio and elimination of loan origination fees, offset by increased collections and decreased liabilities due to the payment of deferred billings to NLS Holding. The cash decreased by 20%, as compared to the prior year decrease of 6%, primarily due to the \$10 million cash transfer to the Federal Reserve Fund. Available cash and cash flow are expected to continue to decline under the current funding model.

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

*Agency Operating Fund – Fiscal Year 2010*

Unrestricted net assets of the Agency Operating Fund decreased from \$44,455,260 to \$37,439,393 or 16% in fiscal year 2010. The decrease, which primarily occurred in current assets, was due to cash transfers of \$10.9 million to the Federal Reserve Fund to meet the 0.25% minimum federal reserve requirement, reduction in federal fee revenue due to decreased portfolio, offset by increased collections. The overall cash decreased by 6%, as compared to the

## MANAGEMENT'S DISCUSSION AND ANALYSIS – PROPRIETARY FUND

prior year decrease of 4%. The current year decrease was primarily due to the transfer of cash of over \$10.9 million to the Federal Reserve Fund. Available cash and cash flow are expected to continue to decline under the current funding model.

Total liabilities decreased in 2010 by \$3.3 million, or 26%, primarily due to decreased revenue sharing amounts for deferred billings due and payable to NLS Holding at year-end. The decrease is due to lower rehabilitated loan sales outstanding in fiscal year 2010, as compared to prior year.

### *Federal Reserve Fund – Fiscal Year 2011*

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

Total liabilities decreased in fiscal year 2011 by \$3,751,314 or 11.7%, primarily due to a reduction of \$7.3 million in outstanding claims due to lenders at year end, offset by an increase of \$3.5 million due and payable to DE as compared to prior year.

### *Federal Reserve Fund – Fiscal Year 2010*

Total assets decreased in fiscal year 2010 by \$7,423,870 or 11.3%, primarily due to a reduction in reinsurance receivable on rehabilitated loans outstanding as compared to prior year.

Total liabilities decreased in fiscal year 2010 by \$5,583,321 or 15%, primarily due to a reduction in amounts due and payable to the DE of \$10.8 million for their share of collections, offset by an increase in claims of \$5.2 million due to lenders at year-end.

### CONDENSED SCHEDULE OF REVENUES

Years Ended June 30,	Agency Operating Fund			Federal Reserve and Drawdown Funds		
	2011	2010	2009	2011	2010	2009
<b>OPERATING REVENUES</b>						
Federal Grants and Contracts	\$ 5,999,553	\$ 3,481,506	\$ 2,531,545	\$338,638,139	\$348,922,977	\$314,155,368
Grant Revenue	160,000	166,912	137,374	-	-	-
Interest on Purchased Loans	2,425,453	1,562,767	593,090	-	-	-
Other	31,851	217,432	973,051	3,949,073	4,901,593	993,860
Total Operating Revenues	<u>8,616,857</u>	<u>5,428,617</u>	<u>4,235,060</u>	<u>342,587,212</u>	<u>353,824,570</u>	<u>315,149,228</u>
<b>NON-OPERATING REVENUES</b>						
Earnings on Investments	342,385	1,334,520	1,749,770	258,526	1,075,196	769,010
Interfund Transfers	-	-	-	7,790,844	7,912,876	3,460,130
<b>TOTAL REVENUES</b>	<u>\$ 8,959,242</u>	<u>\$ 6,763,137</u>	<u>\$ 5,984,830</u>	<u>\$350,636,582</u>	<u>\$362,812,642</u>	<u>\$319,378,368</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS – PROPRIETARY FUND

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### Revenue Analysis

#### *Agency Operating Fund – Fiscal Year 2011*

Net Federal Grants and Contracts revenue increased in fiscal year 2011 from \$3,481,506 to \$5,999,553 or 72%. The increase was due primarily to an increase in collections revenue resulting from increased rehabilitated loan sales. Approximately \$41.9 million of both collections and federal fee revenue was shared directly with NLS Holding.

#### *Agency Operating Fund – Fiscal Year 2010*

Net Federal Grants and Contracts revenue increased in fiscal year 2010 from \$2,531,545 to \$3,481,506 or 38%. The increase was due primarily to an increase in collections revenue resulting from rehabilitated loan sales. A total of approximately \$40.8 million of both collections and federal fee revenue was shared directly with NLS Holding.

Non-operating revenues consisted of earnings on pooled cash investments. Investment earnings decreased 24% from \$1,749,770 in fiscal year 2009 to \$1,334,520 in fiscal year 2010. The decrease reflects a lower average interest rate, and interest earned on a lower average monthly cash balance, as compared to the prior year. Available cash is invested by the State Treasurer.

#### *Federal Reserve Fund – Fiscal Year 2011*

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

#### *Federal Reserve Fund – Fiscal Year 2010*

Federal Grants and Contracts revenue increased in fiscal year 2010 by 11% from \$314,155,368 in 2009 to \$348,922,977 in 2010. The increase is primarily due to an increase in reinsurance reimbursement from the DE resulting from an increase in the number of default claims paid to lenders. The number of default claims increased 15% over the prior year primarily due to the continuing poor economic conditions. Other revenue increased by \$3.9 million in fiscal year 2010 due to an increase of \$1.8 million in the complement on collections and a \$2.1 million increase in federal default fees. In fiscal year 2010, the majority of federal default fees were collected directly from the borrower, rather than paid by the Operating Fund on behalf of the borrower as in previous years. The complement on collections increased due to increased collections. The complement on collections is the portion of the collections due to the DE but retained in the Federal Reserve Fund.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – PROPRIETARY FUND**

**CONDENSED SCHEDULE OF EXPENSES**

Years Ended June 30,	Agency Operating Fund			Federal Reserve and Drawdown Funds		
	2011	2010	2009	2011	2010	2009
<b>OPERATING EXPENSES</b>						
Guarantee Claims Paid						
to Lending Institutions	\$ -	\$ -	\$ -	\$354,039,699	\$364,653,191	\$327,613,478
Salaries and Fringe Benefits	1,909,134	2,053,073	2,284,483	-	-	-
Operating and Travel	3,764,136	3,813,055	3,428,291	-	-	-
Depreciation	2,419	7,717	117,158	-	-	-
Total Operating Expenses	<u>5,675,689</u>	<u>5,873,845</u>	<u>5,829,932</u>	<u>354,039,699</u>	<u>364,653,191</u>	<u>327,613,478</u>
<b>NON OPERATING EXPENSES</b>						
Loss on Sale of Equipment	-	-	240,594	-	-	-
Interfund Transfers	<u>7,790,844</u>	<u>7,912,876</u>	<u>3,460,130</u>	-	-	-
<b>TOTAL EXPENSES</b>	<u>\$13,466,533</u>	<u>\$ 13,786,721</u>	<u>\$9,530,656</u>	<u>\$354,039,699</u>	<u>\$364,653,191</u>	<u>\$327,613,478</u>

**INTERFUND TRANSFERS**

Transfers from Agency Operating Fund to Federal Reserve Fund:	<b>2011</b>	<b>2010</b>	<b>2009</b>
Federal Default Fee	\$ -	\$ (1,465,127)	\$ (6,655,751)
Refund of Default Aversion Fees	(3,849,956)	(2,957,124)	(2,726,550)
Federal Reserve Requirement	(10,000,000)	(10,948,317)	-
Transfers from Federal Reserve Fund to Agency Operating Fund:			
Default Aversion Fees	<u>6,059,112</u>	<u>7,457,692</u>	<u>5,922,171</u>
Net Transfers to/(from) Agency Operating Fund to Federal Reserve Fund	<u>\$ (7,790,844)</u>	<u>\$ (7,912,876)</u>	<u>\$ (3,460,130)</u>

**Expense Analysis**

*Agency Operating Fund – Fiscal Year 2011*

Salaries and fringe benefits decreased approximately 7% from \$2,053,073 in 2010 to \$1,909,134 in fiscal year 2011. The decrease is primarily due to cost savings derived from temporarily vacant staff positions. Operating and travel decreased approximately 1.3% from \$3,813,055 in 2010 to \$3,764,136 in 2011, primarily due to cost savings in marketing, general and program administration expenses. Interfund transfers generally include cash transfers to the Federal Reserve Fund to meet the minimum required reserve balance, default aversion fees and related rebates.

*Agency Operating Fund – Fiscal Year 2010*

Salaries and fringe benefits decreased approximately 10% from \$2,284,483 in 2009 to \$2,053,073 in fiscal year 2010. The decrease is primarily due to continued staff reductions and furloughs. Operating and travel increased approximately 11% from \$3,428,291 in 2009 to

## MANAGEMENT'S DISCUSSION AND ANALYSIS – PROPRIETARY FUND

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\$3,813,055 in 2010, primarily due to increased expenses for website enhancements, and outreach educational efforts largely funded through grant revenue received from the Federal College Access and Challenge Grant. Interfund transfers generally include cash transfers to the Federal Reserve Fund to meet the minimum required reserve balance, default aversion fees and related rebate, and federal default fees paid by the Agency Operating Fund on behalf of the borrower.

### *Federal Reserve Fund – Fiscal Year 2011*

Guarantee claims paid to lending institutions decreased approximately 2.9% from \$364,653,191 in fiscal year 2010 to \$354,039,699 in fiscal year 2011, due to a declining portfolio. In attempts to prevent a default claim, default aversion assistance is provided to lenders upon request when a borrower falls at least sixty days in arrears on their student loan payment. Additionally, assistance is provided to students and parents to understand their rights, responsibilities, and the options available to avoid default. College Assist's last two years (federal fiscal years 2008 and 2009) published default rates averaged about 9.3%, while the national average was about 6.6%. Since 2006, the published default rates have increased significantly, ranging from 2.5% to 9.5%, primarily due to a changing portfolio. The lower default rates in years 2006 and 2007 were positively impacted by the rapid expansion of consolidation loans in the portfolio. Many of those consolidation loans were made while the students were still in school, leaving little chance of defaulting within the period used for the default rate calculation. Conversely, beginning in 2008 and continuing through 2009, the portfolio entering repayment decreased due to the loans going to the DE either through the PUT program or through consolidation. The default rate is expected to remain relatively flat when rates are published for federal fiscal year 2010. Default rates are published by the DE approximately two years in arrears.

### *Federal Reserve Fund – Fiscal Year 2010*

Guarantee claims paid to lending institutions increased approximately 11% from \$327,613,478 in fiscal year 2009 to \$364,653,191 in fiscal year 2010, due to factors noted under the revenue analysis above. College Assist's last two years (federal fiscal years 2007 and 2008) published default rates averaged about 6.5%; lower than the national average which was about 6.8%. Since 2006, the published default rates have increased significantly ranging from 2.5% to 9.0%. Current claims volume activity indicates a continued upward trend in default rates.

### **Capital Assets**

Capital assets are fully depreciated in fiscal year 2011. There were no significant purchases of capital assets in 2011 or 2010.

### **Economic Facts and Conditions for the Future**

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

All revenues related to loan origination and disbursements are eliminated. In addition, the 1% federal default fee charged on all new loans was eliminated. The default fee was deposited into

## **MANAGEMENT'S DISCUSSION AND ANALYSIS – PROPRIETARY FUND**

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the Federal Reserve Fund, and was intended to provide sufficient funds to maintain the minimum reserve requirement of 0.25%. For combined fiscal years 2011 and 2010, the Agency Operating Fund has funded about \$20.1 million to maintain the Federal Reserve requirement. Current projections for future years indicate significant transfers from the Agency Operating Fund to the Federal Reserve Fund will continue to be required to meet the minimum required balance.

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

On May 31, 2011, *Federal Register, Vol. 76, No. 104* was issued by the DE, inviting guaranty agencies with agreements to participate in the FFEL Program to submit Voluntary Flexible Agreement (VFA) proposals. If accepted, the VFA will operate under the requirements of the VFA in lieu of the guaranty agency agreements established under sections 428(b) and (c) of the HEA. The VFA proposals were due by August 1, 2011. The Enterprise submitted a VFA proposal in partnership with Nebraska Student Loan Program (NSLP). The Enterprise is awaiting communication from the DE regarding the proposal. The proposal as structured will likely improve the long term financial position of the Enterprise.

### **Financial Contact**

If you have any questions about this report, please contact:

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



**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO PROPRIETARY FUND  
STATEMENTS OF NET ASSETS  
For the Years Ended June 30, 2011 and 2010**

**ASSETS**

	<b>2011</b>	<b>2010</b>
<b>CURRENT ASSETS</b>		
Cash and pooled cash investments	\$ 35,577,777	\$ 44,215,066
Federal fees receivable	1,718,061	2,036,839
Other receivables, net	154,481	242,112
Prepaid expenses	347,906	330,137
Total current assets	37,798,225	46,824,154
<b>RESTRICTED ASSETS</b>		
Restricted cash and pooled cash investments	30,683,757	23,589,153
Federal reinsurance receivable	20,217,842	34,466,877
Total restricted assets	50,901,599	58,056,030
<b>CAPITAL ASSETS</b>		
Computer hardware and software	31,254	31,254
Less accumulated depreciation	(31,254)	(28,835)
Capital assets, net	-	2,419
 <b>TOTAL ASSETS</b>	 <b>\$ 88,699,824</b>	 <b>\$ 104,882,603</b>

## LIABILITIES AND NET ASSETS

	2011	2010
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 379,827	\$ 235,030
Accrued compensated absences	34,428	28,145
Other current liabilities	4,454,683	9,059,787
Total current liabilities	4,868,938	9,322,962
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Loan collections and other liabilities due to federal government	7,029,901	3,486,094
Claims due to lenders	21,071,856	28,438,212
Total liabilities payable from restricted assets	28,101,757	31,924,306
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	105,774	101,572
Total noncurrent liabilities	105,774	101,572
<b>TOTAL LIABILITIES</b>	<b>\$ 33,076,469</b>	<b>\$ 41,348,840</b>
<b>NET ASSETS</b>		
Invested in capital assets	-	2,419
Restricted	22,688,834	26,091,951
Unrestricted	32,934,521	37,439,393
<b>TOTAL NET ASSETS</b>	<b>\$ 55,623,355</b>	<b>\$ 63,533,763</b>

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

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>		
Federal grants and contracts		
Collections on loans and bankruptcies	\$ 40,860,378	\$ 34,858,532
Federal fee revenue	7,004,303	9,375,790
Amount paid to service provider	(41,865,128)	(40,752,816)
Federal reinsurance	338,638,139	348,922,977
Grant revenue	160,000	166,912
Interest on purchased loans and other	2,425,453	1,562,767
Other revenues	<u>3,980,924</u>	<u>5,119,025</u>
Total operating revenues	<u>351,204,069</u>	<u>359,253,187</u>
<b>OPERATING EXPENSES</b>		
Guarantee claims paid to lending institutions	354,039,699	364,653,191
Salaries and fringe benefits	1,909,134	2,053,073
Operating and travel	3,764,136	3,813,055
Depreciation	<u>2,419</u>	<u>7,717</u>
Total operating expenses	<u>359,715,388</u>	<u>370,527,036</u>
<b>OPERATING LOSS</b>	<u>(8,511,319)</u>	<u>(11,273,849)</u>
<b>NON-OPERATING REVENUES</b>		
Earnings on pooled cash investments	<u>600,911</u>	<u>2,409,716</u>
Total non-operating revenues	<u>600,911</u>	<u>2,409,716</u>
<b>CHANGE IN NET ASSETS</b>	(7,910,408)	(8,864,133)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>63,533,763</u>	<u>72,397,896</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 55,623,355</u>	<u>\$ 63,533,763</u>

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

**COLORADO STUDENT LOAN PROGRAM  
 dba COLLEGE ASSIST  
 DEPARTMENT OF HIGHER EDUCATION  
 STATE OF COLORADO  
 PROPRIETARY FUND  
 STATEMENTS OF CASH FLOWS  
 For the Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from:		
Federal grants and contracts	\$ 408,723,513	\$ 395,025,503
Amount paid to service provider	(46,470,233)	(43,839,222)
Interest on purchased loans and other	2,425,453	1,562,767
Other sources	<u>119,482</u>	<u>301,437</u>
	<u>364,798,215</u>	<u>353,050,485</u>
Cash disbursed for:		
Guarantee claims paid to lending institutions	(361,334,820)	(359,407,816)
Employees	(1,898,649)	(2,055,499)
Suppliers	<u>(3,708,342)</u>	<u>(4,051,164)</u>
	<u>(366,941,811)</u>	<u>(365,514,479)</u>
Net cash used in operating activities	<u>(2,143,596)</u>	<u>(12,463,994)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loan to other agency	-	(20,000,000)
Repayments of loan from other agency	-	27,000,000
Earnings on pooled cash investments	<u>600,911</u>	<u>2,415,949</u>
Net cash provided by investing activities	<u>600,911</u>	<u>9,415,949</u>
<b>NET CHANGE IN CASH AND    POOLED CASH INVESTMENTS</b>	<b>(1,542,685)</b>	<b>(3,048,045)</b>
<b>CASH AND POOLED CASH INVESTMENTS,    BEGINNING OF YEAR</b>	<u>67,804,219</u>	<u>70,852,264</u>
<b>CASH AND POOLED CASH INVESTMENTS,    END OF YEAR</b>	<u>\$ 66,261,534</u>	<u>\$ 67,804,219</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Unrealized gains	\$ 1,117,140	\$ 1,735,929

	<u>2011</u>	<u>2010</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Net operating loss	\$ (8,511,319)	\$ (11,273,849)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	2,419	7,717
Receivables	14,655,444	7,712,400
Interagency receivable	-	6,494
Prepaid expenses	(17,768)	(564)
Accounts payable and accrued liabilities	144,798	(204,266)
Other current liabilities	(4,605,105)	1,187,954
Loan collections and other liabilities due to federal government	3,543,806	(10,828,696)
Claims paid to lenders	(7,366,356)	5,205,602
Accrued compensated absences	10,485	(2,425)
Other long term liabilities	<u>-</u>	<u>(4,274,361)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>\$ (2,143,596)</u>	<u>\$ (12,463,994)</u>

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

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

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

**Basis of Accounting and Presentation**

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

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

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

The basic financial statements of the Enterprise present the financial position, results of operations, and, where applicable, cash flows for only the entity. They do not purport to, and do not present, the financial position of the State of Colorado as of June 30, 2011 and 2010, or the results of operations, or cash flows where applicable, for the years then ended.

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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

**Use of Estimates in Preparation of Financial Statements**

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

**Cash and Pooled Cash Investments**

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

**Receivables**

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

**Capital Assets**

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

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

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**PROPRIETARY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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

**Liabilities**

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

**Compensated Absences**

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

**Net Assets**

The net assets of the Enterprise are classified as follows:

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

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

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

**Classification of Revenues and Expenses**

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

**Loan Defaults**

Student loans guaranteed by the Enterprise that subsequently default are purchased by the Enterprise. This occurs after a claim is paid to the lending institution. Once a claim is paid to a



**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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

lender, the Enterprise becomes the holder of the loan and seeks to collect on the loan from the DE. Claim payments are made on defaults, deaths, disabilities and bankruptcies only loans in default and loans included under Chapter 7 and Chapter 13 bankruptcies are collectible by the Enterprise. A guaranty agency may charge a borrower reasonable costs incurred to collect on defaulted loans per CFR 682.410(b)(2). In fiscal year 2011 and 2010, the Enterprise charged a collection cost rate of 18.54% and 15.64%, respectively, on regular default borrower payments (excluding Federal consolidations of FFEL default loans and rehabilitations).

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

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

**Federal Reinsurance**

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

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

The rate of annual losses (defaults) also known as the "trigger rate" for purposes of the application for Federal reinsurance is a result of the year-to-date incurred losses divided by the original amount of guaranteed loans in repayment status at the beginning of the year. Default claims are subject to certain "trigger figures" which result in reduced Federal reinsurance rates. When the annual rate of losses (defaults) exceeds 5% of the loans in repayment it "triggers" the DE to reimburse the Enterprise a reduced reinsurance rate. The Enterprise's annual rate of

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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

losses (defaults) or trigger rate for the Federal fiscal years ended September 30, 2011 and September 30, 2010, did not exceed 5%.

**Budgets and Budgetary Accounting**

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

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

In summary, total budgeted revenues for the Agency Operating Fund and Federal Reserve Fund were \$8.7 million and \$435.7 million, as compared with actual revenues of \$8.8 million and \$352.8 million, respectively, for the fiscal year ended June 30, 2011. Total budgeted expenses for the Agency Operating Fund and Federal Reserve Fund were \$16.4 million and \$439.9 million, compared to actual expenses of \$15.5 million and \$356.2 million.

**Application of Restricted and Unrestricted Resources**

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

**NOTE 2 – CASH AND POOLED CASH INVESTMENTS**

Cash is deposited with the Colorado State Treasurer as required by the Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The Enterprise reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's pooled cash and investments. All investments are reported at fair value, based on quoted market prices at June 30, 2011 and 2010. Detailed information on the State Treasurer's pooled cash and investments is available from that office. It may also be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Cash on deposit with the State Treasurer at June 30, 2011 and 2010 was \$66,261,334 and \$67,804,019, respectively. Cash on hand, including petty cash funds was \$200 at June 30, 2011 and 2010.

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

**NOTE 2 – CASH AND POOLED CASH INVESTMENTS (CONTINUED)**

The following summarizes cash and pooled cash investments:

	<u>2011</u>	<u>2010</u>
Cash on deposit with State Treasurer	\$ 65,144,194	\$ 66,068,090
State Treasurer pooled cash investments – unrealized gain	<u>1,117,140</u>	<u>1,735,929</u>
Cash on hand and in transit to State Treasurer	66,261,334	67,804,019
Petty cash	<u>200</u>	<u>200</u>
<b>Total</b>	<u><u>\$ 66,261,534</u></u>	<u><u>\$ 67,804,219</u></u>

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

	<u>2011</u>	<u>2010</u>
Cash and pooled cash investments	\$ 35,577,777	\$ 44,215,066
Restricted cash and pooled cash investments	<u>30,683,757</u>	<u>23,589,153</u>
<b>Total</b>	<u><u>\$ 66,261,534</u></u>	<u><u>\$ 67,804,219</u></u>

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

**NOTE 3 – FEDERAL FEES RECEIVABLE**

Federal fees receivable are fees due from the DE which include fees earned to manage the loan portfolio (Account Maintenance Fees) and fees earned to manage new loan originations (Loan Processing and Issuance Fees). Effective July 1, 2010, Loan Processing and Issuance fees were terminated due to the elimination of the FFEL program.

**NOTE 4 – OTHER RECEIVABLES, NET**

Other receivables – net, primarily includes purchased student loans. These represent loans not eligible for reinsurance by the DE. Loans not eligible for reinsurance must be purchased by the Enterprise and become an asset of the Enterprise. An allowance for uncollectible loans equal to

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

**NOTE 4 – OTHER RECEIVABLES, NET (CONTINUED)**

93% of the purchased loans receivable balance is recorded at \$1,559,278 and \$1,515,356 at June 30, 2011 and 2010, respectively. The allowance rate is based on historical collection activity for purchased student loans. The net purchased loans receivable included in other receivables on the accompanying statements of net assets at June 30, 2011 and 2010 is \$117,365 and \$114,059, respectively.

**NOTE 5 – CAPITAL ASSETS**

All capital assets are fully depreciated as of June 30, 2011. A summary of changes in capital assets is as follows for the years ended June 30, 2011 and 2010:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2011</u>
Computer hardware	\$ 31,254	\$ -	\$ -	\$ 31,254
Total	31,254	-	-	31,254
Less accumulated depreciation	<u>(28,835)</u>	<u>(2,419)</u>	<u>-</u>	<u>(31,254)</u>
<b>Capital assets, net</b>	<u>\$ 2,419</u>	<u>\$ (2,419)</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2010</u>
Computer hardware	\$ 31,254	\$ -	\$ -	\$ 31,254
Total	31,254	-	-	31,254
Less accumulated depreciation	<u>(21,118)</u>	<u>(7,717)</u>	<u>-</u>	<u>(28,835)</u>
<b>Capital assets, net</b>	<u>\$ 10,136</u>	<u>\$ (7,717)</u>	<u>\$ -</u>	<u>\$ 2,419</u>

**NOTE 6 – ACCRUED LIABILITIES**

Under Colorado Revised Statute 24-75-201, salaries and wages earned during the months of June 2011 and 2010 are paid in July of the following year. An accrued liability is recorded on June 30, 2011 and 2010 at \$134,299 and \$164,232, respectively, for incurred but unpaid

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

**NOTE 6 – ACCRUED LIABILITIES (CONTINUED)**

salaries and wages. The liability is included in accounts payable and accrued liabilities on the accompanying statements of net assets.

**NOTE 7 – OTHER CURRENT LIABILITIES**

Other current liabilities consist primarily of fees due to NGS of \$4,239,235 and \$8,312,352, and other liabilities and adjustments of \$215,448 and \$747,435 for fiscal years 2011 and 2010, respectively.

**NOTE 8 – LEASES AND NONCURRENT LIABILITIES**

The Enterprise leases office space under an Intra-Department Memorandum of Understanding (MOU) with CollegenInvest, a related party. Under the agreement, the Enterprise is required to pay base rent of approximately \$22,000 per month, excluding annual operating expense adjustments. The MOU expires annually on June 30, and a new MOU is put into place for the following year. Total rent expense for the years ended June 30, 2011 and 2010 was \$264,265 and \$224,894, respectively.

During the fiscal years ended June 30, 2011 and 2010, the following changes occurred with noncurrent liabilities:

	<u>Balance July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>	<u>Amounts Due Within One Year</u>
Accrued compensated absences	\$ 129,717	\$ 152,165	\$ (141,680)	\$ 140,202	\$ 34,428
<b>Total</b>	<u>\$ 129,717</u>	<u>\$ 152,165</u>	<u>\$ (141,680)</u>	<u>\$ 140,202</u>	<u>\$ 34,428</u>
				<u>Balance June 30, 2010</u>	<u>Amounts Due Within One Year</u>
Accrued compensated absences	\$ 132,142	\$ 152,165	\$ (154,590)	\$ 129,717	\$ 28,145
<b>Total</b>	<u>\$ 132,142</u>	<u>\$ 152,165</u>	<u>\$ (154,590)</u>	<u>\$ 129,717</u>	<u>\$ 28,145</u>

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

**NOTE 9 – RELATED PARTY TRANSACTIONS**

In addition to the lease transaction as discussed in Note 8, the Enterprise shares the cost of human resources personnel, information systems personnel, and other administrative and operating expenses with CollegenInvest under the terms of two separate MOUs, expiring on June 30, 2011, renewable annually.

Significant related party transactions incurred for fiscal years 2011 and 2010 include:

	<b>2011</b>	<b>2010</b>
Default Claims paid to CollegenInvest	\$ 349,345	\$ 63,696,015

The decrease in claims paid to CollegenInvest occurred due to the fact CollegenInvest sold substantially all of its student loan portfolio on August 7, 2010.

**NOTE 10 – COMMITMENTS**

**Statutory Federal Reserve Fund Requirements**

The Enterprise is required by Federal regulations and State statute to maintain a minimum Federal Reserve Fund balance of 0.25% of the unpaid balance of net outstanding loans to meet future default claims. The Enterprise has met this requirement as of September 30, 2011 and 2010, and believes it will continue to meet the reserve requirement. The DE calculates the required reserve amount at September 30 of each year.

**Commitment**

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

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

**Year Ending June 30:**

2012	\$ 1,239,253	
2013	1,313,609	
2014	888,342	
Total	\$ 3,441,204	

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

**NOTE 11 – CONTINGENCIES**

**Loan Guarantees**

The net outstanding principal balance of student loans guaranteed by the Enterprise at June 30, 2011 and June 30, 2010 is over \$11.3 and \$12.4 billion, respectively.

Generally, guaranteed defaulted loans are reimbursed by the DE at a minimum rate of 95%. Defaulted loans (claims) are subject to certain trigger figures (trigger rate) which result in a reduced reimbursement rate. The trigger rate is calculated as of September 30 of each year for purposes of determining the reimbursement rate applicable for the subsequent year.

The trigger rate is equal to 5% and 9% of the loans in repayment at the end of the prior federal fiscal year. When the default claim losses exceed 5% or 9% of the loans in repayment, it triggers DE to reimburse the default claim at a reduced amount. If the Enterprise exceeds the threshold trigger rate, it may be liable for up to a maximum of 25% of the default claim losses. The Enterprise did not exceed the trigger rate for the period ended September 30, 2010, or in prior periods, and does not anticipate exceeding the rate for the period ended September 30, 2011. The trigger rate for the period ended September 30, 2010, was 2.32%, and is expected to be approximately 2.24% for the period ended September 30, 2011. Any liability that may result would be capped at the Enterprise's total net assets.

**NOTE 12 – EMPLOYEE PENSION PLAN**

**Plan Description**

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

New employees, excluding four-year college and university employees, are allowed 60 days to elect to participate in PERA's defined contribution retirement plan. If that election is not made, the employee becomes a member of PERA's defined benefit plan. Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

**NOTE 12 – EMPLOYEE PENSION PLAN (CONTINUED)**

credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For employees hired before January 1, 2007, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010 if the member has less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

Members with five years of service credit at January 1, 2011, are also eligible for retirement benefits without a reduction for early retirement based on the original hire date, as follows:

- Hired before January 1, 2007 – age 55 and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 and age plus years of service equals 85 or more.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were



**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**PROPRIETARY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 12 – EMPLOYEE PENSION PLAN (CONTINUED)**

paid, associated with three periods of 12 consecutive months of service credit and limited to a 15% increase between periods if the salaries used were from the last three years of employment.

For retirements after January 1, 2009, four periods are used and are ranked from lowest to highest with the maximum increase between years limited to 15 percent. For members hired on or after January 1, 2007, the maximum increase between ranked periods is 8 percent. Notwithstanding any other provisions, members first eligible for retirement after January 2, 2011 have a maximum increased between periods of 8 percent.

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

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

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

**A FUNDING POLICY**

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

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**PROPRIETARY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 12 – EMPLOYEE PENSION PLAN (CONTINUED)**

Most employees contribute 8.0 percent (10.0 percent for State troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2010 Senate Bill 10-146 requires members in the State and Judicial Divisions to pay 2.5 percent additional member contributions through June 30, 2011. Employer contributions for members in these two divisions will be reduced by 2.5 percent. Senate Bill 11-076 continued these contribution rates through June 30, 2012.

From July 1, 2010, to December 31, 2010, the State contributed 11.35 percent (14.05 percent for State troopers and 14.86 percent for the Judicial Branch) of the employee's salary. From January 1, 2011, through June 30, 2011, the State contributed 12.25 percent (14.95 percent for State troopers and 14.86 percent for the Judicial Branch). During all of Fiscal Year 2010-11, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2010, the division of PERA in which the State participates has a funded ratio of 62.8 percent and a 47 year amortization period based on current contribution rates. The funded ratio on the market value of assets is lower at 61.3 percent.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

In the 2006 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. For State employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to State employees' salaries, and used by the employer to pay the SAED.

In the 2010 legislative session, the General Assembly extended both the AED and SAED. The AED will continue to increase at a rate of 0.4 percent of salary from calendar years 2013 through 2017. The SAED will continue to increase by one-half percentage point from calendar years 2014 through 2017. Both the AED and SAED will be reduced by one-half percent point when funding levels reach 103 percent, and both will be increased by one-half percent point when the funding level subsequently falls below 90 percent. Neither the AED or the SAED may exceed 5 percent. Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

**NOTE 12 – EMPLOYEE PENSION PLAN (CONTINUED)**

The Enterprise's contributions to PERA and/or the state defined contribution plan for the fiscal years ended June 30, 2011, 2010 and 2009 were \$156,498, \$198,671, and \$205,113, respectively. These contributions met the contribution requirement for each year.

**NOTE 13 – OTHER RETIREMENT PLANS**

Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent of their salary. For Fiscal Years 2009-10 and 2010-11 the legislature temporarily increased the required contribution rate to 10.5 percent. At December 31, 2010, the plan had 3,479 participants.

Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution with a temporarily increase to 10.5 percent for Fiscal Years 2010-11 and 2011-12) to a maximum of \$16,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2010, for total contributions of \$22,000. Contributions and earnings are tax deferred. At December 31, 2010, the plan had 18,215 participants.

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

**NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE**

**Health Care Plan**

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**PROPRIETARY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS AND LIFE INSURANCE (CONTINUED)**

sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

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

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 12 – Funding Policy. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The Enterprise contributed \$12,303, \$15,127, and \$16,712 as required by statute in fiscal years 2010-11, 2009-10, and 2008-09, respectively. In each year the amount contributed was 100% of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2010, there were 48,455 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2010, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.35 billion, a funded ratio of 17.5 percent, and a 42-year amortization period. The actuarial valuation was based on the entry age cost method, an 8 percent investment rate of return, a 4.5 percent projection of salary increases (assuming a .75 percent inflation rate), a 3.5 percent annual medical claims increase, no post-retirement benefit increases, and a level dollar amortization on an open basis over 30 years.

**NOTE 15 – FEDERAL AND STATE LEGISLATIVE IMPACTS ON THE ENTERPRISE**

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

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**PROPRIETARY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 16 – RISK MANAGEMENT**

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

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

**NOTE 17 – TAX, SPENDING AND DEBT LIMITATIONS**

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

**NOTE 18 – SIGNIFICANT OPERATING AGREEMENTS**

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

The agreement also requires that NLS Holding be responsible for all operating expenses associated with the expanded servicing contract. This includes, but is not limited to, personnel, operating, rent, and other expenses normally associated with operating a government agency. NLS Holding receives 80% of the revenue earned in performing these services. The Enterprise

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**PROPRIETARY FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 18 – SIGNIFICANT OPERATING AGREEMENTS (CONTINUED)**

retains 20% of the fees to pay for contract monitoring, financial and regulatory reporting, and related activities under the agreement.

The term of the contract and its related amendment is for ten years, cancelable after seven years (October 31, 2012) by the Enterprise if revenues or expenses change, and can be renewed for a second ten year term if both parties agree.

On January 21, 2010, the Enterprise entered into a separate agreement to sell eligible rehabilitated loans to Nelnet at a discount of 6% and 8% for applicable Stafford, Plus, GradPlus and Consolidation loans, respectively, up to a maximum of \$100 million, to terminate on January 21, 2011, unless agreed otherwise. On May 31, 2010, the agreement was amended to increase the maximum amount to \$150 million. The agreement was allowed to expire.

On January 21, 2011, a new separate agreement was entered into to sell eligible rehabilitated loans to Nelnet at a discount of 5% for applicable Stafford, Plus, GradPlus, and a discount of 6% for Consolidation loans, with no maximum, to terminate on January 21, 2012, renewable annually.

As of June 30, 2011 and 2010, rehabilitated loan sales to Nelnet were \$100.5 and \$76.5 million, net of discounts and adjustments of \$7.1 and \$6.2 million, respectively.

**NOTE 19 – SUBSEQUENT EVENTS**

On July 29, 2011, the Enterprise submitted a Voluntary Flexible Agreement (VFA) proposal in accordance with *Federal Register, Vol. 72, No. 104* issued May 31, 2011, in partnership with Nebraska Student Loan Program (NSLP). If accepted, the Enterprise will operate under the requirements of the VFA in lieu of the guaranty agency agreements established under sections 428(b) and (c) of the HEA. The Enterprise is awaiting communication from the DE regarding the proposal. The proposal as structured will likely improve the long term financial position of the Enterprise.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS – FIDUCIARY FUND  
PRIVATE PURPOSE TRUST FUND**

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**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
Fiscal Years Ended June 30, 2011 and 2010**

The Management's Discussion and Analysis (MD&A) is required by Governmental Accounting Standards. The MD&A below was prepared by the Enterprise's management on behalf of the College Opportunity Fund (COF) and is designed to provide an analysis of the COF's financial condition and operating results for the fiscal year ended June 30, 2011 and 2010. The MD&A also informs the reader of the financial issues and activities related to the COF. It should be read in conjunction with the COF's financial statements, which begin on page 46.

**Basic Financial Statements – College Opportunity Fund**

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

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

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

**Financial Overview**

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

**Management Highlights**

The COF was established in fiscal year 2006 and continues to be funded through fiscal year 2011. Under CRS Article 23, Section 18, Colorado changed its funding system for public higher education to a student-stipend program known as the COF in Fall 2005. Under the new system, the State no longer makes direct lump-sum financial transactions to its public institutions for undergraduate education. Instead, these funds are provided to public and private higher education institutions on behalf of resident undergraduate students in the form of a stipend.

Stipend rates are set annually by the General Assembly during the State's budget process. The allocation is defined on a per-credit-hour basis where the advertised amount is representative of a full-time student taking 30 credit hours each year. In fiscal year 2011, the stipend amount increased by 41% over prior year. For the 2010-11 and 2009-10 academic year, the state provided each participating student with \$1,860 or \$62 per credit hour stipend and \$1,320 or \$44 per credit hour stipend, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – FIDUCIARY FUND  
PRIVATE PURPOSE TRUST FUND**

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*Schedule of Net Assets – Fiscal Year 2011*

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

*Schedule of Net Assets – Fiscal Year 2010*

Restricted Net Assets of the COF at year-end were \$2. During the fiscal year, there was \$185,657,697 of stipend receipts appropriated to the Colorado Department of Higher Education for use under the COF statutes. Of the total amount appropriated for COF, 100% was used for stipends for Colorado students attending Colorado Higher Education Institutions. Total assets at year-end were \$156,956. Outstanding liabilities at year-end were \$156,954 due to stipends payable to institutions at year-end.

*Additions and Deductions – Fiscal Year 2011*

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

*Additions and Deductions – Fiscal Year 2010*

During fiscal year 2010, the General Assembly appropriated stipends of \$185,657,697, of which \$185,657,697 was paid to Colorado Higher Education Institutions for student stipends used to offset tuition costs. All State funded universities and university systems are eligible to participate in the COF program per statute. Also included in participation are three private institutions: Denver University, Regis University, and Colorado Christian University, which was added in 2009-10 academic year. Of the total amount appropriated for the COF, \$746,334 was specifically provided to the three private institutions.

***Economic Facts and Conditions for the Future***

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

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



**MANAGEMENT'S DISCUSSION AND ANALYSIS – FIDUCIARY FUND  
PRIVATE PURPOSE TRUST FUND**

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The stipend rate appropriated for the 2011-12 academic year remained the same as the 2010-11 academic year at \$62 per credit hour. As of the date of the financial statements, there has been no legislation introduced or enacted regarding significant changes to the COF.

**Financial Contact**

If you have any questions about this report, please contact:

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

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUND**  
**STATEMENTS OF FIDUCIARY NET ASSETS**  
**June 30, 2011 and 2010**

**ASSETS**

	<b>2011</b>	<b>2010</b>
<b>CURRENT ASSETS</b>		
Operating cash	\$ 2	\$ 128,148
Accounts receivable	-	28,808
Total current assets	2	156,956
<b>TOTAL ASSETS</b>	2	156,956

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	-	156,954
<b>TOTAL LIABILITIES</b>	\$ -	\$ 156,954
<b>NET ASSETS HELD IN TRUST</b>	2	2
<b>TOTAL NET ASSETS</b>	\$ 2	\$ 2

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

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUND**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS**  
**For the Year Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>ADDITIONS</b>		
Stipend receipts	\$ 266,934,378	\$ 85,657,697
Grant receipts	-	-
Total additions	<u>266,934,378</u>	<u>85,657,697</u>
<b>DEDUCTIONS</b>		
Stipend payments	266,934,378	85,657,697
Total deductions	<u>266,934,378</u>	<u>85,657,697</u>
<b>CHANGE IN NET ASSETS</b>	-	-
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2</u>	<u>2</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2</u>	<u>\$ 2</u>

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

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**FIDUCIARY FUND – PRIVATE PURPOSE TRUST FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and June 30, 2010**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity – College Opportunity Fund**

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

The financial statements of the COF include all integral parts of its operations.

Stipends are set annually by the General Assembly during the State's budget process. The allocation is defined on a credit-hour basis where the advertised amount is representative of a full-time student taking 30 credit hours each year at a public institution. For the 2010-11 and 2009-10 academic year, the State provided each participating student with a \$1,860, or \$62 per credit hour stipend, and \$1,320, or \$44 per credit hour stipend, respectively.

**Basis of Accounting and Presentation**

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

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

**Use of Estimates in Preparation of Financial Statements**

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

**Cash**

Cash consists of cash on deposit with the State Treasurer.

**Accounts Receivable**

Accounts Receivable consist of stipends due from Institutions of Higher Education at year end.

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**FIDUCIARY FUND – PRIVATE PURPOSE TRUST FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and June 30, 2010**

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

**Liabilities**

Amounts due to higher education institutions within one year are reported as current liabilities. Amounts owed after one year are reported as noncurrent liabilities.

**Net Assets Held In Trust**

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

**Additions and Deductions**

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

**Budgets and Budgetary Accounting**

By statute, the COF is continuously funded through appropriations authorized and approved by the General Assembly. The operating budget, its appropriations and revisions thereto are reviewed by the Colorado Department of Higher Education and the Enterprise Director. The original Long Bill appropriations, excluding adjustments, for fiscal years 2011 and 2010 were \$268,305,930 and \$271,697,400, respectively. Total adjustments to the original appropriations including fee for service transfers for fiscal years 2011 and 2010 were \$1,371,552 and \$86,039,703, respectively. Final COF appropriations after adjustments for fiscal years 2011 and 2010 were \$266,934,378 and \$185,657,697, respectively.

**NOTE 2 – CASH**

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

The COF had cash of \$2 and \$128,148 on deposit with the State Treasurer at June 30, 2011 and June 30, 2010, respectively. There was no cash on hand or petty cash.

The Colorado Public Deposit Protection Act requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral determined by the PDPA. The institution is allowed to create a single collateral pool for all public

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**FIDUCIARY FUND – PRIVATE PURPOSE TRUST FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and June 30, 2010**

**NOTE 2 – CASH (CONTINUED)**

funds held. The pool is maintained by another institution or held in trust for all the uninsured public deposits as a group. The fair value of the collateral must be at least equal to 102% of the uninsured deposits.

**NOTE 3 – FEDERAL AND STATE LEGISLATIVE IMPACTS**

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

Annually, the Colorado Department of Higher Education requests that the General Assembly adjust the amount appropriated to the COF for stipends to reflect at least inflation and enrollment growth in the state institutions of higher education. During periods of revenue shortfalls, the General Assembly may use a variety of mechanisms to balance the State's budget, including reducing appropriations to institutions of higher education, decreasing the value of the stipend, or placing a limit on the number of stipends funded under this act based upon the overall budgetary needs of the State. In fiscal year 2011, COF stipends increased to \$62 per credit hour. During fiscal year 2010, the stipend decreased from \$68 to \$44 due to budget cuts to the General Fund. Even with the reductions in fiscal year 2010, the stipend continued to be fully funded by appropriations and through the use of American Recovery and Reinvestment Act funds. Fully funded means the stipend was provided to each student who applied for and was eligible to receive the stipend.

**NOTE 4 – RISK MANAGEMENT**

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

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

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

**COLORADO STUDENT LOAN PROGRAM**  
**dba COLLEGE ASSIST**  
**DEPARTMENT OF HIGHER EDUCATION**  
**STATE OF COLORADO**  
**FIDUCIARY FUND – PRIVATE PURPOSE TRUST FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and June 30, 2010**

**NOTE 4 – RISK MANAGEMENT (CONTINUED)**

consideration recently settled claims, the frequency of claims, and other economic and social factors.

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

**NOTE 5 – TAX, SPENDING AND DEBT LIMITATIONS**

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

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

**SUPPLEMENTAL INFORMATION**



**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUNDS  
COMBINING SCHEDULES OF NET ASSETS  
June 30, 2011  
With Comparative Totals for June 30, 2010**

**ASSETS**

	<u>Agency Operating Fund</u>	<u>Federal Reserve and Drawdown Funds</u>	<u>Totals</u>	
			<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>				
Cash and pooled cash investments	\$ 35,577,777	\$ -	\$ 35,577,777	\$ 44,215,066
Federal fees receivable	1,718,061	-	1,718,061	2,036,839
Other receivables, net	154,481	-	154,481	242,112
Prepaid expenses	<u>347,906</u>	<u>-</u>	<u>347,906</u>	<u>330,137</u>
Total current assets	<u>37,798,225</u>	<u>-</u>	<u>37,798,225</u>	<u>46,824,154</u>
<b>RESTRICTED ASSETS</b>				
Restricted cash and pooled cash investments	-	30,683,757	30,683,757	23,589,153
Federal reinsurance receivable	<u>-</u>	<u>20,217,842</u>	<u>20,217,842</u>	<u>34,466,877</u>
Total restricted assets	<u>-</u>	<u>50,901,599</u>	<u>50,901,599</u>	<u>58,056,030</u>
<b>CAPITAL ASSETS</b>				
Furniture & equipment	31,254	-	31,254	31,254
Less accumulated depreciation	<u>(31,254)</u>	<u>-</u>	<u>(31,254)</u>	<u>(28,835)</u>
Capital assets, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,419</u>
 <b>TOTAL ASSETS</b>	 <u>\$ 37,798,225</u>	 <u>\$ 50,901,599</u>	 <u>\$ 88,699,824</u>	 <u>\$ 104,882,603</u>

## LIABILITIES AND NET ASSETS

	Agency Operating Fund	Federal Reserve and Drawdown Funds	Totals	
			2011	2010
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 268,819	\$ 111,008	\$ 379,827	\$ 235,030
Accrued compensated absences	34,428	-	34,428	28,145
Other current liabilities:	4,454,683	-	4,454,683	9,059,787
Total current liabilities	4,757,930	111,008	4,868,938	9,322,962
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>				
Loan collections and other liabilities due to federal government	-	7,029,901	7,029,901	3,486,094
Claims due to lenders	-	21,071,856	21,071,856	28,438,212
Total liabilities payable from restricted assets	-	28,101,757	28,101,757	31,924,306
<b>NONCURRENT LIABILITIES</b>				
Accrued compensated absences	105,774	-	105,774	101,572
Total noncurrent liabilities	105,774	-	105,774	101,572
<b>TOTAL LIABILITIES</b>	<b>\$ 4,863,704</b>	<b>\$ 28,212,765</b>	<b>\$ 33,076,469</b>	<b>\$ 41,348,840</b>
<b>NET ASSETS</b>				
Invested in capital assets	-	-	-	2,419
Restricted	-	22,688,834	22,688,834	26,091,951
Unrestricted	32,934,521	-	32,934,521	37,439,393
<b>TOTAL NET ASSETS</b>	<b>\$ 32,934,521</b>	<b>\$ 22,688,834</b>	<b>\$ 55,623,355</b>	<b>\$ 63,533,763</b>

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUNDS  
COMBINING SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2011  
With Comparative Totals for the Year Ended June 30, 2010**

	Agency Operating Fund	Federal Reserve and Drawdown Funds	Totals	
			2011	2010
<b>OPERATING REVENUES</b>				
Federal grants and contracts				
Collections on loans and bankruptcies	\$ 40,860,378	\$ -	\$ 40,860,378	\$ 34,858,532
Federal fee revenue	7,004,303	-	7,004,303	9,375,790
Less: Amount paid to service provider	(41,865,128)	-	(41,865,128)	(40,752,816)
Federal reinsurance	-	338,638,139	338,638,139	348,922,977
Grant revenue	160,000	-	160,000	166,912
Interest on purchased loans and other	2,425,453	-	2,425,453	1,562,767
Other revenues	<u>31,851</u>	<u>3,949,073</u>	<u>3,980,924</u>	<u>5,119,025</u>
Total operating revenues	<u>8,616,857</u>	<u>342,587,212</u>	<u>351,204,069</u>	<u>359,253,187</u>
<b>OPERATING EXPENSES</b>				
Guarantee claims paid to lending institutions	-	354,039,699	354,039,699	364,653,191
Salaries and fringe benefits	1,909,134	-	1,909,134	2,053,073
Operating and travel	3,764,136	-	3,764,136	3,813,055
Depreciation	<u>2,419</u>	<u>-</u>	<u>2,419</u>	<u>7,717</u>
Total operating expenses	<u>5,675,689</u>	<u>354,039,699</u>	<u>359,715,388</u>	<u>370,527,036</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>2,941,168</u>	<u>(11,452,487)</u>	<u>(8,511,319)</u>	<u>(11,273,849)</u>
<b>NON-OPERATING REVENUES</b>				
Earnings on pooled cash investments	<u>342,385</u>	<u>258,526</u>	<u>600,911</u>	<u>2,409,716</u>
Income (loss) before transfers	3,283,553	(11,193,961)	(7,910,408)	(8,864,133)
Interfund transfers in/(out)	<u>(7,790,844)</u>	<u>7,790,844</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	(4,507,291)	(3,403,117)	(7,910,408)	(8,864,133)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>37,441,812</u>	<u>26,091,951</u>	<u>63,533,763</u>	<u>72,397,896</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 32,934,521</u>	<u>\$ 22,688,834</u>	<u>\$ 55,623,355</u>	<u>\$ 63,533,763</u>

**COLORADO STUDENT LOAN PROGRAM  
dba COLLEGE ASSIST  
DEPARTMENT OF HIGHER EDUCATION  
STATE OF COLORADO  
PROPRIETARY FUNDS  
COMBINING SCHEDULES OF CASH FLOWS  
For the Year Ended June 30, 2011  
With Comparative Totals for the Year Ended June 30, 2010**

	Agency Operating Fund	Federal Reserve and Drawdown Funds	Totals	
			2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from:				
Federal grants and contracts	\$ 48,343,459	\$ 360,380,054	\$ 408,723,513	\$ 395,025,503
Amount paid to service provider	(46,470,233)	-	(46,470,233)	(43,839,222)
Interest on purchased loans and other	2,425,453	-	2,425,453	1,562,767
Other sources	<u>119,482</u>	<u>-</u>	<u>119,482</u>	<u>301,437</u>
	<u>4,418,161</u>	<u>360,380,054</u>	<u>364,798,215</u>	<u>353,050,485</u>
Cash disbursed for:				
Guarantee claims paid to lending institutions	-	(361,334,820)	(361,334,820)	(359,407,816)
Employees	(1,898,649)	-	(1,898,649)	(2,055,499)
Suppliers	<u>(3,708,342)</u>	<u>-</u>	<u>(3,708,342)</u>	<u>(4,051,164)</u>
	<u>(5,606,991)</u>	<u>(361,334,820)</u>	<u>(366,941,811)</u>	<u>(365,514,479)</u>
Net cash used in operating activities	<u>(1,188,830)</u>	<u>(954,766)</u>	<u>(2,143,596)</u>	<u>(12,463,994)</u>
<b>INTERFUND TRANSFERS</b>	(7,790,844)	7,790,844	-	-
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Loan to other agency	-	-	-	(20,000,000)
Repayments of loan from other agency	-	-	-	27,000,000
Interest on pooled cash investments	<u>342,385</u>	<u>258,526</u>	<u>600,911</u>	<u>2,415,949</u>
Net cash provided by investing activities	<u>342,385</u>	<u>258,526</u>	<u>600,911</u>	<u>9,415,949</u>
<b>NET CHANGE IN CASH AND POOLED CASH INVESTMENTS</b>	(8,637,289)	7,094,604	(1,542,685)	(3,048,045)
<b>CASH AND POOLED CASH INVESTMENTS, BEGINNING OF YEAR</b>	<u>44,215,066</u>	<u>23,589,153</u>	<u>67,804,219</u>	<u>70,852,264</u>
<b>CASH AND POOLED CASH INVESTMENTS, END OF YEAR</b>	<u>\$ 35,577,777</u>	<u>\$ 30,683,757</u>	<u>\$ 66,261,534</u>	<u>\$ 67,804,219</u>

	Agency Operating Fund	Federal Reserve and Drawdown Funds	Totals	
			2011	2010
<b>RECONCILIATION OF NET OPERATING INCOME LOSS TO</b>				
<b>NET CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net operating Gain/(Loss)	\$ 2,941,168	\$ (11,452,487)	\$ (8,511,319)	\$ (11,273,849)
to net cash provided by (used in) operating activities:				
Depreciation	2,419	-	2,419	7,717
Effects of changes in net assets and liabilities:				
Receivables	406,408	14,249,036	14,655,444	7,712,400
Interagency receivable	-	-	-	6,494
Prepaid expenses	(17,768)	-	(17,768)	(564)
Accounts payable and accrued liabilities	73,563	71,235	144,798	(204,266)
Other current liabilities	(4,605,105)	-	(4,605,105)	1,187,954
Loan collections and other liabilities				
due to federal government	-	3,543,806	3,543,806	(10,828,696)
Claims due to lenders	-	(7,366,356)	(7,366,356)	5,205,602
Accrued compensated absences	10,485	-	10,485	(2,425)
Other long term liabilities	-	-	-	(4,274,361)
<b>NET CASH USED IN</b>				
<b>OPERATING ACTIVITIES</b>	<u>\$ (1,188,830)</u>	<u>\$ (954,766)</u>	<u>\$ (2,143,596)</u>	<u>\$ (12,463,994)</u>

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

Members of the Legislative Audit Committee

We have audited the financial statements of the accompanying business-type activities and the remaining fund information of the Colorado Student Loan Program dba College Assist (College Assist), an enterprise and private purpose trust fund of the State of Colorado, as of and for the year ended June 30, 2011, which collectively comprise College Assist's basic financial statements and have issued our report thereon dated December 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

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

*Clifton Gunderson LLP*

Denver, Colorado  
December 8, 2011

## Required Communications to the Legislative Audit Committee

Members of the Legislative Audit Committee

This letter is to provide you with information about significant matters related to our audit of the financial statements of the Colorado Student Loan Program dba College Assist (College Assist) for the year ended June 30, 2011.

The following are our observations arising from the audit that are relevant to management's responsibilities in overseeing the financial reporting process.

**Auditor's Responsibilities under Generally Accepted Auditing Standards.** Our audit was performed for the purpose of forming and expressing opinions about whether the financial statements, which have been prepared by management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve management of its responsibilities.

**Other Information in Documents Containing Audited Financial Statements.** In connection with the College Assist's financial statements, we did not perform any procedures or corroborate other information included in this report. However, we read management's discussion and analysis of financial conditions and results of operations and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

**Significant Issues Discussed with Management Prior to Retention.** We discussed various matters with management prior to retention as College Assist's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

**Consultations with Other Accountants.** We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principals or generally accepted auditing standards.

### **Qualitative Aspects of Accounting Practices.**

#### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by College Assist are described in Note 1 in the financial statements. There were no significant accounting policies or their application which were either initially selected or changed during the year.



We noted no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

*Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. College Assist records claims payable and reinsurance receivable amounts for the end of the year based lender claim data obtained from their third party service provider. College Assist then tests this information for completeness and accuracy. There were no other significant accounting estimates of financial data which would be particularly sensitive and require substantial judgment by management.

*Financial Statement Disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Sensitive financial statement disclosures include those in Note 1, which relate to the termination of the Federal Family Loan Program (FFEL) effective July 1, 2010. As of this date, no new loans can be originated or guaranteed under this program; however, College Assist will continue to guarantee and service the existing loan portfolio.

**Difficulties Encountered in Performing the Audit.** We encountered no significant difficulties in dealing with management related to the performance of our audit.

**Corrected Misstatements.** There were no misstatements detected as a result of our audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

**Uncorrected Misstatements.** The schedule on page 62 summarizes uncorrected misstatements, other than those that are trivial, aggregated by us during our current audit and pertaining to the most recent period presented in the financial statements. Management has determined that these uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**Representations from Management.** We have requested and received certain representations from management that are included in the management representation letter dated December 8, 2011.

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

Please contact Paul Niedermuller if you have any questions regarding the matters included in this letter.

*Clifton Gunderson LLP*

Denver, Colorado  
December 8, 2011

**UNCORRECTED AUDIT ADJUSTMENT SCHEDULE**  
**College Assist**  
**Year Ended June 30, 2011**

<u>Description</u>	<u>Effect of misstatements on:</u>			
	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	<u>Change in Net Assets</u>
To record an adjustment in Claims Payable/Reinsurance Receivable at year end for interest not previously accrued on pending claims at 6/30/11.	217,454	(226,059)	—	8,605
To record an adjustment to Claims Payable/Reinsurance Receivable estimate for claims recalled subsequent to year end.	(1,592,388)	1,654,190	—	(61,802)
	<u>(1,374,934)</u>	<u>1,428,131</u>	<u>—</u>	<u>(53,197)</u>
\$	<u><u>(1,374,934)</u></u>	<u><u>1,428,131</u></u>	<u><u>—</u></u>	<u><u>(53,197)</u></u>

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**Report Control Number 2091-11**