



COLORADO COMMUNITY COLLEGE SYSTEM

Financial Statements and Compliance Audit

Years ended June 30, 2016 and 2015

(With Independent Auditors' Reports Thereon)

LEGISLATIVE AUDIT COMMITTEE 2016 MEMBERS

Representative Dan Nordberg – *Chair*

Representative Dianne Primavera – *Vice-Chair*

Senator Rollie Heath

Senator Chris Holbert

Senator Cheri Jahn

Senator Tim Neville

Representative Tracy Kraft-Tharp

Representative Lori Saine

OFFICE OF THE STATE AUDITOR STAFF

Dianne E. Ray
State Auditor

Kerri Hunter
Deputy State Auditor

Jarrett Ellis
Contract Monitor

KPMG LLP
Contractor

AN ELECTRONIC VERSION OF THIS REPORT IS AVAILABLE AT
WWW.STATE.CO.US/AUDITOR

A BOUND REPORT MAY BE OBTAINED BY CALLING THE
OFFICE OF THE STATE AUDITOR
303.869.2800

PLEASE REFER TO REPORT NUMBER 1611F WHEN REQUESTING THIS REPORT

**Limitations on Disclosure of Information
Contained in This Document**

The enclosed report is being distributed to you at this time for your information in accordance with Colorado Revised Statutes (CRS).

Section 2-3-103(2) states in part:

All reports shall be open to public inspection except for that portion of any report containing recommendations, comments, and any narrative statements, which is released only upon the approval of a majority vote of the committee (emphasis supplied).

Section 2-3-103.7(1) states in part:

Any state employee or other individual acting in an oversight role as a member of a committee, board, or commission who willfully and knowingly discloses the contents of any report prepared by, or at the direction of, the Office of the State Auditor prior to the release of such report by a majority vote of the committee as provided in Section 2-3-103(2) is guilty of a misdemeanor and, upon conviction thereof, shall be punished by a fine of not more than five hundred dollars (emphasis supplied).

COSA-201 04/00

COLORADO COMMUNITY COLLEGE SYSTEM

Table of Contents

	Page(s)
Report Summary	1–2
Recommendation Locator	3
Financial Statements and Compliance Audit Report Section:	
Description of the Colorado Community College System	4–5
Findings and Recommendations	6–12
Disposition of Prior Audit Findings and Recommendations	13
Independent Auditors' Report	14–15
Management's Discussion and Analysis (Unaudited)	16–31
Business-Type Activities – Statements of Net Position	32
Discretely Presented Component Units – Statements of Financial Position	33
Business-Type Activities – Statements of Revenues, Expenses, and Changes in Net Position	34
Discretely Presented Component Units – Statements of Activities	35–36
Business-Type Activities – Statements of Cash Flows	37–38
Notes to Financial Statements	39–78
Schedule of Proportionate Share of Net Pension Liability (NPL)	79
Schedule of Contributions and Related Ratio	79
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	80–81
Required Communications to Legislative Audit Committee	82–84
State-Funded Student Financial Assistance Programs:	
Introduction	85
Independent Auditors' Report	86–88
Statement of Allocations, Expenditures, Transfers and Reversions	89

Table of Contents

Notes to Statement of Allocations, Expenditures, Transfers, and Reversions	90
Schedules of Allocations, Expenditures, Transfers, and Reversions	91–103
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Statement of Allocations, Expenditures, Transfers, and Reversions of State-Funded Student Financial Assistance Programs Performed in Accordance With <i>Government Auditing Standards</i>	104–105
Audit Comments and Recommendations	106

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Report Summary

Year ended June 30, 2016

Purpose and Scope

The Office of the State Auditor of the State of Colorado engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado Community College System (CCCS or the System) for the years ended June 30, 2016 and 2015. KPMG performed these 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. We conducted the related fieldwork from April 2016 to November 2016.

The purpose and scope of our audits was to:

- Express an opinion on the financial statements of CCCS as of and for the years ended June 30, 2016 and 2015.
- Report on internal control over financial reporting and on compliance and other matters as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Express an opinion on the Statement of Allocations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of CCCS for the year ended June 30, 2016.
- Evaluate progress in implementing prior audit findings and recommendations.

CCCS' Schedule of Expenditures of Federal Awards and applicable opinions thereon, issued by the Office of the State Auditor, are included in the fiscal year ended June 30, 2016 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Report

We expressed an unmodified opinion on CCCS' financial statements as of and for the years ended June 30, 2016 and 2015. Our report included a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on CCCS' financial statements.

We issued a report on CCCS' compliance and internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Report Summary

Year ended June 30, 2016

We identified the following deficiencies in internal control related to the Federal Student Financial Aid (Title IV) program that we consider to be significant deficiencies: one deficiency in internal control related to Common Origination and Disbursement (COD) Reporting and one deficiency in internal control related to Enrollment Reporting for students who received Title IV funding. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Summary of Key Findings

COD Reporting

Community College of Aurora (CCA) and Lamar Community College (LCC) lacked adequate policies and procedures over COD to Banner reconciliation processes and COD rejection reporting.

Enrollment Reporting

Community College of Aurora (CCA), Lamar Community College (LCC), Trinidad State Junior College (TSJC), Pikes Peak Community College (PPCC), and Otero Junior College (OJC) lacked adequate controls to ensure that enrollment status changes were reported to the National Student Loan Data System (NSLDS) in compliance with federal requirements. Out of 40 enrollment status changes tested for students who received Title IV funding, 9 were identified with exceptions.

Recommendations and CCCS Responses

A summary of our recommendations and responses from CCCS can be found in the Recommendation Locator Section of this report. CCCS' responses to the findings have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2015 included four recommendations. The disposition of these audit recommendations as of November 30, 2016 was as follows:

Implemented	3
Partially implemented	<u>1</u>
Total	<u><u>4</u></u>

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2016

Rec no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
1	8	Colorado Community College Systems (CCCS) should provide oversight and training to A. Assist the Community College of Aurora and Lamar Community College with implementing appropriate internal controls over Title IV COD to Banner reconciliations to establish a sufficient system of internal controls to properly document and retain the monthly COD to Banner reconciliations in accordance with Title IV regulations B. Assist the Community College of Aurora with implementing appropriate internal controls over Title IV COD reporting to ensure that rejections are remediated timely and disbursements are not made to students in a rejected status in accordance with Title IV regulations.	CCA & LCC	Agree	January 2017
2	12	The Colorado Community College System (CCCS) should continue efforts to assist Community College of Aurora, Lamar Community College, Trinidad State Junior College, Pikes Peak Community College, and Otero Junior College with implementing appropriate internal controls over Title IV enrollment reporting to ensure enrollment status changes are reported to the Clearinghouse in a timely and accurate manner. These internal controls should include formalizing policies and procedures, including a process to gain access and report separately to the National Student Loan Data System, if deemed necessary, to ensure required information is reported to the National Student Loan Data System in accordance with Title IV regulations.	CCA, LLC, OJC, PPCC, & TSJC	Agree	January 2017

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Description of the Colorado Community College System

Year ended June 30, 2016

Organization

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

- The Board is the governing board of the state system of community and technical colleges; including the Colorado Community College System.
- The Board administers the occupational education programs of the state at both secondary and postsecondary levels.
- The Board administers the State's program of appropriations to Local District Colleges (LDCs) and Area Vocational Schools (AVSs).

The Board consists of nine members appointed by the governor to four-year staggered terms of service. The statute requires that board members be selected so as to represent certain economic, political, and geographical constituencies. There are also two advisory, non-voting members per Statute 23-60-104 C.R.S.

Colorado Community College System's (CCCS') operations and activities are funded primarily through tuition and fees; federal, state, and local grants; the College Opportunity Fund stipends; a fee-for-service contract with the Department of Higher Education; and Amendment 50 funding. In addition, the SBCCOE receives and distributes state appropriations for LDCs, AVSs, and school districts offering vocational programs.

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

College	Main campus location
Arapahoe Community College (ACC)	Littleton
Colorado Northwestern Community College (CNCC)	Rangely
Community College of Aurora (CCA)	Aurora
Community College of Denver (CCD)	Denver
Front Range Community College (FRCC)	Westminster
Lamar Community College (LCC)	Lamar
Morgan Community College (MCC)	Fort Morgan
Northeastern Junior College (NJC)	Sterling
Otero Junior College (OJC)	La Junta
Pikes Peak Community College (PPCC)	Colorado Springs
Pueblo Community College (PCC)	Pueblo
Red Rocks Community College (RRCC)	Lakewood
Trinidad State Junior College (TSJC)	Trinidad

COLORADO COMMUNITY COLLEGE SYSTEM
Financial and Compliance Audit
Description of the Colorado Community College System
Year ended June 30, 2016

Enrollment, tuition, and faculty and staff information are presented below. Enrollment information was obtained from the Colorado Commission on Higher Education (CCHE), Final Student Full-Time Equivalent (FTE) Enrollment Report. Staff information was obtained from Format 10 and 40 within the Budget Data Book for fiscal years 2016, 2015, and 2014 that is prepared by higher education institutions for CCHE.

CCCS reports FTE student and faculty and staff for three continuous fiscal years as follows:

FTE Student Enrollment

	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal year:			
2015–2016	47,272	2,975	50,247
2014–2015	50,001	3,014	53,015
2013–2014	52,792	3,290	56,082

FTE Faculty and Staff

	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal year:			
2015–2016	3,817	1,963	5,780
2014–2015	3,897	2,019	5,916
2013–2014	3,924	2,009	5,933

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2016

We have audited the financial statements of the Colorado Community College System (CCCS or the System) as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon, dated November 30, 2016. Our report included a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on CCCS' financial statements. In planning and performing our audits of the financial statements, we considered CCCS' internal control solely to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated November 30, 2016 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since the date of this report.

The maintenance of adequate internal control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

A control deficiency 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 to detect, misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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 was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over financial reporting and its operation that we consider to be material weaknesses. We consider Recommendation Nos. 1 and 2 to be significant deficiencies in internal control related to the Federal Student Financial Aid (Title IV) program and noncompliance with Title IV funding.

CCCS' responses to the findings have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Controls over the Common Origination and Disbursement System

Community College of Aurora (CCA), Lamar Community College (LCC), Trinidad State Junior College (TSJC), and Colorado Northwestern Community College (CNCC) participate in several federal student financial aid programs authorized under Title IV of the Higher Education Act of 1965 (Title IV), including Direct Loans, Pell, and Federal Work Study. These colleges use Banner as their system of financial and student records as well as the Common Origination and Disbursement (COD) system, a web-based computer application, to submit student financial aid information, such as Title IV funding offered to and received by the colleges' students, to the US Department of Education (DOE) based on the colleges' records. The institutions report all Federal Pell Grant and Direct Loans financial aid originations (funding requests) and disbursements and submit required

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2016

records to the DOE's Direct Loan Servicing System (DLSS) via the COD. Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. As institutions update student information in the COD, system reports provide student submission statuses of *accepted*, *accepted with corrections*, or *rejected*. Title IV establishes general rules for COD reporting to which the colleges must adhere.

What audit work was performed and was the purpose?

We requested from each school a sample of two months of Banner to COD reconciliations for Direct Loan activity during Fiscal Year 2016 to determine whether the colleges completely, accurately, and timely reconciled the COD reports to the colleges' records.

We also reviewed COD reporting controls at the schools by selecting a sample of eight students, two from each school, who were rejected during Fiscal Year 2016 by the COD and determining what action was taken to ensure the student's record was corrected and subsequently accepted by the COD, as required by federal regulations.

The purpose of the audit work was to assess the adequacy of CCA's, LCC's, TSJC's, and CNCC's internal controls over and compliance with federal Title IV reporting requirements related to COD to Banner reconciliations and COD reporting for Title IV funding during Fiscal Year 2016.

How were the results of the audit work measured?

Title IV establishes general rules that require institutions to submit required records to DOE's DLSS within 30 days of disbursement and to reconcile the SAS files extracted from the COD to the institution's financial records. Title IV rules also require participating institutions to compare the data from the COD reports at the student level to the institutions' systems to identify and correct any outdated or erroneous information. Title IV also requires schools to edit records for any students with a rejected status in order for those students to receive Title IV funding.

Federal regulations [34 CFR sections 685.102(b), 685.301, and 303] require the colleges to perform a monthly reconciliation from Direct Loan COD to Banner. This reconciliation ensures that the institution and the DOE operate from the same information related to Direct Loans awarded and paid to students.

What problem did the work identify?

While we did not identify exceptions at TSJC or CNCC related to COD to Banner reconciliations or reporting, we identified problems at CCA and LCC with COD to Banner reconciliations and problems at CCA related to COD reporting. Specifically, we found the following:

- **COD to Banner Reconciliations.** CCA could not provide evidence to verify that staff had performed Direct Loan COD to Banner reconciliations for either of two monthly reconciliations tested (100%). Specifically, CCA did not provide evidence that the December 2015 and April 2016 reconciliations were performed, whether any reconciling items were identified, investigated, and resolved; and whether resulting adjustments were made in either the COD or Banner system, if required. Based on our discussions with CCA staff, we further determined that staff could not provide documentation to demonstrate that they performed Direct Loan COD to Banner reconciliations for any month during Fiscal Year 2016.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2016

Further, on one of the two COD reconciliations tested at LCC (50%), we determined that LCC staff had identified multiple errors on the December 2015 reconciliation due to an improper upload but did not resolve the errors until June 2016, after we requested the audit support from the school. This indicates that LCC staff did not perform this reconciliation completely or timely.

- **COD Reporting.** We determined that one of the two (50%) students with a rejected status in COD that we tested at CCA was in a rejected status for two semesters during Fiscal Year 2016, and CCA failed to take any action to remediate the student's rejected status during the year. However, CCA disbursed funds to this student in both semesters.

Why did the problem occur?

CCA and LCC have not established a sufficient system of internal controls over federal Title IV funds such as policies and procedures requiring that staff prepare, document and retain monthly COD to Banner reconciliations. Additionally, CCA has not established a sufficient system of internal controls to properly review and remediate the COD student rejection reports, or ensure that rejected students are not disbursed funding. Further, CCCS has not provided appropriate oversight and training to the colleges to ensure these internal controls are in place and are effective.

Why does this problem matter?

A lack of adequate policies and procedures over COD to Banner reconciliation processes and COD reporting increases the risk that CCA and LCC will not be in compliance with federal regulations and may result in federal sanctions.

(CFDA No. 84.063; 84.268; Student Financial Aid Cluster, Reporting & Special Tests and Provisions.)

Classification of Finding

Non-Compliance and Significant Deficiency

Recommendation No. 1

The Colorado Community College System (CCCS) should provide oversight and training to:

- (a) Assist the Community College of Aurora and Lamar Community College with implementing appropriate internal controls over Title IV COD to Banner reconciliations to establish a sufficient system of internal controls to properly document and retain the monthly COD to Banner reconciliations in accordance with Title IV regulations.
- (b) Assist the Community College of Aurora with implementing appropriate internal controls over Title IV COD reporting to ensure that rejections are remediated timely and disbursements are not made to students in a rejected status in accordance with Title IV regulations.

CCCS Response

- (a) Agree Implementation Date: January 1, 2017

CCCS will formalize policies and procedures for COD and Direct Loan Monthly Reconciliation to comply with Title IV regulations.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2016

To facilitate a better understanding of the reconciliation process and the purpose of each step in the process, mandatory training and review of the business processes will be provided to the colleges by CCCS. Colleges will be required to retain support documentation of the COD reconciliation and its subsequent review and approval.

(b) Agree Implementation Date: January 1, 2017

In addition to the mandatory training and review of business processes by CCCS, remediation of students in rejected status reporting will be monitored by the financial aid directors at each college to ensure timely and accurate reporting.

Controls over Accuracy of Enrollment Reporting

As mentioned previously, the Colorado Community College System (CCCS) is a system of 14 community colleges throughout the state of Colorado. The CCCS administrative office oversees the individual colleges who each have their own Financial Aid departments and Registrars, but operate under the same guidelines.

The community colleges participate in several federal student financial aid programs authorized under Title IV of the Higher Education Act of 1965 (Title IV), including Direct Loans, Pell, and Federal Work Study. Title IV establishes general rules for reporting changes in student enrollment to the National Student Loan Data System (NSLDS) which is owned and operated by the Department of Education. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence. The community colleges, like many schools, contract with a third party servicer, the National Student Clearinghouse (Clearinghouse), which acts as a single point of contact for reporting enrollment information to the NSLDS. Title IV specifies that schools are responsible for timely reporting, whether they report directly or via a third-party servicer like the Clearinghouse. NSLDS sends enrollment rosters to the schools based on a schedule determined by the school with a minimum of every 60 days. All CCCS schools have chosen a roster schedule of every 30 days. The schools then have 15 days to respond to the rosters they receive from NSLDS. Specifically, in response to the rosters, personnel at each of the community colleges generate enrollment reports through CCCS' Banner system and manually upload these batches of enrollment information to the Clearinghouse. The Clearinghouse then reports each school's student enrollment information to the NSLDS.

As part of our Fiscal Year 2016 audit, we performed specific audit testwork at 9 of the 14 community colleges:

- Arapahoe Community College (ACC),
- Community College of Aurora (CCA),
- Lamar Community College (LCC),
- Trinidad State Junior College (TSJC),
- Colorado Northwestern Community College (CNCC),
- Front Range Community College (FRCC),
- Pikes Peak Community College (PPCC),
- Red Rocks Community College (RRCC),
- Otero Junior College (OJC)

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2016

These 9 colleges will be referred to as the “community colleges” throughout the remainder of this finding. The amounts of Title IV funding disbursed at each college is discussed below:

College	Title IV funds distributed
Arapahoe Community College	\$ 16,791,544
Colorado Northwestern Community College	\$ 3,347,589
Community College of Aurora	\$ 18,727,236
Front Range Community College	\$ 60,990,497
Lamar Community College	\$ 2,361,374
Otero Junior College	\$ 4,409,031
Pikes Peak Community College	\$ 38,977,161
Red Rocks Community College	\$ 17,756,862
Trinidad State Junior College	\$ 4,796,156

What audit work was performed and what was the purpose?

The audit work included reviewing a sample of 40 students who graduated from, withdrew from, dropped out of, or enrolled but never attended the community colleges during Fiscal Year 2016 to determine whether the colleges reported the students’ enrollment status changes in compliance with Title IV federal regulations. The audit work also included reviewing the community colleges’ internal controls over reporting of enrollment status changes. Of the 40 students tested, seven were from CCA, six each were from LCC, TSJC, and CNCC, and three each were from FRCC, PPCC, ACC, RRCC, and OJC.

The purpose of the audit work was to assess the adequacy of CCA’s, LCC’s, TSJC’s, and CNCC’s internal controls over and compliance with the federal reporting requirements related to changes in enrollment status for students who received Title IV funding during Fiscal Year 2016. Additionally, the purpose of the audit work was to assess the adequacy of FRCC’s, PPCC’s, ACC’s, RRCC’s and OJC’s remediation of the prior year significant deficiency issued for Fiscal Year 2015. At that time, we recommended that CCCS provide oversight and training to assist the colleges with implementing appropriate internal controls over Title IV enrollment reporting to ensure enrollment status changes are reported to the Clearinghouse in a timely manner. These internal controls should include policies and procedures to ensure required information is reported to the NSLDS from the Clearinghouse in accordance with Title IV regulations.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2016

How were results of the audit work measured?

Title IV establishes general rules that apply to students who receive Title IV funding and have an enrollment status change during the fiscal year. For example, as noted previously, each institution is allowed to set a scheduled timeframe for receiving roster transmission reports from the NSLDS, with a minimum of every 60 days. Each of the community colleges we tested schedules its NSLDS roster transmissions for the first day of every month, or every 30 days. Upon receiving a roster transmission report from the NSLDS, each school must then ensure the Clearinghouse transmits enrollment information to the NSLDS within 15 days. It is each school's responsibility to understand their individually-required Clearinghouse transmission schedules to the NSLDS, as Title IV guidance requires institutions to be responsible for timely reporting, whether they report directly or via a third-party service provider.

What problem did the work identify?

Overall, we determined that the community colleges' processes to report enrollment reporting changes to the NSLDS were not operating at an effective level. Specifically, we identified problems with 9 of the 40 (22.5%) student enrollment status changes we tested, as noted below:

- For two of the seven (29%) enrollment status changes tested at CCA, staff failed to ensure the enrollment status changes were reported to the NSLDS in compliance with federal regulations. Specifically, the enrollment changes were reported from 20 to 35 days later than the Title IV enrollment reporting requirement.
- For two of the six (33%) enrollment status changes tested at LCC, staff failed to ensure the enrollment status changes were reported to the NSLDS in compliance with federal regulations. Specifically, the enrollment changes were reported from 21 to 30 days later than the Title IV enrollment reporting requirement.
- For three of the six (50%) enrollment status changes tested at TSJC, staff failed to ensure the enrollment status changes were reported to the NSLDS in compliance with federal regulations. Specifically, the enrollment changes were reported from 21 to 31 days later than the Title IV enrollment reporting requirement. Additionally for one of the six (17%) status changes, the effective date reported by TSJC did not agree to the date the student's status changed according to school record.
- For one of the three (33%) enrollment status changes tested at OJC, staff failed to ensure the enrollment status changes were reported to the NSLDS in compliance with federal regulations. Specifically, the enrollment changes were reported from 21 days later than the Title IV enrollment reporting requirement.
- For one of the three (33%) enrollment status changes tested at PPCC, staff failed to ensure the enrollment status changes were reported to the NSLDS in compliance with federal regulations. Specifically, the enrollment changes were reported 30 days later than the Title IV enrollment reporting requirement.

Why did the problem occur?

Due to the findings issued over the enrollment reporting compliance requirement during Fiscal Year 2015, CCCS had begun work to implement policies and procedures during Fiscal Year 2016 to correct this finding. For example, during Fiscal Year 2016, CCCS provided oversight and mandatory training for both Registrars and Financial Aid Directors on federal Title IV requirements for timely reporting of enrollment status changes to ensure that the colleges had effective monitoring processes in place over the Clearinghouse to ensure

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2016

submissions were timely and accurate. CCCS specifically requested that the colleges report enrollment reporting changes to the Clearinghouse every 21 days. However, these corrective improvements were not fully implemented during Fiscal Year 2016. CCCS also does not have a manual process in place to report directly to NSLDS for individual students that change enrollment within a short window that will not allow for timely submission via a third party.

Why does this problem matter?

A lack of adequate policies over Title IV enrollment status change reporting, including timely and accurate reporting of status change information to NSLDS increases the risk that CCA, LCC, TSJC, PPCC, and OJC will not be in compliance with federal regulations, and may result in federal sanctions.

(CFDA No. 84.063; 84.268; Student Financial Aid Cluster, Special Tests and Provisions.)

Classification of Finding

Non-Compliance and Significant Deficiency

Recommendation No. 2

The Colorado Community College System (CCCS) should continue efforts to assist Community College of Aurora, Lamar Community College, Trinidad State Junior College, Pikes Peak Community College, and Otero Junior College with implementing appropriate internal controls over Title IV enrollment reporting to ensure enrollment status changes are reported to the Clearinghouse in a timely and accurate manner. These internal controls should include formalizing policies and procedures, including a process to gain access and report individual students separately to the National Student Loan Data System, if deemed necessary, to ensure required information is reported to the National Student Loan Data System in accordance with Title IV regulations.

CCCS Response

Agree Implementation Date: January 1, 2017

CCCS will work directly with schools in setting up Clearinghouse submissions calendars that reflect the new guidance for timely submission based on NSLDS Roster File requests. An Enrollment Reporting Task Force has been established to review processes and procedures to ensure timely and accurate reporting. This Task Force began meeting in October 2016 and includes representation from the offices involved in the Enrollment Reporting process from the colleges and CCCS.

As part of the formalization of policies and procedures, a process for the manual updating to the NSLDS system will be defined. Manual updating to NSLDS will be required for those students who change enrollment within the window of time that creates potentially late data submissions created by submitting via a third party.

To facilitate a better understanding of the Enrollment Reporting processes and the purpose of each step in the process, mandatory training and review of the business processes will be provided to the colleges by CCCS.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2016

Recommendations Issued for Year Ended June 30, 2015	Disposition
Recommendation No. 1 Colorado Community College System (CCCS) should ensure that Colorado Northwestern Community College evaluate its policies and procedures and make appropriate changes as necessary to ensure that the College's internal controls are adequate and that financial information is accurate and complete as they relate to accounts receivable reconciliations, and state procurement guidelines.	Implemented
Recommendation No. 2 Colorado Community College System (CCCS) should ensure that Trinidad State Junior College evaluate its policies and procedures and make appropriate changes as necessary to ensure that the College's internal controls are adequate and that financial information is accurate and complete as they relate to accuracy and timeliness of reconciliations.	Implemented
Recommendation No. 3 Colorado Community College System (CCCS) should ensure that Arapahoe Community College implements appropriate internal controls over Title IV disbursement notifications to ensure that appropriate documentation is retained.	Implemented
Recommendation No. 4 Colorado Community College System (CCCS) should provide oversight and training to assist Front Range Community College, Pikes Peak Community College, Arapahoe Community College, Red Rocks Community College and Otero Junior College with implementing adequate internal controls over Title IV enrollment reporting.	Partially implemented, see current year recommendation No. 2 for PPCC and OJC.



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' Report

The Members of the Legislative Audit Committee and State Board for Community Colleges and Occupational Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise CCCS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component units discussed in note 1 to the financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based solely on the reports of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Colorado Community College System as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in note 1, the financial statements of CCCS, an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of CCCS. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 16–31 and the schedules of proportionate share of net pension liability and contributions and related ratio on page 79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCCS' internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado
November 30, 2016

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

The following discussion and analysis provides management's view of the financial position and results of operations for the Colorado Community College System (CCCS or the System) as of and for the years ended June 30, 2016 and 2015 (fiscal years 2016 and 2015, respectively) with comparative information presented for fiscal year 2014. This analysis should be read in conjunction with CCCS' financial statements and notes to the financial statements. This analysis is intended to make CCCS' financial statements easier to understand and communicate our financial situation in an open and accountable manner.

Background

The CCCS includes 13 public community colleges throughout the State of Colorado (the State), the system office, and an employee benefit trust, presented as a blended component unit. In addition, CCCS has 14 supporting foundations, which are not included in CCCS' primary financial reporting entity, but are included as discretely presented component units in CCCS' financial statements (note 1) in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61: *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

CCCS is Colorado's largest institution of higher education and served approximately 127,000 students (50,000 full-time equivalent students) during the fiscal years ended June 30, 2016 and 2015. The System has approximately 5,800 employees by FTE, of which two-thirds are faculty and adjunct instructors. The colleges offer a wide variety of both academic and career programs leading either to degrees and certificates, or otherwise enhancing personal and professional growth. In addition to the 13 community colleges, CCCS also assists the State Board for Community Colleges and Occupational Education (the Board) in exercising certain curriculum and funding authority over three Area Vocational Schools (AVSs), two Local District Colleges (LDCs), and secondary career and technical programs in over 140 school districts throughout the State.

Higher education institutions in the State have the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), if the institution meets the stated qualifications. CCCS qualified as an enterprise for fiscal years 2016 and 2015 because it is a government-owned business with legal authority to issue revenue bonds. In addition, the System was required to receive (and is expected to continue to receive) less than 10.0% (in relation to total revenue) in support from the State. In fiscal years 2016, 2015, and 2014, the System received 4.5%, 4.0%, and 2.4%, respectively, of total revenue in State support (notes 4 and 20). Beginning in fiscal year 2008, House Bill 08 1079 specifically excluded moneys transferred from the Colorado Department of Education (CDE) for career and technical education as state grants for the purpose of this calculation, including funding under the Career and Technical Act (CTA).

CCCS is partially funded through the College Opportunity Fund (COF) stipend program and a Fee-for-service (FFS) contract with the Colorado Department of Higher Education (CDHE), approved by the Colorado Commission on Higher Education (CCHE). COF provides state tax dollars to students through a stipend paid on a per credit hour basis to the institution at which the student is enrolled. COF may support the costs of up to 145 eligible undergraduate credits for each eligible student. For fiscal years 2016, 2015, and 2014, respectively, the COF stipend was \$75, \$75, and \$64, per credit hour, which students use to pay for a portion of their tuition. The FFS contract is the purchase of educational services, by the State, from CCCS that are not part of the COF stipend program. In fiscal year 2016, CDHE's contract with CCCS purchased educational services in rural areas, high cost/student programs, institutional research services, remediation and special skills courses, creation of

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

student career pathways, and inclusion service compliance. In fiscal years 2015 and 2014, respectively, CDHES' contract with CCCS purchased credit hours for vestibule labs, reciprocal programs, and educational services in rural areas (notes 3 and 4).

Student tuition and fees, net of scholarship allowance, comprise several important and offsetting components. Student tuition and fees charges alone include all amounts earned for the provision of instructional services to students, including stipends paid for eligible undergraduate students under COF. In fiscal year 2016, CCCS had a \$4.0 million decrease in net tuition and fee revenue resulting from a 4.5% increase in resident tuition and nonresident tuition rates offset by a 5.2% decrease in enrollment. This also includes a decrease in COF funding of approximately \$5.1 million compared to fiscal year 2015. This gross tuition and fee decrease was further offset by a decrease in the scholarship allowance, or the amount of federal and state funded financial assistance paid on behalf of students, which is netted against tuition and fee revenue. The scholarship allowance offset decreased \$11.5 million due to a decrease in the number of students receiving Pell awards along with a decrease in Federal Pell awards received per students.

The following table represents the change in tuition and fees from fiscal year 2015 to 2016 (in millions):

Tuition and fees decrease due to enrollment changes offset by rate increases	\$	(2.6)
Less decrease in COF stipend funding		<u>(5.1)</u>
Gross tuition and fee decrease		(7.7)
Decrease as a result of an offsetting increase in bad debt		(7.8)
Increase as a result of an offsetting decrease in scholarship allowance		<u>11.5</u>
Net decrease in student tuition and fees, net of scholarship allowance	\$	<u><u>(4.0)</u></u>

The following table represents the change in tuition and fees from fiscal year 2014 to 2015 (in millions):

Tuition and fees increase due to enrollment changes and rate increases	\$	2.7
Plus increase in COF stipend funding		<u>10.8</u>
Gross tuition and fee increase		13.5
Increase as a result of an offsetting decrease in bad debt		2.4
Increase as a result of an offsetting decrease in scholarship allowance		<u>1.6</u>
Net increase in student tuition and fees, net of scholarship allowance	\$	<u><u>17.5</u></u>

In November 2008, voters passed Amendment 50, which expanded limited stakes gaming in three Colorado mountain towns. CCCS received approximately \$6.5 million in Amendment 50 funding in fiscal year 2016, of which \$6.5 million was used for classroom instruction related expenses and \$0.6 million was awarded to students for scholarships, with the remaining \$0.4 million cumulative, including prior years, available for fiscal year 2017. CCCS received approximately \$5.6 million in Amendment 50 funding in fiscal year 2015, of which \$5.0 million was used for classroom instruction related expenses and \$0.1 million was awarded to students for scholarships, with the remaining \$1.0 million cumulative, including prior years, available for fiscal year 2016. In

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

fiscal year 2014, CCCS received approximately \$5.5 million, of which \$4.7 million was used for classroom instruction related expenses and \$0.5 million was awarded to students for scholarships, with the remaining \$0.5 million cumulative, including prior years, available for fiscal year 2015.

Financial Highlights

At June 30, 2016, CCCS' assets and deferred outflows of \$984,507,643 were less than its liabilities and deferred inflows of \$1,188,217,417 by \$203,709,774. At June 30, 2015, CCCS' assets and deferred outflows of \$893,844,586 were less than its liabilities and deferred inflows of \$1,087,846,217 by \$194,001,631. At June 30, 2014, CCCS' assets and deferred outflows of \$832,033,177 exceeded its liabilities of \$214,117,901 by \$617,915,276. The resulting net position is summarized into the following categories:

	June 30		
	2016	2015	2014
Net investment in capital assets	\$ 375,414,098	337,339,694	324,876,574
Restricted, expendable	8,413,693	42,630,953	41,622,072
Unrestricted	(587,537,565)	(573,972,278)	251,416,630
Total net position	\$ <u>(203,709,774)</u>	<u>(194,001,631)</u>	<u>617,915,276</u>

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

During fiscal year 2016, the CCCS' total net position decreased by \$9,708,143 as a result of excess overall expenses compared to overall revenue streams.

During fiscal year 2015, the CCCS' total net position increased by \$2,053,411 due to current activity offset by a decrease due to a prior period adjustment of \$(813,970,318) related to the implementation of GASB Statement No. 68, discussed below, in fiscal year 2015.

During fiscal year 2014, the CCCS' total net position increased by \$4,162,278. The increase in net position is a result of excess overall revenue streams compared to overall expenses.

Overview of the Financial Statements

The Independent Auditors' Report presents an unmodified opinion prepared by our auditors (an independent certified public accounting firm, KPMG LLP) on the fairness, in all material respects, of our financial statements.

In fiscal year 2015, CCCS implemented GASB No. 68, which was effective for financial statements for periods beginning after June 15, 2014. Statement No. 68 revised and established new financial reporting requirements for most governments that provide their employees with pension benefits. The System provides certain of its employees with pension benefits through the State's multiple-employer cost-sharing Public Employees' Retirement Association of Colorado (PERA) defined-benefit retirement program.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Statement No. 68 required cost-sharing employers participating in the PERA program, such as CCCS, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The System has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability negatively impacted CCCS' unrestricted net position. Information regarding PERA's current funding status can be found in its Comprehensive Annual Financial Report.

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

CCCS' net position, based on the definitions provided in the statement, comprises the following components:

The Statements of Net Position present information on all of CCCS' assets and deferred outflows and liabilities and deferred inflows at a point in time (June 30, 2016 and 2015) with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. A reader of the financial statements should be able to determine the assets available to continue CCCS' operations, how much CCCS owes to vendors and lending institutions, and a picture of net position and the relative availability for expenditure by CCCS.

The Statements of Changes of Revenues and Expenses and Changes in Net Position present information showing how CCCS' net position changed during the fiscal period (the fiscal years ended June 30, 2016 and 2015). All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues, deferred outflows, expenses, and deferred inflows are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences or the pension liability, or the receipt of amounts due from students and others for services rendered). The purpose is to assess CCCS' operating results. CCCS reports its activity as a special-purpose government engaged only in business-type activities using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Cash Flows present cash receipts and payments to and from CCCS for the reporting period (the fiscal years ended June 30, 2016 and 2015) using the direct method. The direct method of cash flow reporting portrays cash flows from operations, noncapital financing, capital and related financing, and investing activities. The purpose is to assess CCCS' ability to generate net cash flows and meet its obligations as they come due.

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

Financial Analysis

The Statements of Net Position present information on all of CCCS' assets, deferred outflows, liabilities, and deferred inflows, with the difference between the four reported as net position.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

The assets and deferred outflows reported by CCCS were less than liabilities and deferred inflows at June 30, 2016, resulting in a net position of \$(203,709,774) and assets and deferred outflows were less than liabilities at June 30, 2015 resulting in a net position of \$(194,001,631). Assets and deferred outflows were less than liabilities and deferred inflows primarily due to the implementation of Statement No. 68. The majority of CCCS' net position is net investment in capital assets (e.g., land, buildings, and equipment). These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

The assets and deferred outflows reported by CCCS were less than liabilities and deferred inflows at June 30, 2015 resulting in a net position of \$(194,001,631) and assets and deferred outflows were more than liabilities at June 30, 2014 resulting in a net position of \$617,915,276. Assets and deferred outflows were less than liabilities and deferred inflows in 2015 primarily due to the implementation of Statement No. 68.

	June 30		
	2016	2015	2014
Current assets	\$ 387,913,335	412,318,257	395,057,104
Noncurrent assets, including capital assets of \$470,593,799, \$434,667,245, and \$409,714,852, respectively	<u>486,905,560</u>	<u>441,354,229</u>	<u>436,922,259</u>
Total assets	<u>\$ 874,818,895</u>	<u>853,672,486</u>	<u>831,979,363</u>
Total deferred outflows	<u>\$ 109,688,748</u>	<u>40,172,100</u>	<u>53,814</u>
Current liabilities	\$ 90,418,940	100,798,979	97,326,484
Noncurrent liabilities	<u>1,070,095,463</u>	<u>974,881,181</u>	<u>116,791,417</u>
Total liabilities	<u>\$ 1,160,514,403</u>	<u>1,075,680,160</u>	<u>214,117,901</u>
Total deferred inflows	\$ 27,703,014	12,166,057	—
Net position:			
Net investment in capital assets	\$ 375,414,098	337,339,694	324,876,574
Restricted – expendable	8,413,693	42,630,953	41,622,072
Unrestricted	<u>(587,537,565)</u>	<u>(573,972,278)</u>	<u>251,416,630</u>
Total net position	<u>\$ (203,709,774)</u>	<u>(194,001,631)</u>	<u>617,915,276</u>

Current assets decreased as of June 30, 2016 compared with June 30, 2015 by approximately \$24.4 million or 5.9% as a result primarily of a \$21.2 million decrease in cash and cash equivalents and a \$1.9 million decrease in accounts receivable. Decreases in accounts receivable include a decrease of \$3.9 million in due from other governments, net, and a decrease of \$0.8 million in other receivables, net, offset by an increase of approximately \$2.8 million in student receivables, net.

Current assets increased as of June 30, 2015 compared with June 30, 2014 by approximately \$17.3 million or 4.4% as a result primarily of a \$10.7 million increase in cash and cash equivalents and a \$5.4 million increase in accounts receivable. Increases in accounts receivable include an increase of \$3.0 million in student

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

receivables, net, and an increase of \$3.2 million in due from other governments, net, offset by a decrease of approximately \$0.8 million in other receivables, net.

Current liabilities decreased as of June 30, 2016 compared with June 30, 2015 by approximately \$10.4 million or 10.3% primarily due to a decrease of \$4.3 million in accounts payable and a decrease of \$5.9 million in accrued liabilities.

Current liabilities increased as of June 30, 2015 compared with June 30, 2014 by approximately \$3.5 million or 3.6% primarily due to an increase of \$6.8 million in accounts payable and accrued liabilities offset by a decrease of \$2.0 million in unearned revenue and a decrease of \$2.2 million in deposits held for others.

Noncurrent assets increased as of June 30, 2016 compared with June 30, 2015 by \$45.6 million or 10.3% due to an increase in net capital assets of \$35.9 million, primarily due to a \$44.8 million increase in land, land and improvements, buildings and improvements, net of accumulated depreciation, offset by decreases of \$5.6 million in leasehold improvements, equipment, and library materials, net of accumulated depreciation. For details on the increases in capital assets see the Capital Asset and Debt Management section below. Additionally, there is an increase in restricted investments of \$16.3 million from bond proceeds to be expended for capital projects.

Noncurrent assets increased as of June 30, 2015 compared with June 30, 2014 by approximately \$4.4 million or 1.0% due to an increase in net capital assets of \$25.0 million, including \$20.9 million in construction in progress and \$36.5 million in depreciable assets, offset by \$32.4 million in depreciation. This is further offset by a decrease in restricted cash and cash equivalents of \$19.2 million from bond proceeds expended for capital projects.

Noncurrent liabilities increased as of June 30, 2016 compared with June 30, 2015 by \$95.2 million or 9.8%. This change was due to the increase in the net pension liability of \$84.7 million and an \$11.6 million increase in bonds payable.

Noncurrent liabilities increased as of June 30, 2015 compared with June 30, 2014 by \$858.1 million or 734.0%. This change was due to the recognition of the net pension liability for the adoption of Statement No. 68 in fiscal year 2015.

Net position may have restrictions imposed by external parties, such as donors, who specify how the assets must be used, or by their nature are invested in capital assets (property, plant, and equipment). Restricted net position is primarily restricted for auxiliary programs, scholarships, loans, and community training programs.

The negative unrestricted net position of \$(587,537,565) and \$(573,972,278) as of June 30, 2016 and 2015, respectively, is due to the implementation of Statement No. 68 in fiscal year 2015, and related activity in fiscal year 2016.

The Statements of Changes of Revenues and Expenses, and Changes in Net Position reports the results of operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net position at the end of the year. A key component of this statement is the differentiation between operating and nonoperating activities. Operating revenues are received for providing goods and services to the various constituencies of CCCS. The COF stipend program revenue is included in student tuition and fees and FFS

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

contract revenue is separately presented, both of which are classified as operating revenues. Operating expenses are paid to acquire or produce goods and services provided in return for operating revenue and to carry out the mission of CCCS. Nonoperating revenues are those where goods or services are not provided. Thus, state appropriations are nonoperating because they are provided by the State without the State directly receiving goods and services. Amendment 50 funding is provided as pass-through funds through the State without the State directly receiving goods and services and is also considered nonoperating. Federal Pell grants and most gifts and investment income are also nonoperating revenue.

State appropriations, net of distributions to LDCs and AVSs, represent approximately 4.5%, 4.7%, and 5.1%; student tuition and fees represent approximately 38.9%, 41.7%, and 40.4%, and FFS contracts represent approximately 8.2%, 5.1%, and 4.7% of CCCS' total revenue (less distributions to LDC and AVS) from all sources in fiscal years 2016, 2015, and 2014, respectively, as detailed in the charts on the following pages. However, like most public institutions of higher education, public support in the form of state appropriations offsets or supplements the operating loss from the cost of operations. CCCS experienced a \$179.1 million loss from operations in fiscal year 2016 compared to a \$166.6 million and \$169.8 million loss from operations in fiscal years 2015 and 2014, respectively. In fiscal year 2016, this operating loss was offset by net state appropriations of \$30.8 million, Federal Pell grants of \$97.5 million, and Amendment 50 funding of \$6.5 million. Additionally, CCCS experienced other decreases of Federal Pell grants of \$16.5 million. In fiscal year 2015, the operating loss of \$166.6 million was offset by net state appropriations of \$28.6 million, Federal Pell grants of \$114.0 million, and Amendment 50 funding of \$5.6 million. Additionally, CCCS experienced other decreases of Federal Pell grants of \$12.7 million. In fiscal year 2014, the operating loss of \$169.8 million was offset by net state appropriations of \$29.7 million, Federal Pell grants of \$126.7 million, and Amendment 50 funding of \$5.5 million. Additionally, CCCS experienced other decreases of Federal Pell grants of \$11.6 million.

The operating loss over the two-year period presented is a result of operating expenses in excess of operating revenues from services provided during periods of flattening and decreases in enrollment over the two-year period.

Condensed Summary of Changes of Revenues and Expenses and Changes in Net Position

		June 30	
	2016	2015	2014
Operating revenues:			
Tuition and fees, net	\$ 250,448,358	254,455,049	236,915,442
Grants and contracts	108,281,670	107,806,210	96,565,185
Fee-for-service state contract	52,177,132	30,992,652	27,783,558
Sales and services of educational activities	1,387,193	1,489,873	1,132,115
Auxiliary enterprises, net	33,147,029	35,448,832	38,575,915
Other	14,689,476	7,899,974	7,937,718
Total operating revenues	460,130,858	438,092,590	408,909,933

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis
(Unaudited)

June 30, 2016 and 2015

**Condensed Summary of Changes of Revenues and Expenses
and Changes in Net Position**

	June 30		
	2016	2015	2014
Operating expenses:			
Instruction	\$ 273,329,307	257,193,443	242,246,446
Research	—	55,366	100,161
Public service	4,720,916	3,941,006	3,361,257
Academic support	45,577,510	45,040,641	44,493,476
Student services	76,080,125	72,363,956	68,323,331
Institutional support	90,048,253	83,000,576	77,106,329
Operation and maintenance of plant	56,488,871	49,746,442	50,105,581
Scholarships and fellowships	18,634,601	18,552,687	17,575,968
Auxiliary enterprises	38,650,089	41,368,875	42,442,287
Depreciation and amortization	35,732,749	33,463,675	32,931,083
Total operating expenses	<u>639,262,421</u>	<u>604,726,667</u>	<u>578,685,919</u>
Operating loss	<u>(179,131,563)</u>	<u>(166,634,077)</u>	<u>(169,775,986)</u>
Nonoperating revenues (expenses):			
State appropriations	56,397,584	51,637,095	50,395,499
Federal Pell grants	97,489,664	113,998,559	126,651,649
Amendment 50 funding	6,545,140	5,557,239	5,515,233
Distributions to Local District Colleges and Area Vocational Schools	(25,560,936)	(23,028,285)	(20,742,170)
Gifts, investments and income and expense other nonoperating revenues	<u>3,879,385</u>	<u>1,148,337</u>	<u>3,965,561</u>
Net nonoperating revenues	<u>138,750,837</u>	<u>149,312,945</u>	<u>165,785,772</u>
Income before other revenues, expenses, gains, or losses	(40,380,726)	(17,321,132)	(3,990,214)
State capital contributions	23,138,237	18,071,060	7,930,996
Capital grants and gifts	<u>7,534,346</u>	<u>1,303,483</u>	<u>221,496</u>
Increase (decrease) in net assets	(9,708,143)	2,053,411	4,162,278
Net position:			
Beginning of year	(194,001,631)	617,915,276	613,752,998
Prior period adjustment, change in accounting principle (note 2)	<u>—</u>	<u>(813,970,318)</u>	<u>—</u>
End of year	\$ <u><u>(203,709,774)</u></u>	<u><u>(194,001,631)</u></u>	<u><u>617,915,276</u></u>

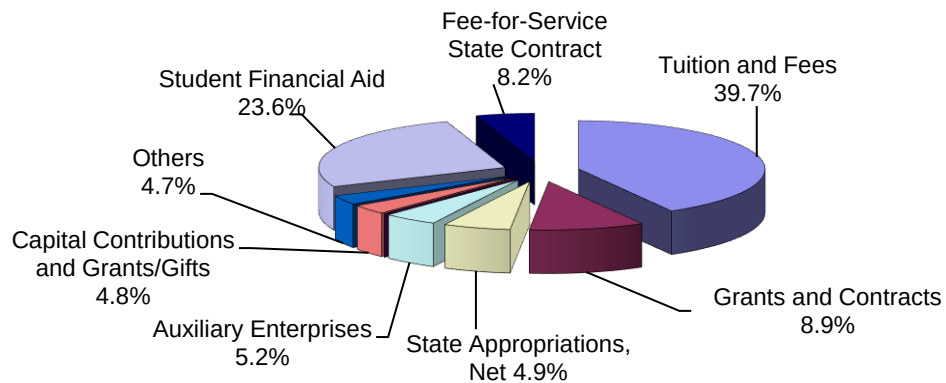
COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

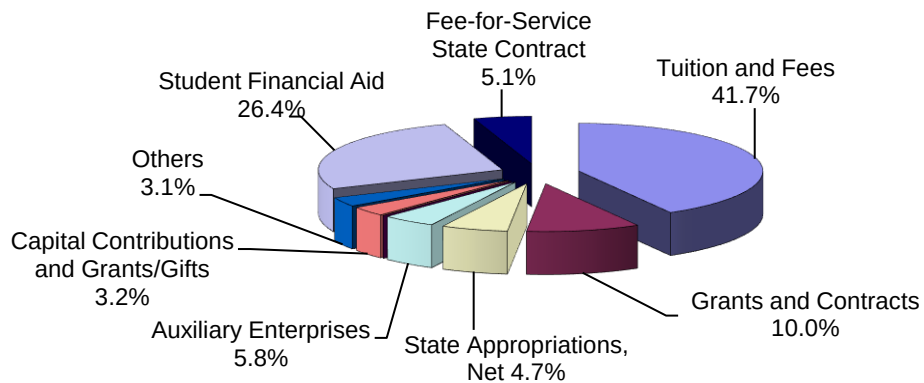
June 30, 2016 and 2015

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

**Sources of Revenue
Fiscal Year 2016**



**Sources of Revenue
Fiscal Year 2015**

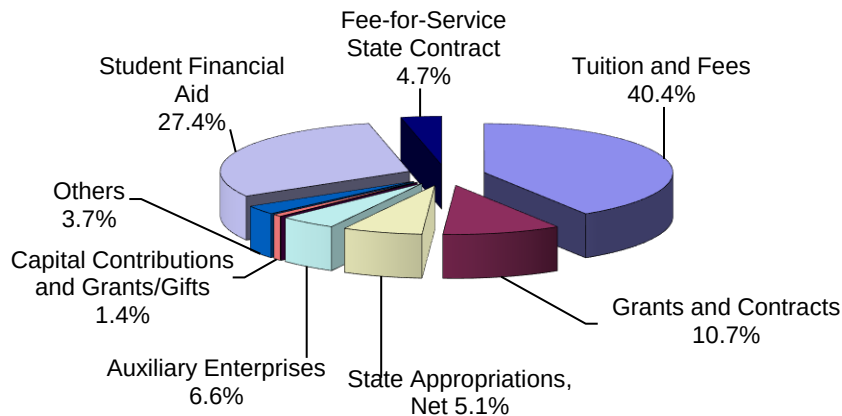


COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Sources of Revenue Fiscal Year 2014



As the above charts demonstrate, student tuition and fees are the largest revenue source for CCCS in fiscal years 2016, 2015, and 2014. The operating loss of approximately \$179.1 million, \$166.6 million, and \$169.8 million in fiscal years 2016, 2015, and 2014, respectively, noted above, is a result of operating expenses exceeding operating revenues. CCCS supplemented operating revenues with State appropriations, Federal Pell grants, and Amendment 50 funding for fiscal years 2016, 2015, and 2014, which are classified as nonoperating revenues but are used to fund operations.

Revenue activity highlights for fiscal year 2016 include:

- FFS state contracts increased by \$21.2 million, or 68.4%, due to an increase in FFS appropriations from the State. This was related to a decrease in enrollment resulting in a corresponding decrease in COF awarded. Adjustments are made at year end between final FFS and COF earned and received, limited to the cap of the combined long bill appropriations for FFS and COF.
- Auxiliary Enterprises Net of Scholarship Allowances decreased by \$2.3 million, or 6.5%. Contributing to this change was a decrease of \$2.0 million in textbook sales due to online bookstore competition, digital content, and an enrollment decrease.
- Other Operating Revenues increased by \$6.8 million, or 85.9%. This increase was due to a change in the collection process in fiscal year 2016. CCCS now charges aged delinquent student accounts a collection fee before submitting to collection agencies.
- State Appropriations increased by \$4.8 million, or 9.2%. This was due to an increase in State Long Bill Appropriations for AVS and LDC of \$2.5 million, Colorado Job Training of \$1.8 million, and Career Technical Act of \$0.5 million.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

- Federal PELL grants decreased by \$16.5 million, or 14.5% primarily as a result of a decrease of approximately 3,600 recipients, or 9.0% and a 12.4% decrease of the average student award.
- State Capital Contributions increased by \$5.1 million, or 28.0%. The primary project contributing to this increase was the RRCC Arvada Campus Health Sciences Center of \$7.3 million offset by a decrease in the NJC ES French Building of \$3.3 million.
- Capital Grants and Gifts increased \$6.2 million, or 478.0% due primarily to the donation of land and buildings from the CCA Foundation to CCA of \$6.0 million.
- Other Nonoperating Revenue (Expense) increased by \$2.7 million, or 237.8%. This was due primarily to NJC's loss on the sale of the Golf Course in fiscal year 2015, which offset prior year gains.

Revenue activity highlights for fiscal year 2015 include:

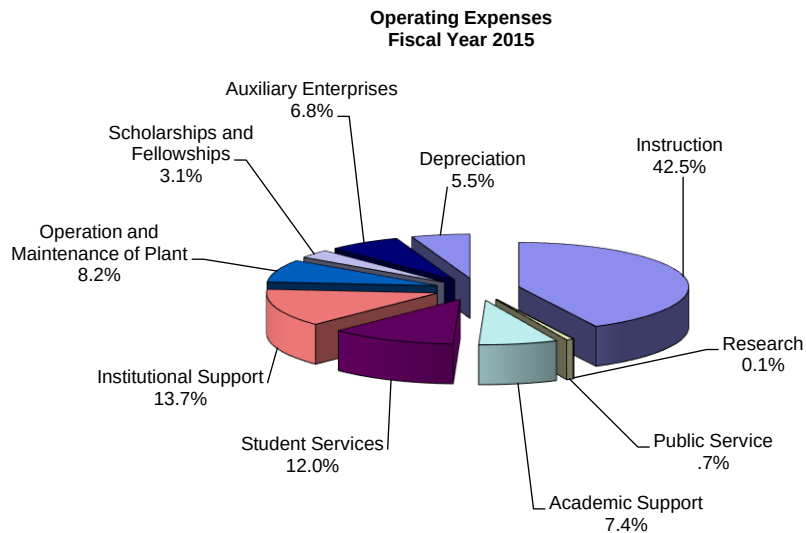
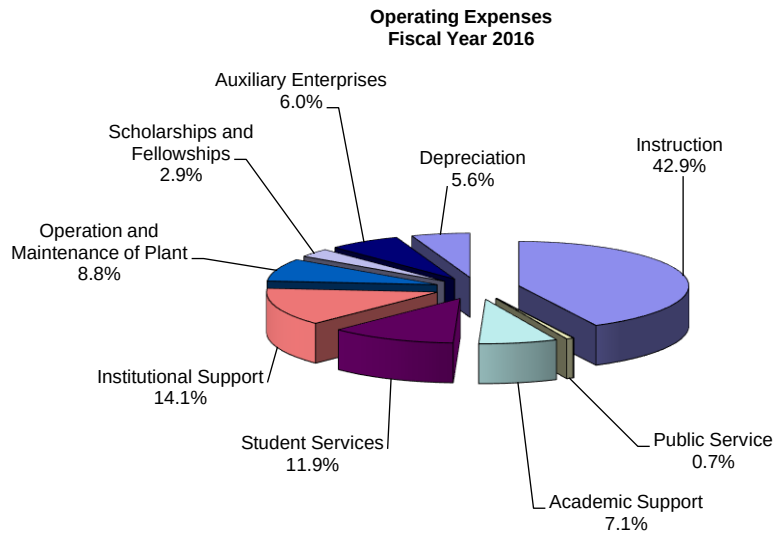
- Student Tuition and Fees increased by \$17.5 million, or 7.4%. The increase was attributable to an increase in gross tuition and fees of \$13.5 million and a decrease in scholarship allowance of \$1.6 million and a decrease in bad debt expense of \$2.4 million.
- Grants and Contracts increased by \$11.2 million, or 11.6%. Contributing to this change was an increase of \$3.8 million in the Federal Trade Adjustment Assistance (TAA) grants at Front Range Community College (FRCC), Lamar Community College (LCC), and Pueblo Community College (PCC), Pikes Peak Community College (PPCC), and Red Rocks Community College (RRCC) coupled with the increase of State student financial aid of \$13.0 million offset by a \$4.1 million decrease in funding for the Colorado Northwestern Community College (CNCC) from the Rangely Jr. College District Board.
- FFS state contracts increased by \$3.2 million, or 11.6%, due to an increase in FFS appropriations from the State. This was related to a decrease in enrollment.
- Investment income decreased by \$1.0 million, or 24.9%. This was due to a \$0.9 million change from fiscal year 2015 to fiscal year 2014 in the fair market value loss of unrealized gain on investments, per GASB 31 Accounting and Financial Reporting for Certain Investments and for External Investment pools requirements.
- The loss on disposal of assets increased by \$1.9 million, or 441.1%. This was due primarily to the sale of the NJC golf course for a loss of \$1.5 million.
- State capital contributions increased by \$10.1 million, or 127.9%. This increase is primarily due to projects funded through the State for the CCCS HVAC; Northeastern Junior College (NJC) renovation of its E.S. French Academic Building; Otero Junior College (OJC) replacing of security and lock system, video surveillance, HVAC upgrade; PCC projects for roof replacement; PPCC's boiler and elevator replacement; and Trinidad State Junior College (TSJC) Alamosa campus expansion.
- Federal PELL grants decreased by \$12.7 million, or 10.0% primarily as a result of a decrease of approximately 7,000 recipients, or 14.7%, offset by a 5.6% increase of the average student award.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

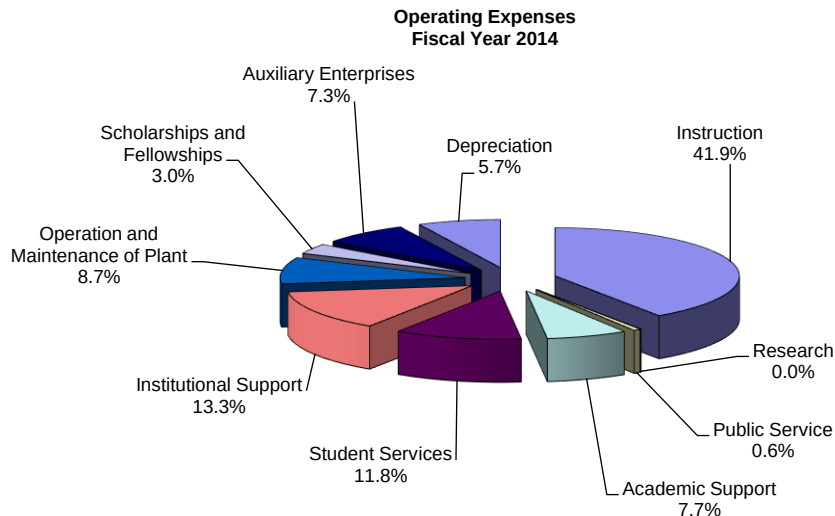
- Capital Gifts increased by \$1.1 million, or 488.5% because of a \$1.0 million contribution for RRCC for the Arvada Campus Expansion and Renovation.



COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015



Expense activity highlights for fiscal year 2016 include:

- Instructional expense increased by \$16.1 million, or 6.3%, primarily as the result of \$5.5 million increase for pension expense along with salary increases for faculty and adjunct instruction personnel.
- Student Services expenses increased by \$3.7 million, or 5.1%. This increase was due primarily to \$1.7 million increase for pension expense and \$0.4 million for set up of new student placement exams systemwide. The remaining increase is primarily related to salary increases for student service personnel.
- Institutional support increased by \$7.0 million, or 8.5%. Contributing to these increases was a \$1.8 million increase for pension expense. Additionally, CCCS incurred an increase of \$1.0 million for a marketing campaign, \$1.0 million in one-time IT projects and maintenance costs along with a \$1.5 million increase for salary and benefits compared to prior year that recognized significant salary savings for vacant positions. The remaining differences are salary increases across the system for support personnel over the limited increase in the prior year.
- Operations and Maintenance of Plant increased by \$6.7 million, or 13.6%. This increase was caused in part by an increase in the lease payment for CCA to their Foundation of \$1.2 million and controlled maintenance projects along with other general repair and updates on the Lakewood campus total in \$1.7 million at RRCC. In addition, PCC had \$0.9 million for noncapital expenditures for furniture and equipment for the Davis building and other water line and electrical costs and OJC had \$0.7 million for tech infrastructure and a video survey project. NJC also had an increase of \$0.3 million for the purchase of noncapital equipment and furniture for the ES French building. The remaining differences are due to a \$0.7 million increase in pension expense, couple by various nominal projects across the system along with personnel increases systemwide.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Expense activity highlights for fiscal year 2015 include:

- Instructional expense increased by \$14.9 million, or 6.2%, primarily as the result of \$10.4 million for pension expense plus approximately \$4.5 million annual salary increases for instructional staff.
- Academic support expenses increased by \$0.5 million, or 1.2%. This increase is due primarily to \$1.8 million for pension expense offset by a reduction of \$1.3 million for CCD for the close out year of the TAA Federal Grant.
- Student services expenses increased by \$4.0 million, or 5.9%. Contributing to these increases are \$3.1 million for pension expense plus annual salary increases for student services staff.
- Institutional support increased by \$5.9 million, or 7.6%. Contributing to these increases are \$3.1 million for pension expense plus annual salary increases for student services staff.
- Scholarships and fellowships expenses increased by \$1.0 million, or 5.6%. This is primarily due to an increase of State Student Financial Aid awards of \$13.0 million offset by a decrease in Federal Pell awards of \$12.7 million. This lead to a decrease for the scholarship allowance offset of \$260,000.
- Auxiliary Enterprise expense decreased by \$1.1 million, or 2.5%. This was primarily due to PCC's Noncredit Division expenses decrease of \$1.3 million due to increased competition from the local school districts alternate high school program. Additionally, bookstores' activity decreased across the system due to the shift of electronic educational materials. These reductions were subsequently offset by the increase of \$0.6 million for pension expense.

Capital Asset and Debt Management

At June 30, 2016, CCCS had \$470,593,799 of capital assets, net of accumulated depreciation of \$412,845,229 and including current year depreciation of \$35,732,749. At June 30, 2015, CCCS had \$434,667,245 of capital assets, net of accumulated depreciation of \$378,079,124 and including current year depreciation of \$33,463,675. At June 30, 2014, CCCS had \$409,714,852 of capital assets, net of accumulated depreciation of \$345,681,632. A breakdown of assets by category, net of accumulated depreciation is provided below:

	June 30		
	2016	2015	2014
Nondepreciable land and land improvements	\$ 26,055,683	21,460,967	22,004,179
Construction in progress	50,329,850	53,577,938	32,209,138
Collections	882,306	882,306	882,306
Land improvements	11,753,128	9,103,842	7,624,652
Buildings and improvements	330,684,317	293,111,208	293,161,848
Leasehold improvements	17,535,715	19,588,004	18,862,425
Equipment and software	31,243,564	34,630,074	32,425,020
Library materials	2,109,236	2,312,906	2,545,284
Total capital assets	\$ <u>470,593,799</u>	<u>434,667,245</u>	<u>409,714,852</u>

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Major capital additions of \$500,000 or more completed during fiscal year 2016 are as follows:

College	Project	Total project cost (In millions)	Source of funding
Arapahoe Community College	Main Building PD1-14 Restroom Remodel	\$ 0.7	Internal Reserves
	Replace Rooftop Units	0.8	State Funded
Community College of Denver	Advanced Manufacturing Center (AMC) Machining Remodel	1.6	Internal Reserves
	AMC Welding Remodel	1.1	Internal Reserves
Colorado Northwestern Community College	Controlled Maintenance Project to Reroof the McLaughlin Building on Rangely Campus	0.9	State Funded/Internal Reserves
Front Range Community College	Greenhouse Westminster Campus (WC)	0.7	Foundation/Grant
	Blanca Peak Remodel Larimer Campus (LC)	1.4	Internal Reserves
	South Classroom Renovation WC	2.9	Internal Reserves
	HVAC & Mechanical System Upgrade	7.6	Internal Reserves
	Redcloud Peak Remodel LC	8.6	Internal Reserves/Bonds
	Student Life Design Renovation WC	5.4	Bonds
	Parking Lot LC	2.0	Internal Reserves
	Parking Lot Additions WC	1.1	Bonds
Morgan Community College	Campus-wide Safety and Security	0.5	State Funded
Northeastern Junior College	ES French Building Improvement	12.9	State Funded
Otero Junior College	Nursing Life Science Improvements	1.9	State Funded
Pueblo Community College	Fremont Commons	0.8	Internal Reserves
	Replace Air Handler System	0.6	State Funded
Trinidad State Junior College	Alamosa Expansion of Classrooms	1.7	State Funded
Community College System	HVAC Upgrade 758	2.5	State Funded/Internal Reserves
	HVAC Upgrade 967	0.7	State Funded
	Fire Suppression Upgrade	0.8	State Funded

The System has \$28.8 million and \$29.5 million in commitments for various upcoming capital construction and controlled maintenance projects as of June 30, 2016 and 2015, respectively.

CCCS had \$108,250,358, \$97,421,410, and \$102,071,473 in debt outstanding at June 30, 2016, 2015, and 2014, respectively.

In January 2016, Moody's assigned Aa3 underlying and Aa2 enhanced ratings to CCCS' Series 2016 Revenue Bonds. Moody's also affirmed the Aa3 underlying rating the Series 2012A and 2013 Systemwide Revenue bonds and Aa2 enhanced rating for the Series 2010 (A, B-2, C, and D) Revenue Bonds.

COLORADO COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

The breakdown of the debt is as follows:

		June 30	
		2016	2015
		2015	2014
Bonds payable	\$	96,676,305	85,169,454
Capital leases payable		11,574,053	12,251,956
Total debt	\$	108,250,358	97,421,410

On January 20, 2016, the Series 2016 Systemwide Revenue Bonds for \$18,340,000 were issued. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2046. The principal of the Series 2016 issue is being used to finance the construction and equipping of the new student recreation center on the Red Rocks Community College Lakewood and was also used to refund the 2003 debt of \$3,060,000.

Colorado Community College System Future

The budgetary situation for higher education continues to change. For fiscal year 2017 funding, CCCS is authorized to receive \$46.8 million in FFS revenue and \$106.5 million in student stipends. This support totaling \$153.3 million of anticipated fiscal year 2017 funding represents a 0.1% decrease in state support from the \$153.5 million that was provided in 2016. CCCS anticipates receiving \$6.5 million of funding under the Amendment 50 funding in fiscal year 2017.

The CCCS funding also relies on two other primary drivers: enrollment and tuition rates.

Enrollment: In fiscal year 2016, in a slowly expanding economy, CCCS' resident enrollment of 47,272 decreased by 5.5% from fiscal year 2015, and nonresident enrollment of 2,975 decreased by 1.3%, resulting in a total net enrollment decrease of 5.2%. Therefore, further flattening or decreases in enrollment are anticipated in the fiscal year 2017 budget.

Tuition Rates: In an effort to mitigate increased costs along with an overall decrease in state support during the previous two years, the Board raised the resident tuition by 4.5% and the nonresident tuition by 4.5% in fiscal year 2016. The Board also approved a 4.9% increase in resident and nonresident tuition for fiscal year 2017.

Requests for Information

This financial report is designed to provide a general overview of CCCS' finances and to show the System's accountability for the money it receives. Questions concerning any other information provided in this report or requests for additional financial information should be addressed to:

Colorado Community College System
Department of Finance and Administration
9101 E. Lowry Blvd.
Denver, Colorado 80230 6011

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activities
Statements of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 319,775,628	339,823,036
Restricted cash and cash equivalents	3,813,019	4,988,930
Accounts receivable, net	60,256,027	62,152,863
Inventories	3,158,935	3,842,068
Prepaid expenses	<u>909,726</u>	<u>1,511,360</u>
Total current assets	<u>387,913,335</u>	<u>412,318,257</u>
Noncurrent assets:		
Restricted cash and cash equivalents	8,434	3,601,365
Restricted investments	16,303,327	3,085,619
Capital assets, net	<u>470,593,799</u>	<u>434,667,245</u>
Total noncurrent assets	<u>486,905,560</u>	<u>441,354,229</u>
Total assets	\$ <u>874,818,895</u>	\$ <u>853,672,486</u>
Deferred Outflows		
Deferred outflows:		
Loss on refunding	\$ —	19,970
Accumulated increase in pension liability	<u>109,688,748</u>	<u>40,152,130</u>
Total deferred outflows	\$ <u>109,688,748</u>	\$ <u>40,172,100</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 21,482,746	25,733,690
Accrued liabilities	28,326,279	34,258,498
Unearned revenue	22,064,195	21,833,307
Deposits held for others	11,082,236	11,968,829
Bonds payable, current portion	4,065,000	4,140,000
Capital leases payable, current portion	927,694	905,212
Other long-term liabilities, current portion	698,159	250,481
Compensated absences liability, current portion	<u>1,772,631</u>	<u>1,708,962</u>
Total current liabilities	<u>90,418,940</u>	<u>100,798,979</u>
Noncurrent liabilities:		
Bonds payable	92,611,305	81,029,454
Capital leases payable	10,646,359	11,346,744
Other long-term liabilities	1,527,164	1,689,284
Compensated absences liability	18,173,370	18,398,435
Net pension liability	<u>947,137,265</u>	<u>862,417,264</u>
Total noncurrent liabilities	<u>1,070,095,463</u>	<u>974,881,181</u>
Total liabilities	\$ <u>1,160,514,403</u>	\$ <u>1,075,680,160</u>
Deferred Inflows		
Deferred inflows:		
Accumulated decrease in pension liability	\$ 27,703,014	12,166,057
Total deferred inflows	\$ <u>27,703,014</u>	\$ <u>12,166,057</u>
Net Position		
Net position:		
Net investment in capital assets	\$ 375,414,098	337,339,694
Restricted for expendable purposes:		
Auxiliary pledged revenue	—	33,946,612
Scholarships/fellowships	657,645	956,629
Loans	886,318	863,292
Capital projects	183,901	1,002,855
Training programs	1,277,118	1,381,205
Amendment 50 instruction	347,930	372,910
Amendment 50 scholarship	66,938	626,413
Debt service	2,102,317	41,905
Other	<u>2,891,526</u>	<u>3,439,132</u>
Total restricted for expendable purposes	<u>8,413,693</u>	<u>42,630,953</u>
Unrestricted (note 2)	<u>(587,537,565)</u>	<u>(573,972,278)</u>
Total net position	\$ <u>(203,709,774)</u>	\$ <u>(194,001,631)</u>

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statements of Financial Position

June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	\$ 9,498,999	6,576,427
Accounts and pledges receivable	1,451,902	938,398
Investments	34,684,098	34,456,527
Beneficial interest in charitable remainder trust	599,456	618,737
Other assets	40,498	104,737
Capital assets, net	<u>2,343,745</u>	<u>10,116,812</u>
Total assets	\$ <u>48,618,698</u>	<u>52,811,638</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 648,527	595,013
Due to primary government	614,274	—
Accrued liabilities	—	18,314
Deferred revenue	95,135	177,960
Bonds payable	—	1,740,790
Other liabilities	<u>421,071</u>	<u>912,326</u>
Total liabilities	<u>1,779,007</u>	<u>3,444,403</u>
Net assets:		
Unrestricted	12,979,204	17,679,530
Temporarily restricted	19,221,836	18,173,022
Permanently restricted	<u>14,638,651</u>	<u>13,514,683</u>
Total net assets	<u>46,839,691</u>	<u>49,367,235</u>
Total liabilities and net assets	\$ <u>48,618,698</u>	<u>52,811,638</u>

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$129,797,094 and \$141,333,674; including revenues pledged for bonds of \$25,044,836 and \$33,908,665 in 2016 and 2015	\$ 250,448,358	254,455,049
Grants and contracts	108,281,670	107,806,210
Fee-for-service state contract	52,177,132	30,992,652
Sales and services of educational activities	1,387,193	1,489,873
Auxiliary enterprises, net of scholarship allowances of \$3,824,183 and \$4,092,995; including revenues pledged for bonds of \$0 and \$35,257,445 in 2016 and 2015	33,147,029	35,448,832
Other operating revenues and gifts	<u>14,689,476</u>	<u>7,899,974</u>
Total operating revenues	<u>460,130,858</u>	<u>438,092,590</u>
Operating expenses:		
Instruction	273,329,307	257,193,443
Research	—	55,366
Public service	4,720,916	3,941,006
Academic support	45,577,510	45,040,641
Student services	76,080,125	72,363,956
Institutional support	90,048,253	83,000,576
Operation and maintenance of plant	56,488,871	49,746,442
Scholarships and fellowships	18,634,601	18,552,687
Auxiliary enterprises	38,650,089	41,368,875
Depreciation and amortization	<u>35,732,749</u>	<u>33,463,675</u>
Total operating expenses	<u>639,262,421</u>	<u>604,726,667</u>
Operating loss	<u>(179,131,563)</u>	<u>(166,634,077)</u>
Nonoperating revenues (expenses):		
State appropriations	56,397,584	51,637,095
Federal Pell grants	97,489,664	113,998,559
Amendment 50 funding	6,545,140	5,557,239
Distributions to Local District College and Area Vocational Schools	(25,560,936)	(23,028,285)
Gifts	398,081	489,936
Investment income	4,178,643	3,020,482
Interest expense on capital debt	(3,257,432)	(3,058,684)
Other nonoperating revenues (expenses)	<u>2,560,093</u>	<u>696,603</u>
Net nonoperating revenues	<u>138,750,837</u>	<u>149,312,945</u>
Loss before other revenues, expenses, gains, or losses	<u>(40,380,726)</u>	<u>(17,321,132)</u>
Other revenues, expenses, gains, or losses:		
State capital contributions	23,138,237	18,071,060
Capital grants and gifts	<u>7,534,346</u>	<u>1,303,483</u>
Increase (decrease) in net position	<u>(9,708,143)</u>	<u>2,053,411</u>
Net position, beginning of year, as previously reported	<u>(194,001,631)</u>	617,915,276
Prior period adjustment, change in accounting principle (note 2)	<u>—</u>	<u>(813,970,318)</u>
Net position, beginning of year, as restated	<u>(194,001,631)</u>	<u>(196,055,042)</u>
Net position, end of year	\$ <u><u>(203,709,774)</u></u>	<u><u>(194,001,631)</u></u>

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2016

		2016			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:					
Contributions	\$	1,334,119	9,243,507	782,137	11,359,763
Grants		4,879	228,462	—	233,341
Investment income, net		(112,509)	252,453	63,769	203,713
Rental income		2,271,876	290,086	—	2,561,962
Special events		146,794	226,785	—	373,579
Net assets released from restrictions		8,374,173	(8,374,173)	—	—
Other income (loss)		1,216,639	(850,545)	310,301	676,395
Total revenues		13,235,971	1,016,575	1,156,207	15,408,753
Expenses:					
Program services		16,007,454	—	—	16,007,454
Fund-raising services		774,301	—	—	774,301
Administrative services		1,154,542	—	—	1,154,542
Total expenses		17,936,297	—	—	17,936,297
Change in net assets		(4,700,326)	1,016,575	1,156,207	(2,527,544)
Net assets, beginning of year, as restated (note 21)		17,679,530	18,205,261	13,482,444	49,367,235
Net assets, end of year	\$	12,979,204	19,221,836	14,638,651	46,839,691

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2015

2015				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Contributions	\$ 1,889,058	6,609,336	636,484	9,134,878
Grants	—	453,712	—	453,712
Investment income, net	212,698	743,991	(44,176)	912,513
Rental income	3,244,541	285,201	—	3,529,742
Special events	151,388	281,127	—	432,515
Net assets released from restrictions	7,426,282	(7,406,282)	(20,000)	—
Other income (loss)	826,916	(740,475)	410,061	496,502
Total revenues	13,750,883	226,610	982,369	14,959,862
Expenses:				
Program services	11,461,612	—	—	11,461,612
Fund-raising services	918,282	—	—	918,282
Administrative services	1,201,341	—	—	1,201,341
Total expenses	13,581,235	—	—	13,581,235
Change in net assets	169,648	226,610	982,369	1,378,627
Net assets, beginning of year as restated (note 21)	17,509,882	17,946,412	12,532,314	47,988,608
Net assets, end of year	\$ 17,679,530	18,173,022	13,514,683	49,367,235

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 247,739,766	249,365,017
Student loans collected	2,629,929	1,630,721
Sales of products and services	34,549,963	36,963,872
Grants, contracts, and gifts	160,808,491	138,510,026
Other operating receipts	15,027,927	6,712,664
Cash payments:		
Scholarships disbursed	(18,634,601)	(18,552,687)
Student loans disbursed	(2,480,361)	(1,718,206)
Payments for employees	(369,797,457)	(352,316,413)
Payments to suppliers	<u>(191,230,229)</u>	<u>(177,332,547)</u>
Net cash used in operating activities	<u>(121,386,572)</u>	<u>(116,737,553)</u>
Cash flows from noncapital financing activities:		
State appropriations – noncapital	56,397,584	51,637,095
Federal Pell grants	98,467,799	113,346,563
Amendment 50 funding	6,545,140	5,557,239
Distributions to Local District Colleges and Area Vocation Schools	(25,560,936)	(23,028,285)
Gifts and grants for other than capital purposes	1,464,184	489,936
Agency (inflows)	169,529,547	193,594,642
Agency (outflows)	(169,766,202)	(192,825,817)
Other noncapital financing activities	<u>3,005,862</u>	<u>2,254,141</u>
Net cash provided by noncapital financing activities	<u>140,082,978</u>	<u>151,025,514</u>
Cash flows from capital and related financing activities:		
Capital grants, contracts, and gifts	430,983	1,294,199
Proceeds from capital debt	19,231,657	53,050
State contribution for capital assets	22,972,168	17,470,318
Proceeds from sale of capital assets	—	12,570
Acquisition and construction of capital assets	(65,205,834)	(57,191,008)
Principal paid on capital debt	(8,104,840)	(4,453,360)
Interest on capital debt	(3,527,778)	(3,315,747)
Amount paid on bond issuance cost	<u>(269,947)</u>	<u>—</u>
Net cash used in capital and related financing activities	<u>(34,473,591)</u>	<u>(46,129,978)</u>
Cash flows from investing activities:		
Investment income	4,178,643	3,020,482
Purchase of investments	(18,840,825)	(90,519)
Proceeds from sale of investments	<u>5,623,117</u>	<u>956,754</u>
Net cash (used in) provided by investing activities	<u>(9,039,065)</u>	<u>3,886,717</u>
Net decrease in cash and cash equivalents	(24,816,250)	(7,955,300)
Cash and cash equivalents, beginning of year	<u>348,413,331</u>	<u>356,368,631</u>
Cash and cash equivalents, end of year	\$ <u><u>323,597,081</u></u>	<u><u>348,413,331</u></u>

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (179,131,563)	(166,634,077)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	35,732,749	33,463,675
Increase in other nonoperating assets/noncash expenses	255,657	329,064
Decrease (increase) in assets:		
Receivables, net	(181,815)	(5,463,407)
Inventory and prepaids	1,264,419	(646,641)
Increase (decrease) in liabilities:		
Accounts payable	(4,505,759)	4,124,572
Accrued liabilities	(5,932,218)	(10,368)
Unearned revenues	230,888	(2,001,463)
Deposits held for others	121,031	(1,468,062)
Compensated absences liability	(161,397)	720,685
Other liabilities	201,095	387,595
Pension liability	30,720,341	20,460,874
Net cash used in operating activities	\$ <u>(121,386,572)</u>	<u>(116,737,553)</u>
Noncash investing, capital, and noncapital financing activities:		
State funding for acquisitions of capital assets	\$ (166,069)	3,928
Equipment donations and capital gifts	6,037,260	15,284
Loss on disposal of capital assets	(499,475)	(1,847,400)
Deferred outflows pension	(69,536,618)	(40,152,130)
Deferred inflows pension	(15,536,957)	(12,166,057)
Net pension liability	(84,720,001)	(862,417,264)

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(1) Governance and Reporting Entity

The Colorado Community College System (CCCS or the System) is governed by the State Board for Community Colleges and Occupational Education (SBCCOE). The nine board members are appointed for staggered four-year terms by the Governor with consent of the State Senate. There are also two advisory, non-voting members per Statute 23-60-104 C.R.S. The SBCCOE governs the system office and the 13 state system colleges and administers vocational technical education funds distributed to the two Local District Colleges (LDCs), three Area Vocational Schools (AVSs), and school districts offering vocational programs.

CCCS is an institution of higher education of the State of Colorado (the State) established by the Community College and Occupational Education Act of 1967, Title 23, Article 60 of the Colorado Revised Statutes (C.R.S.). Thus, for financial reporting purposes, CCCS is included as part of the State of Colorado's primary government. CCCS' operations and activities are funded primarily through tuition and fees; federal, state, and local grants; the College Opportunity Fund (COF) stipends; and a fee-for-service (FFS) contract. Pursuant to C.R.S. Section 23-1-104, state appropriations for the operation of CCCS are made to the SBCCOE, which is responsible for the allocation to the individual colleges. In addition, the SBCCOE receives and distributes state appropriations for LDCs, AVSs, and school districts offering vocational programs.

The financial statements of CCCS, which is an institution of higher education of the State, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of CCCS. They do not purport to, and do not present fairly, the financial position of the State as of June 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Financial results for the State are presented in separate statewide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in these statewide financial statements.

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

- Arapahoe Community College (ACC)
- Colorado Northwestern Community College (CNCC)
- Community College of Aurora (CCA)
- Community College of Denver (CCD)
- Front Range Community College (FRCC)
- Lamar Community College (LCC)
- Morgan Community College (MCC)
- Northeastern Junior College (NJC)
- Otero Junior College (OJC)
- Pikes Peak Community College (PPCC)

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

- Pueblo Community College (PCC)
- Red Rocks Community College (RRCC)
- Trinidad State Junior College (TSJC)

As an institution of higher education in the State, the income of CCCS is generally exempt from income taxes under Section 115(a) of the Internal Revenue Code. Income generated from activities unrelated to the exempt purpose of CCCS would be subject to tax under Section 511(a)(2)(B). There was no material tax liability related to income generated from activities unrelated to CCCS' exempt purpose as of June 30, 2016 and 2015.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, CCCS has one blended component unit, 14 discretely presented component units, and participates in one joint venture as described below:

(a) Blended Component Unit

The SBCCOE Employee Benefit Trust Fund (the Benefit Trust) is included in the accompanying financial statements as a blended component unit. The Benefit Trust was established on February 1, 1983, as a legally and financially independent entity whose governing committee is appointed by the SBCCOE. The Benefit Trust was established to provide benefits under the Health and Welfare Program. Benefits are determined by the Benefit Trust committee, and may include life, accidental death and dismemberment, short-term and/or long-term disability, basic or major medical, dental, or other sick, or accident benefits. Other benefits, as determined by the Benefit Trust committee, may be provided for employees and their dependent families through self-funded or insured programs, or a combination of the two, provided that such other benefits are permissible under Section 501(c)(9) of the Internal Revenue Code. The Benefit Trust is a 501(c)(9) not-for-profit corporation. Separate unaudited financial statements of the Benefit Trust are available upon request.

(b) Discretely Presented Component Units

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

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

The Arapahoe Community College Foundation, Inc.; Community College of Aurora Foundation; Community College of Denver Foundation; Colorado Northwestern Community College Foundation; Front Range Community College Foundation; Lamar Community College Foundation; Morgan Community College Foundation; Northeastern Junior College Foundation, Inc.; Pikes Peak Community College Foundation, Inc.; Pueblo Community College Foundation; Red Rocks Community College Foundation; Trinidad State Junior College Foundation, Inc.; and Colorado Community College System Foundation were audited by other auditors.

Complete financial statements for the foundations can be obtained from the Finance and Administration Department at the Colorado Community College System at (303) 595-1535 or by writing to:

Colorado Community College System
Finance and Administration Department
9101 E. Lowry Blvd.
Denver, Colorado 80230

(c) Joint Venture

CCCS has an association with the following organization for which it neither is financially accountable nor has primary access to the resources. Accordingly, it has not been included in CCCS' financial statements.

The Auraria Higher Education Center (AHEC), established by legislation in 1974, is jointly governed and utilized by CCD, the University of Colorado Denver, and Metropolitan State University of Denver. The institutions share the costs of operating common educational, library, and other auxiliary facilities. Costs of the common facilities are shared in accordance with an operating agreement between AHEC and the respective institutions.

Complete financial statements for AHEC can be obtained from the Administrative and Business Services Department at (303) 556-2232 or by writing to:

Auraria Higher Education Center
Controller's Office
Campus Box B
P.O. Box 173361
Denver, Colorado, 80217-3361

(2) Implementation of New Accounting Standards

In fiscal year 2016, CCCS implemented GASB No. 72, *Fair Value Measurement and Application* (Statement No. 72), which was effective for financial statements for periods beginning after June 15, 2015. Statement No. 72 defines the fair value of an investment along with guidance on its measurement. Further, it expands disclosure requirements to be included in note 6 as it relates to deposits held by the Colorado State Treasurer in their investment pool.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

In fiscal year 2015, CCCS implemented GASB No. 68, *Accounting and Financial Reporting for Pensions* (Statement No. 68), which was effective for financial statements for periods beginning after December 15, 2014. Statement No. 68 revised and established new financial reporting requirements for most governments that provide their employees with pension benefits. The System provides certain of its employees with pension benefits through the State's multiple employer cost sharing Public Employees' Retirement Association of Colorado (PERA) defined-benefit retirement program.

Statement No. 68 required cost sharing employers participating in the PERA program, such as CCCS, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The System has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability negatively impacted CCCS' unrestricted net position.

The impact of implementing GASB No. 68 resulted in CCCS recognizing beginning balances of deferred outflows of \$43,293,926, deferred inflows of \$18,671,904, and a net pension liability of \$838,592,340 leading to a net reduction to net position of \$813,970,318 as of July 1, 2014. In addition, CCCS recognized expense of \$20,460,874 allocated across functional categories based on relative proportion of salaries and expenses, during the fiscal year ended June 30, 2015.

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

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

(a) Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, cash in checking accounts, demand deposits, certificates of deposit with original maturities of three months or less with financial institutions, pooled cash with the State Treasurer, and all highly liquid investments with an original maturity of three months or less. Earnings from pooled cash are distributed monthly based on average daily cash balances at each institution.

(b) Accounts Receivable

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

(c) Restricted Cash and Cash Equivalents and Restricted Investments

Restricted cash and cash equivalents and restricted investments primarily represent moneys from unspent bond proceeds and restricted for Benefit Trust benefits. Investments are reported at fair value, which is determined based on quoted market prices as of June 30, 2016 and 2015.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(d) Inventories

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

(e) Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. CCCS uses a capitalization threshold of \$50,000 for buildings and improvements (land, buildings, and leasehold) and internally developed software and \$5,000 for all other capital assets, including capital leases for equipment. Library collections are capitalized, regardless of cost, as a collection. Estimated useful lives are determined in accordance with the State Fiscal Procedures Manual issued by the Colorado Office of the State Controller. CCCS' estimated useful lives are as follows: 27 years for buildings, the greater of 5 years or term of lease for improvements other than buildings, 3–10 years for equipment, 7 years for library collections, 15 years of internally developed software, and 3–5 years for all other software. Depreciation expense is not allocated among functional categories.

Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or their estimated useful life. Such amortization is included as depreciation expense in the accompanying financial statements.

As of June 30, 2016 and 2015, the construction in progress includes capital construction projects in process, but not substantially complete.

(f) Deposits Held for Others

Deposits held for others include balances representing the net position owed to the individual or organization for which CCCS is acting as custodian.

(g) Accrued Liabilities

Accrued liabilities primarily represent accrued payroll, benefits payable, and other payroll related liabilities at June 30, 2016 and 2015.

(h) Compensated Absences Liability

Compensated absences and related personnel expenses are recognized based on estimated balances due to employees upon termination or retirement. The limitations on such payments are defined by the rules associated with the personnel systems at CCCS. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service. Vacation accruals are paid in full upon separation, whereas only a portion of sick leave is paid upon specific types of separation, such as retirement. The current portion of compensated absences liability is the portion that is estimated to be paid within one year. This estimate is based upon the average paid over the preceding three years. The liability for compensated absences is expected to be funded by state appropriations or other funding sources available in future years when the liability is paid.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(i) Unearned Revenue

Unearned revenue consists of amounts received from the provision of educational goods and services that have not yet been earned. CCCS prorates the summer session revenues and direct instructional expenses based on the percentage of total calendar days before June 30 to total calendar days in the selected primary summer term. To the extent revenues are earned after June 30, such amounts are recorded in unearned revenue.

(j) Capital Leases

Capital leases consist of various lease purchase contracts, energy performance contracts, and other lease agreements with an original value of \$5,000 or over. Such contracts provide that any commitments beyond the current year are contingent upon funds being appropriated for such purposes. It is reasonably assured that such leases will be renewed in the normal course of business and, therefore, are treated as noncancelable for financial reporting purposes.

(k) Accumulated Increase/Decrease in Pension Liability: Deferred Outflows/Inflows

Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows and deferred inflows of resources related to pensions. These deferred outflows and deferred inflows of resources related to pensions are required to be recognized by an employer, which primarily results from changes in the components of the net pension liability, including the changes in the total pension liability and in the pension plan's fiduciary net position. Changes include differences between expected and actual experience in the measurement of the liability, changes to assumptions or other inputs, net differences between projected and actual earning on the plan's investments, changes in proportional share of CCCS, and contributions made by CCCS subsequent to the measurement date of the collected net pension liability.

(l) Net Pension Liability

The net pension liability is the liability of CCCS, the employer, to employees for the PERA defined-benefit pension plan, which is measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

(m) Net Position

Net position is classified in the accompanying financial statements as follows:

- Net investment in capital assets represents the total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- Restricted for expendable purposes represents net resources in which CCCS is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- Unrestricted net position represents net resources derived from student tuition and fees, FFS contracts, COF stipends, state appropriations, and sales and services of educational activities.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

These resources are used for transactions relating to the educational and general operations of CCCS to meet current expenses for any purpose. These resources also include those from auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff. Unrestricted net position includes assets designated by the SBCCOE for certain purposes. Unrestricted net position has been reduced for the impact of implementing Statement No. 68 during fiscal year 2015.

(n) Classification of Revenues and Expenses

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

- Operating revenues and expenses are derived from activities associated with providing goods and services for instruction, public service, or related support services to an individual or entity separate from CCCS to carry out the mission of CCCS. Operating revenues include stipends paid for eligible undergraduate students under COF, created and funded by the Colorado Legislature. The stipend is used to pay a portion of in state tuition for both new and continuing students and is paid on a per credit hour basis to the institution at which the student is enrolled. The credit hour amount is set annually by the General Assembly. In addition, operating revenues include payment for the FFS contract from the State for delivery of educational services by CCCS that are not part of the COF stipend program. In fiscal year 2016, CDHEs' contract with CCCS purchased educational services in rural areas, high cost/student programs, institutional research services, remediation and special skills courses, creation of student career pathways, and for inclusion service compliance. In fiscal year 2015, CDHEs' contract with CCCS purchased credit hours for vestibule labs, reciprocal programs, and educational services in rural areas.
- Nonoperating revenues and expenses are those that do not meet the definition of operating revenues or capital revenues. In fiscal years 2016 and 2015, nonoperating revenues include Career and Technical Act (CTA) state appropriations, Federal Pell grants, Amendment 50 funding, state training program grants, occupational education funds, gifts, investment income, and insurance recoveries from prior years. Nonoperating expenses include interest expense and distributions to AVSs and LDCs.
- Other revenues, expenses, gains, and losses include state capital construction contributions and controlled maintenance appropriations, gifts, and grants restricted for capital purposes.

(o) Application of Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available to pay an expense, CCCS' general policy is to first utilize restricted resources. Only when restricted resources are unavailable are unrestricted resources used to pay expenses, with the exception of Amendment 50 funding received, which may be expensed in future periods.

(p) Scholarship Allowances

Scholarship allowances are the differences between the stated charge for the goods and services provided by CCCS and the amount that is paid by the students or by other third parties making payments on the students' behalf. Student tuition and fee revenues and certain other auxiliary enterprises revenue are reported net of scholarship allowances in the accompanying financial statements. Certain grants from external governmental and private programs are recorded as either operating or nonoperating

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

revenues in the accompanying financial statements. To the extent that such grant revenues are used to satisfy tuition and fees and other student charges, CCCS records scholarship allowances. Any excess grant revenues are recorded as scholarships and fellowships operating expense. CCCS calculates scholarship allowances on a student-by-student basis.

(q) Amendment 50 Funds

In November 2008, the passage of Amendment 50 recognized the importance of Community Colleges and LDCs to the State's economic development through the development of a highly skilled workforce. This legislation approved the expansion for limited gaming with new rules, hours, and games beginning July 2, 2009. Gaming tax revenue is collected by the State in the fiscal year that the gaming play takes place and a portion is allocated out to the recipients the following fiscal year, per the provisions of H.B. 09-1272. Community colleges are to use the funds for classroom instruction related activities and scholarships for students.

(r) Use of Estimates

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

(s) Reclassifications

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

(4) Appropriations

The Colorado State Legislature establishes spending authority for CCCS in its annual Long Appropriations Bill. Appropriated funds include an amount from the State of Colorado's General Fund, the student share of tuition and mandatory fees, COF stipend, and FFS contract revenue. In prior years, the annual appropriation bill included certain cash revenues from the student share of tuition and fees, and other revenue sources, which are recognized in various revenue categories, as appropriate, in the accompanying statements of revenues, expenses, and changes in net position. Nonappropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the years ended June 30, 2016 and 2015, appropriated expenditures were within the authorized spending authority. CCCS received a total general fund appropriation of \$56,397,584 and \$51,637,095 for 2016 and 2015, respectively. Included in the State appropriations are general fund appropriations specified to be passed through to two LDCs and three AVSs for 2016 and 2015 of \$25,560,936 and \$23,028,285, respectively. This amount consists of \$15,589,215 and \$14,044,591 for LDCs, and \$9,971,721 and \$8,983,694 for AVSs, for 2016 and 2015, respectively. Also, included in general fund appropriations were capital contributions of \$23,138,237 and \$18,071,060, for 2016 and 2015, respectively. During 2016 and 2015, CCCS received FFS contract revenue in the amount of \$52,177,132 and \$30,992,652 and COF stipends in the amount of \$101,372,409 and \$106,473,273, respectively.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(5) Tuition, Fees, and Auxiliary Revenue

Tuition, fees, and auxiliary revenue and the related scholarship allowances for the years ended June 30, 2016 and 2015 were as follows:

	2016		
	Tuition and fees	Auxiliary revenue	Total
Gross revenue	\$ 380,245,452	36,971,212	417,216,664
Scholarship allowances:			
Federal	79,119,794	2,282,760	81,402,554
State	39,690,192	1,026,269	40,716,461
Private	4,633,993	78,136	4,712,129
Institutional	6,353,115	437,018	6,790,133
Total scholarship allowances	129,797,094	3,824,183	133,621,277
Net revenue	\$ 250,448,358	33,147,029	283,595,387

	2015		
	Tuition and fees	Auxiliary revenue	Total
Gross revenue	\$ 395,788,723	39,541,827	435,330,550
Scholarship allowances:			
Federal	99,673,307	2,706,179	102,379,486
State	32,885,837	845,681	33,731,518
Private	3,030,702	93,283	3,123,985
Institutional	5,743,828	447,852	6,191,680
Total scholarship allowances	141,333,674	4,092,995	145,426,669
Net revenue	\$ 254,455,049	35,448,832	289,903,881

(6) Cash and Cash Equivalents and Investments

CCCS' cash and cash equivalents, exclusive of those held with the Colorado State Treasurer (the Treasurer), are detailed in the table below:

	June 30	
	2016	2015
Cash on hand and change funds	\$ 215,556	202,497
Deposits with financial institutions	5,720,086	18,797,560
Total	\$ 5,935,642	19,000,057

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

Colorado statutes require protection of public moneys in banks beyond that provided by the Federal Deposit Insurance Corporation (FDIC). The Public Deposit Protection Act in C.R.S. Section 11-10.5-107(5) requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102.0% of the deposits exceeding those amounts insured by federal insurance.

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

	June 30	
	2016	2015
Footnote amounts:		
Deposits	\$ 5,935,642	19,000,057
Deposits held with State Treasurer	317,661,439	329,413,274
Restricted investments	<u>16,303,327</u>	<u>3,085,619</u>
Total	<u>\$ 339,900,408</u>	<u>351,498,950</u>
Financial statement amounts:		
Cash and cash equivalents	\$ 319,775,628	339,823,036
Current restricted cash and cash equivalents	3,813,019	4,988,930
Noncurrent restricted cash and cash equivalents	<u>8,434</u>	<u>3,601,365</u>
Subtotal cash and cash equivalents	323,597,081	348,413,331
Restricted investments	<u>16,303,327</u>	<u>3,085,619</u>
	<u>\$ 339,900,408</u>	<u>351,498,950</u>

CCCS deposits its cash with the Treasurer as required by C.R.S. The Treasurer pools these deposits and invests them in securities approved by C.R.S. Section 24-75-601.1. The Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2016 and 2015, CCCS had cash on deposit with the Treasurer of \$317,661,439 and \$329,413,274, which represented approximately 4.3% and 4.3% of the total of \$7,408.5 million and \$7,661.8 million, respectively, in deposits in the Treasurer's Pool (Pool). As of June 30, 2016 and 2015, CCCS had \$16,303,327 and \$3,085,619 restricted investments, respectively, which are comprised of marketable securities in active markets that have observable inputs and prices.

For financial reporting purposes, all of the Treasurer's investments are reported at fair value, which is determined based on quoted prices in active markets for identical assets \$(230 million) and significant other observable inputs \$(7,178.5 million) at the fiscal year-end. On the basis of CCCS' participation in the Pool, CCCS reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

For CCCS' deposits with the Treasurer, the net unrealized gain for fiscal years 2016 and 2015 was \$2,078,444 and \$1,074,219, respectively. This unrealized gain is included in cash and cash equivalents on the statements of net position, and investment income on the statements of changes in net position.

(a) Custodial Credit Risk

Investments in the Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. As of June 30, 2016 and 2015, none of the investments in the Pool are subject to custodial credit risk.

The Benefit Trust does not have a documented risk policy for its investments for custodial credit risk and are not held in the State Treasury Investment Pool.

(b) Credit Quality Risks

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2016 and 2015, approximately 83.8% and 88.0%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for \$77,761,610 and \$87,396,440 of corporate bonds rated lower medium in both years, and \$0 and \$25,018,750 of corporate bonds rated very speculative in 2016 and 2015, respectively, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

As of June 30, 2016 and 2015, there were no investments in the Benefit Trust subject to credit quality risk. The Benefit Trust does not have a documented risk policy on its investments for credit quality risk.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(c) Interest Rate Risk

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2016, the weighted average maturity of investments in the Treasurer's Pool is as follows:

Investment type	Weighted average maturity	Maturity amount	Percent of pool
Asset-Backed Securities	2.585	\$ 1,026,821,023	14.0
Corporate Bonds	1.985	1,645,938,000	22.4
U.S. Government Securities	1.343	3,608,040,000	49.0
Commercial Paper	0.094	847,000,000	11.5
Money Market Mutual Funds	—	230,000,000	3.1
		<u>\$ 7,357,799,023</u>	<u>100.0</u>

As of June 30, 2015, the weighted average maturity of investments in the Treasurer's Pool is as follows:

Investment type	Weighted average maturity	Maturity amount	Percent of pool
Asset-Backed Securities	2.528	\$ 1,414,688,202	18.5
Corporate Bonds	2.196	1,743,777,000	22.9
U.S. Government Securities	1.339	3,629,340,000	47.5
Commercial Paper	0.063	485,000,000	6.3
Money Market Mutual Funds	0.010	370,000,000	4.8
		<u>\$ 7,642,805,202</u>	<u>100.0</u>

As of June 30, 2016, 2015, and 2014, the Benefit Trust had no investments subject to interest rate risk. The Benefit Trust does not have a documented risk policy on its investments for interest rate risk.

(d) Concentration of Credit Risk

The Benefit Trust does have investments (other than U.S. government or agency securities, mutual funds, or investment pools), which represent 5.0% or more of total investments subject to concentration of credit risk, thus concentrating credit risk. Although all investments intrinsically carry credit risk, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

As of June 30, 2016 and 2015, the fair value of Benefit Trust investments greater than 5.0% of total investments of \$3,232,669 and \$2,946,294, respectively, was as follows:

	2016	
	Fair value	Percentage of investments
Brookdale Senior Living	\$ 228,512	7.07%
Celgene Corp	286,027	8.85
Ishares Barclays Intermediate Credit Bond Fund	331,555	10.26
Ishares Barclays 1–3 Year Credit Bond Fund	318,270	9.85
McDonalds Corp	174,493	5.40

	2015	
	Fair value	Percentage of investments
Analog Devices Inc	\$ 147,625	5.01%
Celgene Corp	381,926	12.96
General Motors Co	159,151	5.40
Ishares Barclays Intermediate Credit Bond Fund	324,403	11.01
Ishares Barclays 1–3 Year Credit Bond Fund	315,990	10.72
Metlife Inc	160,971	5.46

CCCS management does not believe that possible future losses resulting from the Benefit Trust investments would have a material adverse effect on CCCS' financial condition or operations. The Benefit Trust does not have a documented risk policy on its investments for concentration of credit risk.

The State has established maximum holding percentages for investments. The Pool was not subject to concentration of credit risk in fiscal years 2016 and 2015.

(e) Foreign Currency Risk

The State does not allow foreign currency investments. The Benefit Trust does not have a documented risk policy on its investments relative to foreign currency risk. The Pool and the Benefit Trust were not subject to foreign currency risk in fiscal years 2016 and 2015.

Additional information on investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the years ended June 30, 2016 and 2015.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

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

Accounts receivable at June 30, 2016 and 2015 were as follows:

2016			
	Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	\$ 76,313,766	(36,269,084)	40,044,682
Due from other governments	16,459,137	—	16,459,137
Other receivables	3,872,453	(120,245)	3,752,208
Total receivables	<u>\$ 96,645,356</u>	<u>(36,389,329)</u>	<u>60,256,027</u>

2015			
	Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	\$ 67,738,780	(30,509,637)	37,229,143
Due from other governments	20,371,307	—	20,371,307
Other receivables	4,993,808	(441,395)	4,552,413
Total receivables	<u>\$ 93,103,895</u>	<u>(30,951,032)</u>	<u>62,152,863</u>

Accounts payable and accrued liabilities at June 30, 2016 and 2015 were as follows:

	2016	2015
Amounts owed to vendors	\$ 13,871,827	19,322,543
Salaries and benefits payable	28,326,279	34,258,498
Accrued interest payable	670,584	703,633
Other payables	6,940,335	5,707,514
Total accounts payable and accrued liabilities	<u>\$ 49,809,025</u>	<u>59,992,188</u>

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(8) Capital Assets

The following tables present changes in capital assets and accumulated depreciation for the years ended June 30, 2016 and 2015. CCA purchased campus land and buildings from the CCA Foundation with a net book value of \$7.6 million for \$1.6 million, recognizing a donation of capital property of \$6.0 million. Adjustments reflect one-time adjustments to properly classify buildings and improvements, leasehold improvements, and equipment.

	Balance, June 30, 2015	Additions	Deletions	Transfers	Adjustments	Balance, June 30, 2016
Nondepreciable capital assets:						
Land and land improvements	\$ 21,460,967	4,594,716	—	—	—	26,055,683
Construction in progress	53,577,938	58,760,846	(500,823)	(61,335,144)	(172,967)	50,329,850
Collections	882,306	—	—	—	—	882,306
Total nondepreciable capital assets	75,921,211	63,355,562	(500,823)	(61,335,144)	(172,967)	77,267,839
Depreciable capital assets:						
Land improvements	20,651,636	139,045	—	3,478,907	—	24,269,588
Buildings and improvements	591,720,433	3,951,133	—	57,439,369	(3,442)	653,107,493
Leasehold improvements	27,229,288	—	—	87,567	—	27,316,855
Equipment and software	91,912,263	4,710,307	(1,180,448)	329,301	6,024	95,777,447
Library materials	5,311,538	388,268	—	—	—	5,699,806
Total depreciable capital assets	736,825,158	9,188,753	(1,180,448)	61,335,144	2,582	806,171,189
Less accumulated depreciation:						
Land improvements	11,547,794	968,666	—	—	—	12,516,460
Buildings and improvements	298,609,225	23,813,951	—	—	—	322,423,176
Leasehold improvements	7,641,284	2,139,856	—	—	—	9,781,140
Equipment and software	57,282,189	8,218,338	(966,644)	—	—	64,533,883
Library materials	2,998,632	591,938	—	—	—	3,590,570
Total accumulated depreciation	378,079,124	35,732,749	(966,644)	—	—	412,845,229
Net depreciable capital assets	358,746,034	(26,543,996)	(213,804)	61,335,144	2,582	393,325,960
Total capital assets, net	\$ 434,667,245	36,811,566	(714,627)	—	(170,385)	470,593,799

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

	Balance, June 30, 2014	Additions	Deletions	Transfers	Adjustments	Balance, June 30, 2015
Nondepreciable capital assets:						
Land and land improvements	\$ 22,004,179	—	(551,075)	7,863	—	21,460,967
Construction in progress	32,209,138	50,944,060	—	(29,823,360)	248,100	53,577,938
Collections	882,306	—	—	—	—	882,306
Total nondepreciable capital assets	55,095,623	50,944,060	(551,075)	(29,815,497)	248,100	75,921,211
Depreciable capital assets:						
Land improvements	18,325,843	—	(419,014)	2,744,807	—	20,651,636
Buildings and improvements	569,749,055	539,614	(4,307,691)	22,034,205	3,705,250	591,720,433
Leasehold improvements	24,804,563	—	—	2,424,725	—	27,229,288
Equipment and software	82,424,206	8,156,961	(1,043,524)	2,622,720	(248,100)	91,912,263
Library materials	4,997,194	314,344	—	—	—	5,311,538
Total depreciable capital assets	700,300,861	9,010,919	(5,770,229)	29,826,457	3,457,150	736,825,158
Less accumulated depreciation:						
Land improvements	10,701,191	925,542	(78,939)	—	—	11,547,794
Buildings and improvements	276,587,207	22,108,424	(1,496,906)	—	1,410,500	298,609,225
Leasehold improvements	5,942,138	1,699,146	—	—	—	7,641,284
Equipment and software	49,999,186	8,183,841	(890,210)	10,960	(21,588)	57,282,189
Library materials	2,451,910	546,722	—	—	—	2,998,632
Total accumulated depreciation	345,681,632	33,463,675	(2,466,055)	10,960	1,388,912	378,079,124
Net depreciable capital assets	354,619,229	(24,452,756)	(3,304,174)	29,815,497	2,068,238	358,746,034
Total capital assets, net	\$ 409,714,852	26,491,304	(3,855,249)	—	2,316,338	434,667,245

(9) Long-Term Liabilities

The following tables present changes in long-term liabilities at June 30, 2016 and 2015:

	Balance, June 30, 2015	Additions	Reductions	Balance, June 30, 2016	Current portion
Bonds payable	\$ 85,169,454	18,953,535	(7,446,684)	96,676,305	4,065,000
Capital leases payable	12,251,956	—	(677,903)	11,574,053	927,694
Other long-term liabilities	1,939,765	582,190	(296,632)	2,225,323	698,159
Compensated absences liability	20,107,397	13,236,303	(13,397,699)	19,946,001	1,772,631
Net pension liability	862,417,264	141,475,150	(56,755,149)	947,137,265	N/A

	Balance, June 30, 2014	Additions	Reductions	Balance, June 30, 2015	Current portion
Bonds payable	\$ 88,974,207	661	(3,805,414)	85,169,454	4,140,000
Capital leases payable	13,097,266	—	(845,310)	12,251,956	905,212
Other long-term liabilities	1,535,811	771,473	(367,519)	1,939,765	250,481
Compensated absences liability	19,386,713	14,943,127	(14,222,443)	20,107,397	1,708,962
Net pension liability	813,970,318	91,128,489	(42,681,543)	862,417,264	N/A

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(10) Bonds Payable

(a) Systemwide Revenue Bonds

The State's Department of Higher Education, through the SBCCOE, issued revenue bonds in 2010, 2012, 2013, and 2016 known as Systemwide Revenue Bonds. Bond proceeds were used to benefit facilities at the individual colleges, as noted below:

Series 2003 Bonds

The Series 2003 Systemwide Revenue Refunding Bonds for \$4,900,000 were issued on June 19, 2003. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2030. The principal of the Series 2003 issue was used to refund PPCC's portion of the Series 1996 bonds and to build two new child development centers for PPCC.

Series 2004 Bonds

The Series 2004 Systemwide Revenue Refunding Bonds for \$4,695,000 were issued on December 10, 2004. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2015. The principal of the Series 2004 issue was used to advance refund the remaining \$2,620,000 balance of the FRCC Westminster Campus Series 1995 bonds and the remaining \$1,740,000 balance of the FRCC Larimer Campus Series 1996 bonds.

Series 2010 Bonds

The Series 2010A Systemwide Revenue Refunding Bonds for \$7,335,000 were issued on March 10, 2010. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2019. The principal of the Series 2010A issue was used to current refund the remaining outstanding balances of the following:

Series 1997 bonds for Community College of Aurora, Northeastern Junior College, and Trinidad State Junior College	\$	2,770,000
Series 1998 bonds for Morgan Community College and Northeastern Junior College		905,000
Series 1999 bonds for Pueblo Community College and Red Rocks Community College		<u>3,565,000</u>
	\$	<u><u>7,240,000</u></u>

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

The principal of the Series 2010A issue was distributed between the colleges as follows:

Community College of Aurora	\$	761,893
Morgan Community College		334,400
Northeastern Junior College		2,092,944
Pueblo Community College		1,663,917
Red Rocks Community College		1,940,311
Trinidad State Junior College		541,535
	\$	<u>7,335,000</u>

Series 2010B-1 Systemwide Revenue Bonds for \$830,000 were issued on March 10, 2010. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds was November 1, 2014 and have been fully paid. The principal of the Series 2010B-1 issue was distributed between the colleges as follows:

Colorado Northwestern:		
Community College	\$	495,000
Northeastern Junior College		335,000
	\$	<u>830,000</u>

The Series 2010B-2 Taxable Systemwide Revenue Bonds for \$9,665,000 were issued on March 10, 2010. Interest is payable semiannually on May 1 and November 1. The Series 2010B-2 bonds were issued as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (the Recovery Act). Pursuant to the Recovery Act, SBCCOE expects to receive a cash subsidy payment from the U.S. Treasury (referred to herein as the Federal Direct Payments) equal to 35.0% of the interest payable on the Series 2010B 2 bonds on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the U.S. government, but is required to be paid by the Treasury under the Recovery Act. Any Federal Direct Payments received by the Board are to be deposited into the Debt Service Fund and applied to the payment of principal and interest on the Series 2010B-2 bonds. Final maturity of the bonds is November 1, 2041. The principal of the Series 2010B-2 issue was distributed between the colleges as follows:

Colorado Northwestern:		
Community College	\$	4,585,000
Northeastern Junior College		5,080,000
	\$	<u>9,665,000</u>

The proceeds from the 2010B-1 and 2010B-2 bonds were used to finance construction, improvement, and equipping of 78,000 square feet of the Craig Campus Academic Building at CNCC, 14,000 square

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

feet of the Craig Career and Technical Center at CNCC, and a new student residence hall for the housing of students at NJC.

The Series 2010A, 2010B-1, and 2010B-2 bonds qualify for the State Intercept Program (the State Intercept Program). Pursuant to the State Intercept Program, the Treasurer shall pay the principal and interest on the Series 2010 bonds if the Board does not make such payments when they are due.

The Series 2010C Systemwide Revenue Bonds for \$6,545,000 were issued on October 13, 2010. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2017. The principal of the Series 2010C issue was distributed between the colleges as follows:

Community College of Denver	\$	4,575,000
Pueblo Community College		<u>1,970,000</u>
	\$	<u><u>6,545,000</u></u>

The Series 2010D Taxable Systemwide Revenue Bonds for \$31,455,000 were issued on October 13, 2010. Interest is payable semiannually on May 1 and November 1. The Series 2010D bonds were issued as "Build America Bonds." Final maturity of the bonds is November 1, 2039. The principal of the Series 2010C issue was distributed between the colleges as follows:

Community College of Denver	\$	19,970,000
Pueblo Community College		<u>11,485,000</u>
	\$	<u><u>31,455,000</u></u>

The proceeds from the 2010C and 2010D bonds were used to finance construction, improvement, and equipping of the Student Learning and Success Building at CCD, the Student Center at PCC, and the Learning Resource Center at PCC.

The Board has adopted a resolution stating that it will not participate in the State Intercept Program for the 2010C and 2010D bonds.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

Series 2012 Bonds

The Series 2012A Systemwide Revenue Refunding Bonds for \$11,495,000 were issued on January 25, 2012. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2032. The net present value of the savings of the refunded bonds was \$2,852,711. The principal of the Series 2012A issue was used to current refund the Colorado Educational and Cultural Facilities Authority Lease Revenue Bonds (Community Colleges of Colorado System Headquarters Project), Series 2001 (the Series 2001 bonds), and the Colorado Educational and Cultural Facilities Authority, Community Colleges of Colorado, Lease Revenue Bonds (Pikes Peak Community College Project), Series 2001A (the Series 2001A bonds) and advance refund the Colorado Educational and Cultural Facilities Authority, Community Colleges of Colorado, Lease Revenue Bonds (Arapahoe Community College Project), Series 2002 (the Series 2002 bonds), and together with the Series 2001 bonds and Series 2001A bonds (the Refunded Bonds) held by the Colorado Community College System Foundation (the Foundation), which replaced capital leases between the Foundation and the System Office, Pikes Peak Community College, and Arapahoe Community College, respectively, as follows:

Series 2001 bonds for Colorado:	
Community College System	\$ 5,865,000
Series 2001A bonds for Pikes Peak:	
Community College	3,615,000
Series 2002 bonds for Arapahoe:	
Community College	<u>2,065,000</u>
	\$ <u>11,545,000</u>

The principal of the Series 2012A issue was distributed between the colleges as follows:

Community College System	\$ 5,825,000
Pikes Peak Community College	3,535,000
Arapahoe Community College	<u>2,135,000</u>
	\$ <u>11,495,000</u>

The Board has adopted a resolution stating that it will not participate in the State Intercept Program for the 2012A bonds.

Series 2013 Bonds

The Series 2013 Systemwide Revenue Bonds for \$21,025,000 were issued on July 10, 2013. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2034. The principal of the Series 2013 issue is being used to finance the construction, improvement, equipping, renovation, expansion, and upgrade of various campus facilities for the FRCC Larimer campus and the FRCC Westminster campus.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

The Board has adopted a resolution stating that it will not participate in the State Intercept Program for the 2013 bonds.

Series 2016 Bonds

The Series 2016 Systemwide Revenue Bonds for \$18,340,000 were issued on February 24, 2016. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2046. A portion of the principal of the Series 2016 issue was used to current refund the remaining outstanding balances of the Series 2003 Systemwide Revenue Refunding Bonds of \$3,060,000. The net present value of savings of was approximately \$370,910.

The principal of the Series 2016 issue was distributed between the colleges as follows:

Series 2001 bonds for Colorado:	
Community College System	\$ 5,865,000
Series 2001A bonds for Pikes Peak:	
Community College	3,615,000
Series 2002 bonds for Arapahoe:	
Community College	<u>2,065,000</u>
	<u>\$ 11,545,000</u>

The Board has adopted a resolution stating that it will participate in the State Intercept Program for the 2016 bonds.

(b) Advance Refundings

In fiscal year 1999, \$5,490,000 of Pueblo Community College and Red Rocks Community College Systemwide Revenue Bonds Series 1992 were advance refunded. Proceeds of the new bonds were placed in an escrow fund for all future debt service payments on the previous series bonds.

In fiscal year 2003, the Pikes Peak Community College Systemwide Revenue Bonds Series 1996 were advance refunded. A portion of the proceeds of the 2003 bonds, in the amount of \$1,175,000, was placed in an escrow fund for all future debt service payments on the previous series bonds.

In fiscal year 2005, \$1,740,000 of Front Range Community College Larimer Campus Series 1996 bonds were advance refunded to reduce total debt service payments over the term of the bonds. Also, in fiscal year 2005, \$2,620,000 of Front Range Community College Westminster Campus Series 1995 bonds were advance refunded to reduce total debt service payments over the life of the bonds.

In fiscal year 2012, \$2,135,000 of Community Colleges of Colorado, Lease Revenue Bonds (Arapahoe Community College Project), Series 2002 Arapahoe Community College Systemwide Revenue Bonds Series 2002 was advance refunded. Proceeds of the new bonds were placed in an escrow fund for all future debt service payments on the previous service bonds. The net present value of the savings of the advance refunded bonds was \$521,862.

For June 30, 2016 and 2015, \$0 and \$2,130,000, respectively, of outstanding bonds are considered advance refunded and not included in the accompanying financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(c) Security

The bonds are special obligations of CCCS payable from certain net pledged revenues as defined in the bond indentures. The Series 2016, 2013, 2012, and 2010 bonds are payable solely out of and secured by an irrevocable pledge of 10.0% of tuition and fee revenues, net of scholarship allowances.

Total net pledged revenue for bonds was \$25,044,836 and \$70,331,661 for fiscal years 2016 and 2015, respectively. These amounts primarily consisted of \$25,044,836 and \$33,908,665 student tuition and fees, net of scholarship allowance for fiscal years 2016 and 2015, respectively. Pledges of \$35,257,445 of auxiliary enterprise plus pledges for other revenues make up the remaining fiscal year 2015 amount.

In fiscal year 2016, the remaining balances for the Series 2004 bonds were paid in full and the Series 2003 bonds were refunded in their entirety, with the issuance of the Series 2016 Revenue bonds. Thus the obligation for pledging auxiliary revenues have been extinguished as of June 30, 2016.

(d) Earnings Requirement

Under the terms of the December 2004 bond indenture, CCCS must adopt fees, tuition rates, rents, and charges sufficient to budget annual net pledged revenues of at least 125.0% of the debt service due that fiscal year. Management believes it is in compliance with the earnings requirement provision of the bond indentures.

(e) Minimum Bond Reserve Requirement

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

(f) Mandatory Sinking Fund Redemption

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

(g) Bond Accounting

The bond accounts are maintained by each of the participating colleges for their portion of the bonds. The individual college accounts are included in the systemwide financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(h) Long-Term Bond Principal Maturities

Bond principal payments to be made during fiscal years 2017 through 2021 are enumerated in the following table:

Bond issue	Principal maturing in next five years by year				
	FY17	FY18	FY19	FY20	FY21
Series 2010A:					
Community College of Aurora	\$ 78,019	81,513	84,669	86,935	—
Morgan Community College	38,363	37,873	41,803	—	—
Northeastern Junior College	222,672	232,841	233,038	173,040	—
Pueblo Community College	249,706	—	—	—	—
Red Rocks Community College	200,443	203,495	210,490	220,025	—
Trinidad State Junior College	70,797	74,278	—	—	—
Series 2010B-2:					
Colorado Northwestern Community College	115,000	115,000	120,000	125,000	130,000
Northeastern Junior College	120,000	120,000	125,000	130,000	135,000
Series 2010C:					
Community College Denver	865,000	900,000	—	—	—
Pueblo Community College	345,000	360,000	—	—	—
Series 2010D:					
Community College Denver	—	—	925,000	945,000	970,000
Pueblo Community College	—	—	375,000	385,000	390,000
Series 2012A:					
Arapahoe Community College	80,000	85,000	90,000	90,000	95,000
Colorado Community College System	250,000	250,000	260,000	265,000	270,000
Pikes Peak Community College	200,000	205,000	210,000	215,000	220,000
Series 2013:					
Front Range Community College	725,000	755,000	785,000	810,000	845,000
Series 2016:					
Pikes Peak Community College	315,000	320,000	330,000	335,000	340,000
Red Rocks Community College	190,000	190,000	200,000	200,000	205,000
Total revenue bonds payable	4,065,000	3,930,000	3,990,000	3,980,000	3,600,000
Interest	3,932,899	3,801,738	3,672,263	3,543,065	3,417,681
Total annual debt service	\$ 7,997,899	7,731,738	7,662,263	7,523,065	7,017,681

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

Bond debt service payments after fiscal year 2021 to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022–2026	\$ 19,735,000	14,934,759	34,669,759
2027–2031	22,380,000	10,259,887	32,639,887
2032–2036	19,270,000	4,904,860	24,174,860
2037–2041	8,390,000	1,770,509	10,160,509
2042–2046	3,750,000	434,393	4,184,393
2047–2051	760,000	12,825	772,825
	<u>\$ 74,285,000</u>	<u>32,317,233</u>	<u>106,602,233</u>

Remaining debt service by bond issuance is as follows:

	<u>Revenue bonds outstanding*, June 30, 2016</u>	<u>Interest rate</u>	<u>Maximum annual principal</u>	<u>Callable</u>	<u>Call premium</u>	<u>Final payment</u>
State Board for Community Colleges and Occupational Education Systemwide Revenue Bonds:						
Series 2010A:						
Community College of Aurora	\$ 336,887	2.00% to 3.00%	86,935	No	None	11/1/2019
Morgan Community College	120,083	2.00% to 3.00%	41,803	No	None	11/1/2018
Northeastern Junior College	876,834	2.00% to 3.00%	233,038	No	None	11/1/2019
Pueblo Community College	251,663	2.00% to 2.50%	249,706	No	None	11/1/2016
Red Rocks Community College	849,533	2.00% to 3.00%	220,025	No	None	11/1/2019
Trinidad State Junior College	152,575	2.00% to 2.75%	74,279	No	None	11/1/2017
Series 2010B-2:						
Colorado Northwestern Community College	4,474,387	2.00% to 6.10%	280,000	Yes (after 11/2021)	None	11/1/2040
Northeastern Junior College	4,962,669	2.00% to 6.10%	305,000	Yes (after 11/2021)	None	11/1/2041
Series 2010C:						
Community College Denver	1,862,939	4.00%	900,000	No	None	11/1/2017
Pueblo Community College	745,707	4.00%	360,000	No	None	11/1/2017
Series 2010D:						
Community College Denver	19,957,875	3.37% to 5.35%	1,510,000	Yes (after 11/2021)	None	11/1/2034
Pueblo Community College	11,478,433	3.37% to 5.50%	730,000	Yes (after 11/2021)	None	11/1/2039
Series 2012A:						
Arapahoe Community College	1,878,890	2.50% to 3.375%	140,000	Yes (after 11/2022)	None	11/1/2032
Colorado Community College System	5,033,514	2.50% to 3.375%	375,000	Yes (after 11/2022)	None	6/30/2032
Pikes Peak Community College	2,901,658	2.50% to 3.375%	270,000	Yes (after 11/2022)	None	6/30/2028

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

	Revenue bonds outstanding*, June 30, 2016	Interest rate	Maximum annual principal	Callable	Call premium	Final payment
Series 2013:						
Front Range Community College	\$ 21,844,905	3.00% to 5.00%	1,500,000	Yes (after 11/2023)	None	11/1/2034
Series 2016:						
Red Rocks Community College	15,802,569	1.50% to 4.00%	760,000	Yes (after 11/2026)	None	11/1/2046
Pikes Peak Community College	<u>3,145,184</u>	3.375% to 4.125%	285,000	Yes (after 11/2026)	None	11/1/2030
	<u>\$ 96,676,305</u>					

* Bonds have related unamortized bond premium and discount of \$2,826,305.

(11) Leases and State Certificates of Participation

CNCC, LCC, NJC, TSJC, and CCCS have recorded capital leases in conjunction with building improvements and equipment related to energy performance contracts. The interest rate on the capital leases range from 4.75% to 5.35%. Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or their estimated useful life. In 2016 and 2015, capitalized assets relating to these leases were approximately \$19,941,590 and \$20,091,099, with amortization expense of \$1,060,798 and \$992,251, and accumulated amortization of \$5,641,277 and \$4,852,862, respectively.

Future minimum payments under capital leases are as follows for the year(s) ending June 30:

	Principal	Interest	Total
2017	\$ 927,694	422,909	1,350,603
2018	1,021,592	388,112	1,409,704
2019	950,374	351,886	1,302,260
2020	1,001,531	316,213	1,317,744
2021	1,067,257	278,279	1,345,536
2022–2026	4,209,170	851,831	5,061,001
2027–2031	<u>2,396,435</u>	<u>192,588</u>	<u>2,589,023</u>
Total	<u>\$ 11,574,053</u>	<u>2,801,818</u>	<u>14,375,871</u>

On October 23, 2008, the State issued State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008, with an approximate par value of \$230,845,000 and a premium of \$1,883,800 and a discount of \$1,702,900. The certificates have interest rates ranging from 3.0% to 5.5% and mature in November 2019. Annual lease payments are made by the State and are subject to annual appropriation by the Legislature. As a result, this liability is recognized by the State and not included in CCCS' financial statements.

The certificates are secured by the buildings or equipment acquired with the lease proceeds and any unexpended lease proceeds. The proceeds were used to finance various capital projects for the benefit of

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

certain State supported institutions of higher education in Colorado including CNCC, FRCC, and MCC. The projects included CNCC's construction of a new 53,000 square foot academic building that houses classrooms, laboratories, offices, a learning resource center, and academic support functions, as well as expanded surface parking on the new site; FRCC's construction of a new laboratory wing and renovate existing space in the primary science building on the Larimer campus; and MCC's provided additional space and building improvements for the college's nursing, health technology, and science programs, as well as additional parking and reconfiguration of the main entrance loop. The underlying capitalized assets are contributed to CCCS from the State and are reflected in the accompanying financial statements.

CCCS also has building and equipment operating leases. One of these leases is by and between CCA and a discretely presented component unit, CCA Foundation, for approximately \$600 thousand and \$1.0 million for the years ended June 30, 2016 and 2015, respectively. Total rent expense for all operating leases for the years ended June 30, 2016 and 2015 was \$6,950,968 and \$5,608,412, respectively. Future minimum rental payments, exclusive of real estate taxes and other expenses, under operating leases are as follows:

Year ending June 30:	
2017	\$ 4,447,524
2018	3,200,027
2019	2,644,364
2020	2,236,617
2021	1,381,248
2022–2026	1,212,870
2027–2031	653,147
2032–2036	653,147
2037–2041	568,147
2042–2046	440,647
2047–2051	176,259
	<u>\$ 17,613,997</u>

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

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(12) Other Long-Term Liabilities

Other long-term liabilities consist of expired warrants that are unclaimed at year-end. The combined payment schedule is as follows for each fiscal year:

	<u>Total</u>
2017	\$ 698,159
2018	254,952
2019	216,101
2020	195,618
2021	461,920
2022–2026	<u>398,573</u>
Total	<u>\$ 2,225,323</u>

(13) Compensated Absences for Annual and Sick Leave

Employees of CCCS may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The estimated total liability for compensated absences at June 30, 2016 and 2015 is \$19,946,001 and \$20,107,397, respectively.

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

At June 30, 2016 and 2015, the Public Employees' Retirement Association of Colorado (PERA) estimated that 56.5% and 56.7%, respectively, of the State's employees would remain until retirement. This percentage is used to calculate the amount of compensated absence liability to establish for sick leave each year.

(14) Retirement Plan

Defined-Benefit Pension Plan Description

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. Community college employees hired after January 1, 2010 are required to become members of PERA and must elect either PERA's defined-benefit or defined-contribution plan within 60 days, unless they had been a PERA member within the prior twelve months. In that case, they are required to remain in the PERA plan in which they participated previously.

Virtually all CCCS' employees participate in the State Division Trust Fund (SDTF), a cost sharing multiple-employer defined-benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

Eligible employees of CCCS are provided with pensions through the State Division Trust Fund (SDTF)—a cost-sharing multiple-employer defined-benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

PERA members electing the defined-contribution plan are allowed an irrevocable election between the second and fifth year to use their defined-contribution account to purchase service credit and be covered under the defined-benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to 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 any years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than 5 years of service credit as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

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

- Hired before January 1, 2007 – age 55 with a minimum of five years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 with a minimum of five years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than 5 years of service credit as of January 1, 2011.
- 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.

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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 after January 1, 2009, or persons hired on or after January 1, 2007, restrictive limits are placed on salary increases between periods used in calculating HAS.

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

- Hired before July 1, 2007 – the lesser of 2.0% or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2.0% or the actual increase in the national Consumer Price Index, limited to a 10.0% 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 one 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 103.0% and declines by one-quarter-percentage point when the funded ratio drops below 90.0% after having exceeded 103.0%. The funded ratio increase does not apply for three years when a negative return on investment occurs.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100% match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases, the service retirement benefit is limited to 100% of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50% or 100% on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive postretirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

2% or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve for the SDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Eligible employees and CCCS are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. Eligible employees are required to contribute 8% of their PERA-includable salary. The employer contribution requirements for all employees are summarized in the table below:

	Fiscal Year 2014		Fiscal Year 2015		Fiscal Year 2016	
	CY13	CY14	CY15	CY15	CY16	CY16
	7-1-13 to 12-31-13	1-1-14 to 6-30-14	7-1-14 to 12-31-14	1-1-15 to 6-30-15	7-1-15 to 12-31-15	1-1-16 to 6-30-16
Employer contribution rate	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. section 24- 51-208(1)(f)	(1.02)	(1.02)	(1.02)	(1.02)	(1.02)	(1.02)
Amount Apportioned to the SDTF	9.13	9.13	9.13	9.13	9.13	9.13
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	3.40	3.80	3.80	4.20	4.20	4.60
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	3.00	3.50	3.50	4.00	4.00	4.50
Total employer contribution rate to the SDTF	<u>15.53%</u>	<u>16.43%</u>	<u>16.43%</u>	<u>17.33%</u>	<u>17.33%</u>	<u>18.23%</u>

Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and CCCS is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from CCCS were \$42,252,209 and \$39,381,885 for the years ended June 30, 2016 and 2015, respectively.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, CCCS reported a liability of \$947.1 million and \$862.4 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 and 2013, respectively. Standard update procedures were used to roll forward the total pension liability to December 31, 2015 and 2014, respectively. The CCCS proportion of the net pension liability was based on CCCS contributions to the SDTF for the calendar years 2015 and 2014, respectively, relative to the total contributions of participating employers to the SDTF.

At December 31, 2015, CCCS proportion was 8.99%, which was a decrease of 0.18% from its proportion measured as of December 31, 2014. At December 31, 2014, CCCS proportion was 9.17%, which was a decrease of 0.21% from its proportion measured as of December 31, 2013.

For the years ended June 30, 2016 and 2015, the CCCS recognized noncash pension expense of \$30.7 million and \$20.5 million, respectively, and cash expense of \$46.9 million and \$43.8 million, respectively. At June 30, 2016 and 2015, the CCCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 13,791,904	29,797
Changes of assumptions or other inputs	—	11,211,393
Net difference between projected and actual earnings on pension plan investments	71,617,044	—
Changes in proportion and differences between contributions recognized and proportionate share of contributions	—	16,461,824
Contributions subsequent to the measurement date	24,279,800	N/A
Total	\$ <u>109,688,748</u>	<u>27,703,014</u>

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

	2015	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ —	63,903
Net difference between projected and actual earnings on pension plan investments	17,584,796	—
Changes in proportion and differences between contributions recognized and proportionate share of contributions	—	12,102,154
Contributions subsequent to the measurement date	<u>22,567,334</u>	<u>N/A</u>
Total	\$ <u>40,152,130</u>	<u>12,166,057</u>

\$24,279,800 and \$22,567,334 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:

2017	\$ 8,834,412
2018	15,261,100
2019	19,003,311
2020	14,607,111

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

Actuarial assumptions

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80%
Real wage growth	1.10
Wage inflation	3.90
Salary increases, including wage inflation	3.90–9.57%
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50
Future postretirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve (AIR)

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

- The following programming changes were made:
 - Valuation of the full survivor benefit without any reduction for possible remarriage.
 - Reflection of the employer match on separation benefits for all eligible years.
 - Reflection of one year of service eligibility for survivor annuity benefit.
 - Refinement of the 18-month annual increase timing.
 - Refinements to directly value certain and life, modified cash refund, and pop-up benefit forms.
- The following methodology changes were made:
 - Recognition of merit salary increases in the first projection year.
 - Elimination of the assumption that 35% of future disabled members elect to receive a refund.
 - Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

The SDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of November 15, 2013 adoption of the long-term expected rate of return, presented to the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	10 Year expected geometric real rate of return*
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40	5.19
Non-U.S. Equity – Developed	22.06	5.29
Non-U.S. Equity – Emerging	6.24	6.76
Core Fixed Income	24.05	0.98
High Yield	1.53	2.64
Long Duration Gov't/Credit	0.53	1.57
Emerging Market Bonds	0.43	3.04
Real Estate	7.00	5.09
Private Equity	7.00	7.15
Total	<u>100.00%</u>	

- * In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED), until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree healthcare benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc postretirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the CCCS proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	1,196,574,809	947,137,265	738,491,071

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

Pension plan fiduciary net position. Detailed information about the SDTF's fiduciary net position is available in PERA's comprehensive annual financial report, which can be obtained at www.copera.org/investments/pera-financial-reports.

For the years ended June 30, 2016 and 2015, CCCS contributions to PERA and/or the defined-Benefit Plan and Health Care Trust Fund and/or the State's defined-contribution plan were \$43,988,662 and \$41,099,648, respectively, equal to the required contributions for fiscal years 2016 and 2015. See related Footnotes 15 – Other Retirement Plan and note 16 – Postretirement Healthcare and Life Insurance Benefits.

(15) Other Retirement Plans

(a) Defined Contribution Retirement Plan (DC Plan)

Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008, which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined-benefit pension plan, have the option to participate in the SDTF or the Defined-Contribution Retirement Plan (PERA DC Plan). The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined-contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA's comprehensive annual financial report as referred to above.

All participating employees in the PERA DC Plan are required to contribute 8.00% of their PERA-includable salary and the State is required to contribute 10.15% of PERA-includable salary on behalf of these employees. Additionally, the State is required to contribute AED and SAED to the SDTF as follows:

	Fiscal Year 2014		Fiscal Year 2015		Fiscal Year 2016	
	CY13	CY14	CY15	CY15	CY16	CY16
	7-1-13 to 12-31-13	1-1-14 to 6-30-14	7-1-14 to 12-31-14	1-1-15 to 6-30-15	7-1-15 to 12-31-15	1-1-16 to 6-30-16
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	3.40%	3.80%	3.80%	4.20%	4.20%	4.60%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	3.00	3.50	3.50	4.00	4.00	4.50
Total employer contribution rate to the SDTF	<u>6.40%</u>	<u>7.30%</u>	<u>7.30%</u>	<u>8.20%</u>	<u>8.20%</u>	<u>9.10%</u>

Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50% vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

increases by 10%. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.08 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense. Employer contributions recognized by the DC Plan from CCCS were \$1,252,660 and \$1,266,835 for the years ended June 30, 2016 and 2015, respectively.

(b) 401(k) Defined-Contribution Plan

Employees of CCCS that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined-contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions and investment earnings. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at www.copera.org/investments/pera-financial-reports. At December 31, 2015 and 2014, the plan had 646 and 498 participants, respectively.

(c) 457 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 2014, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8% PERA contribution) to a maximum of \$18,000. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$6,000 contribution in 2014, for total contributions of \$24,000. Contributions and earnings are tax deferred. At December 31, 2015 and 2014, the plan had 215 and 257 participants, respectively.

(16) Other Postemployment Benefits

(a) Health Care Trust Fund

CCCS contributes to the Health Care Trust Fund (HCTF), a cost sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a healthcare premium subsidy and healthcare programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of healthcare subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

CCCS is required to contribute at a rate of 1.02% of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the CCCS are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

amended. Employer contributions recognized by the HCTF Plan from CCCS were \$483,793 and \$450,928 for 2015 and 2014, respectively.

(b) Other Programs

CCCS' principal employee pension plan is PERA (notes 14 and 15). Pursuant to SBCCOE Board Policy BP3 60 (Retirement), employees hired prior to 1989 who take early retirement under PERA regulations "shall be entitled to have the college/system continue to pay the employee's share of the group health and life insurance premium up to the amount paid for active employees until the employee reaches age 65." This is the only postretirement benefit offered to CCCS employees. This actuarially determined liability related to this plan is considered immaterial to CCCS' financial statements. Consequently, no provision has been made in the accompanying financial statements for this liability.

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

(17) Employee Benefit Trust Fund

The Benefit Trust provides long-term disability benefits to all employees participating in the Employee Choice Flexible Benefit Plan sponsored by the SBCCOE. For fiscal years 2016 and 2015, CCCS made contributions to the Benefit Trust of approximately \$272,500 and \$267,100, respectively.

(18) Risk Financing and Insurance Related Activities

CCCS is subject to risks of loss from liability for accidents, property damage, and personal injury. These risks are managed by the State Office of Risk Management, an agency formed by statute and funded by the State Long Bill. Therefore, CCCS is not required to obtain insurance and, accordingly, neither did reduction occur in coverage nor did any settlements exceed coverage. CCCS does not retain risk of loss except for damage incurred to property belonging to the State limited to a \$5,000 deductible per incident.

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

(19) Commitments and Contingencies

The System has \$28.8 million and \$29.5 million in commitments for various capital construction and controlled maintenance projects as of June 30, 2016 and 2015, respectively.

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

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

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

(20) Tax and Spending Limitations (TABOR Amendment)

Certain state revenues, such as taxes and fees, are constitutionally limited. The growth in these revenues from year to year is limited to the rate of population growth plus the rate of inflation. These limitations are applied to the State as a whole, not to each individual college, department, or agency of the State. The Colorado State Legislature establishes spending authority, within these constitutional limits, for CCCS in its annual Appropriations Long Bill. Beginning fiscal year 2005, appropriated funds included an amount from the General Fund as well as cash funds, such as tuition, certain fees, and other revenue sources. Nonappropriated funds were excluded from the annual appropriations bill. Nonappropriated funds have historically included certain grants and contracts, gifts, indirect cost recoveries, designated auxiliary revenues, and other revenue sources.

Legislation passed in fiscal year 2004 provided higher education institutions in the State the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), if the institution met the stated qualifications. In fiscal year 2006, the System qualified as an enterprise because it is a government-owned business with legal authority to issue revenue bonds. In addition, the System was required to receive (and is expected to continue to receive) less than 10.0% (in relation to total revenues) in support from the State. In fiscal years 2016 and 2015, the System received 4.5% and 4.0%, in State support, respectively. Effective in fiscal year 2008, House Bill 08 1079 specifically excluded moneys transferred from the State Department of Education for career and technical education as state grants for the purpose of this calculation, including funding under the CVA. Between fiscal year 2012 and 2015, the Colorado State Legislature no longer appropriated the student share of tuition and fees. In fiscal year 2016, the Colorado State Legislature appropriated the student share of tuition and fees.

(21) Discretely Presented Component Units Restatement

As of January 1, 2015, the CNCC Foundation net assets were restated to correct errors and the presentation of net assets. A summary of total adjustments was as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year, as previously reported	\$ 17,679,530	18,173,022	13,514,683	49,367,235
Restatement	<u>—</u>	<u>32,239</u>	<u>(32,239)</u>	<u>—</u>
Net assets, beginning of year, as restated	\$ <u>17,679,530</u>	<u>18,205,261</u>	<u>13,482,444</u>	<u>49,367,235</u>

COLORADO COMMUNITY COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

As of July 1, 2014, the ACC Foundation net assets were restated to correct errors and the presentation of net assets. A summary of the total adjustments was as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year, as previously reported	\$ 17,510,242	17,946,052	12,532,314	47,988,608
Restatement	<u>(360)</u>	<u>360</u>	<u>—</u>	<u>—</u>
Net assets, beginning of year, as restated	\$ <u>17,509,882</u>	<u>17,946,412</u>	<u>12,532,314</u>	<u>47,988,608</u>

(22) Related-Party Transactions

Approximately \$12.4 million and \$6.7 million was transferred to the colleges from the foundations for the years ended June 30, 2016 and 2015, respectively, in pursuit of providing financial and organizational support for instructional programs, facilities, equipment, student scholarship programs, and cultural activities. Included in this support for 2016 is a donation of \$6.0 million of land and buildings from the CCA Foundation to the CCA campus.

COLORADO COMMUNITY COLLEGE SYSTEM
Schedule of Proportionate Share of Net Pension Liability (NPL)
Required Supplementary Information
(Unaudited)
Years ended June 30, 2016 and 2015
(Dollars in thousands)

Calendar year	Proportionate (percentage of the collective NPL)	Proportionate share of the collective pension liability	Covered payroll	Proportionate share of the NPL as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	8.9937735905%	\$ 947,137	241,991	391.39%	56.10%
2014	9.1682983069	862,417	241,564	357.01	59.80

Unaudited – see accompanying independent auditors' report.

COLORADO COMMUNITY COLLEGE SYSTEM
Schedule of Contributions and Related Ratio
Required Supplementary Information
(Unaudited)
Years ended June 30, 2016 and 2015
(Dollars in thousands)

June 30	Statutorily required contributions	Contributions related to the statutory contributions	Contribution deficiency (excess)	Covered employee payroll	Contribution as a percentage of covered employee payroll
2016	\$ 42,252	42,252	—	243,576	17.35%
2015	39,382	39,382	—	241,991	16.27

Unaudited – see accompanying independent auditors' report.



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' 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*

The Members of the Legislative Audit Committee and State Board for Community Colleges and Occupational Education:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business type activities and the aggregate discretely presented component units of the Colorado Community College System (CCCS), and institution of higher education of the State of Colorado as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise CCCS' basic financial statements, and have issued our report thereon dated November 30, 2016. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on CCCS' financial statements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered CCCS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCCS' internal control. Accordingly, we do not express an opinion on the effectiveness of CCCS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCCS' financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CCCS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCCS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Denver, Colorado
November 30, 2016



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

November 30, 2016

The Members of the Legislative Audit Committee and State Board for Community Colleges and Occupational Education:

Ladies and Gentlemen:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise CCCS' basic financial statements, and have issued our report thereon dated November 30, 2016. Our report included a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on CCCS' financial statements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*. Under our professional standards, we are providing you with the accompanying information related to the conduct of our 2016 audit.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements, which have been prepared by management with the oversight of the State Board for Community Colleges and Occupational Education (SBCCOE), are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audits do not relieve management or the SBCCOE of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 CCCS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CCCS' internal control. However, during the course of our audit, we identified certain deficiencies in internal control that we consider to be significant deficiencies related to CCCS' Federal Student Financial Aid Program. Our required communications to you in writing, under professional standards, of all significant deficiencies in internal control identified during our audit are included in the Findings and Recommendations section of this report.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the SBCCOE in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.



The Members of the Legislative Audit Committee and State Board for Community Colleges
and Occupational Education
November 30, 2016

Other Information in Documents Containing Audited Financial Statements

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

Accounting Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by CCCS are described in note 3 to the financial statements. As described in note 2, CCCS adopted Government Account Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and No. 72 *Fair Value Measurement and Application*, in fiscal year 2015 and 2016, respectively.

Unusual Transactions

We noted no unusual transactions entered into by CCCS, which were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance.

Qualitative Aspects of Accounting Practices

We have discussed with the SBCCOE and management our judgments about the quality, not just the acceptability, of CCCS' accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of CCCS' accounting policies and their application, and the understandability and completeness of CCCS' financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

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

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

Uncorrected and Corrected Misstatements

In connection with our audit of CCCS' financial statements, we have not identified any significant financial statement misstatements in CCCS' books and records as of and for the year ended June 30, 2016 and have communicated that finding to management.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' reports on CCCS' financial statements.



The Members of the Legislative Audit Committee and State Board for Community Colleges
and Occupational Education
November 30, 2016

Management's Consultation with Other Accountants

To the best of our knowledge, management has neither consulted with nor obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2016.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management prior to Retention

We generally discuss a variety of matters with the SBCCOE and management each year prior to our retention as CCCS' auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Material Written Communications

Copies of the following material written communications between management and us have been provided:

1. Engagement letter;
2. Management representation letter; and
3. Findings and recommendations included in this report.

Significant Difficulties Encountered during the Audit

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

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all relationships between our firm and CCCS and persons in a financial reporting oversight role at CCCS and provide confirmation that we are independent accountants with respect to CCCS. We provide audit and certain tax compliance services to CCCS on an annual basis.

Confirmation of Audit Independence

We hereby confirm that as of November 30, 2016, we are independent accountants with respect to CCCS under relevant professional and regulatory standards.

* * * * *

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

Very truly yours,

KPMG LLP

Denver, Colorado
November 30, 2016

COLORADO COMMUNITY COLLEGE SYSTEM
State-Funded Student Financial Assistance Programs
Introduction
Year ended June 30, 2016

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

The financial and compliance examination of the various state-funded student financial assistance programs at CCCS for the year ended June 30, 2016 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHE) Financial Aid Policy. The state-funded student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2016.

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

- Colorado Need-Based Grants Awards: Colorado Student Grants Program
- Colorado Undergraduate Merit Scholarships
- Colorado Work-Study Program
- Career and Technical Education (CTE) Student Grant

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

The total state-funded student financial assistance expenditures made by CCCS were approximately \$47.5 million during the year ended June 30, 2016.

Authorizations and expenditures for state-funded student financial assistance programs are detailed by program in the accompanying statement of allocations, expenditures, transfers, and reversions for the year ended June 30, 2016.

CCCS also obtained authorizations for federal student financial aid funds during Fiscal Year 2016 as follows:

- Supplemental Educational Opportunity Grant of approximately \$2.1 million
- College Work-Study of approximately \$2.0 million

In addition to these programs, CCCS also received funding through the Pell Grant Program in the amount of approximately \$97.5 million and through direct lending in the amount of approximately \$121.6 million. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' Report

The Members of the Legislative Audit Committee and State Board for Community Colleges and Occupational Education:

Report on the Statement of Allocations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs

We have audited the accompanying statement of allocations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance (SFSFA) Programs (the Statement) of the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado, for the year ended June 30, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Statement in accordance with the format as prescribed by the 2015-2016 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid issued by the Colorado Department of Higher Education (CDHE Audit Guide) and in conformity with the provisions of the State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System, as described in note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the allocations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance programs of the Colorado Community College System for the year ended June 30, 2016, in accordance with the format set forth in the CDHE Audit Guide and in conformity with the provisions of the State-Funded Student Financial Assistance Programs issued by the State Board for Community Colleges and Occupational Education of the Colorado Community College System, as described in notes 1 and 2 to the Statement.

Emphasis of a Matter

As discussed in note 1 to the Statement, the Statement was prepared in accordance with the format as prescribed by the 2015-2016 CDHE Audit and in conformity with the provisions of the State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System. As described in note 2 to the Statement, the Statement is a summary of the cash activity of the SFSFA programs, with the exception of the College Work-Study Program, and does not present certain transactions that would be included in the Statement if it was presented on the accrual basis of accounting, as prescribed by U.S. generally accepted accounting principles. As the Statement presents only a selected portion of the activities of CCCS, it is not intended to and does not present either the financial position, changes in financial position, or cash flows of CCCS, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to these matters.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Statement in accordance with the format set forth in the CDHE Audit Guide, and in conformity with the provisions of the State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System. The accompanying introduction and schedules of allocations, expenditures, transfers, and reversions of each of the colleges (the Schedules) are presented for purposes of additional analysis and are not a required part of the Statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Statement. The Schedules have been subjected to the auditing procedures applied in the audit of the Statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement or to the Statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated in all material respects in relation to the Statement as a whole.

The introduction information has not been subjected to the auditing procedures applied in the audit of the Statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of CCCS' internal control over financial reporting of the Statement 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 of the Statement and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance



with *Government Auditing Standards* in considering CCCS' internal control over financial reporting and compliance.

Report Restriction

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

KPMG LLP

Denver, Colorado
November 30, 2016

COLORADO COMMUNITY COLLEGE SYSTEM
State-Funded Student Assistance Programs
Statement of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 47,734,122	39,470,573	1,651,527	6,241,945	370,077
Supplementals	55,969	67,501	—	7,442	(18,974)
Transfers	<u>(44,026)</u>	<u>98,387</u>	<u>6,685</u>	<u>(84,073)</u>	<u>(65,025)</u>
Total appropriations	47,746,065	39,636,461	1,658,212	6,165,314	324,026
Less expenditures	<u>47,491,445</u>	<u>39,636,461</u>	<u>1,658,212</u>	<u>6,085,287</u>	<u>111,485</u>
Reversions to state general fund	<u>\$ 254,620</u>	<u>—</u>	<u>—</u>	<u>80,027</u>	<u>212,541</u>

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

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2016

(1) Basis of Presentation

The Colorado Community College System (CCCS) is governed by the State Board for Community College and Occupational Education. CCCS comprises the system office and the following 13 colleges:

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

The accompanying statement of allocations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format as prescribed by the 2015–2016 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid issued by the Colorado Department of Higher Education (CDHE), and in conformity with the provisions of the State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System. The purpose of the Statement is to present, in summary form, the state-funded student financial assistance (SFSFA) activities of CCCS' 13 campuses for the year ended June 30, 2016.

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

(2) Basis of Accounting

All state-funded student financial assistance is expensed on a cash basis, except for the Colorado Work-Study Program. Colorado Work-Study wages are recorded on the accrual basis recognizing expenses when the services are performed.

ARAPAHOE COMMUNITY COLLEGE
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 3,685,243	3,072,407	152,329	425,010	35,497
Supplementals	19,476	42,501	—	(21,250)	(1,775)
Transfers	—	—	—	—	—
Total appropriations	3,704,719	3,114,908	152,329	403,760	33,722
Less expenditures	3,604,521	3,114,908	152,329	332,509	4,775
Reversions to state general fund	\$ 100,198	—	—	71,251	28,947

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

See accompanying independent auditors' report.

COMMUNITY COLLEGE OF AURORA
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 3,648,702	3,128,499	136,934	367,475	15,794
Supplementals	(15,794)	—	—	—	(15,794)
Transfers	—	—	—	—	—
Total appropriations	3,632,908	3,128,499	136,934	367,475	—
Less expenditures	3,632,908	3,128,499	136,934	367,475	—
Reversions to state general fund	\$ —	—	—	—	—

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

See accompanying independent auditors' report.

COMMUNITY COLLEGE OF DENVER
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 6,197,738	5,055,538	206,845	920,512	14,843
Supplementals	—	—	—	—	—
Transfers	—	—	—	—	—
Total appropriations	6,197,738	5,055,538	206,845	920,512	14,843
Less expenditures	6,197,738	5,055,538	206,845	920,512	14,843
Reversions to state general fund	\$ —	—	—	—	—

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

See accompanying independent auditors' report.

COLORADO NORTHWESTERN COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 408,878	309,865	13,742	82,735	2,536
Supplementals	(2,144)	—	—	—	(2,144)
Transfers	—	—	—	—	—
Total appropriations	406,734	309,865	13,742	82,735	392
Less expenditures	406,734	309,865	13,742	82,735	392
Reversions to state general fund	\$ —	—	—	—	—

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

See accompanying independent auditors' report.

FRONT RANGE COMMUNITY COLLEGE
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 9,858,785	8,279,689	376,765	1,114,275	88,056
Supplementals	127,600	25,000	—	102,600	—
Transfers	—	—	—	8,805	(8,805)
Total appropriations	9,986,385	8,304,689	376,765	1,225,680	79,251
Less expenditures	9,921,868	8,304,689	376,765	1,225,680	14,734
Reversions to state general fund	\$ 64,517	—	—	—	64,517

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

See accompanying independent auditors' report.

LAMAR COMMUNITY COLLEGE
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 530,207	387,823	15,957	124,578	1,849
Supplementals	—	—	—	—	—
Transfers	—	—	—	—	—
Total appropriations	530,207	387,823	15,957	124,578	1,849
Less expenditures	529,924	387,823	15,957	124,578	1,566
Reversions to state general fund	\$ 283	—	—	—	283

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

See accompanying independent auditors' report.

MORGAN COMMUNITY COLLEGE
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 817,899	647,601	24,617	138,286	7,395
Supplementals	(7,261)	—	—	(8,000)	739
Transfers	—	13,829	—	(13,829)	—
	<u>810,638</u>	<u>661,430</u>	<u>24,617</u>	<u>116,457</u>	<u>8,134</u>
Total appropriations	810,638	661,430	24,617	116,457	8,134
Less expenditures	<u>810,638</u>	<u>661,430</u>	<u>24,617</u>	<u>116,457</u>	<u>8,134</u>
Reversions to state general fund	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

See accompanying independent auditors' report.

COLORADO NORTHEASTERN JUNIOR COLLEGE
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 990,678	757,040	36,725	189,201	7,712
Supplementals	—	—	—	—	—
Transfers	—	—	775	(448)	(327)
Total appropriations	990,678	757,040	37,500	188,753	7,385
Less expenditures	986,556	757,040	37,500	188,753	3,263
Reversions to state general fund	\$ 4,122	—	—	—	4,122

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

See accompanying independent auditors' report.

OTERO JUNIOR COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 1,135,961	873,540	32,750	220,533	9,138
Supplementals	—	—	—	—	—
Transfers	—	—	—	—	—
Total appropriations	1,135,961	873,540	32,750	220,533	9,138
Less expenditures	1,135,961	873,540	32,750	220,533	9,138
Reversions to state general fund	\$ —	—	—	—	—

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

See accompanying independent auditors' report.

PUEBLO COMMUNITY COLLEGE
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 5,193,905	4,185,199	154,126	786,016	68,564
Supplementals	—	—	—	—	—
Transfers	—	78,601	—	(78,601)	—
Total appropriations	5,193,905	4,263,800	154,126	707,415	68,564
Less expenditures	5,132,847	4,263,800	154,126	707,415	7,506
Reversions to state general fund	\$ 61,058	—	—	—	61,058

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

See accompanying independent auditors' report.

PIKES PEAK COMMUNITY COLLEGE
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 9,545,071	8,121,846	302,461	1,070,107	50,657
Supplementals	—	—	—	—	—
Transfers	(44,026)	5,065	—	—	(49,091)
Total appropriations	9,501,045	8,126,911	302,461	1,070,107	1,566
Less expenditures	9,501,045	8,126,911	302,461	1,070,107	1,566
Reversions to state general fund	\$ —	—	—	—	—

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

See accompanying independent auditors' report.

RED ROCKS COMMUNITY COLLEGE
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 4,174,288	3,518,003	156,994	440,182	59,109
Supplementals	—	—	—	—	—
Transfers	—	—	5,910	—	(5,910)
Total appropriations	4,174,288	3,518,003	162,904	440,182	53,199
Less expenditures	4,165,579	3,518,003	162,904	440,182	44,490
Reversions to state general fund	\$ 8,709	—	—	—	8,709

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

See accompanying independent auditors' report.

TRINIDAD STATE JUNIOR COLLEGE
State-Funded Student Assistance Programs
Schedule of Allocations, Expenditures, Transfers, and Reversions
Year ended June 30, 2016

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Undergraduate Merit Scholarships	Colorado Work- Study	Career and Technical Education Student Grant
Appropriations:					
Original	\$ 1,546,767	1,133,523	41,282	363,035	8,927
Supplementals	(65,908)	—	—	(65,908)	—
Transfers	—	892	—	—	(892)
Total appropriations	1,480,859	1,134,415	41,282	297,127	8,035
Less expenditures	1,465,126	1,134,415	41,282	288,351	1,078
Reversions to state general fund	\$ 15,733	—	—	8,776	6,957

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

See accompanying independent auditors' report.



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Statement of Allocations, Expenditures, Transfers, and Reversions of State-Funded Student Financial Assistance Programs Performed in Accordance With Government Auditing Standards

The Members of the Legislative Audit Committee and State Board for Community Colleges and Occupational Education:

We have audited, in accordance with the 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, Statement of Allocations, Expenditures, Transfers, and Reversions of State-Funded Student Financial Assistance Programs (Statement) of the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado for the year ended June 30, 2016 and the related notes to Statement, and have issued our report thereon dated November 30, 2016. The Statement was not prepared in accordance with U.S. generally accepted accounting principles. The Statement is in a format as prescribed by the 2015-2016 Colorado Department of Higher Education Audit Guide and in conformity with the provisions of the State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System.

Internal Control over Financial Reporting

In planning and performing our audits of the Statement, we considered CCCS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Statement, but not for the purpose of expressing an opinion on the effectiveness of CCCS' internal control. Accordingly, we do not express an opinion on the effectiveness of CCCS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's Statement will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCCS' Statement is free from 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 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*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance of the Statement and the results of that testing, and not to provide an opinion on the effectiveness of the CCCS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCCS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Denver, Colorado
November 30, 2016

COLORADO COMMUNITY COLLEGE SYSTEM
State-Funded Student Financial Assistance Programs
Audit Comments and Recommendations
Year ended June 30, 2016

There are no audit comments and recommendations related to the state-funded student financial assistance programs for the year ended June 30, 2016.