COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

June 30, 2008 and 2007

(With Independent Auditors’ Report Thereon)

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Report Summary

Year ended June 30, 2008

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado Community College System (CCCS or the System) for the year ended June 30, 2008. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We conducted the related fieldwork from April 2008 to November 2008.

The purpose and scope of our audit was to:

- Express opinions on the basic financial statements of CCCS as of and for the year ended June 30, 2008. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate CCCS' compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Express an opinion on the statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance Programs of CCCS for the year ended June 30, 2008.
- Evaluate progress in implementing prior audit findings and recommendations.

CCCS' schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in the June 30, 2008 Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on CCCS' basic financial statements and its statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 2008.

No audit adjustments were proposed and made to the basic financial statements. Twenty-three audit adjustments were not made to the basic financial statements with a net effect of $588,000, which is approximately 0.1% of current year ending net assets. These passed differences are not considered material to CCCS' basic financial statements.

We issued a report on CCCS' internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We noted no instances involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Summary of Key Findings

Payroll Process – Segregation of Duties, Authorization, and End-User Controls (significant deficiency in internal control)

Segregation of duties is a primary internal control intended to prevent or detect errors, irregularities, or potential wrongdoing. This is achieved by ensuring no single individual has control over all phases of a transaction. During our audit, we noted that Community College of Denver (CCD), Colorado Northwestern Community College (CNCC), Trinidad State Junior College (TSJC), and the System Office did not properly segregate duties between the Human Resources and Payroll Functions. Specifically, at these locations one person has the ability to establish new employees, set pay rates, and pay employees. Additionally, we noted that CCD did not have adequate controls over pay rate authorization. Finally, we noted that TSJC and CCD did not properly review the completeness and accuracy of payroll information after being processed by the state payroll system, the Colorado Payroll and Personnel System (CPPS).

Reconciliation of Colorado Financial Reporting System (COFRS) to the General Ledger (significant deficiency in internal control)

CCCS uploads financial information in COFRS on a monthly basis for purposes of statewide financial reporting. In addition, cash for all colleges is deposited with the State Treasurer's Pool (Pool). In order to ensure that information being reported to the state is complete and accurate and to ensure cash is properly reconciled to the balance held by the Pool, CCCS should reconcile the information recorded in its general ledger system to COFRS on a monthly basis. We noted that Arapahoe Community College (ACC), Community College of Aurora (CCA), and CCD did not properly reconcile their general ledgers, including cash balances, to COFRS on a monthly basis.

Community College of Denver (significant deficiency in internal control)

We identified and reported a number of internal control deficiencies at the CCD during the prior year audit. Such deficiencies included inadequate information technology general controls, lack of segregation of duties in payroll, inadequate reconciliation procedures, and improper determination of student financial aid eligibility. As a result, a material weakness was reported in the fiscal year 2007 report. During the current year audit, we noted progress; however, all of the recommendations had not yet been fully implemented.

Recommendations and CCCS Responses

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

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Report Summary

Year ended June 30, 2008

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2007 included 16 recommendations. The disposition of these audit recommendations as of November 21, 2008 was as follows.

Implemented	8
Partially implemented	7
Cannot assess until 2009 audit	1
Total	16

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Recommendation Locator

Year ended June 30, 2008

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
1	11	The System Office, Community College of Denver (CCD), Colorado Northwestern Community College (CNCC), and Trinidad State Junior College (TSJC) should strengthen controls over the payroll process by ensuring proper segregation of duties and approval controls are in place and operating effectively.	CCCS	Agree	June 2008 – February 2009
2	13	CCCS, in conjunction with CCD, should continue to implement the corrective action plan established to address the material weakness identified in the fiscal year 2007 audit.	CCCS	Agree	October 2008
3	15	CCCS, Arapahoe Community College (ACC), and Community College of Aurora (CCA) should strengthen information technology general controls by ensuring that the proper access controls and program change management controls are in place and operating effectively.	CCCS	Agree	September 2007 through spring 2009
4	16	CCCS should work with ACC, CCA, and CCD to ensure the colleges perform the general ledger to COFRS reconciliations effectively on a monthly basis.	CCCS	Agree	December 2008
5	17	CCCS should ensure accounts payable and accrued liabilities balances are properly stated by ensuring all colleges perform appropriate cut-off procedures after year-end.	CCCS	Agree	July 2009

(Continued)

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Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2008

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
6	18	CCCS should work in conjunction with the Front Range Community College (FRCC), the System Office, Otero Junior College (OJC), and ACC to ensure capital asset balances are properly stated by performing cut-off procedures near or after year-end to ensure capital assets are capitalized in the proper fiscal year.	CCCS	Agree	July 2009
7	19	CCCS should work with CCA, CCD, Pueblo Community College (PCC), OJC, and the System Office to ensure revenue is properly recorded in the period earned by ensuring cut-off procedures are performed subsequent to year-end and by ensuring proper supporting documentation for revenue is reviewed and retained.	CCCS	Agree	July – October 2008
8	20	CCCS should work with CCA, CCD, CNCC, and TSJC to ensure all colleges perform effective reconciliations between Banner and the general ledger on a monthly basis.	CCCS	Agree	June – December 2008
9	22	CCCS should ensure all colleges properly record leave accrued by employees to be paid upon termination or retirement by reclarifying the leave pay-out thresholds to accounting personnel.	CCCS	Agree	August 2009
10	23	CCCS should work with PCC to ensure tuition deferred revenue is properly stated by performing a review of the calculation prior to recording the adjustment in the general ledger.	CCCS	Agree	October 2008

(Continued)

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Recommendation Locator

Year ended June 30, 2008

Rec. no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
11	23	CCCS should work with CCA to ensure that controls over approval of purchases at CCA are performed.	CCCS	Agree	September 2008
12	24	CCCS should work with CNCC and TSJC to enhance procedures to ensure that the institution's portion of a student's unearned Title IV funds is returned to the federal government within 45 days after the school has determined the student has withdrawn.	CCCS	Agree	September 2008 – March 2009
13	25	CCCS should work with CCD, CNCC, and TSJC to implement monitoring procedures over the verification process. These procedures should include someone separate from the verification process selecting a sample of the verified data, reviewing the information for completeness and accuracy, and documenting this review within the file.	CCCS	Agree	October – November 2008
14	28	CCCS should improve its subrecipient monitoring by implementing policies, procedures, and controls to ensure compliance with OMB Circular A-133.	CCCS	Agree	June 2009

(Continued)

Organization

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

- The Board is the governing board of the state system of community and technical colleges.
- The Board administers the occupational education programs of the state at both secondary and postsecondary levels.
- The Board administers the state's program of appropriations to Local District Colleges (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.

Colorado Community College System's (CCCS') operations and activities are funded primarily through tuition and fees, federal, state, and local grants, tuition revenue, the College Opportunity Fund stipends, and a fee-for-service contract. 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
Community College of Aurora (CCA)	Aurora
Community College of Denver (CCD)	Denver
Colorado Northwestern Community College (CNCC)	Rangely
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

Enrollment, tuition, and faculty and staff information is 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 for the Budget Data Book for Fiscal Year 2007-2008 that is prepared for CCHE.

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

FTE Student Enrollment

	Resident	Nonresident	Total
Fiscal year:			
2007 – 2008	41,928	2,843	44,771
2006 – 2007	40,876	2,570	43,446
2005 – 2006	42,454	2,165	44,619

FTE Faculty and Staff

	Faculty	Staff	Total
Fiscal year:			
2007 – 2008	3,197	1,792	4,989
2006 – 2007	3,010	1,550	4,560
2005 – 2006	3,015	1,376	4,391

Enterprise Resource Planning (ERP) System Implementation

For numerous years, CCCS' primary information systems consisted of the following:

- Financial Reporting System (FRS) – houses significant financial data and serves as the general ledger
- Student Information Systems (SIS) – processed student and student financial aid information
- Billing Receiving System (BRS) –maintained accounts receivables owed to the various colleges by students

Each system was maintained locally at individual locations (13 colleges and one System Office) and there were no capabilities to share information amongst the systems. In addition, CCCS utilized the state payroll system, Colorado Personnel Payroll System (CPPS), for human resources and payroll functions.

In 2004, the state mandated through House Bill 04-1086 (the Bill) that certain recommendations be enacted at CCCS to strengthen and improve efficiencies of the system. One of these requirements was to install a system-wide information technology system solution for all of the colleges. In order to meet this requirement, CCCS elected to implement an enterprise resource planning system (ERP), Banner. CCCS did not receive a state appropriation specifically to implement the system and the original legislation called for the system to be substantially implemented by June 30, 2006. The short timeframe for implementation limited the amount of time and resources available for planning and testing the system.

The Department of Information Technologies within CCCS was responsible for the implementation of the Banner system. Work on implementation began in fiscal year 2005, and in April 2007 CCCS implemented the Student and Student Financial Aid modules. All other modules, including Finance, Human Resources, Payroll, and Procurement, were implemented on July 1, 2008, or the beginning of fiscal year 2009. As the benefits of the ERP system will extend over a number of years, approximately $24 million has been capitalized and will be depreciated over the expected useful life of 10 years. The $24 million represents the amount allowable for capitalization under accounting standards and included labor for CCCS employees responsible for the implementation, including testing. The budget for the system implementation included only amounts resulting in cash outlays to vendors external to CCCS, not all of which are capitalizable under accounting standards.

Over the years, we have performed test work over the Banner system, including capitalization of the cost of the system, review of relevant contracts, evaluation of information technology general controls specifically related to the Banner system, and tuition revenue and accounts receivable processed through the Student and Student Financial Aid modules implemented in April 2007.

Since fiscal year 2005, our audits have noted several findings and recommendations related to the Banner system. These findings included recommendations to appropriately capitalize the Banner system with respect to accounts payable entries and payroll amounts, adequately plan and test future modules prior to implementation, and improve controls over user access within the system. Except for certain controls over user access, CCCS implemented each of these recommendations. In fiscal year 2008, no new findings were noted; however, the controls over user access were not completely implemented and thus the recommendation was repeated, in part as Recommendation No. 2. The fiscal year 2009 financial audit will include a review of the Finance, Human Resources, Payroll and Procurement modules of the Banner system to ensure the recommendation regarding planning and testing of future modules has been appropriately addressed. None of these findings resulted in material audit adjustments to the CCCS financial statements.

We have audited the basic financial statements of the Colorado Community College System (CCCS or the System) as of and for the year ended June 30, 2008 and have issued our report thereon, dated November 21, 2008. In planning and performing our audit of the basic financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered CCCS' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic 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 of CCCS' 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 21, 2008 on our consideration of CCCS' internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since November 21, 2008. We did not audit the financial statements of certain discretely presented component units discussed in note 1 to the basic financial statements, which represent 99%, 98%, and 99% of the 2008 assets, net assets, and revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards.*

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. Additionally, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider Recommendations No. 1 through 7 to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. None of the significant deficiencies described below are believed to be a material weakness.

Although not considered to be significant deficiencies or material weaknesses, we also noted Recommendations No. 8 through 14 that we would like to bring to your attention.

(Continued)

Payroll Process – Segregation of Duties, Authorization, and End-User Controls (significant deficiency in internal control)

Segregation of Duties

Segregation of duties is a primary internal control intended to prevent or detect errors, irregularities, or potential wrongdoing, and to ensure corrective action is taken for any errors, irregularities, or wrongdoing discovered. This is achieved by ensuring no single individual has control over all phases of a transaction. Segregation of duties should be further supported by access controls within information systems, which limit individual's access to perform only his/her assigned duties. During our audit, we noted that the Community College of Denver (CCD), the Colorado Northwestern Community College (CNCC), Trinidad State Junior College (TSJC), and the System Office did not properly segregate duties between the human resources and payroll functions. Specifically, at these locations, one person has the ability to establish new employees, set pay rates, and pay employees.

Authorization

CCD did not have adequate controls over pay rate authorization. During our review of 15 CCD employee personnel files, we noted 12 instances in which there was no proof of pay rate authorization.

End-User Controls

CCCS uses the state payroll system, Colorado Payroll and Personnel System (CPPS), to process payroll. A routine end-user control is to review the completeness and accuracy of information from CPPS each pay period to ensure this information is accurate, supported by documentation, and properly uploaded into the general ledger. We noted that TSJC and CCD had no such end-user control.

Lack of proper segregation of duties between the human resources and payroll functions, proper authorization controls, or proper end-user controls increases the risk of errors or potential fraud going undetected.

Recommendation No. 1

CCCS should work with CCD, CNCC, TSJC, and the System Office, as appropriate, to strengthen controls over the payroll process by:

a. Ensuring proper segregation of duties is established so that no one person has the ability to set up new employees, change pay rates, and pay employees.

b. Establishing access controls between the payroll system and human resources system to further support proper segregation of duties.

c. Ensuring rate changes for all employees are properly approved and documented in personnel files.

d. Implementing end-user controls to ensure payroll processed by CPPS is complete and accurate and properly posted to the general ledger.

(Continued)

CCCS Response:

CCD:

a. and b. Agree. For a significant part of the year, the Human Resources Office was understaffed by 50%. As such, the decision was made to have payroll personnel temporarily assist human resources during their staffing shortfall. Detective compensating controls, however, were implemented, including a surprise pay stub pick-up and verification of identification to help identify any payroll discrepancies in May 2008. Additionally, a new process was implemented for fiscal year 2008 by which monthly budget variance reports were provided to all budget managers to review the detailed activity for the month to ensure their employees were being paid the proper rate, in the appropriate cost center, and that no unauthorized employee payroll expenses were being charged to their cost centers. Budget managers are expected to clear variances each month. Beginning November 30, 2008, human resources and payroll functions will be segregated operationally through security roles.

c. Agree. Control procedures were implemented for authorization of employee compensation and or rate changes in the spring term for full-time employees and in the summer term for part-time employees. Since the interim work occurred before the summer term, the exceptions noted were for part-time employees. At the start of the summer term, rate changes for all employees are properly approved and documented.

d. Agree. To strengthen its payroll process and controls during fiscal year 2008, payroll technicians were given access to certain payroll reports and were shown improvement methodologies for carrying out reconciliations. These processes will be fully implemented by the Controller and Assistant Controller starting July 2008.

CNCC:

a. and b. Agree. The duties and system access were segregated immediately after interim audit field work at the end of June 2008. Payroll personnel, human resources personnel, and the Business Officer attended a week-long training session at the System Office. The Business Officer attended for the purpose of understanding the processes but does not have update access to the system. Shortly thereafter, the payroll staff left employment and CNCC is in the process of hiring a replacement. Because of turnover in the CNCC payroll unit, System Office personnel are currently performing the payroll duties on a temporary basis in the interim. Human resources personnel continue to perform the HR functions. Once new payroll personnel are on board, the duties will continue to be segregated.

TSJC:

a. and b. Agree. TSJC's payroll department is currently under reorganization. After reorganization, TSJC will employ a full-time payroll clerk, a part-time payroll assistant, and a full-time human resources coordinator. The Executive Vice President of Administrative Services will ensure proper segregation of duties is established. Furthermore, he will establish access controls between the payroll system and human resources system to further support proper segregation of duties.

d. Agree. CPPS is no longer used by CCCS as of July 1, 2008. However, the executive vice president of Administrative Services will implement end-user controls to ensure payroll processed utilizing Banner is complete and accurate and properly posted to the general ledger. This corrective action plan will be completed no later than December 1, 2008.

System Office: a. and b. Agree: Changes will be implemented to create a separation of duty between the Central Payroll office and the Human Resources office. The Central Payroll Office will no longer have the ability to create or make changes to the general person records and employee records. The changes will be in effect by the end of November 2008. Temporarily, until February 2009, the Human Resources project manager will have the ability to make adjustments to Human Resources for payroll corrections until personnel are hired and trained to carry out this responsibility as backup for all Human Resources personnel systemwide. The Human Resources project manager will not have access to create or change data in the payroll module.

Community College of Denver (significant deficiency in internal control)

In the prior year, a material weakness in internal control at CCD was reported based upon the results of our audit and the results of an investigation performed by external forensic accountants hired by the CCCS Internal Audit Department. The material weakness reported deficiencies in the following areas or functions: 1) internal control environment; 2) accounting and financial reporting; 3) student financial aid; 4) payroll and human resources; and 5) purchasing and accounts payable.

CCD developed a corrective action plan to address the deficiencies. During our fiscal year 2008 audit, we noted several of the control deficiencies had not yet been remediated, including:

- Lack of segregation of duties in the payroll process
- Inadequate controls over authorization of employee compensation
- Inadequate reconciliation procedures

These control deficiencies are detailed in Recommendations No. 1, 4, and 5.

Recommendation No. 2

CCCS should continue to implement the corrective action plan established to address the material weakness identified in fiscal year 2007. CCCS should ensure this plan addresses each weakness noted in the current year and prior year audits and provides specific remedial and corrective actions that will be taken by CCD management, including time frames for completion. Such actions taken by CCD management should continue to be subject to ongoing oversight from CCCS personnel and the Internal Audit Department.

CCCS Response: Agree. Lack of segregation of duties between payroll and Human Resources was a temporary business decision made so that CCD employees would be paid on time, despite a significant reduction in staff in Human Resources. Detective compensating controls, however, were instituted, including a variance reporting process (which was in effect for all of fiscal year 2008) to help identify any payroll discrepancies for employees.

Beginning November 30, human resources and payroll functions will be segregated operationally through access security.

Control procedures were implemented for authorization of employee compensation in the spring term for full-time employees and in the summer term for part-time employees.

The reconciliation process continued to be evaluated and revised throughout the year, ensuring a process was in place by year-end. Both the Controller and Assistant Controller will coordinate routine completion and review of this reconciliation beginning December 2008. Overall, CCD will continue to make progress as set forth in the action plan.

Information Technology Controls (significant deficiency in internal control)

During fiscal year 2008, CCCS utilized the Student and SFA modules of Banner to process student registration and payments as well as SFA. CCCS utilized its legacy system, the Financial Reporting System (FRS), as its general ledger system.

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

We noted certain deficiencies in information technology general controls during our audit related to access to programs and data and program change management. Failure to ensure adequate general controls are in place and operating effectively could impact proper operation of information systems, including improper access to programs and data.

We noted the following conditions related to access of programs and data and program change management:

a. User access was not removed timely from the Banner system for nine terminated employees at Arapahoe Community College (ACC) and for one terminated employee at Community College of Aurora (CCA).

b. Banner password settings did not have established rules. Specifically, passwords do not expire and do not have length and complexity requirements.

c. Privileged access to Banner was not appropriately restricted. Several accounts had an administrator role for purposes of previous Banner upgrades; however, the accounts were not re-restricted subsequent to the upgrade performed in December 2007. In addition, shared accounts are used by the Domain Administrative Group, which does not allow for individual accountability.

d. Proper segregation of duties was not established over program change management. One instance was noted in which a program developer had access to develop and implement changes into the production environment for FRS.

(Continued)

Recommendation No. 3

CCCS should consider the above-mentioned control deficiencies in the implementation of its remaining modules of the Banner system and improve information technology general controls by:

a. Ensuring policies and procedures for removing employees from Banner are appropriately adhered to by removing terminated users on a timely basis.

b. Ensuring Banner password policies require expirations (90 days is leading industry practice) and requiring each be at least six characters in length. Such policies should be appropriately enforced.

c. Requiring privileged access to be appropriately restricted. Each administrator should have a unique account and password in order to demonstrate individual accountability for performing activities within Banner.

d. Creating proper segregation of duties over program change management by ensuring program developers do not have access to implement changes into production.

CCCS Response:

ACC:

a. Agree. Beginning August 31, 2008, ACC has modified termination procedures to ensure that Human Resources notify the College Banner Security Administrator when an employee has been terminated. The Security Administrator will then complete paperwork to send to CCCS IT to terminate the Banner access within 48 hours of notification.

CCA:

a. Agree. Beginning September 1, 2008, the CCA finance office will work closely with human resources to ensure that no terminated employees have system access beyond the week of their departure.

CCCS-IT:

a. Agree. CCCS-IT has established a quarterly review process of all Banner user access to ensure that any terminated employees' access has been removed in a timely manner. As of September 2007, CCCS-IT has implemented a quarterly review process to ensure this is done. The colleges are responsible for notifying CCCS-IT to remove access. The colleges remove network access themselves, which prevents the terminated employee from accessing Banner.

b. Agree. This is a system limitation of Banner and cannot be changed by CCCS. However, long-term plans are to implement the portal and single sign-on, which will preclude the need for separate Banner passwords. Network passwords are required prior to accessing Banner and those passwords already comply according to established policy with expiration and complexity requirements. The portal pilot will begin spring 2009.

c. Agree. The administrator role problem was resolved immediately upon notification in April 2008 and was deemed to be the result of a failed step in the job stream provided by the vendor. Documentation has been modified and procedures established to ensure that these passwords are reset upon the completion of this type of upgrade. Individuals in the Domain Administrative Group have been assigned individual accounts and no longer use shared accounts.

d. Agree. This is a result of limited internal support for FRS as the system is being phased out. In order to provide redundancy in system administrative support, one programmer also serves as the backup system administrator. A separate sign-on is used when performing system administrative responsibilities. As of July 1, 2008, the Finance system of record is Banner.

Reconciliation of COFRS to the General Ledger (significant deficiency in internal control)

CCCS uploads financial information into the Colorado Financial Reporting System (COFRS) on a routine basis for purposes of statewide financial reporting. In addition, cash for all colleges is deposited with the State Treasurer's Pool (the Pool). In order to ensure that information being reported to the state is complete and accurate and to ensure cash is properly reconciled to the balance held by the Pool, CCCS should reconcile the information recorded in its general ledger system to COFRS on a monthly basis. During our testwork, we noted that ACC, CCA, and CCD did not properly reconcile its general ledger, including cash balances, to COFRS. Specifically, we noted the schools prepared the reconciliation; however, there was no evidence to support that material reconciling items were properly identified and resolved in a timely manner.

Recommendation No. 4

CCCS should work with ACC, CCA, and CCD to strengthen controls over the general ledger to COFRS reconciliation process by:

a. Ensuring each college performs the general ledger to COFRS reconciliation effectively on a monthly basis.

b. Ensuring cash balances reported on the general ledger are reconciled to the balance reported by the State Treasurer.

c. Ensuring reconciling items are properly investigated and resolved, and the resolution to such reconciling items are documented.

d. Ensuring reconciliations are reviewed by someone at least one level higher than the preparer.

CCCS Response:

ACC: Agree. As of June 30, 2008, the final reconciliation was complete. Starting in December 2008, the COFRS to general ledger reconciliation will be completed monthly by the Controller and/or Assistant Controller. We did not note the explanation for the reconciling item on our reconciliation as this was a routine reconciling item for which we were aware of the cause. Going forward, any unresolved items on a monthly basis and the resolution and date of resolution will be identified and documented.

CCA: Agree. As of June 30, 2008, the final reconciliation was complete. Starting in December 2008, the COFRS to general ledger reconciliation will be completed monthly by the Controller. The Controller will conduct the reconciliation and the Business Officer will review it.

CCD: Agree. The reconciliation process continued to be evaluated and revised throughout the year, ensuring a process was in place by year-end. The general ledger balanced to COFRS as of year-end June 30, 2008. Both the Controller and Assistant Controller will coordinate completion and review of this reconciliation beginning in October 2008.

Accounts Payable and Accrued Liabilities (significant deficiency in internal control)

We performed testwork to ensure operating expenses and accrued liabilities for the System were properly accrued as of June 30, 2008. Our results revealed CCCS did not have adequate controls in place to ensure accounts payable and accrued liabilities were accurate and complete. We noted 25 instances of the 255 items tested totaling $554,000 in which the liability was not properly accrued at June 30, 2008. In addition, we noted that PCC accrued for all open purchases orders at year-end totally $663,000 without determining whether the expense was incurred in fiscal year 2008. As a result of the errors noted at CCA, Pikes Peak Community College (PPCC), Pueblo Community College (PCC), Otero Junior College (OJC), Red Rocks Community College (RRCC), and the System Office accounts payable and accrued liabilities balances were overstated by $109,000.

Recommendation No. 5

CCCS should ensure accounts payable and accrued liabilities balances are properly stated by:

a. Performing proper cut-off procedures after year-end. These cut-off procedures should include reviewing cash disbursements made after year-end to determine whether the related expense applies to the previous fiscal year and should be accrued.

b. Considering a materiality threshold for cut-off procedures, in which the review discussed in a. above would need to be performed. In order to establish this threshold, the System Office would need to perform an analysis to determine at what threshold the risk of material misstatement would be remote. This analysis should be documented and reevaluated each year to ensure the threshold is still reasonable.

CCCS Response: Agree. CCCS will establish a policy for reviewing cash disbursements subsequent to year-end to ensure transactions exceeding a minimum threshold are reviewed to ensure accrual into the previous year, if appropriate. The policy will be in place by July 2009 for application by final close August 1, 2009.

Capital Assets (significant deficiency in internal control)

During fiscal year 2008, CCCS had $16.9 million in capital asset additions. We tested a sample of 29 items totaling $4 million to determine the capital assets were properly recorded. Our testwork revealed the following:

Cut-off

- Front Range Community College (FRCC) capitalized $725,000 as part of the college's year-end accrual process; however, the asset was not received by the college until after year-end and should not have been capitalized until the subsequent fiscal year.
- The System Office recorded $233,000 in construction in progress (CIP) for a project that did not begin until after June 30, 2008. A payment to the contractor was made prior to year-end; however, the payment was a required deposit prior to the contractor beginning work. This amount should have been classified as a prepaid asset instead of a capital asset.
- OJC capitalized $49,000 in CIP additions during the fiscal year. Work performed for these additions was performed in June 2007 and should have been capitalized into CIP in the prior fiscal year.

Capitalization Policy

- ACC improperly expensed $159,000 in building improvements versus capitalizing these costs. It is CCCS' policy to capitalize such costs exceeding $5,000.

Recommendation No. 6

CCCS should ensure capital asset balances are properly stated by:

a. Performing proper cut-off procedures near or after year-end to ensure capital assets are capitalized in the proper fiscal year.

b. Communicating the capitalization policy to accounting personnel on a routine basis.

CCCS Response: Agree. Although CCCS has cut-off procedures for capitalizing assets at year-end in place, these processes have not been adequately adhered to in all instances. While remaining cognizant of the very short-time line allowed to ensure timely submission of financial information to the state, CCCS will stress diligence in pursuing outstanding construction payments at year-end and ensuring assets are properly capitalized and reflected in the financial statements. The policy for the capitalization threshold will be reevaluated during fiscal year 2009 and will be communicated to all colleges to ensure consistency in its application across the System. The process will be completed by the end of July 2009.

(Continued)

Revenue Recognition (significant deficiency in internal control)

CCCS recognized approximately $126.0 million and $7.9 million in grant and other revenue, respectively, during the fiscal year. We tested a sample of 66 items totaling $1.3 million for grant revenue and a sample of 20 items totaling $411,000 for other revenue. Of the samples tested, we noted the following:

Grant Revenue

- For one sample item at CCA, $29,000 was recognized as revenue rather than properly reducing the accounts receivable balance previously established.
- For one sample item at CCA, $24,000 was recognized as revenue and an accounts receivable, but the amount would not be reimbursed by a granting agency and should not have been recognized as a grant revenue and receivable.

Other Revenue

- For one sample item at PCC totaling $134,000, the revenue was earned in fiscal year 2007 but was recorded as revenue during fiscal year 2008.

In addition, we tested $8.1 million out of $12.5 million of the deposits held for others. Deposits held for others represent moneys held by CCCS in an agency capacity. These moneys are not the right of CCCS. Of the amount tested, we noted exceptions at OJC totaling $391,000 related to balances that were not owed to others and should have been recognized as revenue in previous years.

Recommendation No. 7

CCCS should work with CCA, CCD, PCC, and OJC to ensure revenue is properly recorded in the period earned by:

a. Performing cut-off procedures by reviewing cash receipts received subsequent to year-end to ensure the related revenue is recognized in the proper fiscal year.

b. Reviewing and retaining documentation to support when the revenue has been earned. During this review, colleges should review supporting documentation for cash receipts to determine whether the cash received relates to a previously established account receivable balance.

c. Reviewing and retaining documentation to determine whether the assets received are a right of the college or a third party. During this review, colleges and the System Office should note that moneys restricted for a specific purpose of CCCS should be recorded as revenue, with a corresponding presentation of restricted net assets.

CCCS Response:

CCA: Agree. In these instances, the billing was done by the grant program staff rather than the accounting office, and there were no budget figures recorded in the accounting system for the grant accounts. Beginning September 1, 2008, all CCA grant accounts will have annual budgets input to the accounting system, and the

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year-end process for accruing grant accounts receivable will include a comparison of grant budgets to actual expenditures.

CCD: Agree. As a result of an error in the design of our crosswalk transferring data from the student accounts receivable module to the general ledger, an amount was routed to a suspense account. In addition, staff processing the files were not routinely saving this data. As a result, when the error was detected, the exact detail of the source of the feed could not be traced and the amounts were posted to other revenue. Upon further evaluation, this amount should have reduced an existing receivable instead.

We are now operating entirely in Banner and the Banner to FRS crosswalk is no longer needed. Going forward, the Student Accounts Receivable staff running the processes send the Controller a copy of each output file as backup and have implemented an archive process for the output files. The backup process was in place beginning July 7, 2008.

PCC: Agree. A new step has been added as of October 1, 2008, to PCC's accounts receivable year-end cut-off procedures to ensure proper accounting for receipt of money in the new fiscal year. The Cashier Manager and the Controller will examine beginning year receipts to determine proper year accounting. Receivables will be recorded if applicable to the previous fiscal year and not already recognized.

OJC: Agree. OJC analyzed agency accounts during fiscal year 2008 and determined some are more properly reflected as auxiliary or restricted funds. These balances were adjusted effective July 1, 2008.

Students Accounts Receivable (deficiency in internal control)

CCCS utilizes the Student and SFA modules of its new system, Banner, to process student registration and payments as well as SFA. For fiscal year 2008, CCCS utilized the legacy system, FRS, as its general ledger system. During our audit, we noted that CCD, CNCC, and TSJC did not consistently reconcile student accounts receivable in Banner to the general ledger on a monthly basis. Additionally, at CCA, although the receivable reconciliation between the general ledger and Banner was prepared for the month tested, reconciling items could not be identified or explained to us by college personnel during time of fieldwork.

In addition, certain colleges had aged, unpaid student accounts receivable balances remaining on the previous subledger system, the Billing Receivable System (BRS), which had not yet been transferred over to Banner. Redundant of those colleges, CCD had not reconciled BRS to the general ledger on a monthly basis.

Recommendation No. 8

CCCS should work with CCA, CCD, CNCC, and TSJC to strengthen controls over the accounts receivable subledger reconciliation process by:

a. Ensuring each college performs effective monthly reconciliations between Banner and the general ledger, and, when applicable, between BRS and the general ledger.

b. Ensuring reconciling items are properly investigated and resolved and the resolution to such reconciling items is documented.

c. Ensuring these reconciliations are reviewed by someone at least one level higher than the preparer.

CCCS Response:

CCA: Agree. As of June 30, 2008, the final reconciliation was complete. Starting in October 2008, the accounts receivable reconciliation will be completed monthly by the Assistant Controller.

CCD: Agree. The reconciliation process continued to be evaluated and revised throughout the year, ensuring a process was in place by year-end. Both Banner Accounts Receivable and BRS are in balance with the General Ledger as of year-end June 30, 2008. Both the Controller and Assistant Controller will coordinate completion and review of this reconciliation beginning October 2008.

CNCC: Agree. All BRS balances have been migrated to Banner and CNCC will begin performing monthly reconciliations by December 31, 2008. As crosswalks are no longer necessary to convert balances since BRS is no longer utilized, the process should be simplified.

TSJC: Agree. Reconciliations between Banner and the FRS general ledger are no longer required since CCCS has implemented the Banner finance module in fiscal year 2009. However, the Controller will ensure that all required reconciliations between the Banner Student Accounts receivable module and the general ledger will be completed on a timely basis, will be documented, and reviewed by someone at least one level higher than the preparer. This corrective action plan will be completed no later than October 31, 2008.

Compensated Absences Liability (deficiency in internal control)

Compensated absences and related personnel expenses are recorded as liabilities based on estimated balances owed to employees upon termination or retirement. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service as well as limitations on such payments as defined by policies at CCCS and state personnel policies. As of June 30, 2008, total compensated absence liability was $11.3 million.

Each college and the System Office are responsible for calculating its compensated absence liability. The sick leave compensated absence calculation is generally performed in two steps. First, colleges must determine the maximum sick leave balance that will be paid upon retirement for each employee. Next, because sick leave is only paid out upon retirement, the colleges must estimate the percentage of the employees that are expected to retire from CCCS in the following year. During our audit, we noted several errors in the calculation of the sick leave liability at certain colleges.

For classified employees, we noted that CCD, the System Office, and Lamar Community College (LCC) did not accrue for the maximum payout of one-fourth of 360 hours for sick leave. State policy states that classified employees who retire are to be paid the lesser of one-fourth of total sick leave accrued or one-fourth of 360 hours. These schools misinterpreted the policy to state that the maximum payout to an employee is 360 and calculated the liability as such. As a result, the compensated absences liability was overstated by $6,000.

For exempt employees, CCCS policy states that upon retirement, employees are to be paid the lesser of one-fourth of total sick leave accrued hours or 240 hours. We noted that ACC, CCA, FRCC, LCC, OJC, PCC, and RRCC misinterpreted the policy to state that the maximum payout to an employee is one-fourth of the 240 hours and calculated the liability as such. As a result, the compensated absences liability was understated by $419,000.

Finally, since sick leave is only paid upon retirement, the compensated absences liability calculation should consider the estimate of employees that are expected to retire in the next year. LCC did not consider this estimate in its calculation. As such, the compensated absences liability was overstated by $74,000.

The errors noted above were primarily due to the fact that there was varying interpretations of the policy among the colleges or there was no review performed over the calculation by a knowledgeable individual separate from the preparer.

Recommendation No. 9

CCCS should ensure that the colleges properly record leave accrued by employees to be paid upon termination or retirement by:

a. Reclarifying the leave pay-out thresholds to accounting personnel for all colleges near each fiscal year-end.

b. Ensuring someone at each college reviews the compensated absences calculation. This review should be performed by someone familiar with the leave policy and should be separate from the preparer.

CCCS Response: Agree. The System Office will reclarify the compensated absences policy and the proper application of the policy for calculating year-end accruals with the colleges during controllers, meetings during fiscal year 2009. The System Office will also conduct a centralized work session to review the calculations at year-end. All colleges will ensure staff other than the preparer will review and validate the year-end determination by August 1, 2009.

Deferred Tuition Revenue (deficiency in internal control)

For all colleges, summer semesters cross fiscal years. In order to properly prorate summer tuition revenue between the fiscal years, the colleges calculate tuition related to the current fiscal year based on the percentage of total calendar days before June 30 to total calendar days in the primary summer term. Revenues to be earned after June 30 are recorded as deferred revenues.

During our review of the colleges' deferred revenue calculation, we noted that PCC incorrectly calculated the amount of revenue to be deferred into fiscal year 2009. PCC applied the percentage calculated (as described above) to both the 2007 and 2008 summer session revenue. This calculation should have only considered the 2008 summer session tuition. As a result, at June 30, 2008, PCC's tuition revenue was understated and deferred revenue was overstated by approximately $878,000.

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Recommendation No. 10

CCCS should work with PCC to ensure an individual other than the preparer review the deferred revenue calculation prior to recording the adjustment in the general ledger. This review should be performed by someone knowledgeable of the deferred tuition calculation. The reviewer should ensure the percentage of revenue to be deferred was calculated correctly and that the percentage calculated was applied to the correct revenue accounts.

CCCS Response: Agree. Due to a clerical error in the data pull at PCC, the deferred revenue was not calculated correctly for fiscal year 2008. Effective October 1, 2008, a PCC fiscal operations staff member, separate from the preparer, will review the deferred tuition calculation. The reviewer will ensure the percentage of revenue to be deferred was calculated correctly and that the percentage calculated was applied to the correct revenue accounts.

Approval of Disbursements (deficiency in internal control)

Proper segregation of duties surrounding the procurement function requires obtaining approval prior to purchasing goods and services by an individual with the appropriate level of approval authority. CCA has an approval process over disbursements to prevent misappropriation of assets. We noted one instance out of ten tested in which the purchase requisition was not properly approved, but the purchase was still made. We also noted one instance out of ten tested in which the purchase was approved by e-mail and the check was issued; however, the invoice had not yet been received by the college for review and approval.

Recommendation No. 11

CCCS should work with CCA to ensure controls over approval of purchases are in place by:

a. Ensuring purchases are not made without first obtaining the proper approvals in accordance with CCCS policy.

b. Ensuring those responsible for processing payments do not disburse funds without proper evidence of such approval.

c. Ensuring those approving charges obtain and review adequate documentation prior to granting approval of the purchase.

CCCS Response: Agree. The instance noted was a check issued at CCA for a student field trip and was created before the invoice was received. Although the check was not released by the accounts payable department to the field trip faculty until an invoice was brought in, the existing check sign-out log did not have a place to indicate a date when the check was picked up. A new control has now been added as of September 1, 2008, to the accounts payable process, such that a box on the check sign-out log indicates the date and time the check is released. In addition, checks will no longer be processed without supporting documentation and proper approval prior to issuance, effective immediately.

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Return of Title IV Funds

When a recipient of Title IV funds withdraws from an institution, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the amount earned by the student is less than the amount disbursed to the student as of the withdrawal date, the difference must be returned to the Title IV programs. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a postwithdrawal disbursement (34 CFR sections 668.229(a)(1)-(3)).

The amount of earned Title IV assistance is equal to the percentage of the payment period or period of enrollment that was completed as of the student's withdrawal date. The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of Title IV assistance earned by the student from the amount of Title IV aid disbursed to the student as of the student's withdrawal date (34 CFR Section 668.22(e)).

Returns of Title IV funds are required to be sent to the U.S. Department of Education (or to the appropriate Federal Family Education Loan (FFEL) lender) no later than 45 days from the student's withdrawal date (34 CFR section 668.173(b)).

For postwithdrawal disbursements, the institution must, within 30 days of the student's withdrawal date, send a written notification to the student that asks the student if the student wants the postwithdrawal disbursement credited to the student's account or to disburse funds to the borrower. The letter must also explain that it is up to the institution to decide if it will disburse the funds to the borrower and the borrower is responsible to repay any loan funds disbursed. (34 CFR Sections 668.22(a)(5) and 668.164(d)).

During testwork of 30 students who withdrew during the fiscal year, we noted the following:

- One instance out of ten tested at CNCC in which the student notification letter was not sent within the required 30 days of withdrawal. It was sent nine months after withdrawal. The amount of the postwithdrawal disbursement was $235.
- Two instances out of ten tested at TSJC in which the incorrect days in the term was used in the percentage earned calculation. TSJC used 107 instead of 109 days. As a result, the amount of excess Title IV funds returned was $25.
- One instance at TSJC in which the return of Title IV calculation was not available for testing and funds were not returned within the required time frame of 45 days.

Recommendation No. 12

CCCS should work with CNCC and TSJC to enhance procedures to comply with return of Title IV requirements by:

a. Ensuring all students who are subject to a postwithdrawal disbursement receive notification within the required time frame of 30 days.

b. Requiring reviews of return of Title IV calculations. These reviews should be performed by someone separate from the preparer and the review should ensure the proper enrollment period was used.

(Continued)

c. Establishing procedures to ensure that withdrawal dates of students are determined timely and the return is made no later than 45 days after the date of this determination.

CCCS Response:

CNCC: Agree. Beginning September 2008, the Financial Aid Advisor is dedicating one half day weekly to run reports that aid in identifying withdrawn students and to issue the letters on those days to the students identified. The Director of Student Services-Registrar will be reviewing the process.

TSJC: Agree. TSJC is in the process of employing a new Financial Aid Director. The new Financial Aid Director will ensure reviews of return of Title IV calculations. These reviews will be performed by someone separate from the preparer and the reviews will ensure the proper enrollment period was used. The new Director will also establish procedures to ensure that withdrawal dates of students are determined timely and the return is made no later than 45 days after the date of this determination. This corrective action plan will be completed no later than March 31, 2009.

Student Financial Aid – Verification

Institutions are required to perform verification procedures, which are defined as the process of checking the accuracy of the information supplied by students when they apply for federal student aid. The Central Processing System (CPS) of the federal Department of Education (the Department) selects those students to be verified. Information required to be verified is specified in 34 CFR 668.56 and is as follows: (1) household size, (2) number in college, (3) adjusted gross income, (4) U.S. income taxes paid, and (5) certain untaxed income and benefits.

In the verification process, the school sends a verification worksheet to the student to answer the required questions and to send back to the school with the required tax returns. When a student completes the verification worksheet and attaches the appropriate tax forms, or alternative documents, the school will usually have enough data to complete the verification process. Acceptable documentation for the required verification items is listed in 34 CFR 668.57.

During our testwork at CCD, CNCC, and TSJC, although we noted no instances of noncompliance exceptions in the sample tested, we did note that only one person performs the verification process for each student. No monitoring procedures were performed by a separate individual to ensure the verification process was performed in compliance with federal regulations.

Recommendation No. 13

CCCS should work with CCD, CNCC, and TSJC to implement monitoring procedures over the verification process. These procedures should include someone separate from the verification process selecting a sample of the verified data, reviewing the information for completeness and accuracy, and documenting this review within the file.

(Continued)

CCCS Response:

CCD: Agree. Beginning November 1, 2008, all verifications will be processed in a central location by the document specialist. Next, from a list of all submitted verification packets, the Quality Control Advisor will randomly select students for a review process monthly. From the list, each advisor will be given the names of at least two students with verification packets on file monthly. The advisor must verify the student and submit the worksheet to the Quality Control Advisor. The Quality Control Advisor will compare the current ISIR and 1) the initial verification worksheet and 2) the advisor verification worksheet. The Quality Control Advisor will correct any discrepancies and document any changes for both the Document Specialist and the Advisor. All discrepancies will be reported to the Director. Copies of both worksheets will be kept on file for documentation purposes.

CNCC: Agree. Beginning in October, 2008, CNCC's financial aid technician will be performing the financial verification process utilizing a form called the Verification Working Paper to which a secondary review signature and date block has been added. The secondary review will be performed by the Director of Student Services on a monthly basis on two to three randomly selected Verification Working Papers, which will then be signed and dated in the new signature block by that position. In addition, 10 Verification Working Papers for the period from February 2008 to October 2008 will be randomly selected for the second review process by the Director of Student Services so there will be complete coverage for the entire fiscal year 2009.

TSJC: Agree. In order to perform a secondary verification, TSJC will select a sample from the total verified students each month. The primary verification will be done by financial aid staff personnel. The secondary verification will be completed by the Director of Financial Aid. This will be implemented November 1, 2008.

Carl Perkins Vocational Education Program – Subrecipient Monitoring

CCCS administers the Carl Perkins Vocational Education Program (Perkins) throughout the state. In this role, CCCS' duties include creating a state plan for administering Perkins funds and instituting statewide performance measures that subrecipients must meet for the State to continue receiving Perkins funding. CCCS staff manages the Perkins operations on behalf of the Board. CCCS incurred $20.2 million of federal vocational education expenditures during fiscal year 2008. Subrecipients include school districts and postsecondary institutions. In fiscal year 2008, CCCS had approximately 85 subrecipients under the Perkins program.

The Career and Technical Education department (the Department) within CCCS is responsible for subrecipient monitoring. As part of the fiscal year 2007 and 2006 audits, we reported findings and recommendations related to subrecipient monitoring of the Perkins program. Specifically, we reported that the Department's review of Perkins subrecipients lacked steps to ensure compliance with program requirements and to adequately review financial information and ensure that all subrecipient expenditures funded through Perkins are appropriate. We also reported that the Department did not meet its goals for conducting Perkins monitoring visits and staff did not adequately follow prescribed Perkins monitoring procedures.

During fiscal year 2008, the Department did not adequately implement the recommendations; therefore, it did not have adequate controls over subrecipient monitoring and was not in compliance with the requirements of OMB Circular A-133. Although the Department did prepare a site visit performance checklist and performed one on-site visit during the year, it did not perform site visits at other subrecipients and did not appropriately review annual OMB Circular A-133 subrecipient audit reports. As a result, the Department could not adequately assess if subrecipients were adhering to applicable guidelines and requirements.

OMB Circular A-133 requires entities to monitor grant subrecipients to ensure compliance with federal laws and regulations. Specifically, the Department is responsible for:

- Identifying to the subrecipient the federal award information (e.g., Catalog of Federal Domestic Assistance (CFDA) title and number, award name, name of federal agency) and applicable compliance requirements at the time of the award.
- Monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In prior years, we recommended that these visits be performed on a risk-based approach to ensure the subrecipients with a higher risk of noncompliance are adequately being addressed.
- Ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, CCCS shall take appropriate action using sanctions.
- Evaluating the impact of subrecipient activities on CCCS' ability to comply with applicable federal regulations.

Although the Department is informing subrecipients of federal award information and certain compliance requirements at the time the grant is awarded to the subrecipient, it is not properly 1) monitoring the use of the funds through site visits and other means, 2) reviewing annual OMB Circular A-133 subrecipient audit reports, and 3) determining the impact of subrecipient activities on CCCS' ability to comply with federal requirements.

As noted above, the Department did not adequately address the same findings issued in fiscal years 2006 and 2007.

Recommendation No. 14

CCCS should improve its subrecipient monitoring for the Perkins program by implementing policies, procedures, and controls to ensure compliance with OMB Circular A-133. Specifically, CCCS should:

a. Develop a risk-based approach for monitoring subrecipients, including written policies and procedures, in compliance with OMB Circular A-133. Based upon this risk-based approach, a monitoring calendar should be developed and adhered to as it relates to items b – d below.

b. Perform periodic site visits based upon the risk-based approach to ensure that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

c. Require all subrecipients to submit either their annual OMB Circular A-133 audit or a statement attesting that they are not subject to OMB Circular A-133 audit requirements. Also, CCCS should review these audit reports or other statements. For those that report compliance findings, significant deficiencies, or material weaknesses, CCCS should ensure corrective action measures are being initiated in a timely manner. CCCS' review of the audit reports and monitoring of corrective active measures should be documented.

d. Provide adequate oversight and supervisory review of the Perkins monitoring process.

CCCS Response:

CCCS: Agree. Rather than changing the reporting structure of the Perkins monitoring and compliance section of the organization, CCCS will dedicate more resources to staffing the area more appropriately to ensure compliance of subrecipient monitoring by June 2009. In addition, the Coordinator of Educational Support Services who is responsible for this activity will prepare monthly reports for the Chief Fiscal Officer of CCCS, detailing the activity of compliance monitoring personnel. All of the related compliance requirements procedures and forms will be reviewed for completeness and appropriateness with federal award criteria, including refinement of the risk assessment model, the on-site monitoring checklist, adherence and completion of site visits in accordance with the monitoring calendar, review of subrecipient reports, and corresponding review of the applicable corrective action plans.

Following are the audit recommendations made for the year ended June 30, 2007 and their disposition as of November 21, 2008.

Recommendation	Disposition
Recommendation No. 1 CCCS should develop an action plan based on our current and prior findings related to CCD, work performed by CCCS Internal Audit, and on the Internal Controls Report issued by the external forensic accountants. This plan should identify each weakness noted and provide specific remedial and corrective actions that will be taken by CCD management, including time frames for completion. Such actions taken by CCD management should be subject to ongoing oversight from CCCS personnel, including the Internal Audit department. For the foreseeable future, routine on-site visits should be conducted by CCCS personnel to determine the degree of progress being made as compared with these corrective actions. Interim progress reports should be made to the executive management of CCCS and to the Audit Committee.	Partially implemented. See Recommendation No. 2.
Recommendation No. 2 CCCS should perform the following to improve information technology general controls: a. Ensure CCD implements formal policies and procedures for adding or removing employees from the network, VMS user/access list, the Active Directory Windows Network, and Banner. b. Ensure CCD adheres to the Information Security Policy for password parameters. c. Eliminate generic IDs in the Domain Administrative Group at CCD. d. Ensure Banner password policies systemwide require expirations (90 days is leading industry practice) and require each be at least six characters in length. Such policies should be appropriately enforced. e. Ensure the System Office and CCD perform and document periodic, formal reviews of user access rights to systems and applications of the Active Directory Windows Network and Banner.	Partially implemented. See Recommendation No. 3.

Recommendation	Disposition
f. As part of the ERP system implementation, CCCS should reconsider need for super user access to VMS for help desk personnel and require complex passwords for VMS computing environment. g. (i) Ensure evidence is maintained for approval of program changes, including emergency changes. (ii) Ensure only appropriate individuals have access to ProdMov. h. Ensure CCCS rotates backup tapes offsite and backup and recovery procedures are periodically tested and documented.	
Recommendation No. 3 CCCS should proceed in implementing the remaining modules of the ERP System by: a. Ensuring that proper planning is performed to avoid similar instances in the future. Such planning should allow for adequate time for testing these modules and CCCS should work with interested parties regarding attainable implementation deadlines. b. Performing necessary testing of the modules being implemented. Testing should be wide-ranging, considering the various scenarios that confront each of the 13 colleges and the system office. CCCS should continue to document and approve such testing.	Deferred. As the remainder of the ERP modules were implemented during fiscal year 2009, disposition of this recommendation will be tested by KPMG LLP during the fiscal year 2009 audit.

Recommendation	Disposition
Recommendation No. 4 CCCS should work with LCC and CCD so that they can ensure they implement the proper segregation of duties by ensuring no one person has the ability to set up new employees, change pay rates, and pay employees. Access controls should be established between the payroll system and human resources system to enforce such segregation of duties. Additionally, CCCS should work with CCD to ensure proper controls are implemented over hiring of employees. These controls should require obtaining the necessary approvals prior to the date of hire and documenting such approvals. Finally, the colleges should establish end-user controls to ensure payroll processed by CPPS is complete and accurate and that it is properly posted to FRS.	Implemented at LCC. Not implemented at CCD. See Recommendation No. 1.
Recommendation No. 5 CCCS should work with OJC so that it can ensure that controls over approval of purchases are being adhered to. Purchases should not be made without first obtaining the proper approvals. In addition, those responsible for processing payments should not disburse funds without proper evidence of such approval.	Implemented.
Recommendation No. 6 CCCS should work with OJC, LCC, and CCD to ensure they are performing the FRS to COFRS reconciliation effectively on a monthly basis. In addition, CCD should ensure its cash balance reported on the general ledger can be properly reconciled to the balance reported by the State Treasurer. During the reconciliations, reconciling items should be properly investigated and resolved and the resolution to such reconciling items should be documented. Finally, these reconciliations should be reviewed by someone at least one level higher than the preparer.	Implemented at OJC and LCC. Partially implemented at CCD. See Recommendation No. 4.

Recommendation	Disposition
Recommendation No. 7 CCCS should ensure proper tuition rates are charged by: a. Implementing a review control at the college level to ensure rate tables properly utilize Board-approved rates. b. Implementing a review control at the System level to work with colleges to ensure they have properly updated the rate tables based upon Board-approved rates.	Implemented.
Recommendation No. 8 CCCS should work with all colleges to ensure they perform effective reconciliations between Banner plus BRS to the general ledger on a term basis.	Partially implemented. See Recommendation No. 5.
Recommendation No. 9 CCCS should ensure capital asset balances are properly stated by: a. Performing proper cut-off procedures near or after year-end to ensure capital asset balances are properly stated as of year-end. b. Reviewing depreciation schedules to ensure they are properly depreciating assets based upon useful lives assigned and the assets' years in service.	Partially implemented. See Recommendation No. 7.

Recommendation	Disposition
Recommendation No. 10 CCCS should improve its subrecipient monitoring by implementing policies, procedures, and controls to ensure compliance with OMB Circular A-133. Specifically, CCCS should: a. Develop a risk-based approach for monitoring subrecipients, including written policies and procedures, in compliance with OMB Circular A-133. Based upon this risk-based approach, a monitoring calendar should be developed and adhered to as it relates to items b – f below. b. Perform periodic site visits to ensure that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. c. Require all subrecipients to submit either their annual OMB Circular A-133 audit or a statement attesting that they are not subject to OMB Circular A-133 audit requirements. Also, CCCS should review these audit reports or other statements. For those that report compliance findings, significant deficiencies, or material weaknesses, CCCS should ensure corrective action measures are being acted upon in a timely manner. Review of the reports and monitoring of corrective action measures should be documented. d. Develop written policies, procedures, and documentation requirements for subrecipients to support allowability and appropriateness of grants expenditures and other compliance requirements. e. Provide training to improve the technical skill of staff responsible for subrecipient monitoring. f. Provide adequate oversight and supervisory review of the Perkins monitoring process.	Partially implemented. See Recommendation No. 14.

Recommendation	Disposition
Recommendation No. 11 For those employees who charge less than 100% of time to the Perkins program, CCCS should ensure that time being charged is properly supported by time and effort reporting, including new employees charging time to the program. CCCS should ensure compliance with these requirements by: a. Training employees who work on the Perkins programs regarding the importance of time and effort reporting and certifications. b. Performing periodic reviews of time and effort reporting or certifications for a sample of those employees who charge time to the Perkins programs. This review should include any new employees charging time to the program.	Implemented.
Recommendation No. 12 CCCS should work with LCC to enhance procedures to make certain that the institution's portion of a student's unearned Title IV funds is returned to the federal government within 45 days after the school has determined the student has withdrawn. This should include a review performed by someone separate from the preparer to ensure accuracy of the return.	Implemented.
Recommendation No. 13 CCCS should work with LCC to enhance procedures to ensure that verification procedures over student information described above are properly performed and documented. In addition, LCC should implement monitoring procedures over the verification process. These procedures should include someone separate from the verification process selecting a sample of the verified data, reviewing the information for completeness and accuracy, and documenting this review within the file.	Implemented.

(Continued)

Recommendation	Disposition
Recommendation No. 14 CCCS should work with LCC to enhance procedures to comply with required exit counseling procedures. This should include determining the complete population of students who are graduating or have withdrawn from the institution and documenting in the borrower's file the method of meeting the exit counseling requirements. Additionally, a review procedure should be implemented by someone overseeing the process to ensure these requirements are being adhered to on a timely basis.	Implemented.
Recommendation No. 15 CCCS should work with PCC to enhance procedures to comply with required satisfactory academic progress procedures. Specifically, these procedures should include a process to ensure all students who cannot mathematically finish the program within 150% of the published time frame are properly identified and eligibility reviewed accordingly.	Implemented.
Recommendation No. 16 CCCS should work with CCD to enhance procedures to comply with eligibility requirements. Specifically, CCD should ensure that Free Application for Federal Student Aid forms is being properly reviewed to ascertain that the student qualifies to study at the postsecondary level. This review should be performed by individuals familiar with the student financial aid eligibility requirements, and the date and person performing the review should be documented.	Implemented.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Colorado Community College System (CCCS), a component unit of the State of Colorado, as of and for the years ended June 30, 2008 and 2007, which collectively comprise CCCS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of CCCS management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of certain discretely presented component units discussed in note 1 to the basic financial statements, which represent 99%, 98%, and 99% and 99%, 98%, and 95% of the 2008 and 2007 assets, net assets, and revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of CCCS as of June 30, 2008 and 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 21, CCCS restated the 2008 and 2007 financial statements of the aggregate discretely presented component units.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008, on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 38 to 52 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 21, 2008

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 June 30, 2008 and 2007 (fiscal years 2008 and 2007, respectively), with comparative information presented for fiscal year 2006. This analysis should be read in conjunction with CCCS' financial statements and notes to the basic financial statements. This analysis is intended to make CCCS' financial statements easier to understand and communicate our financial situation in an open and accountable manner.

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

CCCS is Colorado's largest institution of higher education and served approximately 107,000 students (44,771 full-time students) during the fiscal year ended June 30, 2008. The System has approximately 6,400 employees, of which approximately two-thirds are faculty. The colleges offer a wide variety of both academic and career programs leading either to degrees and certificates, or otherwise enhancing personal and professional growth. In addition to the 13 community colleges, CCCS also assists the State Board for Community Colleges and Occupational Education (the Board) in exercising certain curriculum and funding authority over four Area Vocational Schools (AVSs), two Local District Colleges (LDCs), and secondary career and technical programs in over 160 school districts throughout the state.

Legislation passed in fiscal year 2004 provided higher education institutions in the State of Colorado the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), given the institution met the stated qualifications. CCCS qualified as an enterprise for fiscal year 2008 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% (in relation to total revenues) in support from the State. In fiscal years 2008, 2007, and 2006, the System received 2.6%, 6.8%, and 6.2%, respectively, in State support (note 4). Effective fiscal year 2008, House Bill 08-1079 specifically excluded moneys transferred from the Colorado Department of Higher Education (CDHE) for career and technical education as state grants for the purpose of this calculation, including funding under the Colorado Vocational Act (CVA).

Beginning in fiscal year 2006, legislation provided for a change in the funding mechanism of higher education institutions. CCCS is funded through the College Opportunity Fund (COF) stipend program and a fee-for-service (FFS) contract with the 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. For fiscal years 2008, 2007, and 2006, respectively, the COF stipend was $89, $86, and $80, per credit hour, which students could use to pay for a portion of their tuition. COF supports the costs of up to 145 eligible undergraduate credits. 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 years 2008, 2007, and 2006, respectively, CDHE's contract with CCCS purchased credit hours for vestibule labs, reciprocal programs, and educational services in rural areas. In addition, in fiscal year 2008, the state purchased career and technology, vocational and other high cost, specialized instructional educational services (note 4). In 2006, CDHE's contract with CCCS also purchased credit hours for Basic Skills, Fast Track classes for high school students, and Post-Secondary Enrollment Options (PSEO) classes.

Financial Highlights

At June 30, 2008, CCCS’ assets of $521,442,927 exceeded its liabilities of $115,768,359 by $405,674,568. At June 30, 2007, CCCS’ assets of $484,873,093 exceeded its liabilities of $105,010,787 by $379,862,306. The resulting net assets are summarized into the following categories:

		June 30		
		2008	**2007**	**2006**
Invested in capital assets, net of related debt	$	263,147,395	261,343,334	262,474,089
Restricted, expendable		21,321,284	17,938,272	20,964,743
Unrestricted		121,205,889	100,580,700	75,263,473
Total net assets	$	405,674,568	379,862,306	358,702,305

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

During fiscal year 2008, the CCCS’ total net assets increased by $25,812,262. The increase in net assets is the result of increased tuition and fees revenue, including COF, and an increase in grant and contract revenue, FFS state contract revenue, auxiliary revenue, state appropriations, investment income, and other nonoperating revenue offset, in part, by an increase in operating expenses.

During fiscal year 2007, the CCCS’ total net assets increased by $21,160,001. The increase in net assets is the result of increased tuition and fees revenue, including COF, and an increase in state appropriations and investment income offset, in part, by an increase in operating expenses.

Overview of the Financial Statements

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

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

The *Statement of Net Assets* presents information on all of CCCS’ assets and liabilities at a point in time (June 30, 2008 and 2007), with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. A reader of the financial statements should be able to determine the assets available to continue CCCS’ operations, how much CCCS owes to vendors and lending institutions, and a picture of net assets and their availability for expenditure in CCCS.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how CCCS’ net assets changed during the fiscal period (the fiscal years ended June 30, 2008 and 2007). All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered). Its 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 *Statement of Cash Flows* presents cash receipts and payments to CCCS for the reporting period (the fiscal years ended June 30, 2008 and 2007) 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. Its purpose is to assess CCCS' ability to generate net cash flows and meet its obligations as they come due.

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

Financial Analysis

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

The assets reported by CCCS exceeded liabilities at June 30, 2008 and 2007, resulting in net assets of $405,674,568 and $379,862,306, respectively. The majority (64.9% for 2008 and 68.8% for 2007) of CCCS' net assets are invested in capital assets (e.g., land, buildings, and equipment), net of related debt. These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

The assets reported by CCCS exceeded liabilities at June 30, 2007 and 2006, resulting in net assets of $379,862,306 and $358,702,305, respectively. The majority (68.8% for 2007 and 73.2% for 2006) of CCCS' net assets are invested in capital assets (e.g., land, buildings, and equipment), net of related debt.

		June 30		
		2008	**2007**	**2006**
Current assets	$	225,566,344	188,263,887	169,635,991
Noncurrent assets, including capital assets of $293,346,665, $293,181,194, and $295,959,598		295,876,583	296,609,206	299,114,983
Total assets		521,442,927	484,873,093	468,750,974
Current liabilities		76,909,923	64,214,026	67,477,015
Noncurrent liabilities		38,858,436	40,796,761	42,571,654
Total liabilities		115,768,359	105,010,787	110,048,669
Net assets:				
Invested in capital assets, net of related debt		263,147,395	261,343,334	262,474,089
Restricted – expendable		21,321,284	17,938,272	20,964,743
Unrestricted		121,205,889	100,580,700	75,263,473
Total net assets	$	405,674,568	379,862,306	358,702,305

Current assets increased as of June 30, 2008 compared to June 30, 2007 by approximately $37.3 million or 19.8% as a result of a $33.9 million increase in cash and cash equivalents and a $3.4 million increase in accounts receivable. Increases in accounts receivable include approximately $1.6 million in increases in student accounts receivable corresponding to increased student tuition and fees due to increased enrollment. In addition, there was an increase of approximately $1.6 million in due from other governments resulting primarily from increased activity in the federal PELL grant and state Student Financial Aid (SFA) programs.

Current assets increased as of June 30, 2007 compared to June 30, 2006 by approximately $18.6 million or 11.0% as a result of an $8.8 million increase in cash and cash equivalents and a $10.2 million increase in accounts receivable, partially offset by a decrease of $441.4 thousand in prepaid expenses. Increases in accounts receivable include approximately $6.3 million in increases in student accounts receivable corresponding to increased student tuition and fees and student billing, which occurred later in fiscal year 2007 compared to prior year. In addition, there was an increase of approximately $6.2 million in due from other governments primarily due to increased activity resulting in a $2.5 million increase in accounts receivable related to the Carl Perkins Federal grant.

Current liabilities increased as of June 30, 2008 compared to June 30, 2007 by approximately $12.7 million or 19.8% due to normal timing differences in the payment of vendor accounts payable, increases in Perkins accrued expenditures, an increase in accrued salaries and benefits and an increase in deferred revenue for summer tuition. Summer tuition revenue is deferred for the percentage of the summer semester that falls into the next fiscal year. As a result of the increased tuition rates and the hourly COF rate, a greater amount was deferred for summer tuition, year over year.

Current liabilities decreased as of June 30, 2007 compared to June 30, 2006 by approximately $3.3 million or 4.8% due to normal timing differences in the payment of vendor accounts payable offset by an increase in deferred revenue for summer tuition.

Net assets 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 assets (5.2% for 2008, 4.7% for 2007 and 5.8% for 2006 of total net assets, respectively) are primarily restricted for auxiliary programs, scholarships, loans, capital projects, and community training programs.

Unrestricted net assets (29.9% for 2008, 26.5% for 2007, and 21.0% for 2006 of total net assets, respectively) are available for general operations at the discretion of the Board. However, the Board has placed some limitations on future use by designating unrestricted net assets for certain purposes, including capital maintenance, equipment expansion and repair, and new programs.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reports the results of operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net assets at the end of the year. A key component of this statement is the differentiation between operating and nonoperating activities. Operating revenues are received for providing goods and services to the various constituencies of CCCS. During both 2008 and 2007, the COF stipend program revenue is included in student tuition and fees and FFS 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 received when goods or services are not provided. Thus, state appropriations are nonoperating because they are provided by the State without the State directly receiving goods and services. For similar reasons, most gifts and investment income are also nonoperating revenue.

State appropriations (net of distributions to Local District Colleges and Area Vocational Schools) represent approximately 5.7%, 6.1%, and 6.2%, student tuition and fees represent approximately 45.4%, 47.5%, and 42.4%, and FFS contracts represent approximately 5.5%, 5.5% and 9.8% of CCCS' total revenue from all sources in fiscal years 2008, 2007, and 2006, 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 $18.0 million loss from operations in fiscal year 2008 compared to a $15.1 million loss from operations in fiscal year 2007 and a $7.0 million loss from operations in fiscal year 2006. In fiscal year 2008, this operating loss was offset by net state appropriations of $24.8 million. In fiscal year 2007, this operating loss was offset by net state appropriations of $24.3 million. In fiscal year 2006, this operating loss was offset by net state appropriations of $23.7 million.

The overall increase in the operating loss over the three-year period presented is a result of an increase in operating expenses in excess of operating revenues due to services provided for increased enrollment over the three-year period.

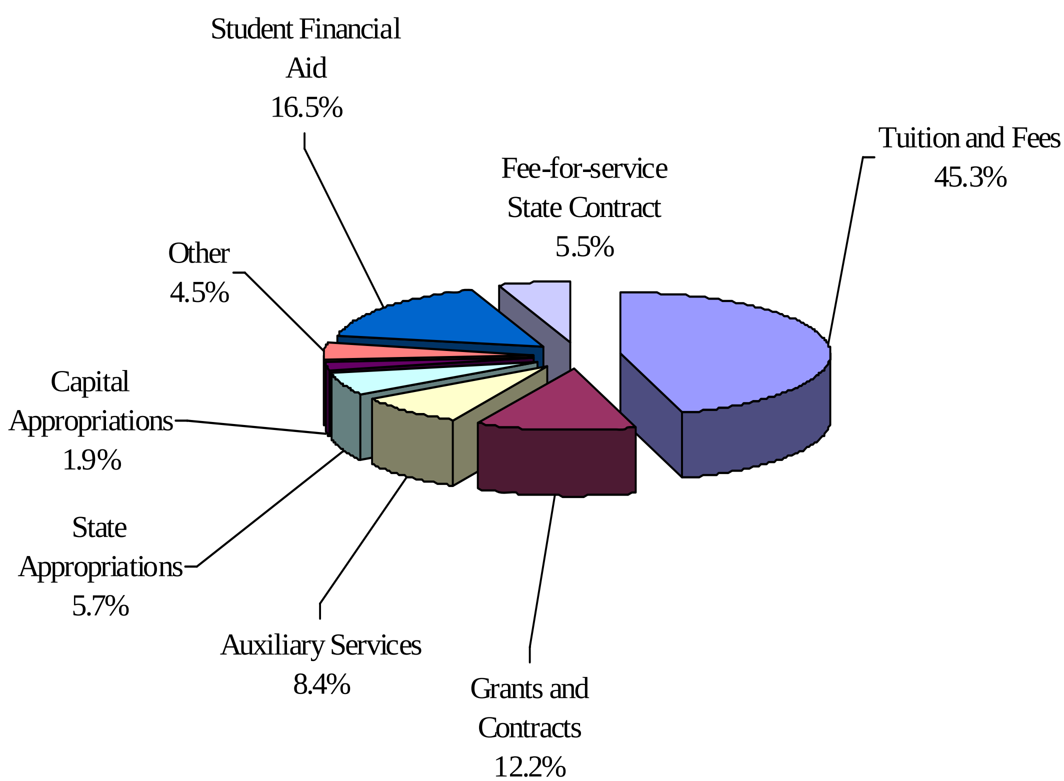
Condensed Summary of Revenues, Expenses, and Changes in Net Assets

	June 30		
	2008	**2007**	**2006**
Operating revenues:			
Tuition and fees, net	$ 199,247,972	189,867,578	162,542,462
Grants and contracts	126,031,904	110,390,884	114,400,276
Fee-for-service state contract	24,133,792	21,944,607	37,671,263
Auxiliary enterprises, net	36,760,125	32,850,354	32,404,547
Other	9,340,347	8,540,761	8,949,694
Total operating revenues	395,514,140	363,594,184	355,968,242
Operating expenses:			
Instruction	180,732,657	168,025,660	162,058,391
Public service	1,680,750	2,171,691	3,407,873
Academic support	30,467,507	25,822,680	25,121,529
Student services	36,284,691	33,587,244	31,794,249
Institutional support	61,984,434	51,250,283	40,057,055
Operation and maintenance of plant	40,756,257	40,638,061	38,475,886
Scholarships and fellowships	9,912,459	10,100,849	12,929,621
Auxiliary enterprises	35,154,434	31,170,986	33,714,677
Depreciation	16,550,716	15,928,724	15,457,389
Total operating expenses	413,523,905	378,696,178	363,016,670
Operating loss	(18,009,765)	(15,101,994)	(7,048,428)
Nonoperating revenues (expenses):			
State appropriations	50,106,478	47,564,897	44,484,902
Distributions to Local District Colleges and Area Vocational Schools	(25,273,137)	(23,303,953)	(20,764,004)
Other nonoperating revenues, net	10,300,345	7,290,493	3,299,730
Net nonoperating revenues	35,133,686	31,551,437	27,020,628
Income before other revenues, expenses, gains, or losses	17,123,921	16,449,443	19,972,200
State capital contributions	8,545,653	4,595,569	1,691,665
Capital grants and gifts	142,688	114,989	343,410
Increase in net assets	25,812,262	21,160,001	22,007,275
Net assets:			
Beginning of year	379,862,306	358,702,305	336,695,030
End of year	$ 405,674,568	379,862,306	358,702,305

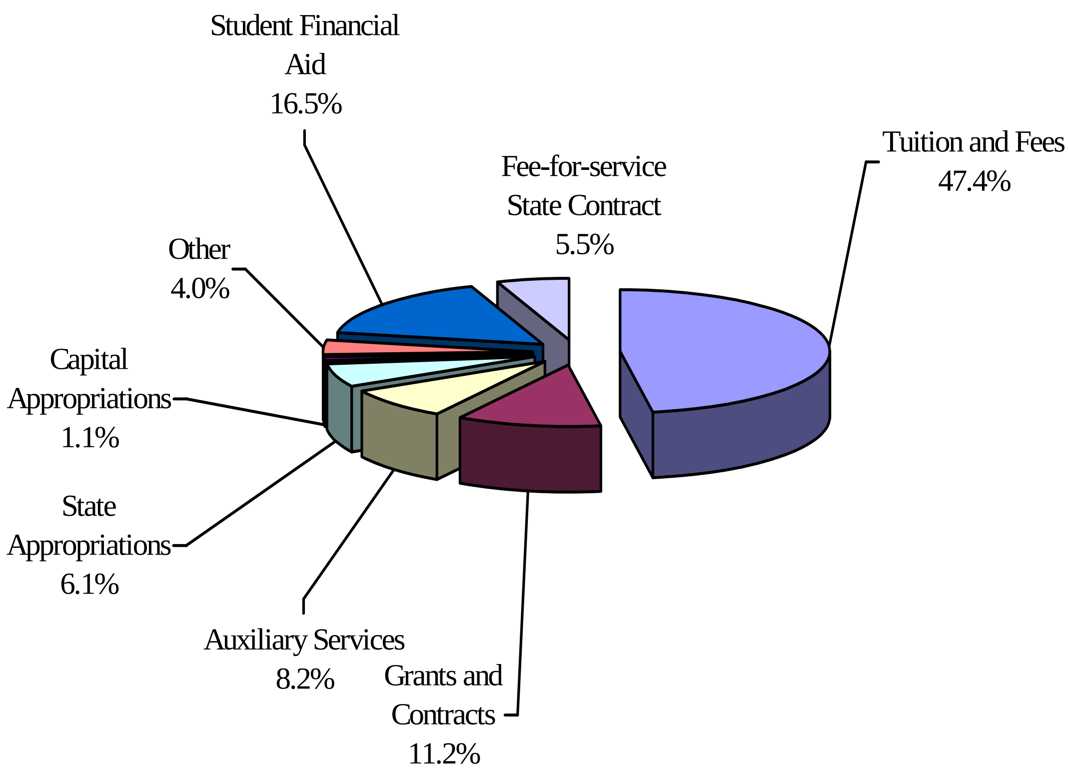
(Continued)

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

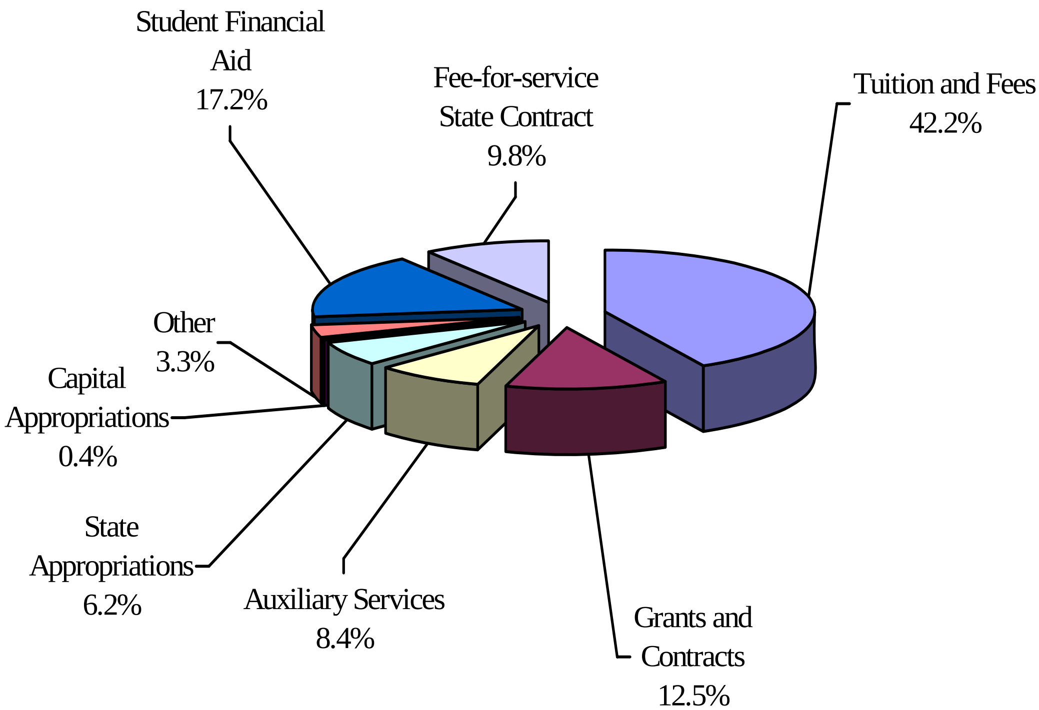
Sources of Revenue
Fiscal Year 2008



Sources of Revenue
Fiscal Year 2007



Sources of Revenue
Fiscal Year 2006



As the above charts demonstrate, student tuition and fees are the largest revenue source for CCCS in fiscal year 2008, 2007, and 2006. The operating loss of approximately $18.0 million, $15.1 million, and $7.0 million in fiscal years 2008, 2007, and 2006, respectively, noted above, is the result of operating expenses exceeding operating revenues. During 2008, 2007, and 2006 CCCS supplemented operating revenues with State appropriations, which are classified as nonoperating revenues, to fund operations.

Revenue activity highlights for fiscal year 2008 include:

- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately $9.4 million or 4.9%. This increase was primarily due to the fact that there was a 3.5% increase in tuition rates in fiscal year 2008 and a 3% increase in enrollment (including a 2.5% increase in resident enrollment). Because of the increase in tuition (and therefore COF), there was also an offsetting increase in the scholarship allowance, which nets against gross tuition and fees.
- Grants and contracts increased $15.6 million or 14.2%. This increase is primarily due to a $5.1 million increase in PELL funding and State student financial aid due to the overall increase in enrollment coupled

with a $260 thousand increase in the amount granted per student. Also, $2.3 million of this increase was due to increased activity in the Perkins program, which increases current expenses and the corresponding recognition of grant revenue. There were various increases in programs totaling approximately $1.2 million including Workforce Development, the Colorado Student Grant (CSG), and a Department of Local Affairs grant. Foundation grants at one college increased $325 thousand coupled with private or local grants totaling approximately $1.1 million for Wired grant funding; a Shell Oil grant; and a grant for the Energy Production Industrial Construction (EPIC) program. In addition, the increase in enrollment resulted in increases across the board in state and federal student financial assistance.

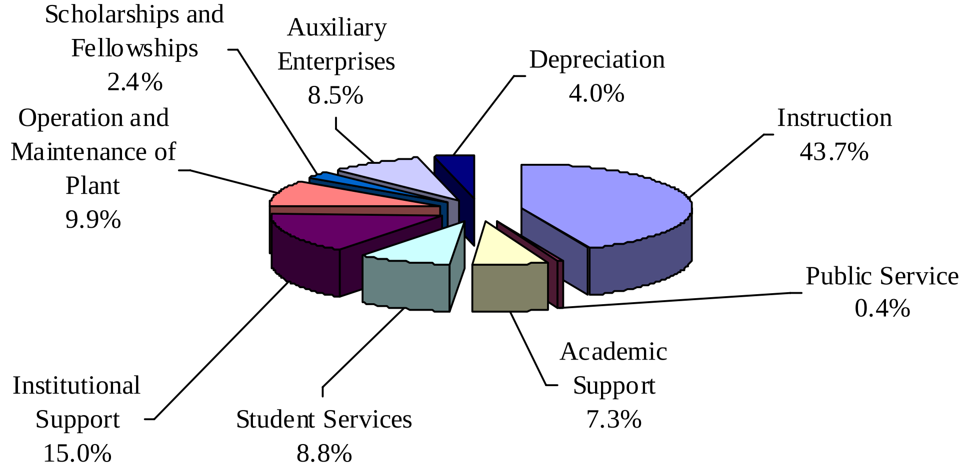
- Auxiliary enterprises increased $3.9 million or 11.9%. In fiscal year 2008, approximately $1.0 million of select agency accounts were determined by colleges to be properly classified as auxiliary accounts. There were increases in programs of approximately $1.3 million for career and technical training and the high school diploma program, as well as an increase in bookstore sales of $565 thousand.
- State capital contributions increased by $4.0 million or 86.0% due to the spending of appropriations from the State's budget for capital appropriations for total contributions of $8.5 million (see Capital Asset and Debt Management in MD&A for detail of projects).

Revenue activity highlights for fiscal year 2007 include:

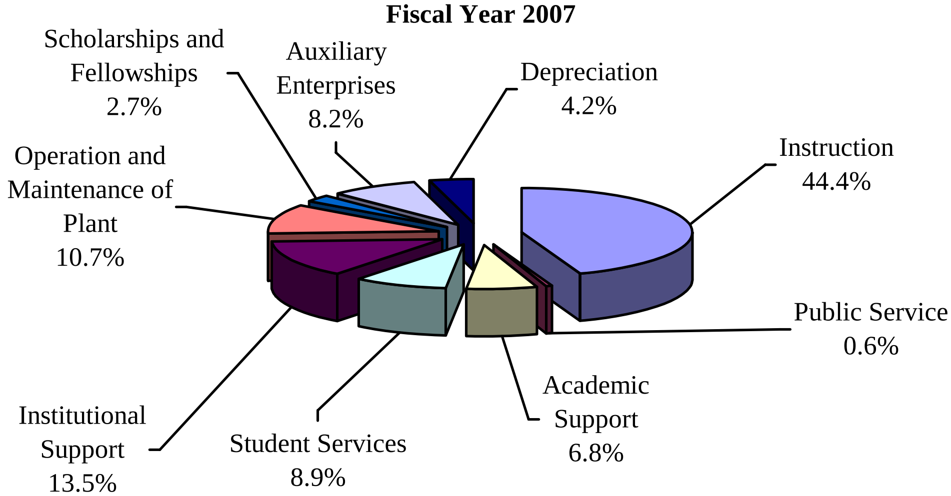
- Tuition and fee revenue increased, net of the effect of scholarship allowances, by approximately $27.3 million or 16.8%. This increase was primarily due to the fact that, in fiscal year 2006 remedial, fast track and postsecondary options programs were part of the FFS calculation and state contract but were shifted in fiscal year 2007 when they alternatively became eligible for COF stipend funding. In fiscal year 2007, this shift accounted for approximately $12.5 million of the increase in student tuition and fees. Further, the COF stipend amount was increased by $6 per credit hour, from $80 per credit hour to $86 per credit hour, resulting in an approximate increase of $6.8 million. Finally, since COF stipends were first applicable in the fall of fiscal year 2006, the total COF received in fiscal year 2006 included fall 2005, spring 2006, and a portion of summer 2006. Comparatively, fiscal year 2007 included a portion of summer 2006, fall 2006, spring 2007, and a portion of summer 2007. This resulted in an increase over the prior year of approximately $601.5 thousand. There was also a 2.5% increase in tuition rates in fiscal year 2007. These increases were partially offset by a 2.6% decrease in overall resident and nonresident enrollment during fiscal year 2007.
- FFS state contracts decreased $15.7 million or 41.7%. In fiscal year 2006, remedial, fast track and postsecondary options programs were part of the FFS calculation and contract. However, in fiscal year 2007 these programs were taken out of the FFS contract and became eligible for COF stipend funding. In fiscal year 2007, these accounted for approximately $12.5 million of the decrease.
- Other nonoperating revenues increased $4.0 million or 120.9%. This increase is due to several one-time gifts at five colleges totaling $644.7 thousand. Also, investment income increased $2.7 million primarily due to a $1.0 million unrealized accounting gain related to holdings in the State Treasury and an increase from approximately 4.3% to 4.7% in interest rates calculated on higher cash balances throughout the year.
- State capital contributions increased by $2.9 million or 171.7% due to the spending of appropriations from the State's budget for capital appropriations following the passing of House Bill 05-1194, Referendum C, which allowed all state revenues in excess of limitations to be spent on healthcare; education, including

capital construction; retirement plans for firefighters and police officers; and to pay for strategic transportation projects.

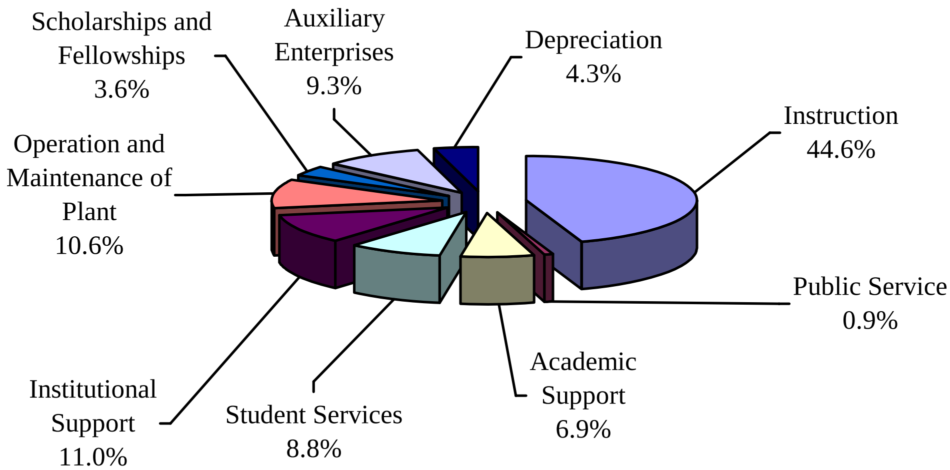
Operating Expenses
Fiscal Year 2008



Operating Expenses
Fiscal Year 2007



Operating Expenses
Fiscal Year 2006



Expense activity highlights for fiscal year 2008 include:

- Instruction expenses increased $12.7 million or 7.6%. Approximately $7.7 million was the result of increases in instruction-related salary and benefits across the colleges. In addition, there were general instruction operating expenses increases of approximately $1.6 million as a result of enrollment increases coupled with program increases totaling $1.4 million. Approximately $548 thousand in classroom wireless communications and other noncapital equipment purchases were made in fiscal year 2008. Increased insurance costs of $225 thousand occurred along with a $1.1 million increase for earlier payment of the Colorado Vocational Act disbursements.
- Academic support expenses increased $4.6 million or 18.0%. This was primarily due to a shift of CCCOnline noninstructional expenses of approximately $2.7 million from auxiliary expenses in fiscal year 2007 to academic support expenses in fiscal year 2008. Also, colleges had an increase in salaries and benefits for new positions of approximately $1.1 million
- Institutional support expenses increased by $10.7 million or 20.9%. Approximately $3.0 million of the increase was due to an increase in annual Perkins expenses. In addition, during fiscal year 2008, there were increases of approximately $1.2 million in salary and benefits and increases at the colleges with expense related to bad debt of approximately $2.4 million. Marketing expenses at one college increased $142 thousand and noncapital equipment upgrades increased $180 thousand. Finally, institutional charges previously passed on through indirect costs to auxiliary accounts totaling $515 thousand did not occur in fiscal year 2008.
- Auxiliary enterprise expenses increased $4.0 million or 12.8%. This is due primarily to bookstore related charges, including inventory write-offs, inventory reductions, and costs of goods sold increased by approximately $1.2 million. Program start-up costs for the Medication Accreditation Assessment Project coupled with increase salary and benefit expense for auxiliary funded employees were $455 thousand and one college had a $340 thousand increases in their athletic program costs. Finally, approximately $466

thousand in select agency accounts were determined by colleges to be properly classified as auxiliary activity.

Expense activity highlights for fiscal year 2007 include:

- Public Service expenses decreased by $1.2 million or 36.3%. The decrease is primarily due to a decrease in grant moneys received and expended by several colleges in fiscal year 2006 that were not received in fiscal year 2007.
- Institutional support expenses increased by $11.2 million or 27.9%. This was primarily due to an increase of approximately $9.7 million in Perkins grant expenditures due to increased program activity with offsetting reductions in expenses in other institutional support expenses.
- Scholarship and Fellowship expense decreased by $2.8 million or 21.9%. There was a decrease in scholarship expense of approximately $990.0 thousand due to a decrease in Pell awards and an overall decrease in scholarships and other grants of $1.3 million.
- Distributions to Local District Colleges (LDC) and Area Vocational Schools (AVS) increased by $2.5 million or 12.2%. This is due to an increase in the Long Bill allocation for fiscal year 2007 for this line item.

Capital Asset and Debt Management

At June 30, 2008, CCCS had $293,346,665 of capital assets, net of accumulated depreciation of $213,135,388 and including current year depreciation of $16,550,716. At June 30, 2007, CCCS had $293,181,194 of capital assets, net of accumulated depreciation of $198,491,180 and including current year depreciation of $15,928,724. A breakdown of assets by category, net of accumulated depreciation, is provided below:

	June 30		
	2008	**2007**	**2006**
Land	$ 20,073,667	20,073,667	20,073,667
Land improvements	9,587,862	10,257,999	8,879,803
Buildings and improvements	215,809,453	223,088,891	233,607,750
Leasehold improvements	2,114,024	2,553,899	2,993,776
Construction in progress	28,051,998	20,518,489	17,819,901
Equipment	12,556,888	11,435,358	7,386,595
Library materials	4,531,947	4,632,065	4,582,280
Collections	620,826	620,826	615,826
Total capital assets	$ 293,346,665	293,181,194	295,959,598

Major capital additions completed during fiscal year 2008 are as follows:

College	Project	Cost (In millions)	Source of funding
Community College System	Enterprise Resource Planning (ERP) Finance HR/Payroll Modules	$ 1.9	Internal Reserves
	Heating, Ventilation, and Air Conditioning (HVAC) Projects	0.7	State Funded
Colorado Northwestern Community College	Fire detection system	0.9	State Funded
	Sewer replacement	0.4	State Funded
Front Range Community College	Telephone system and electrical switchgear	2.3	State Funded
Lamar Community College	Telecommunications upgrade	0.4	State Funded
Morgan Community College	HVAC and fire sprinklers	0.5	State Funded
Northeastern Junior College	Voice Over Internet Protocol (IP)	0.6	State Funded
	Roofing projects	0.3	State Funded
Trinidad State Junior College	Roof replacement	0.9	State Funded

The System has $13.6 million in commitments for various upcoming capital construction and controlled maintenance projects as of June 30, 2008.

CCCS had $30,405,986 and $32,062,195 in debt outstanding at June 30, 2008 and 2007, respectively.

In July 2007, Moody's upgraded its underlying rating on the Colorado CCCS' Systemwide Revenue Bonds to A1 and A2 from A3 and Baa1, respectively. Moody's also upgraded the underlying ratings on the CCCS' lease revenue bonds to A2 and A3. The rating outlook for all series of bonds is stable at the higher rating level.

The breakdown of the debt follows:

	June 30 2008	2007	2006
Auxiliary revenue bonds	$ 16,249,621	17,342,965	18,391,308
Capital lease obligations	14,156,365	14,719,230	15,282,892
Total debt	$ 30,405,986	32,062,195	33,674,200

(Continued)

Colorado Community College System Future

The budgetary situation for higher education continues to change with the ongoing implementation of the College Opportunity Fund. As a result of legislation adopted in the 2004 session (Senate Bill 04-189), the State no longer provides direct state General Fund appropriations to the governing boards for general operations. Instead, the state provides stipends to the qualified, resident undergraduate students, and institutions receive FFS contracts from the Department of Higher Education for the provision of other educational services. For fiscal year 2009, CCCS is authorized to receive $30.7 million in fee for service revenue and $111.6 million in student stipends. The $142.3 million of anticipated fiscal year 2009 fee for service revenue and the student stipend represent a 7.6% increase in state support above that provided in 2008.

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

Enrollment: As the economy changes, enrollment in community colleges typically changes inversely. CCCS resident enrollment of 41,928 increased by 2.6% from fiscal year 2007 to fiscal year 2008 as the economy weakened. Declines in enrollment were considered in the fiscal year 2008 budget as the economy was originally expected to strengthen; however, increases in enrollment were considered in the fiscal 2009 budget as the economy is expected to continue to weaken. Nonresident enrollment of 2,843 increased over the same period by 10.6%, resulting in a total net enrollment increase of 3.0%.

Tuition Rates: In an effort to mitigate increased costs and decreased state support overall during prior three years, the Board has raised tuition by 5% in fiscal year 2009.

On November 6, 2008, the State issued $230,845,000 of certificates of participation (Certificates) on behalf of several of its higher education institutions. These Certificates will be repaid from the State's resources and not resources of the benefiting institutions. As a result, this liability is recognized by the State and not included in the benefiting institutions' financial statements. The proceeds are being used to finance the costs of acquisition, construction, improvement, and equipping of numerous buildings at the benefiting institutions. The Certificates are secured by the buildings or equipment acquired with the lease proceeds, or other buildings and equipment agreed to by the institutions, and any unexpended lease proceeds. The Certificates have a weighted average maturity of 11.2 years. The State will allocate $40,192,741 of the proceeds to CCCS. The State is responsible for making the annual lease payments to the trustee for the leased building. The lease payments will be counted as State support under TABOR as they are made.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Net Assets

June 30, 2008 and 2007

Assets		**2008**	**2007**
Current assets:			
Cash and cash equivalents	$	170,942,899	140,748,134
Restricted cash and cash equivalents		4,394,651	716,855
Accounts receivable, net		46,460,631	43,099,028
Inventories		2,721,348	2,974,098
Prepaid expenses		1,046,815	725,772
Total current assets		225,566,344	188,263,887
Noncurrent assets:			
Restricted cash and cash equivalents		443,093	373,246
Restricted investments		1,880,114	2,830,431
Other assets		206,711	224,335
Capital assets, net		293,346,665	293,181,194
Total noncurrent assets		295,876,583	296,609,206
Total assets	$	521,442,927	484,873,093
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	13,636,268	8,930,948
Accrued liabilities		28,642,751	24,723,080
Deferred revenue		18,421,896	16,412,056
Deposits held for others		12,552,138	10,681,813
Bonds payable, current portion		1,160,000	1,125,000
Capital leases payable, current portion		465,220	538,787
Other long-term liabilities, current portion		384,474	373,100
Compensated absences liability, current portion		1,647,176	1,429,242
Total current liabilities		76,909,923	64,214,026
Noncurrent liabilities:			
Bonds payable		15,089,621	16,217,965
Capital leases payable		13,691,145	14,180,443
Other long-term liabilities		402,378	786,319
Compensated absences liability		9,675,292	9,612,034
Total noncurrent liabilities		38,858,436	40,796,761
Total liabilities		115,768,359	105,010,787
Net assets:			
Invested in capital assets, net of related debt		263,147,395	261,343,334
Restricted for expendable purposes:			
Auxiliary pledged revenue		16,136,569	13,036,103
Scholarships/fellowships		420,326	774,681
Loans		1,329,167	1,266,096
Capital projects		201,058	140,774
Training programs		1,287,341	1,089,927
Other		1,946,823	1,630,691
Total restricted for expendable purposes		21,321,284	17,938,272
Unrestricted		121,205,889	100,580,700
Total net assets	$	405,674,568	379,862,306

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statements of Financial Position

June 30, 2008 and 2007

Assets		2008	2007
Cash and cash equivalents	$	6,212,078	7,017,844
Accounts and pledges receivable		548,855	1,166,204
Due from primary government		200,000	5,248
Investments		23,281,739	22,537,758
Investment in direct financing leases		12,892,188	13,267,188
Beneficial interest in charitable remainder trust		557,638	556,374
Other assets		417,591	221,055
Capital assets, net of depreciation		12,164,551	12,876,532
Total assets	$	56,274,640	57,648,203
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	505,498	267,215
Due to primary government		522,894	354,113
Accrued liabilities		148,565	94,108
Deferred revenue		918,318	905,324
Bonds payable		7,514,686	8,249,539
Other liabilities		13,486,110	13,899,645
Total liabilities		23,096,071	23,769,944
Net assets:			
Unrestricted		9,733,739	10,235,908
Temporarily restricted		17,233,169	17,309,109
Permanently restricted		6,211,661	6,333,242
Total net assets		33,178,569	33,878,259
Total liabilities and net assets	$	56,274,640	57,648,203

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

	2008	2007
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $62,834,002 in 2008 and $55,616,530 in 2007; including revenues pledged for bonds of $3,867,768 in 2008 and $3,695,095 in 2007	$ 199,247,972	189,867,578
Grants and contracts	126,031,904	110,390,884
Fee-for-service state contract	24,133,792	21,944,607
Sales and services of educational activities	1,445,714	1,186,338
Auxiliary enterprises, net of scholarship allowances of $2,670,761 in 2008 and $2,623,719 in 2007; including revenues pledged for bonds of $32,303,941 in 2008 and $30,294,303 in 2007	36,760,125	32,850,354
Other operating revenues and gifts, including revenues pledged for bonds of $71,979 in 2008 and $59,995 in 2007	7,894,633	7,354,423
Total operating revenues	395,514,140	363,594,184
Operating expenses:		
Instruction	180,732,657	168,025,660
Public service	1,680,750	2,171,691
Academic support	30,467,507	25,822,680
Student services	36,284,691	33,587,244
Institutional support	61,984,434	51,250,283
Operation and maintenance of plant	40,756,257	40,638,061
Scholarships and fellowships	9,912,459	10,100,849
Auxiliary enterprises	35,154,434	31,170,986
Depreciation	16,550,716	15,928,724
Total operating expenses	413,523,905	378,696,178
Operating loss	(18,009,765)	(15,101,994)
Nonoperating revenues (expenses):		
State appropriations	50,106,478	47,564,897
Distributions to Local District College and Area Vocation Schools	(25,273,137)	(23,303,953)
Gifts	1,504,279	1,251,012
Investment income	9,038,845	6,890,115
Interest expense on capital debt	(1,481,155)	(1,618,141)
Other nonoperating revenues, including gain (loss) on disposal of assets	1,238,376	767,507
Net nonoperating revenues	35,133,686	31,551,437
Income before other revenues, expenses, gains, or losses	17,123,921	16,449,443
Other revenues, expenses, gains, or losses:		
State capital contributions	8,545,653	4,595,569
Capital grants	27,811	67,613
Capital gifts	114,877	47,376
Increase in net assets	25,812,262	21,160,001
Net assets, beginning of year	379,862,306	358,702,305
Net assets, end of year	$ 405,674,568	379,862,306

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2008

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Contributions	$ 978,184	2,874,773	234,098	4,087,055
Grants	—	616,038	—	616,038
Investment income	971,003	161,946	68,826	1,201,775
Rental income	2,047,436	61,646	—	2,109,082
Special events	132,316	241,945	—	374,261
Net assets released from restrictions	4,496,169	(4,496,169)	—	—
Other income (loss)	198,273	(14,823)	54,199	237,649
Total revenues	8,823,381	(554,644)	357,123	8,625,860
Expenses:				
Program services	7,777,972	—	—	7,777,972
Fund-raising services	597,087	—	—	597,087
Administrative services	950,491	—	—	950,491
Total expenses	9,325,550	—	—	9,325,550
Change in net assets	(502,169)	(554,644)	357,123	(699,690)
Net assets, beginning of year as restated (note 21)	10,235,908	17,787,813	5,854,538	33,878,259
Net assets, end of year	$ 9,733,739	17,233,169	6,211,661	33,178,569

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2007

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Contributions	$ 1,031,224	3,737,225	705,143	5,473,592
Grants	—	737,619	—	737,619
Investment income	2,291,713	1,420,032	118,104	3,829,849
Rental income	2,019,555	50,795	—	2,070,350
Special events	114,738	173,388	—	288,126
Net assets released from restrictions	4,504,439	(4,504,439)	—	—
Other income (loss)	271,215	(17,478)	75,673	329,410
Total revenues	10,232,884	1,597,142	898,920	12,728,946
Expenses:				
Program services	7,212,677	—	—	7,212,677
Fund-raising services	498,932	—	—	498,932
Administrative services	802,113	—	—	802,113
Total expenses	8,513,722	—	—	8,513,722
Change in net assets	1,719,162	1,597,142	898,920	4,215,224
Net assets, beginning of year as restated (note 21)	8,516,746	15,711,967	5,434,322	29,663,035
Net assets, end of year	$ 10,235,908	17,309,109	6,333,242	33,878,259

See accompanying notes to basic financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received:		
Tuition and fees	$ 200,774,527	199,008,514
Student loans collected	1,026,062	302,804
Sales of products	17,545,454	16,238,067
Sales of services	19,835,893	25,419,812
Grants, contracts, and gifts	149,551,925	115,251,268
Other operating receipts	7,992,030	7,247,339
Cash payments:		
Scholarships disbursed	(14,809,276)	(19,313,639)
Student loans disbursed	(1,042,347)	(371,716)
Payments for employees	(240,535,401)	(222,881,993)
Payments to suppliers	(135,506,017)	(132,933,340)
Net cash provided by (used in) operating activities	4,832,850	(12,032,884)
Cash flows from noncapital financing activities:		
State appropriations – noncapital	50,106,478	47,564,897
Distributions to Local District Colleges and Area Vocation Schools	(25,273,137)	(23,303,953)
COF settlement	197,800	(642,417)
Gifts and grants for other than capital purposes	1,363,811	1,287,962
Agency (inflows)	75,110,347	45,300,037
Agency (outflows)	(72,715,450)	(44,132,423)
Other noncapital financing activities	877,113	—
Net cash provided by noncapital financing activities	29,666,962	26,074,103
Cash flows from capital and related financing activities:		
State appropriations – capital	4,857,498	3,425,271
Capital grants, contracts, and gifts	132,811	59,584
Proceeds from sale of capital assets	116,516	427,368
Acquisition and construction of capital assets	(12,150,189)	(11,965,264)
Principal paid on capital debt	(2,055,720)	(2,287,244)
Interest on capital debt	(1,450,282)	(1,538,212)
Net cash used in capital and related financing activities	(10,549,366)	(11,878,497)
Cash flows from investing activities:		
Investment earnings	9,041,645	6,890,221
Proceeds from sale of investments	1,581,873	439,159
Purchase of investments	(631,556)	(653,292)
Net cash provided by investing activities	9,991,962	6,676,088
Net increase in cash and cash equivalents	33,942,408	8,838,810
Cash and cash equivalents, beginning of the year	141,838,235	132,999,425
Cash and cash equivalents, end of the year	$ 175,780,643	141,838,235

(Continued)

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2008 and 2007

		2008	2007
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	$	(18,009,765)	(15,101,994)
Adjustments to reconcile operating loss to net cash provided by used in operating activities:			
Depreciation		16,550,716	15,928,724
Increase in other nonoperating assets		12,074	1,118
Decrease (increase) in assets:			
Receivables, net		1,978,430	(5,660,729)
Inventory and prepaids		8,142	411,428
Other assets		(72,823)	(89,799)
Increase (decrease) in liabilities:			
Accounts payable		(1,027,280)	(3,453,196)
Accrued liabilities		3,364,159	(6,479,340)
Deferred revenues		2,019,794	2,218,565
Deposits held for others		(271,788)	407,948
Compensated absences liability		281,191	(78,964)
Other liabilities		—	(136,645)
Net cash provided by (used in) operating activities	$	4,832,850	(12,032,884)
Noncash investing, capital, and noncapital financing activities:			
State funding for acquisitions of capital assets	$	3,688,155	1,170,298
Federally funded acquisition of capital assets		—	53,029
Equipment donations and capital gifts		255,362	129,692
Gain (loss) on disposal of capital assets		64,158	(114,873)
Amortization of bond premium/discount, issuance costs, and gain or loss on refunding		(49,276)	(50,061)

See accompanying notes to basic financial statements.

(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. The SBCCOE governs the 13 state system colleges and the system office, and administers vocational-technical education funds distributed to the two Local District Colleges (LDCs), legislated Area Vocational Schools (AVSs), and school districts offering vocational programs.

CCCS is an institution of higher education of the State of Colorado established by the Community College and Occupational Education Act of 1967, Title 23, Article 60 of the Colorado Revised Statutes. 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, tuition revenue, and beginning in 2006, the College Opportunity Fund (COF) stipends and a fee-for-service (FFS) contract. Pursuant to Colorado Revised Statute (CRS) 23-1-104, state appropriations for the operation of CCCS are made to the SBCCOE, which is responsible for the allocation to the individual colleges. In addition, the SBCCOE receives and distributes state appropriations for LDCs, AVSs, and school districts offering vocational programs.

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

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

As an institution of higher education in the State of Colorado, the income of CCCS is generally exempt from income taxes under Section 115(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, 2008 and 2007.

Blended Component Unit

The SBCCOE Employee Benefit Trust Fund (the Benefit Trust) is included in the accompanying basic financial statements as a blended component unit. The Benefit Trust was established on February 1, 1983, as a legally and financially independent entity whose governing committee is appointed by the SBCCOE. The Benefit Trust was established to provide benefits under the Health and Welfare Program. Benefits are determined by the Benefit Trust committee, and may include life, accidental death and dismemberment, short-term and/or long-term disability, basic or major medical, dental, or other sick or accident benefits. Other benefits, as determined by the Benefit Trust committee, may be provided for employees and their dependent families through self-funded or insured programs, or a combination of the two, provided that such other benefits are permissible under Section 501(c)(9) of the Internal Revenue Code. The Benefit Trust is a 501(c)(3) not-for-profit corporation. Separate unaudited financial statements of the Benefit Trust are available upon request.

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 and investments, leases, a matching grant from the Department of Education, and fund-raising events. The foundations act primarily as fund-raising organizations to supplement the resources that are available to CCCS in support of its programs. Although CCCS does not control the timing or amount of receipts from the foundations, the majority of resources or income thereon that the foundations hold and invest is restricted to the activities of CCCS by the donors. Because these restricted resources held by the foundations can only be used by or for the benefit of the colleges, the foundations are considered component units of CCCS and are discretely presented in CCCS' basic financial statements.

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

 (Continued)

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

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

Joint Venture

CCCS has an association with the following organization for which it is not 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 the Community College of Denver, the University of Colorado Denver and Health Sciences Center, and Metropolitan State College 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) 556-3384 or by writing to:

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

(2) Basis of Presentation

CCCS applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. In addition, CCCS has chosen to only apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

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

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

(a) Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, cash in checking accounts, demand deposits, certificates of deposit 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) Investments

Investments are reported at fair value, which is determined based on quoted market prices as of June 30, 2008 and 2007.

(d) Restricted Cash and Cash Equivalents and Restricted Investments

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

(e) Inventories

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

(f) Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. CCCS uses a capitalization threshold of $5,000 and estimated useful lives in accordance with the *State Fiscal Procedures Manual*. CCCS' estimated useful lives are as follows: 20 – 50 years for buildings, 20 – 50 years for improvements other than buildings, 3 – 10 years for equipment, 7 – 15 years for library collections, and 1.5 – 15 years for 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, 2008 and 2007, the construction-in-progress balance includes software in development and capital construction projects in process but not substantially complete.

(g) Deposits Held for Others

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

(h) Accrued Liabilities

Accrued liabilities primarily represent accrued payroll and benefits payable at June 30, 2008 and 2007.

(i) 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 hired 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, federal funds, or other funding sources available in future years when the liability is paid.

(j) Deferred Revenue

Deferred 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 deferred revenue.

(k) Capital Leases

Capital leases consist of various lease-purchase contracts and other lease agreements. 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.

(l) Net Assets

Net assets are classified in the accompanying financial statements as follows:

- *Invested in capital assets, net of related debt* 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 invested in capital assets, net of related debt.
- *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 assets* represent net resources derived from student tuition and fees, fee-for-service contracts, COF stipends, state appropriations, and sales and services of education departments. 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 assets include assets designated by the SBCCOE for certain purposes.

(m) 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 can be 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 years 2008 and 2007, fee-for-service purchased credit hours included vestibule labs, reciprocal programs, and educational services in rural areas. In addition, in fiscal year 2008, the state purchased career and technology, vocational and other high cost, specialized instructional education services. Other types of services added through contract amendment were for educational services in rural areas or communities in which the cost of delivering the educational services is not sustained by the amount received in tuition.
- Nonoperating revenues and expenses are those that do not meet the definition of operating revenues or capital revenues. In fiscal years 2008 and 2007, nonoperating revenues include Colorado Vocational Act state appropriations, state training program grants, occupational education funds, gifts, investment income, and insurance recoveries. Nonoperating expense includes 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.

(n) Application of Restricted and Unrestricted Resources

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

(o) 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 allowance in the accompanying financial statements. Certain grants from external governmental and private programs are recorded as either operating or nonoperating 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 student aid operating expense. CCCS calculates scholarship allowances on a student-by-student basis.

(p) Use of Estimates

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

(q) 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, COF stipend, and fee-for-service contract revenue, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources, which are recognized in various revenue categories, as appropriate, in the accompanying statements of revenues, expenses, and changes in net assets. Nonappropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the years ended June 30, 2008 and 2007, appropriated expenditures were within the authorized spending authority. CCCS received a total general fund appropriation of $50,106,478 and $47,564,897, respectively, for 2008 and 2007. Included in the general fund appropriations for both 2008 and 2007 are $25,273,137 and $23,303,953, respectively, of State appropriations specified to be passed through to two LDCs and four AVSs: $14,823,001 and $13,668,051 for 2008 and 2007, respectively, for LDCs and $10,450,136 and $9,635,902 for 2008 and 2007, respectively, for AVSs. Also included in general fund appropriations were capital contributions of $8,545,653 in 2008 and $4,595,569 in 2007. During 2008, CCCS received FFS contract revenue in the amount of $24,133,792 and COF stipends in the amount of $108,195,901. During 2007, CCCS received fee-for-service contract revenue in the amount of $21,944,607 and COF stipends in the amount of $103,148,400.

(Continued)

(5) Tuition, Fees, and Auxiliary Revenue

Tuition, fees, and auxiliary revenue and the related scholarship allowance for the year ended June 30, 2008 were as follows:

	Tuition and fees	Auxiliary revenue	Total
Gross revenue	$ 262,081,974	39,430,886	301,512,860
Scholarship allowances:			
Federal	(40,491,360)	(1,696,475)	(42,187,835)
State	(16,487,603)	(702,727)	(17,190,330)
Private	(2,071,973)	(109,148)	(2,181,121)
Institutional	(3,783,066)	(162,411)	(3,945,477)
Total scholarship allowances	(62,834,002)	(2,670,761)	(65,504,763)
Net revenue	$ 199,247,972	36,760,125	236,008,097

Tuition, fees, and auxiliary revenue and the related scholarship allowance for the year ended June 30, 2007 were as follows:

	Tuition and fees	Auxiliary revenue	Total
Gross revenue	$ 245,484,108	35,474,073	280,958,181
Scholarship allowances:			
Federal	(37,665,710)	(1,053,838)	(38,719,548)
State	(12,946,008)	(1,178,468)	(14,124,476)
Private	(1,713,495)	(171,421)	(1,884,916)
Institutional	(3,291,317)	(219,992)	(3,511,309)
Total scholarship allowances	(55,616,530)	(2,623,719)	(58,240,249)
Net revenue	$ 189,867,578	32,850,354	222,717,932

(6) Cash and Cash Equivalents and Investments

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

	2008	2007
Cash on hand and change funds	$ 115,702	232,522
Deposits with financial institutions	6,214,841	1,958,731
Total	$ 6,330,543	2,191,253

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

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

		Carrying amount	
		June 30, 2008	**June 30, 2007**
Footnote amounts:			
Deposits	$	6,330,543	2,191,253
Deposits held with State Treasurer		169,450,100	139,646,982
Restricted investments (Benefit Trust)		1,880,114	2,830,431
Total	$	177,660,757	144,668,666
Financial statement amounts:			
Net cash and cash equivalents	$	170,942,899	140,748,134
Current restricted cash and cash equivalents		4,394,651	716,855
Noncurrent restricted cash and cash equivalents		443,093	373,246
Subtotal cash and cash equivalents		175,780,643	141,838,235
Restricted investments (Benefit Trust)		1,880,114	2,830,431
	$	177,660,757	144,668,666

CCCS deposits its cash with the Colorado State Treasurer (the Treasurer) as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, CRS. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited with the State Treasurer are invested until the cash is needed. Earnings are allocated in proportion to the average daily cash balance for all participants in the pool. At June 30, 2008 and 2007, CCCS had cash on deposit with the State Treasurer of $169,450,100 and $139,646,982, respectively, which represented approximately 2.7% of the total of $6,304.1 million and 2.6% of the total of $5,396.2 million, respectively, in deposits in the State Treasurer's Pool (Pool).

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

For CCCS' deposits with the State Treasury, the net unrealized gain for fiscal year 2008 was $1,741,854 and the net unrealized gain for fiscal year 2007 was $1,040,816. These unrealized gains and losses are included in cash and cash equivalents on the statements of net assets.

(Continued)

Custodial Credit Risk

Investments in the Treasurer's 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. State securities must be held by the Treasurer or by a third-party custodian evidenced by a safekeeping receipt. As of June 30, 2008 and 2007, none of the investments in the Treasurer's Pool is subject to custodial credit risk. The Benefit trust does not have a documented risk policy for its investments for custodial credit risk.

Credit Quality Risks

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies 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. The State requires two ratings with the rating level set by the investment portfolio and investment type. Based on these parameters, as of June 30, 2008 and 2007, approximately 91.5% and 89.0%, respectively, of investments in the Treasurer's Pool are subject to credit quality risk reporting. Except for $14,782,450 and $4,993,150 in 2008 and 2007 respectively, of corporate bonds rated lower-medium, 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, 2008, there was $246.0 thousand, or 13.1% of total investments in the Benefit Trust, subject to credit quality risk. Of these investments, all were rated upper-medium to the highest quality except $43.1 thousand, which was rated speculative. As of June 30, 2007, there was $453.4 thousand, or 16.0% of total investments in the Benefit Trust, subject to credit quality risk. Of these investments, all were rated upper-medium to the highest quality except $50.0 thousand, which was rated speculative and $101.1 thousand that was unrated. The Benefit Trust does not have a documented risk policy on its investments for credit quality risk.

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. The weighted average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in terms of years, weighted to reflect the dollar size of individual investments within an investment type. The overall portfolio weighted average maturity is derived by dollar-weighting the WAM for each investment type. The State has selected WAM as the primary method for reporting interest rate risk. As of June 30, 2008, the WAM of investments in the Treasurer's Pool is 0.10 years for commercial paper (16.6% of the Pool), 0.10 years for money market funds (6.2% of the Pool), .97 years for U.S. government securities (50.8% of the Pool), 1.90 years for asset-backed securities

(18.6% of the Pool), and 2.10 years for corporate bonds (7.8% of the Pool). As of June 30, 2007, the WAM of investments in the Treasurer's Pool is 0.08 years for commercial paper (25.6% of the Pool), 0.01 years for money market funds (4.9% of the Pool), 1.10 years for U.S. government securities (40.4% of the Pool), 2.13 years for asset-backed securities (19.3% of the Pool), and 2.68 years for corporate bonds (9.8% of the Pool).

As of June 30, 2008, the Benefit Trust had the following investments:

Type		Fair value	Weighted average maturity (years)
U.S. agency securities (TVA)	$	100,581	0.38
Corporate bonds		246,017	0.98
Mutual funds		38,258	
Common stock		1,495,258	
Total trust investments	$	1,880,114	

As of June 30, 2007, the Benefit Trust had the following investments:

Type		Fair value	Weighted average maturity (years)
U.S. agency securities (TVA)	$	100,341	1.38
Corporate bonds		453,437	1.16
Mutual funds		38,493	
Common stock		2,238,160	
Total trust investments	$	2,830,431	

The Benefit Trust does not have a documented risk policy on its investments.

Concentration of Credit Risk

The Benefit Trust does have investments (other than U.S. government or agency securities, mutual funds, or investment pools), which represent five percent or more of total assets, thus concentrating credit risk. Although all investments intrinsically carry credit risk, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. As of June 30, 2008, the fair value of Benefit Trust investments greater than 5% of total plan net assets is as follows:

Issuer	Fair value	Percentage of total assets
Caterpillar, Inc.	$ 169,786	11.35%
Celgene Corp	255,480	17.08

As of June 30, 2007, the fair value of Benefit Trust investments greater than 5% of total plan net assets is as follows:

Issuer	Fair value	Percentage of total assets
Caterpillar, Inc.	$ 180,090	5.72%
Celgene Corp	229,320	7.28
Murphy Oil Corp	166,432	5.28
Questar Corp	211,400	6.71

CCCS management does not believe that possible future losses resulting from this Benefit Trust investment 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 Treasurer's Pool was not subject to concentration of credit risk in fiscal year 2008 or 2007.

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 Treasurer's Pool and the Benefit Trust were not subject to foreign currency risk in fiscal year 2008 or 2007.

Additional information on investments of the Treasurer's Pool may be obtained in the state's comprehensive annual financial report for the year ended June 30, 2008.

(Continued)

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

Accounts receivable at June 30, 2008 are as follows:

		Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	$	33,536,146	(11,062,635)	22,473,511
Due from other governments		20,958,546	—	20,958,546
Other receivables		3,550,004	(521,430)	3,028,574
Total receivables	$	58,044,696	(11,584,065)	46,460,631

Accounts receivable at June 30, 2007 are as follows:

		Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	$	31,261,823	(10,432,539)	20,829,284
Due from other governments		19,345,721	—	19,345,721
Other receivables		3,142,172	(218,149)	2,924,023
Total receivables	$	53,749,716	(10,650,688)	43,099,028

Accounts payable and accrued liabilities at June 30, 2008 and 2007 are as follows:

		2008	2007
Amounts owed to vendors	$	12,606,295	8,472,744
Salaries and benefits payable		28,515,941	24,157,601
Accrued interest payable		136,713	147,589
Other payables		1,020,070	876,094
Total accounts payable and accrued liabilities	$	42,279,019	33,654,028

(Continued)

(8) Capital Assets

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Deletions	Transfers	Balance June 30, 2008
Nondepreciable capital assets:					
Land and land improvements	$ 20,073,667	—	—	—	20,073,667
Construction in progress	20,518,489	10,789,918	(81,429)	(3,174,980)	28,051,998
Collections	620,826	—	—	—	620,826
Total nondepreciable capital assets	41,212,982	10,789,918	(81,429)	(3,174,980)	48,746,491
Depreciable capital assets:					
Land improvements	16,267,445	—	—	—	16,267,445
Buildings and improvements	383,111,431	1,507,783	(39,814)	3,174,980	387,754,380
Leasehold improvements	4,347,570	—	—	—	4,347,570
Equipment	33,663,451	4,077,598	(951,743)	—	36,789,306
Library materials	13,069,495	552,652	(1,045,286)	—	12,576,861
Total depreciable capital assets	450,459,392	6,138,033	(2,036,843)	3,174,980	457,735,562
Less accumulated depreciation:					
Land improvements	6,009,446	670,137	—	—	6,679,583
Buildings and improvements	160,022,540	11,922,387	—	—	171,944,927
Leasehold improvements	1,793,671	439,875	—	—	2,233,546
Equipment	22,228,093	2,871,961	(867,636)	—	24,232,418
Library materials	8,437,430	646,356	(1,038,872)	—	8,044,914
Total accumulated depreciation	198,491,180	16,550,716	(1,906,508)	—	213,135,388
Net depreciable capital assets	251,968,212	(10,412,683)	(130,335)	3,174,980	244,600,174
Total capital assets, net	$ 293,181,194	377,235	(211,764)	—	293,346,665

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2007:

	Balance June 30, 2006	Additions	Deletions	Transfers	Adjustments	Balance June 30, 2007
Nondepreciable capital assets:						
Land and land improvements	$ 20,073,667	—	—	—	—	20,073,667
Construction in progress	17,819,901	9,580,457	—	(6,881,869)	—	20,518,489
Collections	615,826	—	—	—	5,000	620,826
Total nondepreciable capital assets	38,509,394	9,580,457	—	(6,881,869)	5,000	41,212,982
Depreciable capital assets:						
Land improvements	14,222,471	—	—	2,044,974	—	16,267,445
Buildings and improvements	382,440,998	712,791	(1,125,663)	1,083,305	—	383,111,431
Leasehold improvements	4,347,570	—	—	—	—	4,347,570
Equipment	29,035,414	2,853,170	(1,978,723)	3,753,590	—	33,663,451
Library materials	13,047,213	626,953	(604,671)	—	—	13,069,495
Total depreciable capital assets	443,093,666	4,192,914	(3,709,057)	6,881,869	—	450,459,392
Less accumulated depreciation:						
Land improvements	5,342,668	666,778	—	—	—	6,009,446
Buildings and improvements	148,833,248	11,797,148	(607,856)	—	—	160,022,540
Leasehold improvements	1,353,794	439,877	—	—	—	1,793,671
Equipment	21,648,819	2,383,761	(1,804,487)	—	—	22,228,093
Library materials	8,464,933	641,160	(668,663)	—	—	8,437,430
Total accumulated depreciation	185,643,462	15,928,724	(3,081,006)	—	—	198,491,180
Net depreciable capital assets	257,450,204	(11,735,810)	(628,051)	6,881,869	—	251,968,212
Total capital assets, net	$ 295,959,598	(2,155,353)	(628,051)	—	5,000	293,181,194

(9) Long-Term Liabilities

The following presents changes in long-term liabilities at June 30, 2008:

	Balance, June 30, 2007	Additions	Reductions	Balance, June 30, 2008	Current portion
Bonds payable	$ 17,342,965	—	(1,093,344)	16,249,621	1,160,000
Capital leases payable	14,719,230	—	(562,865)	14,156,365	465,220
Other long-term liabilities	1,159,419	—	(372,567)	786,852	384,474
Compensated absences liability	11,041,276	2,297,456	(2,016,264)	11,322,468	1,647,176

The following presents changes in long-term liabilities at June 30, 2007:

	Balance, July 1, 2006	Additions	Reductions	Balance, June 30, 2007	Current portion
Bonds payable	$ 18,391,308	—	(1,048,343)	17,342,965	1,125,000
Capital leases payable	15,282,892	—	(563,662)	14,719,230	538,787
Other long-term liabilities	1,516,835	—	(357,416)	1,159,419	373,100
Compensated absences liability	10,943,040	3,989,347	(3,891,111)	11,041,276	1,429,242

(10) Bonds Payable

(a) Systemwide Revenue Bonds

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

Series 1997 Bonds

The Series 1997 Northeastern Junior College dormitory project revenue bonds for $2,465,000 were issued on March 6, 1997 and dated March 1, 1997. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2022. In December 1997, a total of $495,000 was refunded. The refunding reduced the bond liability reflected on the CCCS financial statements to $1,970,000.

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

Community College of Aurora	$ 1,295,000
Northeastern Junior College	540,000
Trinidad State Junior College	1,045,000
	$ 2,880,000

Series 1998 Bonds

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

Morgan Community College	$	580,000
Northeastern Junior College		1,050,000
	$	1,630,000

Series 1999 Bonds

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

Pueblo Community College	$	3,490,000
Red Rocks Community College		3,260,000
	$	6,750,000

Series 2003 Bonds

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

Series 2004 Bonds

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

(b) Advance Refunding

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

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

In fiscal year 2005, $1,740,000 of Front Range Community College-Larimer Campus Series 1996 bonds were advance refunded to reduce total debt service payments over the term of the bonds. 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.

For both June 30, 2008 and 2007, $11,025,000 of bonds outstanding is considered advance refunded and not included in the accompanying basic financial statements.

(c) Security

The bonds are special obligations of CCCS payable from certain net pledged revenues as defined in the bond indentures. The bonds are payable solely out of and secured by an irrevocable pledge of all income or moneys derived from the auxiliary facilities (defined below) after deduction of operating and maintenance expenses, including, without limitation, student fees and other fees, rates, and charges pertaining thereto and for the development thereof and may include, at the Board’s discretion, any grants, appropriations, or other donations from the U.S. government or its agencies or from any other donor, except the state or its agencies or political subdivisions.

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

(d) Earnings Requirement

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

Total gross revenue pledged for bonds was $36,243,688 and $34,049,393 for fiscal year 2008 and 2007, respectively. These amounts consisted of $3,867,768 and $3,695,095 of student tuition and fees, $32,303,941 and $30,294,303 of auxiliary enterprise revenue, and $71,979 and $59,995 of other revenues, respectively.

(e) Minimum Bond Reserve Requirement

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

(Continued)

(f) Mandatory Sinking Fund Redemption

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

(g) Bond Accounting

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

(h) Long-Term Bond Principal Maturities

Bond principal payments to be made during fiscal years through 2013 are enumerated in the following table:

		Principal maturing in next five years by year				
Bond issue		**FY09**	**FY10**	**FY11**	**FY12**	**FY13**
Series 1997:						
Community College of Aurora	$	55,000	55,000	60,000	60,000	65,000
Northeastern Junior College		105,000	110,000	115,000	120,000	130,000
Trinidad State Junior College		50,000	55,000	55,000	60,000	60,000
Series 1998:						
Morgan Community College		25,000	30,000	30,000	30,000	35,000
Northeastern Junior College		45,000	50,000	50,000	55,000	60,000
Series 1999:						
Pueblo Community College		185,000	200,000	210,000	215,000	225,000
Red Rocks Community College		145,000	150,000	155,000	165,000	170,000
Series 2003:						
Pikes Peak Community College		140,000	145,000	145,000	150,000	155,000
Series 2004:						
Front Range Community College		410,000	425,000	440,000	450,000	470,000
Total revenue bonds payable		1,160,000	1,220,000	1,260,000	1,305,000	1,370,000
Interest		667,538	621,072	573,820	522,719	468,292
Total annual debt service	$	1,827,538	1,841,072	1,833,820	1,827,719	1,838,292

Bond debt service payments from 2014 to maturity are:

	Principal	Interest	Total
2014-2018	$ 6,355,000	1,457,337	7,812,337
2019-2023	2,145,000	501,658	2,646,658
2024-2028	1,250,000	221,773	1,471,773
2029-2031	435,000	18,253	453,253

Remaining debt service by bond issuance is as follows:

	Revenue bonds outstanding* June 30, 2008	Interest rate	Maximum annual principal	Callable	Call premium	Final payment
State Board for Community Colleges and Occupational Education Systemwide Revenue Bonds:						
Series 1997:						
Northeastern Junior College	$ 1,335,000	3.75% to 5.5%	150,000	Yes	None	11/1/2022
Community College of Aurora	860,000	4.6% to 5.125%	95,000	Yes	None	11/1/2019
Northeastern Junior College	365,000	3.85% to 5.125%	40,000	Yes	None	11/1/2019
Trinidad Junior College	640,000	3.85% to 5.125%	80,000	Yes	None	11/1/2019
Series 1998:						
Morgan Community College	385,000	3.9% to 5.0%	45,000	Yes	None	11/1/2018
Northeastern Junior College	670,000	3.9% to 5.0%	75,000	Yes	None	11/1/2018
Series 1999:						
Pueblo Community College	2,035,000	3.2% to 4.5%	265,000	Yes	None	11/1/2019
Red Rocks Community College	2,210,000	2.0% to 4.125%	235,000	Yes	None	11/1/2019
Series 2003:						
Pikes Peak Community College*	4,171,736	2.08% to 4.125%	285,000	Yes	None	11/1/2031
Series 2004:						
Front Range Community College*	3,577,885	3.08% to 3.65%	525,000	Yes	None	11/1/2016
	$ 16,249,621					

* Includes deferred loss on refunding and unamortized bond premium and discount of ($250,379)

(11) Leases

CCCS has acquired land, buildings, and equipment under leases and lease/purchase arrangements with the Education Foundation, a discretely presented component unit of CCCS, which are classified as capital leases. In addition, ACC has recorded capital leases with GE Capital Public Finance and JP Morgan, PPCC has recorded a capital lease with the Colorado Educational and Cultural Facilities Authority, and MCC has recorded a capital lease with IKON. Stated and/or implicit interest rates on these leases range from 0% to 22.5% interest. Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or their estimated useful life. Capitalized assets relating to these leases were approximately $14,419,313 in 2008 and $14,109,036 in 2007 with amortization expense of $548,422 at June 30, 2008 and $560,508 at June 30, 2007, respectively.

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

		Principal	Interest	Total
2009	$	465,220	709,945	1,175,165
2010		495,378	703,478	1,198,856
2011		449,449	646,002	1,095,451
2012		463,418	626,592	1,090,010
2013		487,539	605,187	1,092,726
2014 – 2018		2,825,360	2,638,490	5,463,850
2019 – 2023		2,860,000	1,921,107	4,781,107
2024 – 2028		3,695,000	1,093,356	4,788,356
2029 – 2033		2,415,001	272,375	2,687,376
Total	$	14,156,365	9,216,532	23,372,897

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. Total rent expense for all operating leases for the years ended June 30, 2008 and 2007 was $4,348,859 and $3,549,152, respectively. Future minimum rental payments, exclusive of real estate taxes and other expenses, under operating leases are as follows:

Year ending June 30:		
2009	$	3,449,274
2010		2,937,612
2011		1,756,086
2012		1,634,682
2013		1,271,856
2014 – 2017		4,877,219

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

(12) Other Long-Term Liabilities

Other long-term liabilities consist primarily of a note payable from the system office to Lowry Redevelopment Authority. The system office note payable was incurred related to infrastructure improvements to the roadways surrounding the Lowry property. The remaining portion is related to expired warrants that are unclaimed at year-end. The combined payment schedule is as follows:

		Principal	Interest	Total
2009	$	384,474	35,526	420,000
2010		402,378	18,155	420,533
Total	$	786,852	53,681	840,533

(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, 2008 and 2007 is $11,322,468 and $11,041,276, respectively.

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

At June 30, 2008 and 2007, the Public Employees' Retirement Association of Colorado (PERA) estimated that 56.1% and 56%, 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.

(14) Retirement Plan

(a) Plan Description

Virtually all of CCCS' employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple employer plan administered by PERA. PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, or by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

Nonhigher education employees hired by the state after January 1, 2006 are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for the community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2008 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 12 months. In that case they are required to remain in the PERA plan in which they participated previously.

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 5 years of service.
- Hired on or after January 1, 2007 – 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.

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 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15% increase between periods. For retirements after January 1, 2009 or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5%, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3% or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lesser of 3% or the actual increase in the national Consumer Price Index, limited to a 10% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1% of the employer contributions for this population.)

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full-time student) or their spouse may be entitled to a single payment or monthly benefit

(Continued)

payments. If there is no eligible child or spouse, then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

(b) Funding Policy

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

Most employees contribute 8.0 % of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2007 to December 31, 2007, CCCS contributed 11.15% of the employee's salary. From January 1, 2008 through June 30, 2008, CCCS contributed 12.05%. During fiscal year 2007 – 2008, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per CRS, an amortization period of 30 years is deemed actuarially sound. At December 31, 2007, the division of PERA in which the state participates was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5% of salary beginning January 1, 2006, another 0.5% of salary in 2007, and subsequent year increases of 0.4% of salary until the additional payment reaches 3.0% in 2012.

In the 2006 legislative session, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one-half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one-half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries, and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100%.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

CCCS' contributions to PERA and/or the Defined Benefit Plan and Health Care Trust Fund for the fiscal years ended June 30, 2008, 2007, and 2006 were $22,423,299, $18,922,712, and $18,516,834, respectively. These contributions met the contribution requirements for each year.

(15) Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403(b) or 401(a) plan.

(16) Postretirement Healthcare and Life Insurance Benefits

(a) Healthcare Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

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

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in note 14. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02% of gross covered of gross wages to the Health Care Trust Fund. CCCS' contribution is disclosed above in conjunction with contributions for the State defined contribution plan. In each year the amount contributed was 100% of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully insured plans offered through healthcare organizations and self-insured plans administered for PERA by third-party vendors. As of December 31, 2007, there were 44,214 enrolled participants, including spouses and dependents, form all contributors to the plan. At December 31, 2007, the Health Care Trust Fund has an unfunded actuarial accrued liability of $1.045 billion, a funded ratio of 19.9%, and a 38-year amortization period.

(b) Other Programs

Separate postretirement healthcare and life insurance benefit plans exist in some state colleges and universities but are small in comparison to the PERA plan for state employees.

CCCS' principal employee pension plan is PERA (note 14). 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 basic financial statements for this liability.

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

(17) Employee Benefit Trust Fund

The Trust provides long-term disability benefits to all employees participating in the Employee Choice Flexible Benefit Plan sponsored by the SBCCOE. For fiscal years 2008 and 2007, CCCS made contributions to the Trust of approximately $241,217 and $231,705, respectively.

(18) Risk Financing and Insurance-Related Activities

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

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

(19) Commitments and Contingencies

The System has $13.6 million in commitments for various capital construction and controlled maintenance projects as of June 30, 2008.

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

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

(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.

(Continued)

Nonappropriated funds were excluded from the annual appropriations bill. Nonappropriated funds include 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 of Colorado the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), given the institution met 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% (in relation to total revenues) in support from the State. In fiscal years 2008 and 2007, the System received 2.6% and 6.8%, respectively, in State support. 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.

(21) Restatement

As of July 1, 2008, NJC Foundations' net assets were restated to correct errors and the presentation of temporarily and permanently restricted net assets. A summary of the total adjustments is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year, as previously reported	$ 10,235,908	17,309,109	6,333,242	33,878,259
Restatement	—	478,704	(478,704)	—
Net assets, beginning of year, as restated	$ 10,235,908	17,787,813	5,854,538	33,878,259

Certain expenses on the statement of activities for the year ended June 30, 2007 have been reclassified, with no effect on net assets, to be consistent with the classifications adopted for the year ended June 30, 2008. As of July 1, 2007, ACC and NJC Foundations' net assets were restated to correct errors and the presentation of temporarily and permanently restricted net assets. A summary of the total adjustments is as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year, as previously reported	$	8,512,306	15,809,419	5,423,935	29,745,660
Restatement		4,440	(97,452)	10,387	(82,625)
Net assets, beginning of year, as restated	$	8,516,746	15,711,967	5,434,322	29,663,035

(22) Related-Party Transactions

LCC Community College entered into a promissory note with the Colorado Commission on Higher Education (CCHE) and the Colorado Access Network (CAN) for $1.2 million. The note was a cash advance to cover anticipated cash shortfalls due to the timing of payments for COF. These funds were used to cover general fund payroll and operating expenses for the year. The note was repaid in full with two installments: 1) on April 26, 2007 in the amount of $724,765 and 2) on June 22, 2007 in the amount of $475,235.

Approximately $4,419,007 and $3,435,880 was transferred to the colleges from the foundations for the years ended June 30, 2008 and 2007, respectively, in pursuit of providing financial support for instructional programs, facilities, equipment, student scholarship programs, and cultural activities.

(23) Subsequent Event

On November 6, 2008, the State issued $230,845,000 of certificates of participation (Certificates) on behalf of several of its higher education institutions. These Certificates will be repaid from the State's resources and not resources of the benefiting institutions. As a result, this liability is recognized by the State and not included in the benefiting institutions' financial statements. The proceeds are being used to finance the costs of acquisition, construction, improvement, and equipping of numerous buildings at the benefiting institutions. The Certificates are secured by the buildings or equipment acquired with the lease proceeds, or other buildings and equipment agreed to by the institutions, and any unexpended lease proceeds. The Certificates have a weighted average maturity of 11.2 years. The State will allocate $40,192,741 of the proceeds to CCCS. The State is responsible for making the annual lease payments to the trustee for the leased building. The lease payments will be counted as State support under TABOR as they are made.

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

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the business-type activities and aggregate discretely presented component units of the Colorado Community College System (CCCS), a component unit of the State of Colorado, as of and for the year ended June 30, 2008 and have issued our report thereon, dated November 21, 2008. Our report was modified to include a reference to other auditors and included an explanatory paragraph addressing CCCS' restatement of the 2008 and 2007 financial statements of its aggregate discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

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 detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider item Nos. 1 through 7 described in the schedule of findings and recommendations to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We also noted certain additional matters that we reported to management of CCCS in the Findings and Recommendations section of this report.

CCCS' responses to the findings identified are described in the Findings and Recommendations section of this report. We did not audit CCCS' responses, and accordingly, we express no opinion on them.

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

KPMG LLP

November 21, 2008

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

November 21, 2008

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the Colorado Community College System (CCCS) as of and for the years ended June 30, 2008 and 2007 and have issued our report thereon, dated November 21, 2008. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audits.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the basic financial statements, which have been prepared by management with the oversight of the CCCS Audit Committee, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to conduct our audit of the basic financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the basic financial statements are detected. Our audit does not relieve management 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 our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of CCCS' internal control. Accordingly, we do not express an opinion on the effectiveness of CCCS' internal control.

Other Information in Documents Containing Audited Financial Statements

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

Significant Accounting Policies

The significant accounting policies used by CCCS are described in note 3 to the basic financial statements.

The Governmental Accounting Standards Board's Implementation Guide issued in 2008 clarified that Pell grants should be recorded as nonoperating revenues since they are nonexchange revenues and entities generally have only administrative requirements for these funds. Historically, CCCS has recorded this Pell grant activity as operating revenue as have many similar institutions across the country. The Colorado State Controller's Office also recommended that public institutions in the state continue to reflect Pell grant activity as operating revenue. Since the Implementation Guide and industry practice are both level D in the generally accepted accounting principles hierarchy, CCCS has decided to continue reporting Pell grant activity as operating revenue in its 2008 financial statements. Pell grant revenue totaled $46.7 million in fiscal year 2008.

Management Judgments and Accounting Estimates

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

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

Uncorrected and Corrected Misstatements

In connection with our audit of CCCS' basic financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in CCCS' books and records as of and for the year ended June 30, 2008. We have reported such misstatements to management on a Summary of Unadjusted Differences and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. Pages 93 – 95 include a copy of the summary that has been provided to, and discussed with, management.

There were no material financial statement misstatements identified by us that were discussed with and corrected by CCCS.

Disagreements with Management

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

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 past year that are subject to the requirements of AU 625, *Reports on the Application of Accounting Principles*.

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

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

Material Written Communications

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

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

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit except for the delays in receipt of information from Colorado Northwestern Community College (CNCC). During our audit, CNCC was unable to provide requested information for both the financial and compliance audit in a timely manner.

Independence

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

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

Confirmation of Audit Independence

We hereby confirm that, as of November 21, 2008, we are independent accountants with respect to CCCS under all relevant professional and regulatory standards.

* * * * * * *

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

Very truly yours,

KPMG LLP

COLORADO COMMUNITY COLLEGE SYSTEM

Summary of Unadjusted Audit Differences

Year ended June 30, 2008

		Adjustments on financial statement captions					
		Change in net assets					
		Unadjusted audit differences arising in			Statement of Net Assets		
Adj No.	Description	Current period	Prior period	Total	Net assets	Assets	Liabilities
1	Grant revenue	$ 3,146,259	—	3,146,259	3,146,259	—	—
	Grant expense	(3,146,259)	—	(3,146,259)	(3,146,259)	—	—
	To remove Perkins grant revenue and expense that should have been recognized in prior fiscal year.						
2	Accounts payable	—	—	—	—	—	109,215
	Capital assets	—	—	—	—	183,478	—
	Operating expense	(292,693)	—	(292,693)	(292,693)	—	—
	To record expense incurred or capital asset received prior to year-end for CCA, PPCC, PCC, OSC, RRCC, and the System Office, but not yet paid.						
3	Operating expenses	354,219	—	354,219	354,219	—	—
	Accounts payable	—	—	—	—	—	(354,219)
	To record the most likely (extrapolated) difference due to the known error found in entry #2 above.						
4	Tuition and auxiliary revenue	3,295,153	—	3,295,153	3,295,153	—	—
	Institutional support expense	(3,295,153)	—	(3,295,153)	(3,295,153)	—	—
	To report revenues net of bad debt expense as required.						
5	Tuition revenue	458,987	—	458,987	458,987	—	—
	Accounts receivable	—	—	—	—	(458,987)	—
	To remove student tuition revenue erroneously recognized at ACC.						
6	Tuition – scholarship allowance	205,000	—	205,000	205,000	—	—
	Operating expense	(205,000)	—	(205,000)	(205,000)	—	—
	To correct scholarship allowance for a set of students not originally included in the student-by-student analysis for OJC.						
7	Auxiliary revenue	5,225	—	5,225	5,225	—	—
	Other revenue	13,102		13,102	13,102	—	—
	Accounts receivable	—	—	—	—	(18,327)	—
	To record correction for auxiliary revenue at CNCC, FRCC, LCC and TSJC not earned in fiscal year or no support provided to demonstrate earned in fiscal year.						
8	Auxiliary revenue	435,047	—	435,047	435,047	—	—
	Accounts receivable	—	—	—	—	(435,047)	—
	To record the most likely (extrapolated) difference due to the known error found in entry #7 above.						
9	Prepaid asset	—	—	—	—	233,183	—
	Construction in progress	—	—	—	—	(233,183)	—
	To reclassify asset from construction in progress to a prepaid asset at System Office for a project that did not commence work until the subsequent fiscal year.						

COLORADO COMMUNITY COLLEGE SYSTEM

Summary of Unadjusted Audit Differences

Year ended June 30, 2008

		Adjustments on financial statement captions — Change in net assets — Unadjusted audit differences arising in			Statement of Net Assets		
Adj No.	**Description**	**Current period**	**Prior period**	**Total**	**Net assets**	**Assets**	**Liabilities**
10	Accounts payable	$ —	—	—	—	—	725,093
	Construction in progress	—	—	—	—	(725,093)	—
	State capital contribution revenue	725,093	—	725,093	725,093	—	—
	Accounts receivable	—	—	—	—	(725,093)	—
	To reduce construction in progress and related state capital contribution revenue at FRCC for an asset not received until the subsequent fiscal year.						
11	Auxiliary revenue	176,253	—	176,253	176,253	—	—
	Operating expense	(176,253)	—	(176,253)	(176,253)	—	—
	To eliminate intercompany revenues and expenses at NJC.						
12	Capital assets	—	—	—	—	159,175	—
	Operating expenses	(159,175)	—	(159,175)	(159,175)	—	—
	To record a correction for items expensed at ACC and NJC that should have been capitalized.						
13	Capital assets	—	—	—	—	385,310	—
	Operating expenses	(385,310)	—	(385,310)	(385,310)	—	—
	To record the most likely (extrapolated) difference due to the known error found in entry #12 above.						
14	Other revenue	134,676	—	134,676	134,676	—	—
	Beginning net assets	—	(134,676)	(134,676)	(134,676)	—	—
	To record a correction for revenue at PCC that should have been recognized in previous year.						
15	Auxiliary and other revenue	2,548,898	—	2,548,898	2,548,898	—	—
	Beginning net assets	—	(2,548,898)	(2,548,898)	(2,548,898)	—	—
	To record a correction for items recognized systemwide as revenue during the current year in order to remove from deposits held for others. Revenue for these items should have been recorded in previous years.						
16	Allowance for doubtful accounts	—	—	—	—	713,624	—
	Bad debt expense	(713,624)	—	(713,624)	(713,624)	—	—
	To correct errors in the calculation for the allowance for doubtful accounts at ACC, CCA, LCC, and PPCC.						
17	Deposits held for others	—	—	—	—	—	496,737
	Beginning net assets	—	(496,737)	(496,737)	(496,737)	—	—
	To remove amounts erroneously accounted for in deposits held for others due to internal restrictions at OJC and the System Office.						
18	Accounts payable	—	—	—	—	—	454,933
	Operating expenses	(454,933)	—	(454,933)	(454,933)		
	Grants and contract revenue	454,933	—	454,933	454,933		
	Accounts receivable	—	—	—	—	(454,933)	—
	To adjust year-end Perkins accrual estimate to actual.						

(Continued)

COLORADO COMMUNITY COLLEGE SYSTEM

Summary of Unadjusted Audit Differences

Year ended June 30, 2008

Adj No.	Description		Adjustments on financial statement captions – Change in net assets – Unadjusted audit differences arising in: Current period	Prior period	Total	Statement of Net Assets: Net assets	Assets	Liabilities
19	Operating expenses	$	339,217	—	339,217	339,217	—	—
	Compensated absence liability		—	—	—	—	—	(339,217)
	To increase the liability based upon the corrected compensated absence calculation at ACC, CCA, FRCC, LCC, PCC, RRCC, CCD, and CCCS.							
20	Operating expenses		182,000	—	182,000	182,000	—	—
	Accrued liabilities		—	—	—	—	—	(182,000)
	To record the actuarially determined unfunded obligation for future payment of OPEB benefits.							
21	Tuition revenue		877,998	—	877,998	877,998	—	—
	Deferred revenue		—	—	—	—	—	(877,998)
	To correct error made by PCC in calculating summer tuition deferral amount.							
22	Institutional support expense		576,000	—	576,000	576,000	—	—
	Beginning net assets		—	(576,000)	(576,000)	(576,000)	—	—
	To properly record cash at CCD.							
23	Beginning net assets		—	511,000	511,000	511,000	—	—
	Accrued payroll		—	—	—	—	—	754,780
	Payroll expense		(1,265,780)	—	(1,265,780)	(1,265,780)	—	—
	To properly record operating expenses for the $511k expensed in the current year by CCD for prior year payroll.							
	Total	$	3,833,880	(3,245,311)	588,569	588,569	(1,375,893)	787,324

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2008

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

Our financial and compliance examination of the various state-funded student financial assistance programs at CCCS for the year ended June 30, 2008 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education (CCHE) Financial Aid Policy, adopted September 2007. The state student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2008.

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

- Colorado Need-Based Grants awards:
  - Colorado Student Grants Program
  - Colorado Leveraging Educational Assistance Partnership (CLEAP)
- Academic Competitiveness Grant
- Colorado Merit Scholarships (or merit-based awards) – Colorado Undergraduate Merit Award Program
- Colorado Work-Study Program
- Governor's Opportunity Scholarships

The total state-funded student financial assistance expenditures made by CCCS were approximately $22.7 million during the year ended June 30, 2008.

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

During the audit period ended June 30, 2008, CCCS obtained authorizations to award federal SFA funds as follows:

- Supplemental Educational Opportunity Grant of approximately $1.1 million
- College Work Study of approximately $1.5 million

(Continued)

In addition to these programs, CCCS also received funding through the Pell Grant Program in the amount of approximately $47.0 million. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

Authorizations and expenditures for state-funded student financial aid funds are detailed by program in the accompanying schedule of appropriations, expenditures, transfers, and reversions, for each campus, for the year ended June 30, 2008.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance (SFSFA) Programs (the Statement) of the Colorado Community College System (CCCS), a component unit of the State of Colorado, for the year ended June 30, 2008. The statement is the responsibility of CCCS' management. Our responsibility is to express an opinion on the statement based on our audit.

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

As described in note 1 to the statement of appropriations, expenditures, transfers, and revisions, the statement was prepared in conformity with the accounting practices set forth in the Colorado Department of Higher Education (CDHE) *Audit Guide*, and in conformity with the provisions of the Colorado Commission on Higher Education (CCHE) *Financial Aid Policy*, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers, and reversions of the SFSFA programs of CCCS for the year ended June 30, 2008, in accordance with the format set forth in the CDHE *Audit Guide*, and in conformity with the provisions of the CCHE *Financial Aid Policy*, as described in note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the statement of appropriations, expenditures, transfers, and reversions of the SFSFA programs of CCCS. The accompanying introduction and schedules of appropriations, 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. The introduction has not been subjected to the auditing procedures applied in the audit of the statement, and accordingly, we express no opinion on it. The schedules have been subjected to the auditing procedures applied in the audit of the statement and, in our opinion, are fairly stated in all material respects in relation to the statement taken as a whole.

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

KPMG LLP

November 21, 2008

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

	Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:							
Original	$ 22,767,436	16,762,007	324,092	13,311	337,207	4,195,906	1,134,913
Supplementals	310,843	243,802	—	—	—	82,071	(15,030)
Transfers	—	—	—	—	—	—	—
Total appropriations	23,078,279	17,005,809	324,092	13,311	337,207	4,277,977	1,119,883
Less expenditures	22,733,031	16,997,209	323,745	11,481	336,839	4,202,004	861,753
Reversions to state general fund	$ 345,248	8,600	347	1,830	368	75,973	258,130

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

(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 appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format set forth and last revised November 1998 in the Colorado Department of Higher Education (CDHE) *Audit Guides*, and in conformity with the provisions of the CCHE *Financial Aid Policy*, adopted April 2004. The purpose of the Statement is to present, in summary form, the State-Funded Student Financial Assistance (SFSFA) activities of CCCS' 13 campuses for the year ended June 30, 2008.

The Statement is a summary of cash activity of the SFSFA programs, with the exception of the Perkins Loan Program and College Work-Study Programs, and does not present certain transactions that would be included in the Statement of the SFSFA programs if it was presented on the accrual basis of accounting, as prescribed by U.S. generally accepted accounting principles. Accordingly, the accompanying statement is not intended to present the financial position, changes in net assets, or cash flows of the SFSFA programs in conformity with U.S. generally accepted accounting principles. Because the Statement presents only a selected portion of the activities of CCCS, it is not intended to and does not present either the financial position or changes in financial position of the CCCS in conformity with U.S. generally accepted accounting principles.

(Continued)

(2) Basis of Accounting

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

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

ARAPAHOE COMMUNITY COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	1,519,884	1,178,312	32,744	1,347	35,899	257,668	13,914
Supplementals		21,460	—	—	—	—	20,223	1,237
Transfers		—	—	—	—	—	—	—
Total appropriations		1,541,344	1,178,312	32,744	1,347	35,899	277,891	15,151
Less expenditures		1,541,344	1,178,312	32,744	1,347	35,899	277,891	15,151
Reversions to state general fund	$	—	—	—	—	—	—	—

See accompanying independent auditors' report.

COMMUNITY COLLEGE OF AURORA

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	1,501,854	1,161,012	5,676	1,010	25,187	214,035	94,934
Supplementals		13,459	13,459	—	—	—	—	—
Transfers		—	—	—	—	—	—	—
Total appropriations		1,515,313	1,174,471	5,676	1,010	25,187	214,035	94,934
Less expenditures		1,491,353	1,174,471	5,676	1,010	25,187	214,035	70,974
Reversions to state general fund	$	23,960	—	—	—	—	—	23,960

See accompanying independent auditors' report.

COMMUNITY COLLEGE OF DENVER

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

	Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:							
Original	$ 3,116,301	2,273,608	34,927	337	40,894	632,122	134,413
Supplementals	31,222	26,363	—	—	—	11,580	(6,721)
Transfers	—	—	—	—	—	—	—
Total appropriations	3,147,523	2,299,971	34,927	337	40,894	643,702	127,692
Less expenditures	3,060,091	2,299,971	34,927	337	40,894	592,912	91,050
Reversions to state general fund	$ 87,432	—	—	—	—	50,790	36,642

See accompanying independent auditors' report.

COLORADO NORTHWESTERN COMMUNITY COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	281,715	184,380	10,187	3,030	5,905	63,698	14,515
Supplementals		4,993	13,341	—	—	—	1,167	(9,515)
Transfers		—	—	—	—	—	—	—
Total appropriations		286,708	197,721	10,187	3,030	5,905	64,865	5,000
Less expenditures		277,503	189,121	10,187	2,730	5,600	64,865	5,000
Reversions to state general fund	$	9,205	8,600	—	300	305	—	—

See accompanying independent auditors' report.

FRONT RANGE COMMUNITY COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	3,771,373	2,818,530	63,450	3,030	66,454	683,909	136,000
Supplementals		85,039	72,510	—	—	—	12,529	—
Transfers		—	—	—	—	—	—	—
Total appropriations		3,856,412	2,891,040	63,450	3,030	66,454	696,438	136,000
Less expenditures		3,801,297	2,891,040	63,450	1,500	66,454	696,438	82,415
Reversions to state general fund	$	55,115	—	—	1,530	—	—	53,585

See accompanying independent auditors' report.

LAMAR COMMUNITY COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	508,282	329,021	6,840	—	5,767	96,423	70,231
Supplementals		8,468	2,844	—	—	—	5,624	—
Transfers		—	—	—	—	—	—	—
Total appropriations		516,750	331,865	6,840	—	5,767	102,047	70,231
Less expenditures		478,498	331,865	6,840	—	5,767	89,271	44,755
Reversions to state general fund	$	38,252	—	—	—	—	12,776	25,476

See accompanying independent auditors' report.

MORGAN COMMUNITY COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	511,997	370,671	4,220	—	7,558	104,972	24,576
Supplementals		28,130	26,207	—	—	—	1,923	—
Transfers		—	—	—	—	—	—	—
Total appropriations		540,127	396,878	4,220	—	7,558	106,895	24,576
Less expenditures		513,582	396,878	4,220	—	7,558	96,895	8,031
Reversions to state general fund	$	26,545	—	—	—	—	10,000	16,545

See accompanying independent auditors' report.

COLORADO NORTHEASTERN JUNIOR COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	691,669	464,313	8,441	2,537	14,681	140,858	60,839
Supplementals		12,628	10,048	—	—	—	2,580	—
Transfers		—	—	—	—	—	—	—
Total appropriations		704,297	474,361	8,441	2,537	14,681	143,438	60,839
Less expenditures		673,360	474,361	8,441	2,537	14,681	143,438	29,902
Reversions to state general fund	$	30,937	—	—	—	—	—	30,937

See accompanying independent auditors' report.

OTERO JUNIOR COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	967,401	710,813	13,534	—	9,269	173,311	60,474
Supplementals		21,813	14,513	—	—	—	3,175	4,125
Transfers		—	—	—	—	—	—	—
Total appropriations		989,214	725,326	13,534	—	9,269	176,486	64,599
Less expenditures		979,729	725,326	13,534	—	9,269	176,486	55,114
Reversions to state general fund	$	9,485	—	—	—	—	—	9,485

See accompanying independent auditors' report.

PUEBLO COMMUNITY COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	3,259,327	2,539,003	31,434	1,010	26,890	558,696	102,294
Supplementals		—	—	—	—	—	—	—
Transfers		—	—	—	—	—	—	—
Total appropriations		3,259,327	2,539,003	31,434	1,010	26,890	558,696	102,294
Less expenditures		3,257,770	2,539,003	31,434	1,010	26,890	557,139	102,294
Reversions to state general fund	$	1,557	—	—	—	—	1,557	—

See accompanying independent auditors' report.

PIKES PEAK COMMUNITY COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	3,846,769	2,749,518	68,835	—	49,015	710,685	268,716
Supplementals		44,927	31,908	—	—	—	13,019	—
Transfers		—	—	—	—	—	—	—
Total appropriations		3,891,696	2,781,426	68,835	—	49,015	723,704	268,716
Less expenditures		3,891,696	2,781,426	68,835	—	49,015	723,704	268,716
Reversions to state general fund	$	—	—	—	—	—	—	—

See accompanying independent auditors' report.

RED ROCKS COMMUNITY COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	1,454,709	1,112,638	21,247	1,010	38,041	262,766	19,007
Supplementals		13,571	12,913	—	—	—	4,814	(4,156)
Transfers		—	—	—	—	—	—	—
Total appropriations		1,468,280	1,125,551	21,247	1,010	38,041	267,580	14,851
Less expenditures		1,468,280	1,125,551	21,247	1,010	38,041	267,580	14,851
Reversions to state general fund	$	—	—	—	—	—	—	—

See accompanying independent auditors' report.

TRINIDAD STATE JUNIOR COLLEGE

State-Funded Student Financial Assistance Programs

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2008

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	1,336,155	870,188	22,557	—	11,647	296,763	135,000
Supplementals		25,133	19,696	—	—	—	5,437	—
Transfers		—	—	—	—	—	—	—
Total appropriations		1,361,288	889,884	22,557	—	11,647	302,200	135,000
Less expenditures		1,298,528	889,884	22,210	—	11,584	301,350	73,500
Reversions to state general fund	$	62,760	—	347	—	63	850	61,500

See accompanying independent auditors' report.

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