KPMG

COLORADO COMMUNITY COLLEGE SYSTEM

Financial Statements and Compliance Audit

June 30, 2014 and 2013

(With Independent Auditors' Reports Thereon)

LEGISLATIVE AUDIT COMMITTEE
2014 MEMBERS

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COSA–201 04/00

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Financial and Compliance Audit

Report Summary

Year ended June 30, 2014

Purpose and Scope

The Office of the State Auditor of the State of Colorado engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado Community College System (CCCS or the System) for the year ended June 30, 2014. 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 2014 to November 2014.

The purpose and scope of our audit was to:

- Express an opinion on the financial statements of CCCS as of and for the year ended June 30, 2014 and report on internal control over financial reporting and on compliance and other matters as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Express an opinion on the Statement of Allocations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of CCCS for the year ended June 30, 2014.
- Evaluate progress in implementing prior audit findings and recommendations.

CCCS' Schedule of Expenditures of Federal Awards and applicable opinions thereon, issued by the Office of the State Auditor, are included in the fiscal year ended June 30, 2014 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Report

We expressed an unmodified opinion on CCCS' financial statements as of and for the year ended June 30, 2014.

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

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We identified two deficiencies in internal control over financial statement reporting that we consider to be significant deficiencies. We also noted the following deficiencies in internal control related to the Federal Student Financial Aid program (Title IV) that we consider to be significant deficiencies: one deficiency in internal control related to Student Financial Aid Return of Title IV funding, one deficiency in internal control related to Disbursements to Students of Title IV Direct Loans and one deficiency in internal control related to Enrollment Reporting for students who received Title IV funding. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Summary of Key Findings

Colorado Northwestern Community College (CNCC)

Our Fiscal Year Ended June 30, 2014 audit identified the following at CNCC:

- Evidence of management approvals for purchase card transactions were not documented and retained.
- Evidence of payroll benefit election approvals were not documented and retained.
- Accounts receivable reconciliations between the Banner student module and the Banner finance module were not performed throughout the year and were not performed accurately.

Trinidad State Junior College (TSJC)

Our Fiscal Year Ended June 30, 2014 audit identified the following at TSJC:

- Differences identified by TSJC during the reconciliation process between Colorado Financial Reporting System (COFRS) and the Banner finance module were not adequately documented to explain the cause of the difference and resolved.
- Reconciliations between cash, accounts receivable and COFRS performed for internal control purposes were not performed timely throughout the year.

Evidence of management reviews or management approvals of tuition rates that were manually input into Banner and of employee compensation raises that occurred throughout the fiscal year were not documented and retained for verification purposes.

Return of Title IV Funds

Red Rocks Community College (RRCC) lacked adequate controls to ensure the return of Title IV student financial aid funds was in compliance with federal requirements. Out of 13 return calculations tested for students who withdrew from the college, one calculation was identified with an exception.

Pueblo Community College (PCC) continued to lack adequate controls to ensure the return of Title IV student financial aid funds was in compliance with federal requirements. The prior year audit recommendation that was issued for fiscal year ending June 30, 2013 was not implemented during fiscal year 2014. Out of five return calculations tested for students who withdrew for the college, two calculations were identified with exceptions.

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Disbursements To or On Behalf of Students

Red Rocks Community College (RRCC) and Otero Junior College (OJC) lacked adequate controls to ensure that direct loan disbursements made to students were in compliance with federal requirements. Out of 17 disbursements tested for students who received direct loans, nine disbursements were identified with exceptions.

Enrollment Reporting

Red Rocks Community College (RRCC) and Otero Junior College (OJC) lacked adequate controls to ensure that enrollment status changes are reported to the National Student Loan Data System (NSLDS) in compliance with federal requirements. Out of 16 enrollment status changes tested for students who received Title IV funding, 12 were identified with exceptions.

Recommendations and CCCS Responses

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

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2013 included two recommendations. The disposition of these audit recommendations as of December 8, 2014 was as follows:

Implemented	1
Partially implemented	1
Total	2

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Recommendation Locator

Year ended June 30, 2014

Reg no.	Page no.	Recommendation summary	Agency addressed	Agency response	Implementation date
1	10	Colorado Community College System (CCCS) should ensure that Colorado Northwestern Community College evaluate its policies and procedures and make appropriate changes as necessary to ensure that the College's internal controls are adequate and that financial information is accurate and complete.	CNCC	Agree	January 2014, January 2015 and May 2014
2	14	Colorado Community College System (CCCS) should ensure that Trinidad State Junior College evaluate its policies and procedures and make appropriate changes as necessary to ensure that the College's internal controls are adequate and that financial information is accurate and complete.	TSJC	Agree	July 2014
3	16	Colorado Community College System (CCCS) should ensure that Red Rocks Community College implements internal controls to ensure that calculations for returns of Title IV funds are properly reviewed to ensure accuracy prior to remitting funds to the federal government. Additionally, CCCS should ensure that Pueblo Community College implements internal controls to ensure that Title IV funds are remitted to the federal government within 45 days of the student's withdrawal date.	RRCC and PCC	Agree	October 2014
4	18	Colorado Community College System (CCCS) should ensure that Red Rocks Community College and Otero Junior College implement adequate internal controls over Title IV direct loan disbursements.	RRCC and OJC	Agree	October 2014
5	21	Colorado Community College System (CCCS) should provide oversight and training to assist Red Rocks Community College and Otero Junior College with implementing adequate internal controls over Title IV enrollment reporting.	RRCC and OJC	Agree	January 2015

Organization

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

- The Board is the governing board of the state system of community and technical colleges.
- 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; the College Opportunity Fund stipends; a fee-for-service contract with the Department of Higher Education; and Amendment 50 funding. In addition, the SBCCOE receives and distributes state appropriations for LDCs, AVSs, and school districts offering vocational programs.

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

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

(Continued)

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

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

FTE Student Enrollment

	Resident	Nonresident	Total
Fiscal year:			
2013–2014	52,804	3,279	56,083
2012–2013	55,475	3,589	59,064
2011–2012	58,796	3,545	62,341

FTE Faculty and Staff

	Faculty	Staff	Total
Fiscal year:			
2013–2014	3,924	2,009	5,933
2012–2013	3,951	2,116	6,067
2011–2012	3,929	2,193	6,122

We have audited the financial statements of the Colorado Community College System (CCCS or the System) as of and for the year ended June 30, 2014, and have issued our report thereon, dated December 8, 2014. In planning and performing our audit of the financial statements, we considered CCCS' internal control solely to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated December 8, 2014 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since the date of this report. We did not audit the financial statements of the aggregate discretely presented component units discussed in note 1 to the financial statements. Those financial statements were audited by other auditors 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. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over financial reporting and its operation that we consider to be material weaknesses. We consider Recommendation Nos. 1 and 2 to be significant deficiencies in internal control over financial statement reporting. We consider Recommendation Nos. 3, 4 and 5 to be significant deficiencies in internal control related to the Federal Student Financial Aid program (Title IV) and noncompliance with Title IV funding.

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

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Colorado Northwestern Community College (CNCC)

CNCC is located in Rangely, Colorado with a second campus in Craig, Colorado. Approximately 752.1 full time equivalent students in northwestern Colorado attended CNCC in Fiscal Year 2014. This is an enrollment decrease of 0.5% from Fiscal Year 2013. CNCC's net position at June 30, 2014 totaled $35,484,915 million or 5.7% of Colorado Community College System's (CCCS) total net position. Fiscal Year 2014 operating revenues were $14,156,289 million or 3.5% of CCCS' operating revenue and operating expenses totaled $15,071,001 million or 2.6% of CCCS' operating expenses. CNCC's accounts receivable balance was $2,772,076 at June 30, 2014.

CNCC operations include accounting processes for employee payroll expenses, non-payroll expenses including purchases made through purchasing cards, and student accounts receivable. Within each operation are internal controls designed to detect and prevent misstatements in the related financial statement accounts. Activity is processed through the Banner Enterprise Resource Planning System (Banner). Below is a summary of those internal control processes:

- Payroll Expense: CCCS' payroll expenses include each employee's gross salary plus his or her elected benefits. Employees annually document benefits they have elected to receive on manual benefit election forms.
- Non-Payroll Expense: Non-payroll expenses include transactions related to operations and maintenance of property, student services, academic support, institutional support and auxiliary enterprises. Included within these transactions are purchase card (P-Card) expenses. P-Cards are CNCC-issued credit cards that are given to employees in order to make immediate purchases for their departments or classes. Supervisor approvals are required to ensure the expense is reasonable, necessary and allowable for the department requesting it.
- Student Accounts Receivable: The student accounts receivable module in Banner is populated when students register for classes and incur fees and this information is then interfaced into the finance module in Banner. The finance module is used to generate the financial statements; the reconciliation of these modules ensures that the information generated in the student accounts receivable module is properly reflected in the finance module.

What Was the Purpose of the Audit Work?

The purpose of the audit work was to evaluate internal controls in place over CNCC's payroll and non-payroll expenses and student accounts receivable at CNCC and to test the accuracy of the related account balances as of June 30, 2014.

What Audit Work Was Performed and How Were Results Measured?

To review CNCC's controls over payroll expenses, we tested a sample of 10 employee payroll disbursements that included employee monthly compensation and benefits in order to determine whether the salary and benefits related to each disbursement was appropriately approved by management. CNCC policy requires approved benefits to be documented on benefit election forms which are retained by the Human Resources Department.

To review CNCC's controls over the authorization of non-payroll expenses, including expenses incurred through P-Card purchases, we tested a sample of 10 non-payroll expenditure transactions. The sample of 10 expenses included 1 sample that was a P-Card disbursement. CCCS' purchasing approval policy requires all purchases, including P-Card purchases, to be approved by an authorized individual prior to payment.

To review CNCC's controls over its accounts receivable balances, we reperformed the Banner student accounts receivable module to Banner finance module reconciliation on a sample basis. Specifically, our audit work included reviewing CNCC staff's reconciliations of the student accounts receivable balances for four months: September 2013, October 2013, March 2014, and April 2014. CCCS provides accounting policies for each of the community colleges to follow and, according to CCCS staff, the various college controllers discuss these policies at monthly controller meetings. According to these policies, internal controls over the process should include proper segregation of duties, a management review, and the reconciliation of student accounts receivable balances from the Banner student accounts receivable module to the general ledger (Banner finance module). CCCS policies also require that each reconciliation be performed timely and include the full month's activity. Under AICPA Auditing Standards 115, inadequate documentation of the components of internal control is an indicator of a control deficiency. As such, evidence of reconciliations and management reviews of those reconciliations, as well as the date when they were performed, should be documented and maintained.

What Problem Did the Audit Work Identify?

We identified three deficiencies in internal control at CNCC related to payroll expenses, non-payroll expenses, and accounts receivable reconciliations that we consider, in the aggregate, to be a significant deficiency. These three deficiencies are discussed below.

Purchasing Card Approvals

CNCC could not provide evidence of a supervisor's review and approval prior to payment for the P-Card transaction totaling $24,524 that we tested. The P-Card transaction was comprised of 179 separate purchases made by 16 CNCC employees for various purposes. In addition, none of the individual purchases showed evidence of supervisor approval.

Payroll Benefit Documentation Retention

Four out of ten payroll transactions selected (40 percent) did not include the required employee benefit election forms. As a result, CNCC could not support the completeness and accuracy of the related benefit expense for the four employees.

Accounts Receivable Reconciliations

We noted problems with three of the four accounts receivable reconciliations we selected for testing (75 percent). Specifically, CNCC failed to perform the October 2013 and March 2014 reconciliations. In addition, CNCC performed the April reconciliation prior to month-end on April 25, 2014, rather than April 30, 2014, resulting in days that were not reconciled. We noted significant activity during the five days that were not reconciled between the two modules. Further, CNCC did not retain underlying support for the reconciled amounts on the April reconciliation; as a result, we were unable to verify the completeness and accuracy of the reconciliation.

Why Did the Problem Occur?

CNCC's internal control environment has not been properly designed to ensure adequate performance of the controls over the payroll, P-card, and accounts receivable reconciliation processes. CNCC management stated that CNCC has not consistently required supervisor approvals over employee P-Card purchases. Additionally, CNCC does not have a process in place to ensure that evidence of benefit elections is retained by the Human Resource Department. Finally, staff members performing Banner module reconciliations have not been properly trained on how to perform the reconciliation. Additionally, there is no supervisory review over the reconciliation process to ensure the reconciliations are completed accurately and that supporting documentation is retained.

Why Does this Problem Matter?

Lack of adequately designed controls increases the risk of misappropriation of assets, inappropriate expenditures, budget overruns, and financial statement errors. Additionally, lack of evidence surrounding employee benefit elections increases the risk of inaccurate benefit expenditures. Errors in reported financial information may result in management and users of the financial statements not having accurate information on which to base business decisions.

Classification of Finding:

Significant Deficiency

Recommendation No. 1:

Colorado Community College Systems (CCCS) should ensure that Colorado Northwestern Community College evaluate its policies and procedures and make appropriate changes as necessary to ensure that the College's internal controls are adequate and that financial information is accurate and complete. Specifically, CNCC should:

A. Enforce its policy requiring the review and approval of Purchasing Card purchases by someone other than the requestor in order to ensure purchases are reasonable, necessary and allowable.
B. Ensure that evidence of selected employee benefits is documented and retained by the Human Resource Department.
C. Provide adequate training to staff members to ensure that information contained in the Banner finance module is reconciled to the Banner student accounts receivable module on a monthly basis and that any discrepancies are identified, documented, and resolved timely. The reconciliations should be prepared at month-end and be signed off by a supervisor to ensure that all activity during the month has been properly reconciled and reported and the underlying support used to prepare the reconciliation should be documented and retained.

CCCS Response:

A. Agree Implementation Date: January 2014

The sample selected was payment for purchase activity in June 2013 but was paid out in July 2013. CCCS underwent a P-Card Audit in the first half of fiscal year 2014 which identified issues with the P-Card management. Immediately, CNCC required all P-Card holders and their supervisors to attend mandatory training.

We changed our policy from the P-Card Administrator only conducting quarterly reviews during the year to a monthly review. Additionally, CNCC has enforced supervisor review of employee P-Card purchases during the monthly P-Card audit conducted at the college. Due to timing constraints, it is impossible for the supervisor to approve all P-Card purchases prior to payment; however, based on the P-Card audits adjustments can be made with the credit card company. The Controller now reviews the file at least quarterly to ensure P-Card purchases have appropriate support and the P-Card statement has supervisor approval. As the corrective action was implemented in the later half of fiscal year 2014 after the dates of the samples, the finding is included as a fiscal year 2014 finding.

B. Agree Implementation Date: January 2015

The four employees for which the benefit election forms were reviewed all elected to receive benefits in 2012 and did not re-elect to change their previously elected benefits for fiscal year 2014. In FY14, CCCS implemented the Banner Document Management (BDM) system for HR, and as such, currently all personnel documentation is scanned and indexed into BDM by employee. This will ensure each active employee has complete personnel file uploaded to the BDM system, including benefit election forms.

C. Agree Implementation Date: May 2014

The Controller at CNCC sought and received training on the AR reconciliation within a week of this finding and is doing the reconciliation as of month end.

Trinidad State Junior College

Trinidad State Junior College (TSJC) is located in Trinidad, Colorado with a second campus in Alamosa, Colorado. Approximately 1,407.61 full time equivalent students in southern Colorado attended TSJC in Fiscal Year 2014. This is an enrollment decrease of (0.46%) from Fiscal Year 2013. TSJC’s net position at June 30, 2014 totaled $15,900,962 million or 2.6% of Colorado Community College System’s (CCCS) total net position. Fiscal Year 2014 operating revenues were $12,610,558 million or 3.1% of CCCS’ operating revenue and operating expenses totaled $21,581,450 million or 3.7% of CCCS’ operating expenses. TSJC’s accounts receivable balance was $1,730,309 at June 30, 2014.

The Banner finance module, which contains general ledger amounts and is used to generate the College’s financial statements, interfaces with COFRS, the State’s financial reporting system. Reconciliations between these two systems are performed to ensure general ledger amounts contained within the Banner finance module are completely and accurately reported on COFRS.

The student accounts receivable module in Banner is populated when students register for classes and incur fees; this information is then interfaced into the finance module in Banner. TSJC staff perform reconciliations of these two modules to ensure that the information generated in the student accounts receivable module is properly reflected in the finance module. Finally, TSJC performs cash reconciliations between TSJC bank accounts and Banner cash accounts to identify reconciling items and follow up on those items.

On a bi-annual basis, the Board approves tuition rates to be charged for the subsequent semester. Upon approval of the new rates, TSJC staff manually enter these rates into the Banner rate table. After the rates are entered, TSJC management reviews the information within Banner to ensure that the rates are correct. Then, Banner calculates tuition revenue based on the inputs within the rate table and records the related charges to the students' accounts.

On an annual basis, the TSJC President approves any payroll increases for TSJC staff before the increases are communicated to staff. Each year, the System Office provides each college an upper limit to which payroll costs may be raised. The President reviews detailed documentation provided by the Human Resources Department and determines the reasonableness of the raises and ensures they are in accordance with System policy.

What Was the Purpose of the Audit Work?

The purpose of the audit work was to evaluate internal and operational controls in place over cash, accounts receivable, revenue, and payroll and non-payroll expenses at TSJC and to test the accuracy of the related account balances as of June 30, 2014.

What Audit Work Was Performed and How Were Results Measured?

To review TSJC's internal controls over accounts receivable balances, we reperformed TSJC staff's Banner student module to finance module reconciliations on a sample basis. Specifically, our audit work included reviewing TSJC staff's reconciliations of the two modules' accounts receivable balances for October 2013 and March 2014.

Additionally, to review TSJC's controls over its cash balances, we reperformed TSJC's cash reconciliations on a sample basis to ensure Banner and COFRS cash balances reconciled completely and accurately to the bank statements. Specifically, our audit work included reviewing TSJC staff's reconciliations of cash balances in Banner and COFRS for October 2013 and March 2014.

Our audit work also included reviewing TSJC's controls over tuition rates and payroll, including review and approval processes over tuition rates manually entered into the Banner rate table and annual pay increases for TSJC staff. We performed testwork to determine whether all Fiscal Year 2014 tuition rates entered into the Banner rate table agreed to the Board-approved rates. Additionally, we performed testwork to ensure staff entering the tuition rates were separate from staff reviewing and approving the rates. Finally, we performed testwork to determine whether TSJC employee raises processed by TSJC staff during Fiscal Year 2014 were approved by the TSJC President.

CCCS provides accounting policies for each of the community colleges to follow and, according to CCCS staff, the various college controllers discuss these policies at monthly controller meetings. According to these policies, each community college should have internal controls in place including: a reconciliation process of all student accounts receivable balances to the Banner student module, a reconciliation process between all Banner and COFRS financial statement accounts to ensure Banner is interfacing to COFRS completely and accurately, and a reconciliation process over Banner cash balances. These policies also require all reconciliations to include a proper segregation of duties and a management review. The policies specify reconciliations should be performed within the following month after the previous month's end to ensure timely resolution of differences. Under AICPA Auditing Standards 115, inadequate documentation of the components of internal control is an indicator of a control deficiency. As such, evidence of reconciliations and management reviews of those reconciliations, as well as the date when they were performed, should be documented and maintained.

What Problem Did the Audit Work Identify?

We identified three deficiencies in internal control at TSJC related to payroll expenses, non-payroll expenses, cash, and accounts receivable that we consider, in the aggregate, to be a significant deficiency. These three deficiencies are discussed below.

Reconciliations of Banner to COFRS

During our review of the October 2013 and March 2014 reconciliations between the Banner finance module and COFRS, we determined that, through the reconciliation process, TSJC staff had identified a difference between the systems of approximately $134,000 through both the October 2013 and March 2014 reconciliations; however, the cause of the difference was not investigated and the resulting error was not corrected by management. Specifically, TSJC identified $133,750 in the Banner furniture and equipment account that was not recorded in the COFRS furniture and equipment account. TSJC staff identified $133,750 that was recorded in the COFRS vehicles account that was not recorded in the Banner vehicles account. Through our testing of the reconciliation, we determined that the two $133,750 differences resulted from the improper classification of a vehicle as furniture and equipment instead of as a vehicle within the Banner system. TSJC management did not correct the error to resolve the difference identified during the reconciliation process.

Timeliness of Reconciliations

We determined that TSJC staff did not perform five out of the six reconciliations we reviewed in a timely manner. Specifically, the reconciliations were performed from 52 to 75 days after month-end, as noted below.

- Cash Reconciliations: The October 2013 reconciliation did not contain a completion date, so we were unable to determine when it was performed. The March 2014 reconciliation was not performed until May 23, 2014, or 53 days after month-end.
- Accounts Receivable Reconciliations: The March 2014 reconciliation was not performed until May 22, 2014, or 52 days after month-end. COFRS Reconciliations: The October 2013 reconciliation was not performed until January 14, 2014, or 75 days after month-end. The March 2014 reconciliation was not performed until May 23, 2014, or 53 days after month-end.

Evidence of Approvals

During our testing of the accuracy of the tuition rate table, we did not identify any errors in the rate table. However, TSJC was unable to provide evidence of the review and approval of the tuition rates that were manually entered into the Banner rate table. Additionally, TSJC was unable to provide evidence of the President’s approval of the annual employee raises for Classified Non-Faculty and Professional Employees. We were able to verify management authorization of other classes of employees in our sample.

Why Did the Problem Occur?

TSJC’s internal control environment has not been designed to ensure adequate performance of cash reconciliations, Banner accounts receivable to Banner finance module reconciliations, or Banner finance module to COFRS reconciliations. Due to a lack of staff training on and supervisory review of the reconciliations, TSJC staff did not document and research why differences existed between the Banner finance module and COFRS.

(Continued)

Additionally, TSJC does not have controls in place to ensure that reconciliations are performed in a timely manner. TSJC also does not have a policy in place requiring that approvals over tuition rates and employee raises are adequately documented and retained.

Why Does this Problem Matter?

Lack of adequately designed controls increases the risk of misappropriation of assets, unnecessary costs, budget overruns, and financial statement errors. Errors in the reported financial information may result in management and users of the financial statements relying on inaccurate information as a basis for business decisions.

Classification of Finding:

Significant Deficiency

Recommendation No. 2

Colorado Community College System (CCCS) should ensure that Trinidad State Junior College evaluate its policies and procedures and make appropriate changes as necessary to ensure that the College's internal controls are adequate and that financial information is accurate and complete. Specifically, TSJC should:

A. Ensure individuals performing the reconciliations are properly trained to document and resolve differences identified during the reconciliation process. Additionally, reconciliations should be reviewed by management to ensure differences are adequately documented and resolved.

B. Implement management review over monthly reconciliations to ensure that staff perform the reconciliations prior to completion of the following month's activities to allow for prompt resolution of reconciling differences. For example, March activity should be timely reconciled by the end of April.

C. Implement a policy requiring the documentation of management reviews and approvals. Additionally, the policy should require that management retain the documentation to support that the review occurred.

CCCS Responses:

A. Agree Implementation Date: July 2014

The Senior Accountant now prepares the reconciliations and the Controller reviews and investigates the differences. All differences identified are corrected prior to the completions of the following month's reconciliation.

B. Agree Implementation Date: July 2014

Although the October 2013 reconciliation was not dated, the reconciliation was performed in November of 2013. All future reconciliations are dated by both the preparer (Senior Accountant) and the reviewer (Controller) of the reconciliation. Due to staff turnover/layoff and extended staff illness, the March 2014 cash and accounts receivable reconciliations were not performed until May of 2014. Future reconciliations will be completed by the close of the following month for which they pertain.

(Continued)

C. Agree Implementation Date: July 2014

The Controller now documents the management review of the tuition rates entered into the Banner system. The Controller also ensures the annual salary increases have documentation of management review. The documentation is retained to support the review.

Controls over the Return of Title IV Funds:

Red Rocks Community College (RRCC), Community College of Denver (CCD), Otero Junior College (OJC), Pueblo Community College (PCC) and Northeastern Junior College (NJC) participate in several federal student financial aid programs authorized under Title IV of the Higher Education Act of 1965 (Title IV), including Direct Loans, Pell, and Federal Work Study. Title IV establishes general rules that apply to student financial aid programs and requires that when a student who has received Title IV funds withdraws from an institution, the institution must determine the amount of Title IV aid that shall be returned to the federal government for Title IV programs. RRCC distributed $25,616,604, CCD distributed $40,706,249, OJC distributed $2,837,666, PCC distributed $29,338,448, and NJC distributed $6,371,959 in Title IV funds to students during Fiscal Year 2014.

What was the purpose of the audit work?

The purpose of the audit work was to assess the adequacy of RRCC's, CCD's and OJC's internal controls over and compliance with the requirements for the return of Title IV funds to the U.S. Department of Education when students who received these funds withdrew from the institution for the year ending June 30, 2014. Additionally, the purpose included assessing PCC's and NJC's implementation of the prior year audit recommendation issued for the year ending June 30, 2013 as it relates to the return of Title IV funds to the U.S. Department of Education.

What audit work was performed and how were results measured?

The audit work included reviewing a sample of 50 total return calculations for Title IV students who withdrew from RRCC, CCD, OJC, PCC and NJC during Fiscal Year 2014 to determine whether Title IV funds were returned in compliance with federal regulations and reviewing RRCC's, CCD's, OJC's, PCC's and NJC's internal control processes over Title IV funds. Of the 50 items tested, 13 were from RRCC, 14 were from CCD and 13 were from OJC. Additionally, to ensure the prior year audit recommendation related to the return of Title IV funds at PCC and NJC had been implemented, we tested five return calculations from PCC and five items from NJC.

Title IV regulations require that, when a recipient of Title IV grants or loan assistance withdraws from an institution during a payment period (the current semester for which the student has paid) or period of enrollment (if the student is enrolled in a non-standard term) in which the recipient was in attendance, the institution determine the amount of Title IV aid earned by the student as of the student's date of withdrawal. Federal regulations require that institutions return Title IV funds to the U.S. Department of Education no later than 45 days after the date of the student's withdrawal. Finally, the federal Office of Management and Budget's *Circular A-102* Common Rule requires that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

What problem did the work identify?

Overall, we identified exceptions with 3 out of 50 (6 percent) Title IV funds return calculations we tested for students who withdrew during Fiscal Year 2014. These exceptions resulted in a total of $271[1] in known questioned costs; all $271[1] of these costs were paid with federal grant funds. We noted the following specific exceptions:

- At RRCC, we determined that RRCC staff used incorrect information when calculating the amount of funds to be returned for one out of 13 (8 percent) students. Specifically, RRCC did not include the cost of a lab kit in the amount of tuition and fees disbursed; as a result, RRCC returned $271[1] less in Title IV funds to the U.S. Department of Education than it should have returned.
- At PCC, we determined that PCC staff did not remit funds for two of five students (40 percent) to the U.S. Department of Education within the required timeframe. One return totaling $2,778 that was due to be returned by June 28, 2014 was returned on July 2, 2014, four days late. The second return totaling $1,114 that was due to be returned by June 26, 2014 was returned on July 1, 2014, five days late.

Why did the problem occur?

RRCC did not have adequate internal controls in place over the return of Title IV funds calculations to ensure the calculations were accurate. PCC did not have adequate processes in place for timely identification of withdrawing students by the institutions' respective directors of financial aid, who initiate the process for calculating whether Title IV funds must be repaid to the U. S. Department of Education. Further, PCC did not adequately address the prior year audit recommendation to implement internal controls to ensure that Title IV funds are returned to the federal government in the required timeframe.

Why does this problem matter?

Failure to properly calculate or initiate refunds in the timeline required increases the risk that Title IV funds will not be returned in accordance with federal regulations.

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

[1]Total known federal questioned costs of $271

Classification of Finding:

Non-Compliance and Significant Deficiency

Recommendation No. 3:

Colorado Community College System (CCCS) should ensure that Red Rocks Community College implements internal controls to ensure that calculations for returns of Title IV funds are properly reviewed to ensure accuracy prior to remitting funds to the federal government. Additionally, CCCS should ensure that Pueblo Community College implements internal controls to ensure that Title IV funds are remitted to the federal government within 45 days of the student's withdrawal date.

(Continued)

CCCS Response:

Agree Implementation Date: October 2014

RRCC: RRCC's Financial Aid Director implemented a practice of secondary staff review of a sample of all calculations for return of Title IV funds effective October 2014, to ensure that any errors in calculation are timely corrected and all funds remitted to the federal government are calculated accurately.

PCC: PCC began identifying and processing students who require a Return of Title IV (R2T4) calculation on a weekly basis beginning with the Summer 2014 semester. A financial aid advisor is responsible for performing the R2T4 calculations. This process change ensures that PCC returns funds for students who require an R2T4 calculation within the required timeframe. The director of financial aid has also started performing secondary reviews of 10% of all R2T4 calculations.

<u>Controls over the Disbursements To or On Behalf of Students:</u>

Red Rocks Community College (RRCC), Community College of Denver (CCD) and Otero Junior College (OJC) participate in the direct loan program authorized under Title IV of the Higher Education Act of 1965 (Title IV). Title IV establishes general rules that must be performed prior to the disbursement of direct loan funds to a student. RRCC distributed $14,666,412, CCD distributed $22,760,471, and OJC distributed $2,006,550, in Title IV direct loan funds to students during Fiscal Year 2014.

What was the purpose of the audit work?

The purpose of the audit work was to assess the adequacy of RRCC's, CCD's, and OJC's internal controls over and compliance with the federal requirements related to disbursements of Title IV direct loans to or on behalf of students.

What audit work was performed and how were results measured?

The audit work included reviewing a sample of 25 total disbursements of Title IV direct loans made by RRCC, CCD, and OJC during Fiscal Year 2014 to determine whether the colleges disbursed Title IV direct loan funds in compliance with federal regulations and reviewing RRCC's, CCD's, and OJC's internal control processes in place over Title IV direct loans. Of the 25 items tested, eight were from RRCC, eight were from CCD and nine were from OJC. Exceptions were identified at RRCC and OJC; no exceptions were identified at CCD.

Title IV establishes general rules that apply to student financial aid direct loan programs and requires that an institution notify the student, or parent in writing of (1) the date and the amount of the disbursement, (2) the student's right or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan and (3) the procedure and time by which the student or parent must notify the institution that he or she wished to cancel the loan. Institutions must notify a student no earlier than 30 days before, but no later than seven days after, crediting the student's account and must give the student 30 days to cancel all or part of the loan. Additionally, Title IV requires that a school must ensure that loan counseling is conducted with each direct loan prior to making the first disbursement of the proceeds of a loan to a student borrower. RRCC, OJC and CCD have written policies in place instructing student financial aid staff to send out notification letters within the Title IV guidelines and conduct loan counseling prior to disbursement of aid.

What problem did the work identify?

Overall, we identified problems with 9 of 25 (36 percent) disbursements of Title IV direct loans we tested. We noted the following specific exceptions:

- At RRCC, RRCC failed to send the direct loan disbursement notification letter to either the student or parent within the required timeframe for eight of eight disbursements tested (100 percent). Specifically, notification letters were sent one to eight days late.
- At OJC, OJC staff did not perform loan counseling for one of nine disbursements (11 percent) prior to the loan disbursement. The student received a direct loan disbursement on December 4, 2013 in the amount of $4,500; however, the student had not received loan counseling as of the end of our audit testwork in September 2014.

Why did the problem occur?

RRCC did not have an adequate tracking mechanism in place for timely notification of direct loan disbursements in accordance with Title IV regulation. Additionally, OJC did not have adequate staff training to ensure that students receive loan counseling prior to receiving a direct loan disbursement.

Why does this problem matter?

A lack of adequate policies, tracking mechanisms, and training over Title IV direct loan grant awards, including required procedures to conduct loan counseling prior to the disbursement of direct loans and send notification letters to students communicating the disbursements of direct loans, increases the risk that RRCC and OJC will be out of compliance with federal regulations and could face federal sanctions.

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

Classification of Finding:

Non-Compliance and Significant Deficiency

Recommendation No. 4:

Colorado Community College System (CCCS) should ensure that Red Rocks Community College and Otero Junior College implement adequate internal controls over Title IV direct loan disbursements by:

a. Working with Red Rocks Community College staff to institute a process to include a notification letter to the student and/or parent for direct loan disbursements no earlier than 30 days before, but no later than seven days after the disbursement.

b. Working with Otero Junior College staff to institute a process to conduct loan counseling prior to disbursing Title IV direct loan funds to the student or parent.

(Continued)

CCCS Response:

Agree Implementation Date: October 2014

RRCC: RRCC's Financial Aid Director instituted weekly letter notification letter generation by financial aid staff for all direct loan disbursements to ensure all students are properly notified within the statutorily required time period.

OJC: Loan entrance counseling is completed prior to the loan being certified. OJC has put processes in place to verify that the counseling has been completed before a loan is entered on the system and sent for processing.

<u>Controls over Accuracy of Enrollment Reporting:</u>

Title IV establishes general rules for reporting changes in student enrollment to the National Student Loan Data System (NSLDS). These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence. To report enrollment changes to the NSLDS, RRCC, CCD and OJC staff use the National Student Clearinghouse (Clearinghouse) which acts as a single point of contact for reporting. The Clearinghouse then reports each school's student enrollment information to the NSLDS. According to the Clearinghouse Audit Guide, each institution has different needs; therefore, the NSLDS transmission schedule is different for each Clearinghouse participating institution.

What was the purpose of the audit work?

The purpose of the audit work was to assess the adequacy of RRCC's, CCD's, and OJC's internal controls over and compliance with the federal reporting requirements related to changes in enrollment status for students who received Title IV funding during fiscal year 2014.

What audit work was performed and how were results measured?

The audit work included reviewing a sample of 25 students who graduated from, withdrew from, dropped out of, or enrolled but never attended RRCC, CCD, and OJC during fiscal year 2014 to determine whether the colleges reported the enrollment status changes in compliance with Title IV federal regulations. The audit work also included reviewing RRCC's, CCD's, and OJC's internal controls over reporting of enrollment status changes. Of the 25 students tested, eight were from RRCC, nine were from CCD and eight were from OJC.

Title IV establishes general rules that apply to students who have an enrollment status change and receive Title IV funding. Whenever attendance changes for the students, enrollment information must be reported to the NSLDS within 30 days unless a roster is to be submitted to the NSLDS within 60 days. The institutions determine how often the roster files will be sent to the NSLDS, but Title IV requires submittal a minimum of two times each school year. It is each institution's responsibility to understand their individually-required Clearinghouse transmission schedules to the NSLDS. Title IV guidance requires institutions to be responsible for timely reporting, whether they report directly or via a third-party service provider.

What problem did the work identify?

Overall, we identified problems with 12 of 25 (48 percent) student enrollment status changes we tested. We noted the following specific exceptions:

- For six of the eight (75 percent) enrollment status changes tested at RRCC, staff failed to report the enrollment status change to the Clearinghouse timely enough to allow the Clearinghouse to report the enrollment status change to the NSLDS in compliance with federal regulations, as noted below:

    - Three enrollment changes were reported to the Clearinghouse 54 days after RRCC became aware of the status changes. The next scheduled Clearinghouse transmission was scheduled 11 days later; therefore, these enrollment changes were reported to the NSLDS 65 days after RRCC became aware of the change, five days later than the Title IV enrollment reporting requirement.

    - The other three enrollment changes were reported to the Clearinghouse 112 days after RRCC became aware of the status change. The next scheduled Clearinghouse submission was scheduled 37 days later; therefore, these enrollment changes were reported to the NSLDS 149 days after RRCC became aware of the change, 89 days later than the Title IV enrollment reporting requirement.

- For six of the eight (75 percent) enrollment status changes tested at OJC, staff failed to report the enrollment status change to the Clearinghouse timely enough to allow the Clearinghouse to submit the enrollment changes to the NSLDS in compliance with federal regulations, as noted below:

    - Four enrollment changes were reported to the Clearinghouse 51 days after OJC became aware of the status changes. The next scheduled Clearinghouse transmission to the NSLDS was scheduled 21 days later; therefore, these enrollment changes were reported 72 days after OJC became aware of the change, 12 days later than the Title IV enrollment reporting requirement.

    - Two enrollment changes were reported to the Clearinghouse 40 days after OJC became aware of the status change. The next scheduled Clearinghouse submission was scheduled 79 days later; therefore, these enrollment changes were reported to the NSLDS 119 days after OJC became aware of the change, 59 days later than the Title IV enrollment reporting requirement.

There were no problems identified with the nine samples from CCD.

Why did the problem occur?

RRCC and OJC do not have enrollment reporting processes in place that define when to appropriately submit enrollment status change information to the Clearinghouse to ensure compliance with Title IV regulations; including having internal controls in place to monitor the Clearinghouse’s submissions to the NSLDS.

Why does this problem matter?

A lack of adequate policies over Title IV enrollment status change reporting, including timely reporting status change information to NSLDS within 30 days of the change or within 60 days of a roster filing, increases the risk that RRCC and OJC will not be in compliance with federal regulations, and may result in federal sanctions.

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

Classification of Finding:

Non-Compliance and Significant Deficiency

Recommendation No. 5:

The Colorado Community College System (CCCS) should provide oversight and training to assist Red Rocks Community College and Otero Junior College with implementing appropriate internal controls over Title IV enrollment reporting to ensure enrollment status changes are reported to the Clearinghouse in a timely manner. These internal controls should include policies and procedures to ensure required information is reported to the NSLDS from the Clearinghouse in accordance with Title IV regulations.

CCCS Response:

Agree Implementation Date: January 2015

OJC and RRCC will review their Enrollment Reporting Schedules to ensure files are submitted to the Clearinghouse in a timely manner that allows the enrollment status changes to be submitted to NSLDS within the 60 day regulatory requirement. In addition, the CCCS Registrar's and Records Group and the Financial Aid Directors Group will review and update the CCCS Business Process to include internal controls to monitor Clearinghouse submissions to the NSLDS.

COLORADO COMMUNITY COLLEGE SYSTEM

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2014

Recommendations Issued for Year End June 30, 2013	**Disposition**
Recommendation No. 1 Otero Junior College should implement appropriate reconciliation processes over its accounts receivable balances to properly identify, document, and follow up on reconciling items.	Implemented.
Recommendation No. 2 Pueblo Community College and Northeastern Junior College should work to ensure the timely and accurate Return of Title IV funds.	Implemented for Northeastern Junior College. Not implemented for Pueblo Community College. See current year recommendation No. 3 for colleges tested in the current year.

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

Independent Auditors' Report

The Members of the Legislative Audit Committee and
Colorado Community College System:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise CCCS's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Colorado Community College System as of June 30, 2014 and 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1, the financial statements of CCCS, an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of CCCS. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in note 21 to the financial statements, the June 30, 2013 financial statements of the aggregate discretely presented component units have been restated to correct certain misstatements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 25 to 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 8, 2014 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCCS' internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado
December 8, 2014

The following discussion and analysis provides management's view of the financial position and results of operations for the Colorado Community College System (CCCS or the System) as of and for the years ended June 30, 2014 and 2013 (fiscal years 2014 and 2013, respectively), with comparative information presented for fiscal year 2012. This analysis should be read in conjunction with CCCS' financial statements and notes to the financial statements. This analysis is intended to make CCCS' financial statements easier to understand and communicate our financial situation in an open and accountable manner.

Background

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

CCCS is Colorado's largest institution of higher education and served approximately 134,000 students (56,100 full-time equivalent students) during the fiscal year ended June 30, 2014. The System has approximately 5,900 employees by FTE, of which two-thirds are faculty and adjunct instructors. The colleges offer a wide variety of both academic and career programs leading either to degrees and certificates, or otherwise enhancing personal and professional growth. In addition to the 13 community colleges, CCCS also assists the State Board for Community Colleges and Occupational Education (the Board) in exercising certain curriculum and funding authority over three Area Vocational Schools (AVSs), two Local District Colleges (LDCs), and secondary career and technical programs in over 160 school districts throughout the state.

Higher education institutions in the State have the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), if the institution meets the stated qualifications. CCCS qualified as an enterprise for fiscal year 2014 because it is a government-owned business with legal authority to issue revenue bonds. In addition, the System was required to receive (and is expected to continue to receive) less than 10.0% (in relation to total revenues) in support from the State. In fiscal years 2014, 2013, and 2012, the System received 2.4%, 1.6%, and 1.7%, respectively, of total revenue in State support (notes 4 and 20). Beginning in fiscal year 2008, House Bill 08-1079 specifically excluded moneys transferred from the Colorado Department of Education (CDE) for career and technical education as state grants for the purpose of this calculation, including funding under the Career and Technical Act (CTA).

CCCS is partially funded through the College Opportunity Fund (COF) stipend program and a fee-for-service (FFS) contract with the Colorado Department of Higher Education (CDHE), approved by the Colorado Commission on Higher Education (CCHE). COF provides state tax dollars to students through a stipend paid on a per credit-hour basis to the institution at which the student is enrolled. COF may support the costs of up to 145 eligible undergraduate credits for each eligible student. For fiscal years 2014, 2013, and 2012, respectively, the COF stipend was $64, $62, and $62, per credit hour, which students could use to pay for a portion of their tuition. The FFS contract is the purchase of educational services, by the State, from CCCS that are not part of the COF stipend program. In fiscal years 2014, 2013, and 2012, respectively, CDHE's contract with CCCS purchased credit hours for vestibule labs, reciprocal programs, and educational services in rural areas. In fiscal year 2012, the CDHE's contract with CCCS also included purchased credit hours for career and technology, vocational, and other high cost, specialized instructional educational services (notes 3 and 4).

Student tuition and fees, net of scholarship allowance, comprise several important and offsetting components. Student tuition and fees charges alone include all amounts earned for the provision of instructional services to students, including stipends paid for eligible undergraduate students under COF. In fiscal year 2014, CCCS had a $1.1 million decrease in gross tuition and fee revenue resulting from a 4.1% decrease in enrollment, offset by a 6.0% increase in resident tuition and nonresident tuition rates. This also includes a decrease in COF funding of approximately $2.3 million compared to fiscal year 2013. This gross tuition and fee decrease was offset by a decrease in the scholarship allowance, or the amount of federal– and state-funded financial assistance paid on behalf of students, which is netted against tuition and fee revenue. This scholarship allowance offset decreased $8.4 million in fiscal year 2014 due to a decrease in the number of students receiving Pell awards, in part, as well as a decrease in Federal Pell awards received for students, on a per student basis.

The following table represents the change in tuition and fees from fiscal year 2013 to 2014 (in millions):

Tuition and fees increase due to enrollment changes and rate increases	$	1.2
Less decrease in COF stipend funding		(2.3)
Gross tuition and fee decrease		(1.1)
Decrease as a result of an offsetting increase in bad debt (starting in FY14)		(4.4)
Increase as a result of an offsetting decrease in scholarship allowance		8.4
Net increase in student tuition and fees, net of scholarship allowance	$	2.9

The following table represents the change in tuition and fees from fiscal year 2012 to 2013 (in millions):

Tuition and fees increase due to enrollment changes and rate increases	$	1.9
Less decrease in COF stipend funding		(4.0)
Gross tuition and fee decrease		(2.1)
Increase as a result of an offsetting decrease in scholarship allowance		2.0
Net decrease in student tuition and fees, net of scholarship allowance	$	(0.1)

In November 2008, voters passed Amendment 50, which expanded limited stakes gaming in three Colorado mountain towns. CCCS received approximately $5.5 million in Amendment 50 funding in fiscal year 2014, of which $4.7 million was used for classroom instruction-related expenses and $0.5 million was awarded to students for scholarships, with the remaining $0.5 million cumulative, including prior years, available for fiscal year 2015. In fiscal year 2013, CCCS received approximately $5.8 million, of which $4.8 million was used for classroom instruction-related expenses and $0.6 million was awarded to students for scholarships.

On January 25, 2012, CCCS issued series 2012A Systemwide Revenue Refunding Bonds for $11,495,000. The bonds were used to current and advance refund the capital leases between the Colorado Community College

(Continued)

Foundation and the System Office, Pikes Peak Community College (PPCC), and Arapahoe Community College (ACC).

On July 10, 2013, CCCS issued series 2013 Revenue bonds for $21,025,000. The bonds are being used to finance the construction, improvement, equipping, renovation, expansion, and upgrade of various campus facilities for the Front Range Community College (FRCC) Larimer campus and the FRCC Westminster campus facilities.

Financial Highlights

At June 30, 2014, CCCS' assets and deferred outflows of $832,033,177 exceeded its liabilities of $214,117,901 by $617,915,276. At June 30, 2013, CCCS' assets and deferred outflows of $806,243,896 exceeded its liabilities of $192,490,898 by $613,752,998. The resulting net position is summarized into the following categories:

	June 30		
	2014	2013	2012
Net investment in capital assets	$ 324,876,574	318,418,172	323,746,565
Restricted, expendable	41,622,072	40,938,410	37,800,466
Unrestricted	251,416,630	254,396,416	261,738,889
Total net position	$ 617,915,276	613,752,998	623,285,920

The restricted, expendable net position may be spent, but only for the purposes for which the donor or grantor or other external party intended. Unrestricted net position 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 building and equipment expansion and repair, and new programs.

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

During fiscal year 2013, the CCCS' total net position decreased by $9,532,922. The decrease in net position is a result of excess expenses compared to overall revenue streams.

Overview of the Financial Statements

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

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

In fiscal year 2013, CCCS implemented GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which was effective for financial statements for periods beginning after December 15, 2011. The statement provides financial reporting guidance for deferred outflows and deferred inflows of resources, and renames the residual of all financial statement elements as net position. Additionally in fiscal year 2013, CCCS early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which was effective for financial statements for periods beginning after December 15,

2012. The statement provides financial reporting guidance for accounting for certain items that were previously reported as assets and liabilities and recognize them as outflows or inflows of resources.

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

The *Statements of Net Position* present information on all of CCCS' assets and deferred outflows and liabilities at a point in time (June 30, 2014 and 2013), with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. A reader of the financial statements should be able to determine the assets available to continue CCCS' operations, how much CCCS owes to vendors and lending institutions, and a picture of net position and the relative availability for expenditure by CCCS.

The *Statements of Changes of Revenues and Expenses and Changes in Net Position* present information showing how CCCS' net position changed during the fiscal period (the fiscal years ended June 30, 2014 and 2013). All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues, deferred outflows and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered). The purpose is to assess CCCS' operating results. CCCS reports its activity as a special-purpose government engaged only in business-type activities using the economic resources measurement focus and the accrual basis of accounting.

The *Statements of Cash Flows* present cash receipts and payments to and from CCCS for the reporting period (the fiscal years ended June 30, 2014 and 2013) using the direct method. The direct method of cash flow reporting portrays cash flows from operations, noncapital financing, capital and related financing, and investing activities. The purpose is to assess CCCS' ability to generate net cash flows and meet its obligations as they come due.

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

Financial Analysis

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

The assets and deferred outflows reported by CCCS exceeded liabilities at June 30, 2014 and 2013, resulting in a net position of $617,915,276 and $613,752,998, respectively. The majority (52.6% for 2014 and 51.9% for 2013) of CCCS' net position are net investment in capital assets (e.g., land, buildings, and equipment). These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

(Continued)

The assets and deferred outflows reported by CCCS exceeded liabilities at June 30, 2013 and 2012, resulting in a net position of $613,752,998 and $623,285,920, respectively. The majority (51.9% for 2013 and 51.9% for 2012) of CCCS' net position are net investment in capital assets (e.g., land, buildings, and equipment). These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

		June 30		
		2014	**2013**	**2012**
Current assets	$	395,057,104	403,895,143	403,736,333
Noncurrent assets, including capital assets of $409,714,852, $399,259,489, and $383,429,906, respectively		436,922,259	402,261,095	409,808,549
Total assets	$	831,979,363	806,156,238	813,544,882
Total deferred outflows	$	53,814	87,658	—
Current liabilities	$	97,326,484	97,128,482	93,200,789
Noncurrent liabilities		116,791,417	95,362,416	97,058,173
Total liabilities	$	214,117,901	192,490,898	190,258,962
Net position:				
Net investment in capital assets	$	324,876,574	318,418,172	323,746,565
Restricted – expendable		41,622,072	40,938,410	37,800,466
Unrestricted		251,416,630	254,396,416	261,738,889
Total net position	$	617,915,276	613,752,998	623,285,920

Current assets decreased as of June 30, 2014 compared with June 30, 2013 by approximately $8.8 million or 2.2% as a result primarily of a $13.3 million decrease in cash and cash equivalents offset by a $5.1 million increase in accounts receivable. Increases in accounts receivable include an increase of $4.6 million in student receivables, net, and an increase of $596.6 thousand in due from other governments, net, offset by a decrease of $109.5 thousand in other receivables, net, approximately.

Current assets increased as of June 30, 2013 compared with June 30, 2012 by approximately $200 thousand or 0.04% as a result of a $300 thousand increase in inventories, a $100 thousand increase in prepaid expense, and a $500 thousand increase in accounts receivable, offset by a $700 thousand decrease in cash and cash equivalents. Increases in accounts receivable include an increase of $2.2 million in student receivables, net, and an increase of $500 thousand in other receivables, net, offset by a decrease of $2.1 million in due from other governments, net, approximately.

Current liabilities increased as of June 30, 2014 compared with June 30, 2013 by approximately $198 thousand or 0.2% primarily due to an increase of $1.5 million in unearned revenue and an increase of $1.4 million in deposits held for others, offset by a decrease of $3.4 million in accounts payable and accrued liabilities.

Current liabilities increased as of June 30, 2013 compared with June 30, 2012 by approximately $3.9 million or 4.2% due to an increase of $2.8 million accounts payable and accrued liabilities, and an increase of $1.0 million in deposits held for others, an increase of $600 thousand in bonds and capital leases payable – current, and an increase of $300 thousand in compensated absences – current, offset by a decrease of $800 thousand in unearned revenue.

Net position may have restrictions imposed by external parties, such as donors, who specify how the assets must be used, or by their nature are invested in capital assets (property, plant, and equipment). Restricted net position (6.7% for 2014, 6.7% for 2013, and 6.1% for 2012 of total net position) are primarily restricted for auxiliary programs, scholarships, loans, and community training programs.

Unrestricted net position (40.7% for 2014, 41.4% for 2013, and 42.0% for 2012 of total net position) 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 position for certain purposes, including capital maintenance, equipment expansion and repair, and new programs.

The *Statements of Changes of Revenues and Expenses, and Changes in Net Position* report the results of operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net position at the end of the year. A key component of this statement is the differentiation between operating and nonoperating activities. Operating revenues are received for providing goods and services to the various constituencies of CCCS. The COF stipend program revenue is included in student tuition and fees and FFS contract revenue is separately presented, both of which are classified as operating revenues. Operating expenses are paid to acquire or produce goods and services provided in return for operating revenue and to carry out the mission of CCCS. Nonoperating revenues are those where goods or services are not provided. Thus, state appropriations are nonoperating because they are provided by the State without the State directly receiving goods and services. Amendment 50 funding is provided as pass-through funds through the State without the State directly receiving goods and services and is also considered nonoperating. Federal Pell grants and most gifts and investment income are also nonoperating revenue.

State appropriations, net of distributions to LDCs and AVSs, represent approximately 5.1%, 4.9%, and 4.6%; student tuition and fees represent approximately 40.4%, 41.0%, and 41.0%, and FFS contracts represent approximately 4.7%, 3.5%, and 1.9% of CCCS' total revenue (less distributions to LDC and AVS) from all sources in fiscal years 2014, 2013, and 2012, 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 $169.8 million loss from operations in fiscal year 2014 compared to a $183.9 million loss from operations in fiscal year 2013 and a $154.8 million loss from operations in fiscal year 2012. In fiscal year 2014, this operating loss was offset by net state appropriations of $29.7 million, Federal Pell grants of $126.7 million, and Amendment 50 funding of $5.5 million. Additionally, CCCS experienced other decreases of Federal Pell grants of $11.6 million. In fiscal year 2013, this operating loss was offset by net state appropriations of $27.8 million, Federal Pell grants of $138.2 million, and Amendment 50 funding of $5.8 million. Additionally, CCCS experienced other decreases of Federal Pell grants of $7.0 million, and investment income of $4.6 million. In fiscal year 2012, this operating loss was offset by net state appropriations of $26.4 million, Federal Pell grants of $145.2 million, and Amendment 50 funding of $6.0 million.

The operating loss over the three-year period presented is a result of operating expenses in excess of operating revenues due to services provided for through the flattening and decreases in enrollment over the three-year period.

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

	June 30		
	2014	**2013**	**2012**
Operating revenues:			
Tuition and fees, net	$ 236,915,442	234,004,079	234,075,160
Grants and contracts	96,565,185	90,537,812	82,257,616
Fee-for-service state contract	27,783,558	19,785,125	10,906,347
Sales and services of educational activities	1,132,115	1,248,795	1,356,510
Auxiliary enterprises, net	38,575,915	38,888,311	41,387,150
Other	7,937,718	7,899,287	8,338,016
Total operating revenues	408,909,933	392,363,409	378,320,799
Operating expenses:			
Instruction	242,246,446	233,303,209	219,979,142
Research	100,161	116,971	170,296
Public service	3,361,257	3,487,495	3,431,668
Academic support	44,493,476	40,702,390	36,292,217
Student services	68,323,331	63,900,261	55,683,205
Institutional support	77,106,329	79,637,810	73,628,507
Operation and maintenance of plant	50,105,581	50,267,865	53,320,159
Scholarships and fellowships	17,575,968	19,529,641	22,457,365
Auxiliary enterprises	42,442,287	43,684,662	44,220,245
Depreciation and amortization	32,931,083	41,664,838	23,914,545
Total operating expenses	578,685,919	576,295,142	533,097,349
Operating loss	(169,775,986)	(183,931,733)	(154,776,550)
Nonoperating revenues (expenses):			
State appropriations	50,395,499	47,702,573	45,964,065
Federal Pell grants	126,651,649	138,251,659	145,210,102
Amendment 50 funding	5,515,233	5,780,745	6,035,507
Distributions to Local District Colleges and Area Vocational Schools	(20,742,170)	(19,859,535)	(19,574,820)
Other nonoperating revenues and expenses, net	3,965,561	(1,832,504)	4,282,143
Net nonoperating revenues	165,785,772	170,042,938	181,916,997
Income before other revenues, expenses, gains, or losses	(3,990,214)	(13,888,795)	27,140,447

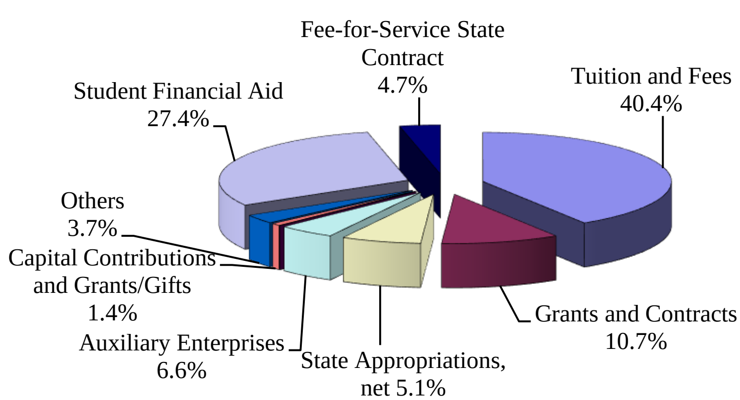
(Continued)

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

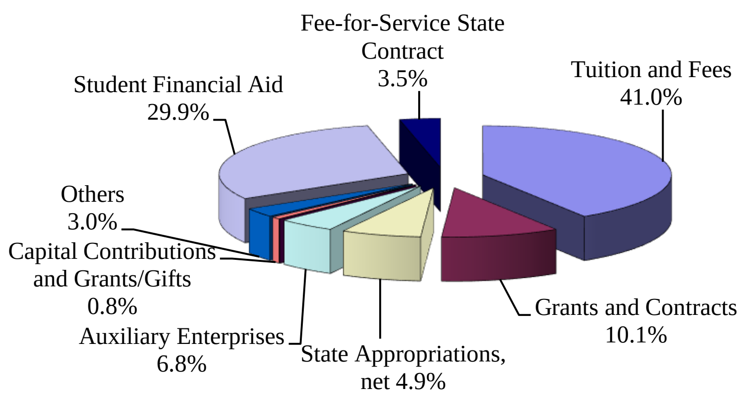
	June 30 2014	2013	2012
State capital contributions	$ 7,930,996	3,058,872	7,679,114
Capital grants and gifts	221,496	1,297,001	1,470,212
Increase (decrease) in net position	4,162,278	(9,532,922)	36,289,773
Net position:			
Beginning of year (note 21)	613,752,998	623,285,920	586,996,147
End of year	$ 617,915,276	613,752,998	623,285,920

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

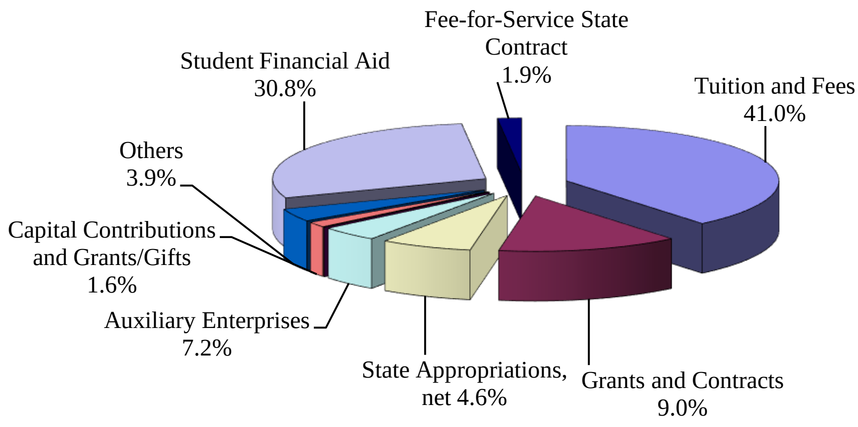
Sources of Revenue
Fiscal Year 2014



Sources of Revenue
Fiscal Year 2013



Sources of Revenue
Fiscal Year 2012



As the above charts demonstrate, student tuition and fees are the largest revenue source for CCCS in fiscal years 2014, 2013, and 2012. The operating loss of approximately $169.8 million, $183.9 million, and $154.8 million in fiscal years 2014, 2013, and 2012, respectively, noted above, is a result of operating expenses exceeding operating revenues. CCCS supplemented operating revenues with State appropriations, Federal Pell grants, and Amendment 50 funding for fiscal years 2014, 2013, and 2012, which are classified as nonoperating revenues but are used to fund operations.

Revenue activity highlights for fiscal year 2014 include:

- Grants and Contracts increased by $6.0 million, or 6.7%. Contributing to this change was an increase of Federal grant revenue of approximately $2.6 million or 5.1%. This increase was due to the increase of $5.5 million in the Trade Adjustment Assistance grants at Community College of Denver (CCD), Front Range Community College (FRCC), and Pueblo Community College (PCC,) coupled with the increase of support of approximately $3.4 million for the Colorado Northwestern Community College (CNCC) from the Rangely Jr. College District Board.

- Fee-for-service (FFS) state contracts increased by $8.0 million or 40.4% due to an increase in FFS appropriations from the State. This was related to a decrease in enrollment that caused a decrease in COF stipend that thereby increased FFS expectations.

- Investment income increased by $4.5 million or 973.9%. This was due primarily to the fair market value adjustment for unrealized gain on investments, per GASB 31 requirements, of $675.4 thousand compared to a prior year adjustment for a $4.2 million unrealized loss in the State Treasury contributing to a change of $4.9 million. This was offset by reduced earnings due to the spend-down of funds for construction projects, many of which were completed during fiscal year 2014.

- State capital contributions increased $4.9 million or 159.3%. This increase is primarily due to projects funded through the State for the CCCS HVAC; Northeastern Junior College (NJC) renovation on its Academic Building Renovation; PCC's projects for their fire alarm system, tunnel steam power, and San Juan campus roof; PPCC's HVAC project and elevator replacement.

  Federal PELL grants decreased by $11.6 million, or 8.4% primarily as a result of a decrease of approximately 3,800 recipients, or 8.1%, coupled with a small reduction of the average student award.

  Capital Gifts decreased $1.1 million or 83.0% because of COP projects activity in place in the prior year that were either completed or completed early in fiscal year 2014.

Revenue activity highlights for fiscal year 2013 include:

- Grants and Contracts increased by $8.3 million, or 10.1%. Contributing to this change was an increase of Federal grant revenue of approximately $6.5 million or 14.7%. This increase was due primarily to the Trade Adjustment Assistance grant at Community College of Denver (CCD). As the fiscal agent, CCD was responsible for $5.4 million in reimbursable spending. Also, Otero Junior College (OJC) had increased spending for the Science, Technology, Engineering and Math (STEM) grant of $1.3 million over prior year. Local grants and contracts also increased by $1.5 million or 42.4% due to local taxing district support of CNCC.

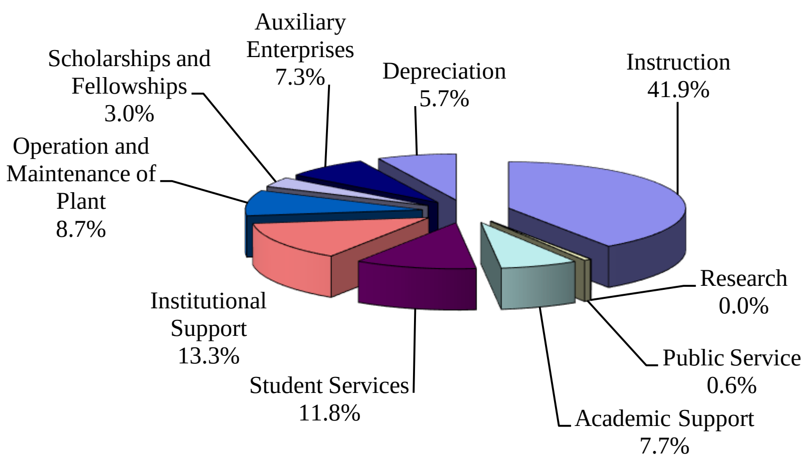
- Fee-for-service (FFS) state contracts increased by $8.9 million or 81.4% due to an increase in FFS appropriations from the State. This was related to a decrease in enrollment that caused a decrease in COF stipend that thereby increased FFS expectations.

- Auxiliary Enterprise revenue decreased by $2.5 million or 6.0%. Decreases are primarily attributable to the reduction in enrollment impacts on bookstore sales, dormitory collections, and food services required at Morgan Community College (MCC), Northeastern Junior College (NJC), Pueblo Community College (PCC), and Trinidad Junior College (TSJC). These are, in part, offset by an increase in CNCC dormitory activity after repair of the prior year damage on the largest residence hall coupled with an increased rate per student for the housing,

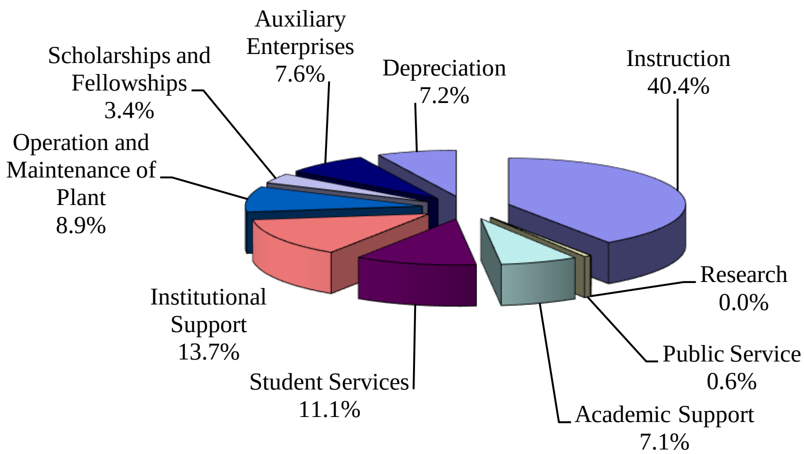
- Investment income (loss) decreased by $4.6 million or 111.1% for an overall loss of $0.5 million. This was due primarily to the fair market value adjustment for unrealized loss on investments, per GASB 31 requirements, of $4.2 million. There was also a decrease of 21% in the investment interest rate, coupled with the utilization of funds for the completion of bond funded projects at CCD, CNCC, and PCC, leaving less available funds generating interest earnings.

State capital contributions decreased $4.6 million or 60.2%. This decrease is primarily due to completion of projects funded through the State's certificates of participation at CNCC on its Academic Building Project, FRCC on the new laboratory wing of its science building on the Larimer campus, and MCC on its space and building improvements for the health and science programs.

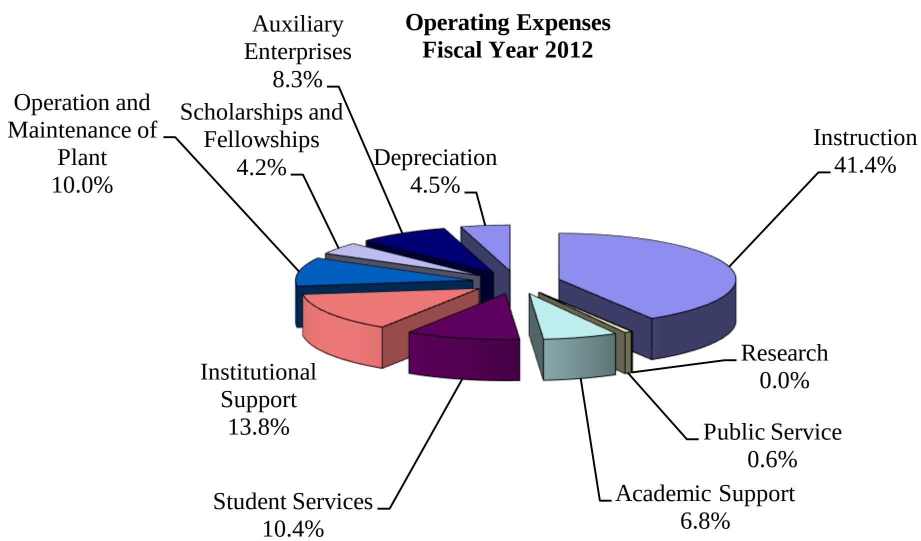
Operating Expenses
Fiscal Year 2014



Operating Expenses
Fiscal Year 2013



Operating Expenses
Fiscal Year 2012



Expense activity highlights for fiscal year 2014 include:

- Instructional expense increased by $8.9 million or 3.8% primarily as the result of salary increases for instructional staff.
- Academic support expenses increased by $3.8 million or 9.3%. This increase is due primarily to $805 thousand in purchases on noncapital technology hardware and software for Arapahoe Community College (ACC), CCCS, and Red Rocks Community College (RRCC); $1.9 million in salary increases for the TAA Champ Grant at FRCC, CCCOnline staff, staffing for the academic office at PCC, and Pikes Peak Community College (PPCC) salary increases. Additionally, ACC and RRCC had $657 thousand in

increased concurrent enrollment-related expenses and MCC had an increase of $171 thousand in Board priority spending.

- Student services expenses increased by $4.4 million or 6.9%. Contributing to these increases are $2.9 million for new staffing for OJC's enrollment management, student life area, STEM faculty, Grant and Retention Services, and Allied Health; NJC's reorganization of their coaching staff to take on additional duties; RRCC's Call Center, Marketing, Advising, and Special Needs; and TSJC's STEM faculty. CCCS also contracted for a common course numbering system, career planning, and a work to school program totaling $352.0 thousand. There were also additional Perkins costs of $165.0 thousand and new gym project planning costs at RRCC.
- Institutional support decreased by $2.5 million or 3.2%. The overall decrease was for the proper recognition of bad debt expense as a contra revenue, rather than a functional expense.
- Scholarships and fellowships expenses decreased by $2.0 million or 10.0%. This is primarily due to an $8.4 million decrease in the offset for the allowance for doubtful accounts across the system and the $11.6 million reduction in Pell awards. The remaining difference is due to overall reduction of scholarships awarded.

Depreciation decreased by $8.7 million or 21.0%. This is primarily due to the conversion to a new fixed asset system and the subsequent change of system policy on capital assets for estimated lives in the prior year. The change resulted in colleges accelerating depreciation by $9.5 million for many existing capital assets in fiscal year 2013. This is offset by increases for projects completed in fiscal year 2014 at CCD, CNCC, FRCC, LCC, OJC, PPCC, and RRCC. Additionally, due to the overall shortened lives under the new policy, this resulted in a higher average depreciation compared to prior year.Expense activity highlights for fiscal year 2013 include:

- Instructional expense increased by $13.3 million or 6.1% primarily as the result of salary increases for instructional staff.
- Academic support expenses increased by $4.4 million or 12.2%. This increase is due to the Federal Trade Adjustment Assistance (TAA) grant at CCD of $2.0 million, a total of 8.5 FTE added across the system in the Academic area, and three significant retirement leave payouts at Pikes Peak Community College (PPCC).
- Student services expenses increased by $8.2 million or 14.8%. Contributing to these increases are new noncapital equipment for Arapahoe Community College's (ACC) student center accounts for $210 thousand, an increase in STEM grant spending at OJC of $1.6 million, systemwide concurrent enrollment legislative changes of approximately $300 thousand. There were also additions of new employees of approximately $1.5 million (15 full-time and part-time employees). One-time initiatives at PPCC account for $500 thousand of the increase as well as student health center of $200 thousand and increased support of the Gateway program of $100 thousand at Red Rocks Community College (RRCC).
- Institutional support increased by $6.0 million or 8.2%. The overall salary increases primarily contributed to this increase, along with increases in staffing of new or vacant positions across the system.
- Scholarships and fellowships expenses decreased by $2.9 million or 13.0%. This is primarily due to a $7.0 million decrease in PELL grants across the system. The PELL decrease was, in part, offset by a decrease in scholarship allowance of $2.7 million (contra expense).

(Continued)

- Depreciation increased by $17.8 million or 74.2%. This is primarily due to the conversion to a new fixed asset system and the subsequent change of system policy on capital assets for estimated lives, resulting in colleges accelerating depreciation by $9.5 million for many existing capital assets. There were also projects completed in fiscal year 2013 at ACC, CCD, CNCC, and PCC that account for an additional $2.9 million in depreciation. The remaining difference is due to the overall shortened lives under the new policy, resulting in a higher average depreciation compared to prior year.

  Interest expense on capital debt increased by $1.8 million or 85.5%. This was due to the full year impact of debt issued in 2012 as well as a new capital lease at FRCC.

Capital Asset and Debt Management

At June 30, 2014, CCCS had $409,714,852 of capital assets, net of accumulated depreciation of $345,681,632 and including current year depreciation of $32,931,083. At June 30, 2013, CCCS had $399,259,489 of capital assets, net of accumulated depreciation of $314,390,945 and including current year depreciation of $41,664,838. A breakdown of assets by category, net of accumulated depreciation is provided below:

		June 30		
		2014	2013	2012
Nondepreciable land and land improvements	$	22,004,179	21,596,785	20,623,390
Construction in progress		32,209,138	27,689,576	33,210,231
Collections		882,306	882,306	820,867
Land improvements		7,624,652	7,580,375	8,521,733
Buildings and improvements		293,161,848	300,860,991	270,075,844
Leasehold improvements		18,862,425	4,399,427	7,895,907
Equipment and software		32,425,020	33,535,360	38,229,787
Library materials		2,545,284	2,714,669	4,052,147
Total capital assets	$	409,714,852	399,259,489	383,429,906

(Continued)

Major capital additions of $500,000 or more completed during fiscal year 2014 are as follows:

College	Project	Total project cost (In millions)	Source of funding
Community College of Denver	Cherry Creek Leasehold Remodel	$ 14.4	Internal Reserves
	Courtyard Cherry Creek Leasehold Remodel	1.1	Internal Reserves
Colorado Northwestern Community College	Rector Building Remodel/Addition	3.8	Internal Reserves
Front Range Community College	Energy Performance Design Build	1.0	Internal Reserves
	Student Service Center Remodel WC	1.9	Internal Reserves
Lamar Community College	COPSII Window Wall Project	1.0	State Funded
Otero Community College	Learning Common Building Improvement	1.0	Internal Reserves/Grant
Pikes Peak Community College	HVAC Control System & Air Handling Units CC	1.0	State Funded/Internal Reserves
Red Rocks Community College	IT Infrastructure Upgrade	2.0	Internal Reserves
	Arvada Parking Lot	1.0	Internal Reserves

The System has $32.0 million in commitments for various upcoming capital construction and controlled maintenance projects as of June 30, 2014.

CCCS had $102,071,473 and $80,935,415 in debt outstanding at June 30, 2014 and 2013, respectively.

In June 2013, Moody's affirmed the rating of Aa3 on the 2003 and 2004 Systemwide Revenue Bonds outstanding, the Series 2010 Bonds (A, B-1, B-2, C, and D), and the Series 2012A Bonds. Moody's also assigned an Aa3 underlying rating to the Series 2013 Systemwide Revenue Bonds.

The breakdown of the debt is as follows:

	June 30		
	2014	2013	2012
Bonds payable	$ 88,974,207	69,426,640	72,295,735
Capital leases payable	13,097,266	11,508,775	11,015,108
Total debt	$ 102,071,473	80,935,415	83,310,843

On July 20, 2013, the Series 2013 Systemwide Revenue Bonds for $21,025,000 were issued. Interest is payable semiannually on May 1, and November 1. Final maturity of the bonds is November 1, 2034. The principal of the Series 2013 issue is being used to finance the construction, improvement, equipping, renovation, expansion and upgrade of various campus facilities for the FRCC Larimer campus and the FRCC Westminster campus.

Colorado Community College System Future

The budgetary situation for higher education continues to change. 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 Colorado Department of Higher Education (CDHE) for the provision of other educational services. For fiscal year 2015 funding, CCCS is authorized to receive $28.1 million in FFS revenue and $109.4 million in student stipends. This support totaling $137.5 million of anticipated fiscal year 2015 funding represents an 11.4% increase in state support from the $123.4 million that was provided in 2014. CCCS anticipates receiving $5.5 million of funding under the Amendment 50 funding in fiscal year 2015.

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

Enrollment: In fiscal year 2014, in a slowly expanding economy, CCCS' resident enrollment of 52,804 decreased by 4.8% from fiscal year 2013, and nonresident enrollment of 3,279 decreased by 8.6%, resulting in a total net enrollment decrease of 5.1%. Therefore, further flattening or decreases in enrollment are anticipated in the fiscal year 2015 budget.

Tuition Rates: In an effort to mitigate increased costs along with an overall decrease in state support during the previous three years, the Board raised the resident tuition by 6.0% and the nonresident tuition by 6.0% in fiscal year 2014. The Board also approved a 4.5% increase in resident and nonresident tuition for fiscal year 2015.

Future Accounting Change: The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (Statement No. 68), which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The System provides certain of its employees with pension benefits through the state's multiple employer cost sharing Public Employees' Retirement Association of Colorado (PERA) defined benefit retirement program.

Statement No. 68 requires cost sharing employers participating in the PERA program, such as CCCS, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The System has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact CCCS' future unrestricted net position. Statement No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of the impact of this new accounting standard. Information regarding PERA's current funding status can be found in its Comprehensive Annual Financial Report.

Requests for Information

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

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

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activities

Statements of Net Position

June 30, 2014 and 2013

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	329,169,814	342,506,335
Restricted cash and cash equivalents		4,430,854	4,690,296
Accounts receivable, net		56,708,404	51,636,901
Inventories		3,861,658	4,408,408
Prepaid expenses		886,374	653,203
Total current assets		395,057,104	403,895,143
Noncurrent assets:			
Restricted cash and cash equivalents		22,767,963	224,776
Restricted investments		4,439,444	2,776,830
Capital assets, net		409,714,852	399,259,489
Total noncurrent assets		436,922,259	402,261,095
Total assets	$	831,979,363	806,156,238
Deferred Outflows			
Deferred outflows:			
Loss on refunding	$	53,814	87,658
Total deferred outflows	$	53,814	87,658
Liabilities			
Current liabilities:			
Accounts payable	$	18,892,614	21,937,273
Accrued liabilities		34,268,865	34,628,748
Unearned revenue		23,834,769	22,317,643
Deposits held for others		14,127,656	12,763,999
Bonds payable, current portion		3,555,000	3,245,000
Capital leases payable, current portion		875,100	758,518
Other long-term liabilities, current portion		195,350	82,094
Compensated absences liability, current portion		1,577,130	1,395,207
Total current liabilities		97,326,484	97,128,482
Noncurrent liabilities:			
Bonds payable		85,419,207	66,181,640
Capital leases payable		12,222,166	10,750,257
Other long-term liabilities		1,340,461	1,437,303
Compensated absences liability		17,809,583	16,993,216
Total noncurrent liabilities		116,791,417	95,362,416
Total liabilities	$	214,117,901	192,490,898
Net Position			
Net position:			
Net investment in capital assets	$	324,876,574	318,418,172
Restricted for expendable purposes:			
Auxiliary pledged revenue		34,403,153	33,799,040
Scholarships/fellowships		938,841	812,557
Loans		863,618	923,350
Capital projects		85,762	279,941
Training programs		1,434,132	629,343
Amendment 50 instruction		357,219	265,105
Amendment 50 scholarship		119,110	125,699
Debt service		41,492	42,131
Other		3,378,745	4,061,244
Total restricted for expendable purposes		41,622,072	40,938,410
Unrestricted		251,416,630	254,396,416
Total net position	$	617,915,276	613,752,998

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statements of Financial Position

June 30, 2014 and 2013

Assets		**2014**	**2013**
Cash and cash equivalents	$	5,408,641	5,915,944
Accounts and pledges receivable		654,503	1,774,650
Due from Primary Government		1,310	11,207
Investments		34,754,701	29,339,149
Investment in direct financing leases		39,497	61,542
Beneficial interest in charitable remainder trust		601,451	620,907
Other assets		1,212,164	2,610,170
Capital assets, net		10,435,130	9,746,892
Total assets	$	53,107,397	50,080,461
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	366,221	262,071
Due to primary government		203,758	303,362
Accrued liabilities		25,839	32,749
Deferred revenue		1,116,395	1,068,620
Bonds payable		2,655,569	3,530,422
Other liabilities		751,007	593,786
Total liabilities		5,118,789	5,791,010
Net assets:			
Unrestricted		17,510,242	16,019,177
Temporarily restricted		17,946,052	16,678,410
Permanently restricted		12,532,314	11,591,864
Total net assets		47,988,608	44,289,451
Total liabilities and net assets	$	53,107,397	50,080,461

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activities

Statements of Changes of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $142,914,684 in 2014 and $151,353,248 in 2013; including revenues pledged for bonds of $32,156,483 in 2014 and $31,219,693 in 2013	$ 236,915,442	234,004,079
Grants and contracts	96,565,185	90,537,812
Fee-for-service state contract	27,783,558	19,785,125
Sales and services of educational activities	1,132,115	1,248,795
Auxiliary enterprises, net of scholarship allowances of $4,353,221 in 2014 and $5,183,329 in 2013; including revenues pledged for bonds of $37,749,174 in 2014 and $38,670,559 in 2013	38,575,915	38,888,311
Other operating revenues and gifts	7,937,718	7,899,287
Total operating revenues	408,909,933	392,363,409
Operating expenses:		
Instruction	242,246,446	233,303,209
Research	100,161	116,971
Public service	3,361,257	3,487,495
Academic support	44,493,476	40,702,390
Student services	68,323,331	63,900,261
Institutional support	77,106,329	79,637,810
Operation and maintenance of plant	50,105,581	50,267,865
Scholarships and fellowships	17,575,968	19,529,641
Auxiliary enterprises	42,442,287	43,684,662
Depreciation and amortization	32,931,083	41,664,838
Total operating expenses	578,685,919	576,295,142
Operating loss	(169,775,986)	(183,931,733)
Nonoperating revenues (expenses):		
State appropriations	50,395,499	47,702,573
Federal Pell grants	126,651,649	138,251,659
Amendment 50 funding	5,515,233	5,780,745
Distributions to Local District College and Area Vocational Schools	(20,742,170)	(19,859,535)
Gifts	562,396	491,197
Investment income (loss)	4,022,215	(460,278)
Interest expense on capital debt	(3,177,650)	(3,883,868)
Other nonoperating revenues	2,558,600	2,020,445
Net nonoperating revenues	165,785,772	170,042,938
Loss before other revenues, expenses, gains, or losses	(3,990,214)	(13,888,795)
Other revenues, expenses, gains, or losses:		
State capital contributions	7,930,996	3,058,872
Capital gifts	221,496	1,297,001
Increase (decrease) in net position	4,162,278	(9,532,922)
Net position, beginning of year	613,752,998	623,285,920
Net position, end of year	$ 617,915,276	613,752,998

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2014

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:					
Contributions	$	1,475,252	4,906,806	779,850	7,161,908
Grants		—	182,555	—	182,555
Investment income, net		1,832,684	2,138,783	132,114	4,103,581
Rental income		2,156,074	284,487	—	2,440,561
Special events		199,144	231,501	—	430,645
Net assets released from restrictions		6,112,382	(6,097,382)	(15,000)	—
Other income (loss)		573,845	(288,245)	17,102	302,702
Total revenues		12,349,381	1,358,505	914,066	14,621,952
Expenses:					
Program services		8,495,575	—	—	8,495,575
Fund-raising services		889,947	—	—	889,947
Administrative services		1,469,474	—	—	1,469,474
Total expenses		10,854,996	—	—	10,854,996
Change in net assets		1,494,385	1,358,505	914,066	3,766,956
Net assets, beginning of year as restated (note 21)		16,015,857	16,587,547	11,618,248	44,221,652
Net assets, end of year	$	17,510,242	17,946,052	12,532,314	47,988,608

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Discretely Presented Component Units

Statement of Activities

Year ended June 30, 2013

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:					
Contributions	$	1,450,811	4,124,083	857,367	6,432,261
Grants		—	151,172	—	151,172
Investment income, net		918,367	1,148,628	22,136	2,089,131
Rental income		2,119,088	256,409	—	2,375,497
Special events		241,927	244,878	1,875	488,680
Net assets released from restrictions		5,990,330	(5,988,625)	(1,705)	—
Other income (loss)		392,377	(231,810)	19,348	179,915
Total revenues		11,112,900	(295,265)	899,021	11,716,656
Expenses:					
Program services		7,722,017	—	—	7,722,017
Fund-raising services		802,860	—	—	802,860
Administrative services		1,174,000	—	—	1,174,000
Total expenses		9,698,877	—	—	9,698,877
Change in net assets		1,414,023	(295,265)	899,021	2,017,779
Net assets, beginning of year as restated (note 21)		14,605,154	16,973,675	10,692,843	42,271,672
Net assets, end of year	$	16,019,177	16,678,410	11,591,864	44,289,451

See accompanying notes to financial statements.

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Cash received:			
Tuition and fees	$	235,376,561	231,660,898
Student loans collected		2,588,095	4,315,647
Sales of products and services		39,707,565	40,116,422
Grants, contracts, and gifts		124,704,156	109,001,597
Other operating receipts		8,342,235	7,720,257
Cash payments:			
Scholarships disbursed		(17,575,968)	(19,529,641)
Student loans disbursed		(2,651,649)	(4,189,666)
Payments for employees		(346,482,123)	(327,202,868)
Payments to suppliers		(179,383,054)	(182,785,036)
Net cash used in operating activities		(135,374,182)	(140,892,390)
Cash flows from noncapital financing activities:			
State appropriations – noncapital		50,395,499	47,702,573
Federal PELL grants		126,489,040	139,133,004
Amendment 50 funding		5,515,233	5,780,745
Distributions to Local District Colleges and Area Vocation Schools		(20,742,170)	(19,859,535)
Gifts and grants for other than capital purposes		773,205	491,197
Agency (inflows)		244,833,823	250,343,905
Agency (outflows)		(246,845,495)	(248,590,125)
Other noncapital financing activities		2,120,865	2,645,817
Net cash provided by noncapital financing activities		162,540,000	177,647,581
Cash flows from capital and related financing activities:			
Capital grants, contracts, and gifts		—	118,580
Proceeds from capital debt		25,414,022	991,341
Proceeds from sale of capital assets		440,427	—
Acquisition and construction of capital assets		(39,009,632)	(55,194,591)
State certificates of participation cash match		—	(7,563)
Principal paid on capital debt		(4,023,582)	(3,490,017)
Interest on capital debt		(4,195,807)	(2,890,815)
Net cash used in capital and related financing activities		(21,374,572)	(60,473,065)
Cash flows from investing activities:			
Investment income (loss)		4,022,215	(460,278)
Proceeds from sale of investments		1,590,874	236,536
Purchase of investments		(2,457,111)	(236,534)
Net cash provided by (used in) investing activities		3,155,978	(460,276)
Net increase (decrease) in cash and cash equivalents		8,947,224	(24,178,150)
Cash and cash equivalents, beginning of year		347,421,407	371,599,557
Cash and cash equivalents, end of year	$	356,368,631	347,421,407

(Continued)

COLORADO COMMUNITY COLLEGE SYSTEM

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2014 and 2013

		2014	2013
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(169,775,986)	(183,931,733)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization		32,931,083	41,664,838
Increase in other nonoperating assets/noncash expenses		434,522	817,096
Decrease (increase) in assets:			
Receivables, net		(3,914,930)	(3,973,018)
Inventory and prepaids		235,682	(324,112)
Increase (decrease) in liabilities:			
Accounts payable		1,156,207	4,036,710
Accrued liabilities		(359,883)	103,749
Unearned revenues		1,517,433	(781,166)
Deposits held for others		1,452,582	(64,894)
Compensated absences liability		998,290	1,208,798
Other liabilities		(49,182)	351,342
Net cash used in operating activities	$	(135,374,182)	(140,892,390)
Noncash investing, capital, and noncapital financing activities:			
State funding for acquisitions of capital assets	$	7,732,021	2,777,022
State funding for acquisitions of noncapital assets		198,975	241,609
Equipment donations and capital gifts		10,687	1,197,001
Capital leases		—	167,642
Loss on disposal of capital assets		(7,918)	(665,344)
Amortization of bond premium/discount, and gain or loss on refunding		241,350	(977,431)

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

CCCS is an institution of higher education of the State of Colorado established by the Community College and Occupational Education Act of 1967, Title 23, Article 60 of the Colorado Revised Statutes (CRS). Thus, for financial reporting purposes, CCCS is included as part of the State of Colorado's primary government. CCCS' operations and activities are funded primarily through tuition and fees; federal, state, and local grants; the College Opportunity Fund (COF) stipends, and a fee-for-service (FFS) contract. Pursuant to 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.

The financial statements of CCCS, which is an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Colorado that is attributable to the transactions of CCCS. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Financial results for the State are presented in separate state-wide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in these state-wide financial statements.

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

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

(Continued)

- 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, 2014 and 2013.

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

(a) Blended Component Unit

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

(b) Discretely Presented Component Units

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

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

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

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

(c) Joint Venture

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

The Auraria Higher Education Center (AHEC), established by legislation in 1974, is jointly governed and utilized by CCD, the University of Colorado Denver, and Metropolitan State 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) 556-2232 or by writing to:

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

(2) Implementation of New Accounting Standards

During the fiscal year ended June 30, 2013, CCCS implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was effective for financial statements for periods beginning after December 15, 2011, and CCCS early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which was effective for financial statements for periods beginning after December 15, 2012. These standards provide financial reporting guidance for deferred outflows and deferred inflows of resources; rename the residual of all financial statement elements as net position; and establish accounting standards to reclassify, as deferred outflows or inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities.

The impact of implementing these GASB Statements resulted in CCCS expensing $1,024,497 of bond issuance costs during the fiscal year ended June 30, 2013, and reclassifying $87,658 of loss on refunding from bonds payable to deferred outflows of resources as of June 30, 2013.

There were no new accounting standards implemented in the fiscal year ended June 30, 2014.

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

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

(a) Cash and Cash Equivalents

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

(b) Accounts Receivable

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

(c) Restricted Cash and Cash Equivalents and Restricted Investments

Restricted cash and cash equivalents and restricted investments primarily represent moneys from unspent bond proceeds and restricted for Benefit Trust benefits. Investments are reported at fair value, which is determined based on quoted market prices as of June 30, 2014 and 2013.

(d) Inventories

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

(e) Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. CCCS uses a capitalization threshold of $50,000 for buildings and improvements other than buildings and internally developed software and $5,000 for all other capital assets. Library collections are capitalized, regardless of cost, as a collection. Estimated useful lives are determined in accordance with the *State Fiscal Procedures Manual*. CCCS' estimated useful lives are as follows: 5–27 years for buildings, 5–20 years (or term of lease) for improvements other than buildings, 3–10 years for equipment, 7 years for library collections, and 3–5 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, 2014 and 2013, the construction in progress includes capital construction projects in process, but not substantially complete.

(f) Deposits Held for Others

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

(g) Accrued Liabilities

Accrued liabilities primarily represent accrued payroll, benefits payable, and other payroll-related liabilities at June 30, 2014 and 2013.

(h) Compensated Absences Liability

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

(i) Unearned Revenue

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

(j) Capital Leases

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

(k) Net Position

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

- Net Investment in Capital Assets represents the total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- Restricted for expendable purposes represents net resources in which CCCS is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- Unrestricted net position represents net resources derived from student tuition and fees, FFS contracts, COF stipends, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of CCCS to meet current expenses for any purpose. These resources also include those from auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff. Unrestricted net position includes assets designated by the SBCCOE for certain purposes.

(l) 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 of Colorado for delivery of educational services by CCCS that are not part of the COF stipend program. In fiscal years 2014 and 2013, FFS purchased credit hours included vestibule labs, reciprocal programs, educational services in rural areas, and career and technology, vocational, and other high cost, specialized instructional education services.
- Nonoperating revenues and expenses are those that do not meet the definition of operating revenues or capital revenues. In fiscal years 2014 and 2013, nonoperating revenues include Career and Technical Act (CTA) state appropriations, Federal Pell grants, Amendment 50 funding, state training program grants, occupational education funds, gifts, investment

income, and insurance recoveries from prior years. Nonoperating expenses include interest expense and distributions to AVSs and LDCs.

Other revenues, expenses, gains, and losses include state capital construction contributions and controlled maintenance appropriations, gifts, and grants restricted for capital purposes.

(m) Application of Restricted and Unrestricted Resources

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

(n) Scholarship Allowances

Scholarship allowances are the differences between the stated charge for the goods and services provided by CCCS and the amount that is paid by the students or by other third parties making payments on the students' behalf. Student tuition and fee revenues and certain other auxiliary enterprises revenue are reported net of scholarship allowances in the accompanying financial statements. Certain grants from external governmental and private programs are recorded as either operating or nonoperating revenues in the accompanying financial statements. To the extent that such grant revenues are used to satisfy tuition and fees and other student charges, CCCS records scholarship allowances. Any excess grant revenues are recorded as scholarships and fellowships operating expense. CCCS calculates scholarship allowances on a student-by-student basis.

(o) Amendment 50 Funds

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

(p) Use of Estimates

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

(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 FFS contract revenue. In prior years, the annual appropriation bill included certain cash revenues from the student share of tuition and fees, and other revenue sources, which are recognized in various revenue categories, as appropriate, in the accompanying statements of revenues, expenses, and changes in net position. Nonappropriated funds include the student share of tuition and fees, certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the years ended June 30, 2014 and 2013, appropriated expenditures were within the authorized spending authority. CCCS received a total general fund appropriation of $50,395,499 and $47,702,573, respectively, for 2014 and 2013. Included in the State appropriations are general fund appropriations specified to be passed through to two LDCs and three AVSs for both 2014 and 2013 of $20,742,170 and $19,859,535, respectively. These amounts consist of $12,650,325 and $12,093,711 for 2014 and 2013, respectively, for LDCs, and $8,091,845 and $7,765,824 for 2014 and 2013, respectively, for AVSs. Also, included in general fund appropriations were capital contributions of $7,930,996 in 2014 and $3,058,872 in 2013. During 2014, CCCS received FFS contract revenue in the amount of $27,783,558 and COF stipends in the amount of $95,605,759. During 2013, CCCS received FFS contract revenue in the amount of $19,785,125 and COF stipends in the amount of $97,935,168.

(5) Tuition, Fees, and Auxiliary Revenue

Tuition, fees, and auxiliary revenue and the related scholarship allowances for the year ended June 30, 2014 were as follows:

	Tuition and fees	Auxiliary revenue	Total
Gross revenue	$ 379,830,126	42,929,136	422,759,262
Scholarship allowances:			
Federal	(111,406,881)	(3,143,566)	(114,550,447)
State	(23,202,590)	(656,838)	(23,859,428)
Private	(2,224,800)	(73,000)	(2,297,800)
Institutional	(6,080,413)	(479,817)	(6,560,230)
Total scholarship allowances	(142,914,684)	(4,353,221)	(147,267,905)
Net revenue	$ 236,915,442	38,575,915	275,491,357

Tuition, fees, and auxiliary revenue and the related scholarship allowances for the year ended June 30, 2013 were as follows:

	Tuition and fees	Auxiliary revenue	Total
Gross revenue	$ 385,357,327	44,071,640	429,428,967
Scholarship allowances:			
Federal	(119,960,408)	(3,842,822)	(123,803,230)
State	(22,688,621)	(754,930)	(23,443,551)
Private	(1,929,175)	(42,393)	(1,971,568)
Institutional	(6,775,044)	(543,184)	(7,318,228)
Total scholarship allowances	(151,353,248)	(5,183,329)	(156,536,577)
Net revenue	$ 234,004,079	38,888,311	272,892,390

(6) Cash and Cash Equivalents and Investments

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

	June 30	
	2014	2013
Cash on hand and change funds	$ 167,416	474,713
Deposits with financial institutions	75,707,541	6,850,824
Total	$ 75,874,957	7,325,537

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

(Continued)

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

		Carrying amount June 30 2014	Carrying amount June 30 2013
Footnote amounts:			
Deposits	$	75,874,957	7,325,537
Deposits held with State Treasurer		280,493,674	340,095,870
Restricted investments		4,439,444	2,776,830
Total	$	360,808,075	350,198,237
Financial statement amounts:			
Cash and cash equivalents	$	329,169,814	342,506,335
Current restricted cash and cash equivalents		4,430,854	4,690,296
Noncurrent restricted cash and cash equivalents		22,767,963	224,776
Subtotal cash and cash equivalents		356,368,631	347,421,407
Restricted investments		4,439,444	2,776,830
	$	360,808,075	350,198,237

CCCS deposits its cash with the Treasurer as required by CRS. The Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, CRS. The Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2014 and 2013, CCCS had cash on deposit with the Treasurer of $280,493,674 and $340,095,870, respectively, which represented approximately 3.8% of the total of $7,455.0 million and 4.7% of the total of $7,260.8 million, respectively, in deposits in the 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 an increase or decrease in cash for 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 Treasurer, the net unrealized gain for fiscal year 2014 was $675,432 and the net unrealized loss for fiscal year 2013 was $4,186,335. These unrealized gains and losses are included in cash and cash equivalents on the statements of net position, and investment income on the statements of change in net position.

(a) Custodial Credit Risk

Investments in the Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. As of June 30, 2014 and

2013, none of the investments in the Pool are subject to custodial credit risk. The Benefit Trust does not have a documented risk policy for its investments for custodial credit risk.

(b) Credit Quality Risks

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2014 and 2013, approximately 87.0% and 88.5%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for $15,235,458 and $41,074,270 in 2014 and 2013, respectively, of corporate bonds rated lower medium in both years, and $25,428,000 of corporate bonds rated very speculative in 2014, 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, 2014 and 2013, there were no investments in the Benefit Trust subject to credit quality risk. The Benefit Trust does not have a documented risk policy on its investments for credit quality risk.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. 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 WAM 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, 2014, the WAM of investments in the Pool is 0.043 years for commercial paper (1.0% of the Pool), 1.424 years for U.S. government securities (55.8% of the Pool), 3.033 years for asset-backed securities (19.9% of the Pool), and 2.766 years for corporate bonds (23.3% of the Pool). As of June 30, 2013, the WAM of investments in the Pool is 0.037 years for commercial paper (1.0% of the Pool), 1.321 years for U.S. government securities (63.9% of the Pool), 3.371 years for asset-backed securities (16.0% of the Pool), and 3.100 years for corporate bonds (19.1% of the Pool).

As of June 30, 2014 and 2013, the Benefit Trust had no investments subject to interest rate risk. The Benefit Trust does not have a documented risk policy on its investments for interest rate risk.

(d) ***Concentration of Credit Risk***

The Benefit Trust does have investments (other than U.S. government or agency securities, mutual funds, or investment pools), which represent 5.0% or more of total investments subject to concentration of credit risk, thus concentrating credit risk. Although all investments intrinsically carry credit risk, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. As of June 30, 2014, the fair value of Benefit Trust investments greater than 5.0% of total investments of $3,573,208 was as follows:

		Fair value	Percentage of investments
Celgene Corp	$	360,696	11.10%
Ishares Barclays Intermediate Credit Bond Fund		328,366	10.11
Ishares Barclays 1–3 Year Credit Bond Fund		317,040	9.76

As of June 30, 2013, the fair value of Benefit Trust investments greater than 5.0% of total investments of $2,776,830 was as follows:

		Fair value	Percentage of investments
Berkshire Hathaway Inc Series B New	$	167,880	6.80%
Celgene Corp		304,148	12.31
EQT Corp		150,803	6.11
Ishares Barclays Intermediate Credit Bond Fund		254,753	10.31
Ishares Barclays 1–3 Year Credit Bond Fund		259,424	10.50

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

The State has established maximum holding percentages for investments. The Pool was not subject to concentration of credit risk in fiscal year 2014 or 2013.

(e) ***Foreign Currency Risk***

The State does not allow foreign currency investments. The Benefit Trust does not have a documented risk policy on its investments relative to foreign currency risk. The Pool and the Benefit Trust were not subject to foreign currency risk in fiscal year 2014 or 2013.

Additional information on investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2014.

(Continued)

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

Accounts receivable at June 30, 2014 were as follows:

		Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	$	64,125,278	(29,923,263)	34,202,015
Due from other governments		17,188,322	(12,642)	17,175,680
Other receivables		5,689,297	(358,588)	5,330,709
Total receivables	$	87,002,897	(30,294,493)	56,708,404

Accounts receivable at June 30, 2013 were as follows:

		Gross receivables	Allowance for uncollectible accounts	Net receivables
Student accounts receivable	$	57,865,346	(28,247,790)	29,617,556
Due from other governments		16,579,103	—	16,579,103
Other receivables		5,615,126	(174,884)	5,440,242
Total receivables	$	80,059,575	(28,422,674)	51,636,901

Accounts payable and accrued liabilities at June 30, 2014 and 2013 were as follows:

		2014	2013
Amounts owed to vendors	$	12,272,472	18,583,603
Salaries and benefits payable		34,268,865	34,628,748
Accrued interest payable		723,976	537,273
Other payables		5,896,166	2,816,397
Total accounts payable and accrued liabilities	$	53,161,479	56,566,021

(Continued)

(8) Capital Assets

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2014. Adjustments reflect one-time adjustments to properly classify buildings and improvements, leasehold improvements, and equipment.

	Balance, June 30, 2013	Additions	Deletions	Transfers	Adjustments	Balance, June 30, 2014
Nondepreciable capital assets:						
Land and land improvements	$ 21,596,785	407,394				22,004,179
Construction in progress	27,689,576	36,230,746	(550,928)	(31,068,243)	(92,013)	32,209,138
Collections	882,306					882,306
Total nondepreciable capital assets	50,168,667	36,638,140	(550,928)	(31,068,243)	(92,013)	55,095,623
Depreciable capital assets:						
Land improvements	17,529,832			796,011		18,325,843
Buildings and improvements	555,854,616	746,472	(66,358)	13,214,325		569,749,055
Leasehold improvements	8,921,940	37,665		15,844,958		24,804,563
Equipment and software	76,510,913	6,818,792	(1,675,776)	1,212,949	(442,672)	82,424,206
Library materials	4,664,466	332,728				4,997,194
Total depreciable capital assets	663,481,767	7,935,657	(1,742,134)	31,068,243	(442,672)	700,300,861
Less accumulated depreciation:						
Land improvements	9,949,457	751,734				10,701,191
Buildings and improvements	254,993,625	21,659,940	(66,358)			276,587,207
Leasehold improvements	4,522,513	1,419,625				5,942,138
Equipment and software	42,975,553	8,597,671	(1,224,215)		(349,823)	49,999,186
Library materials	1,949,797	502,113				2,451,910
Total accumulated depreciation	314,390,945	32,931,083	(1,290,573)	—	(349,823)	345,681,632
Net depreciable capital assets	349,090,822	(24,995,426)	(451,561)	31,068,243	(92,849)	354,619,229
Total capital assets, net	$ 399,259,489	11,642,714	(1,002,489)	—	(184,862)	409,714,852

The following table presents changes in capital assets and accumulated depreciation for the year ended June 30, 2013:

	Balance, June 30, 2012	Additions	Deletions	Transfers	Adjustments	Balance, June 30, 2013
Nondepreciable capital assets:						
Land and land improvements	$ 20,623,390	522,881	—	450,513	1	21,596,785
Construction in progress	33,210,231	46,833,671	(475,995)	(52,008,028)	129,697	27,689,576
Collections	820,867	10,010	(108,171)	159,600	—	882,306
Total nondepreciable capital assets	54,654,488	47,366,562	(584,166)	(51,397,915)	129,698	50,168,667
Depreciable capital assets:						
Land improvements	18,144,986	—	(615,154)	—	—	17,529,832
Buildings and improvements	495,333,372	5,332,153	(2,748,335)	50,238,008	7,699,418	555,854,616
Leasehold improvements	12,252,862	181,061	—	156,316	(3,668,299)	8,921,940
Equipment and software	74,631,140	4,906,722	(4,045,636)	1,003,591	15,096	76,510,913
Library materials	11,267,981	361,723	(6,965,238)	—	—	4,664,466
Total depreciable capital assets	611,630,341	10,781,659	(14,374,363)	51,397,915	4,046,215	663,481,767
Less accumulated depreciation:						
Land improvements	9,623,253	755,321	(429,117)	—	—	9,949,457
Buildings and improvements	225,257,528	25,070,183	(2,092,716)	—	6,758,630	254,993,625
Leasehold improvements	4,356,955	975,447	(156,450)	—	(653,439)	4,522,513
Equipment and software	36,401,353	13,403,983	(3,732,043)	—	(3,097,740)	42,975,553
Library materials	7,215,834	1,459,904	(6,725,942)	—	1	1,949,797
Total accumulated depreciation	282,854,923	41,664,838	(13,136,268)	—	3,007,452	314,390,945
Net depreciable capital assets	328,775,418	(30,883,179)	(1,238,095)	51,397,915	1,038,763	349,090,822
Total capital assets, net	$ 383,429,906	16,483,383	(1,822,261)	—	1,168,461	399,259,489

(9) Long-Term Liabilities

The following table presents changes in long-term liabilities at June 30, 2014:

	Balance, June 30, 2013	Additions	Reductions	Balance, June 30, 2014	Current portion
Bonds payable	$ 69,426,640	23,047,636	(3,500,069)	88,974,207	3,555,000
Capital leases payable	11,508,775	2,367,073	(778,582)	13,097,266	875,100
Other long-term liabilities	1,519,397	541,933	(525,519)	1,535,811	195,350
Compensated absences liability	18,388,423	11,818,934	(10,820,644)	19,386,713	1,577,130

The following table presents changes in long-term liabilities at June 30, 2013:

		Balance, June 30, 2012	Additions	Reductions	Balance, June 30, 2013	Current portion
Bonds payable	$	72,295,735	687	(2,869,782)	69,426,640	3,245,000
Capital leases payable		11,015,108	1,155,374	(661,707)	11,508,775	758,518
Other long-term liabilities		1,135,599	563,610	(179,812)	1,519,397	82,094
Compensated absences liability		17,179,625	14,955,942	(13,747,144)	18,388,423	1,395,207

(10) Bonds Payable

(a) Systemwide Revenue Bonds

The State's Department of Higher Education, through the SBCCOE, issued revenue bonds in 2003, 2004, 2010, 2012, and 2013 known as Systemwide Revenue Bonds. Bond proceeds were used to benefit facilities at the individual colleges, as noted below:

Series 2003 Bonds

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

Series 2004 Bonds

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

Series 2010 Bonds

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

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

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

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

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

Colorado Northwestern Community College	$	495,000
Northeastern Junior College		335,000
	$	830,000

The Series 2010B-2 Taxable Systemwide Revenue Bonds for $9,665,000 were issued on March 10, 2010. Interest is payable semiannually on May 1 and November 1. The Series 2010B-2 bonds were issued as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (the Recovery Act). Pursuant to the Recovery Act, SBCCOE expects to receive a cash subsidy payment from the U.S. Treasury (referred to herein as the Federal Direct Payments) equal to 35.0% of the interest payable on the Series 2010B-2 bonds on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the U.S. government, but is required to be paid by the Treasury under the Recovery Act.

(Continued)

Any Federal Direct Payments received by the Board are to be deposited into the Debt Service Fund and applied to the payment of principal and interest on the Series 2010B-2 bonds. Final maturity of the bonds is November 1, 2041. The principal of the Series 2010B-2 issue was distributed between the colleges as follows:

Colorado Northwestern Community College	$	4,585,000
Northeastern Junior College		5,080,000
	$	9,665,000

The proceeds from the 2010B-1 and 2010B-2 bonds will be used to finance construction, improvement, and equipping of 78,000 square feet of the Craig Campus Academic Building at CNCC, 14,000 square feet of the Craig Career and Technical Center at CNCC, and a new student residence hall for the housing of students at NJC.

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

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

Community College of Denver	$	4,575,000
Pueblo Community College		1,970,000
	$	6,545,000

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

Community College of Denver	$	19,970,000
Pueblo Community College		11,485,000
	$	31,455,000

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

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

Series 2012 Bonds

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

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

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

Community College System	$	5,825,000
Pikes Peak Community College		3,535,000
Arapahoe Community College		2,135,000
	$	11,495,000

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

Series 2013 Bonds

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

(Continued)

(b) Advance Refundings

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

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

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

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

For June 30, 2014 and 2013, $4,740,000 outstanding bonds are considered advance refunded and not included in the accompanying financial statements.

(c) Security

The bonds are special obligations of CCCS payable from certain net pledged revenues as defined in the bond indentures. The Series 2013, 2012, and 2010 bonds are payable solely out of and secured by an irrevocable pledge of 10.0% of tuition and fee revenues, net of scholarship allowances. The Series 2004 and Series 2003 bonds are payable solely out of and secured by an irrevocable pledge of income or monies derived from the auxiliary facilities (defined below) after deduction of operating and maintenance expenses, including, without limitation, student fees and other fees, rates, and charges pertaining thereto and for the development thereof, and may include, at 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 and 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.

Total net pledged revenue for bonds was $71,206,200 and $71,089,699 for fiscal years 2014 and 2013, respectively. These amounts primarily consisted of $32,156,483 student tuition and fees, net of scholarship allowance plus pledges for other revenues for fiscal year 2014 and $31,219,693 of student fees net of scholarship allowance plus pledges for other revenues for fiscal year 2013 plus

$37,749,174 and $38,670,599 of auxiliary enterprise plus pledges for other revenues for fiscal year 2014 and 2013, respectively.

(d) Earnings Requirement

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

(e) Minimum Bond Reserve Requirement

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

(f) Mandatory Sinking Fund Redemption

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

(g) Bond Accounting

The bond accounts are maintained by each of the participating colleges for their portion of the bonds. 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 financial statements.

(Continued)

(h) Long-Term Bond Principal Maturities

Bond principal payments to be made during fiscal years 2015 through 2019 are enumerated in the following tables:

Bond issue		Principal maturing in next five years by year				
		FY15	FY16	FY17	FY18	FY19
Series 2003:						
Pikes Peak Community College	$	165,000	170,000	175,000	180,000	190,000
Series 2004:						
Front Range Community College		505,000	525,000	—	—	—
Series 2010A:						
Community College of Aurora		73,006	75,511	78,019	81,513	84,669
Morgan Community College		35,855	39,384	38,363	37,873	41,803
Northeastern Junior College		212,398	215,276	222,672	232,841	233,038
Pueblo Community College		242,928	246,192	249,707	—	—
Red Rocks Community College		190,600	195,442	200,443	203,494	210,490
Trinidad State Junior College		70,213	68,195	70,796	74,279	—
Series 2010B-1:						
Colorado Northwestern Community College		110,000	—	—	—	—
Northeastern Junior College		115,000	—	—	—	—
Series 2010B-2:						
Colorado Northwestern Community College		—	110,000	115,000	115,000	120,000
Northeastern Junior College		—	115,000	120,000	120,000	125,000
Series 2010C:						
Community College Denver		795,000	830,000	865,000	900,000	—
Pueblo Community College		325,000	335,000	345,000	360,000	—
Series 2010D:						
Community College Denver		—	—	—	—	925,000
Pueblo Community College		—	—	—	—	375,000

Bond issue		Principal maturing in next five years by year FY15	FY16	FY17	FY18	FY19
Series 2012A:						
Arapahoe Community College	$	80,000	80,000	80,000	85,000	90,000
Colorado Community College System		240,000	245,000	250,000	250,000	260,000
Pikes Peak Community College		195,000	195,000	200,000	205,000	210,000
Series 2013:						
Front Range Community College		200,000	695,000	725,000	755,000	785,000
Total revenue bonds payable		3,555,000	4,140,000	3,735,000	3,600,000	3,650,000
Interest	$	2,756,621	2,654,186	2,552,407	2,454,893	2,360,001
Total annual debt service	$	6,311,621	6,794,186	6,287,407	6,054,893	6,010,001

Bond debt service payments after fiscal year 2019 to maturity are as follows:

		Principal	Interest	Total
2020–2024	$	17,295,000	10,002,302	27,297,302
2025–2029		19,760,000	7,497,865	27,257,865
2030–2034		19,995,000	4,276,344	24,271,344
2035–2039		8,380,000	1,511,330	9,891,330
2040–2044		2,155,000	126,978	2,281,978
	$	67,585,000		

Remaining debt service by bond issuance is as follows:

	Revenue bonds outstanding*, June 30, 2014	Interest rate	Maximum annual principal	Callable	Call premium	Final payment
State Board for Community Colleges and Occupational Education Systemwide Revenue Bonds:						
Series 2003:						
Pikes Peak Community College	$ 3,384,648	2.08% to 4.125%	$ 290,000	Yes	None	11/1/2030
Series 2004:						
Front Range Community College	1,033,729	3.08% to 3.65%	525,000	Yes	None	11/1/2015
Series 2010A:						
Community College of Aurora	488,540	2.00% to 3.00%	86,935	No	None	11/1/2019
Morgan Community College	197,070	2.00% to 3.00%	41,803	No	None	11/1/2018
Northeastern Junior College	1,313,654	2.00% to 3.00%	233,038	No	None	11/1/2019
Pueblo Community College	752,398	2.00% to 2.50%	249,706	No	None	11/1/2016
Red Rocks Community College	1,243,115	2.00% to 3.00%	220,025	No	None	11/1/2019
Trinidad State Junior College	294,734	2.00% to 2.75%	74,279	No	None	11/1/2017
Series 2010B-1:						
Colorado Northwestern Community College	109,335	2	110,000	No	None	11/1/2014
Northeastern Junior College	115,724	2	115,000	No	None	11/1/2014
Series 2010B-2:						
Colorado Northwestern Community College	4,585,909	2.00% to 6.10%	280,000	Yes (after 11/2021)	None	11/1/2040
Northeastern Junior College	5,077,518	2.00% to 6.10%	305,000	Yes (after 11/2021)	None	11/1/2041

	Revenue bonds outstanding*, June 30, 2014	Interest rate	Maximum annual principal	Callable	Call premium	Final payment
Series 2010C:						
Community College Denve	$ 3,634,848	4.00%	900,000	No	None	11/1/2017
Pueblo Community College	1,466,463	4.00%	360,000	No	None	11/1/2017
Series 2010D:						
Community College Denver	19,956,553	3.37% to 5.35%	1,510,000	Yes (after 11/2021)	None	11/1/2034
Pueblo Community College	11,477,870	3.37% to 5.50%	730,000	Yes (after 11/2021)	None	11/1/2039
Series 2012A:						
Arapahoe Community College	2,045,230	2.00% to 3.375%	140,000	Yes (after 11/2022)	None	11/1/2032
Colorado Community College System	5,538,259	2.00% to 3.375%	375,000	Yes (after 11/2022)	None	6/30/2032
Pikes Peak Community College	3,314,009	2.00% to 3.375%	270,000	Yes (after 11/2022)	None	6/30/2028
Series 2013:						
Front Range Community College	22,944,601	3.00% to 5.00%	1,500,000	Yes (after 11/2023)	None	11/1/2034
	$ 88,974,207					

* Includes unamortized bond premium and discount of $2,709,207

(11) Leases and State of Colorado Certificates of Participation

CNCC, LCC, NJC, TSJC, and CCCS have recorded capital leases in conjunction with building improvements and equipment related to energy performance contracts. The interest rate on the capital leases range from 4.75% to 5.35%. Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or their estimated useful life. In 2014 and 2013, capitalized assets relating to these leases were approximately $19,467,379 and $17,743,880, respectively, with amortization expense of $971,466 and $835,583, respectively, and accumulated amortization of $4,202,665 and $2,957,248, respectively.

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

	Principal	Interest	Total
2015	$ 875,100	424,030	1,299,130
2016	881,889	531,300	1,413,189
2017	900,857	489,677	1,390,534
2018	960,631	449,496	1,410,127
2019	893,149	408,338	1,301,487
2020–2024	4,685,294	1,401,423	6,086,717
2025–2029	3,263,199	505,067	3,768,266
2030–2034	637,147	46,133	683,280
Total	$ 13,097,266	4,255,464	17,352,730

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

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

(Continued)

CCCS also has building and equipment operating leases. One of these leases is by and between CCA and a discretely presented component unit, CCA Foundation, for approximately $1.0 million for both years ended June 30, 2014 and 2013. Total rent expense for all operating leases for the years ended June 30, 2014 and 2013 was $4,736,443 and $4,517,634, respectively. Future minimum rental payments, exclusive of real estate taxes and other expenses, under operating leases are as follows:

Year ending June 30:		
2015	$	4,651,918
2016		4,877,269
2017		2,489,361
2018		2,307,362
2019		2,007,909
2020–2024		3,399,616
2025–2029		631,325
2030–2034		631,325
2035–2039		631,325
2040–2044		631,325
2045–2049		399,839

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

		Total
2015	$	195,350
2016		350,202
2017		402,491
2018		181,728
2019		387,216
2020–2024		18,824
Total	$	1,535,811

(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, 2014 and 2013 is $19,386,713 and $18,388,423, respectively.

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

At June 30, 2014 and 2013, the Public Employees' Retirement Association of Colorado (PERA) estimated that 56.8% and 57.1%, respectively, of the State's employees would remain until retirement. This percentage is used to calculate the amount of compensated absence liability to establish for sick leave each year.

(14) Retirement Plan

(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 PERA Board of Trustees. 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, CO 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Community college employees hired after January 1, 2010 are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan within 60 days, unless they had been a PERA member within the prior twelve months. In that case, they are required to remain in the PERA plan in which they participated previously.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

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

- Hired before July 1, 2005–age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006–any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.
- Hired between January 1, 2007 and December 31, 2010–any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1,

2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.

- Hired between January 1, 2011 and December 31, 2016–any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

Hired on or after January 1, 2017–any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

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

- Hired before January 1, 2007–age 55 with a minimum of five years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010–age 55 with a minimum of five years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016–age 58 and age plus years of service equals 88 or more.

Hired on or after January 1, 2017–age 60 and age plus years of service equals 90.

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 15.0% 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 in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007–the lesser of 2.0% or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007–the lesser of 2.0% or the actual increase in the national Consumer Price Index, limited to a 10.0% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by one percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103.0% and declines by one-quarter percentage point when the funded ratio drops below 90.0% after having exceeded 103.0%. The funded ratio increase does not apply for three years when a negative return on investment occurs.

(Continued)

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

(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. Effective July 1, 2012, the temporary contribution rate increase of 2.5% for members in the State Division to replace the 2.5% reduction in employer contributions effective for fiscal years 2010-11 and 2011-12 expired.

From July 1, 2013 to December 31, 2013, CCCS contributed 16.55% of the employee's salary. From January 1, 2014 through June 30, 2014, CCCS contributed 17.45%. During all of fiscal year 2013-14, 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, 2013, the division of PERA in which the state participates has a funded ratio of 57.5% and a 60-year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 61.0%.

In the 2004 and 2010 legislative sessions, 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 for calendar years 2006 and 2007, with subsequent year increases of 0.4% of salary through 2017, to a maximum of 5.0%.

In the 2006 and 2010 legislative sessions, 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, for calendar years 2008 through 2017, to a maximum of 5.0%. The SAED will be deducted from the amount otherwise available to increase state employees' salaries.

At a 103.0% funding ratio, both the AED and SAED will be reduced by one-half percentage point, and for subsequent declines to below 90.0% funded both the AED and SAED will be increased by one-half percentage point.

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.

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CCCS' contributions to PERA and/or the Defined Benefit Plan and Health Care Trust Fund and/or the State's defined contribution plan for the fiscal years ended June 30, 2014, 2013, and 2012 were $43,269,066 and $38,964,377, and $30,046,428, respectively. These contributions met the contribution requirement for each year.

(c) Future Accounting Change

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (Statement No. 68), which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The System provides certain of its employees with pension benefits through the state's multiple-employer cost-sharing PERA defined benefit retirement program.

Statement No. 68 requires cost-sharing employers participating in the PERA program, such as CCCS, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The System has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact CCCS' future unrestricted net position. Statement No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of the impact of this new accounting standard. Information regarding PERA's current funding status can be found in its Comprehensive Annual Financial Report.

(15) Other Retirement Plans

(a) Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50.0% to 100.0% evenly over five years. Participants in the plan are required to contribute 8.0% of their salary. The temporary contribution rate increased to 10.5% effective in fiscal years 2010-11 and 2011-12 expired on July 1, 2012. At December 31, 2013, the plan had 4,719 participants.

(b) Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2013, participants were allowed to make contributions of up to 100.0% of their annual gross salary (reduced by their 8.0% PERA contribution) to a maximum of $17,500. The reduction for the 8.0% PERA contribution reflects the expiration of the temporary contribution rate increase to 10.5% effective in fiscal years 2010-11 and 2011-12. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $5,500 contribution in 2013, for total contributions of $23,000. Contributions and earnings are tax deferred. At December 31, 2013, the plan had 17,462 participants.

PERA also 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 403(b) or 401(a) plans.

(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 healthcare 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 P.O. Box 5800, Denver, CO 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 benefit recipients who are under 65 years of age and who are not entitled to Medicare and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5.0% 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 wages to the Health Care Trust Fund. CCCS' contribution is disclosed above in conjunction with contributions for the State defined benefit plan. In each year, the amount contributed was 100.0% 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, 2013, there were 53,041 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2013, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.26 billion, a funded ratio of 18.8%, and a 30-year amortization period.

(b) Other Programs

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

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

(17) Employee Benefit Trust Fund

The Benefit Trust provides long-term disability benefits to all employees participating in the Employee Choice Flexible Benefit Plan sponsored by the SBCCOE. For fiscal years 2014 and 2013, CCCS made contributions to the Benefit Trust of approximately $305,600 and $282,000, respectively.

(18) Risk Financing and Insurance-Related Activities

CCCS is subject to risks of loss from liability for accidents, property damage, and personal injury. These risks are managed by the State Office of Risk Management, an agency formed by statute and funded by the State Long Bill. Therefore, CCCS is not required to obtain insurance and, accordingly, neither did reduction occur in coverage nor did any settlements exceed coverage. CCCS does not retain risk of loss except for damage incurred to property belonging to the State limited to a $1,000 deductible per incident.

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

(19) Commitments and Contingencies

The System has $32 million in commitments for various capital construction and controlled maintenance projects as of June 30, 2014.

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

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

(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

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its annual Appropriations Long Bill. Beginning fiscal year 2005, appropriated funds included an amount from the General Fund as well as cash funds, such as tuition, certain fees, and other revenue sources. Nonappropriated funds were excluded from the annual appropriations bill. Nonappropriated funds have historically included certain grants and contracts, gifts, indirect cost recoveries, designated auxiliary revenues, and other revenue sources.

Legislation passed in fiscal year 2004 provided higher education institutions in the State the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), if the institution met the stated qualifications. In fiscal year 2006, the System qualified as an enterprise because it is a government-owned business with legal authority to issue revenue bonds. In addition, the System was required to receive (and is expected to continue to receive) less than 10.0% (in relation to total revenues) in support from the State. In fiscal years 2014 and 2013, the System received 2.4% and 1.6%, 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. Beginning fiscal year 2012, the Colorado State Legislature no longer appropriated the student share of tuition and fees.

(21) Discretely Presented Component Units Restatements

As of July 1, 2013, the CCD, NJC, and RRCC Foundations net assets were restated to correct errors and the presentation of net assets. A summary of the total adjustments was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year, as previously reported	$ 16,019,178	16,678,410	11,591,864	44,289,452
Restatement	(3,321)	(90,863)	26,384	(67,800)
Net assets, beginning of year, as restated	$ 16,015,857	16,587,547	11,618,248	44,221,652

As of July 1, 2012, CNCC, LCC, and TSJC Foundations' net assets were restated to correct errors and the presentation of net assets. A summary of the total adjustments was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year, as previously reported	$ 14,317,875	17,273,222	10,680,575	42,271,672
Restatement	287,279	(299,547)	12,268	—
Net assets, beginning of year, as restated	$ 14,605,154	16,973,675	10,692,843	42,271,672

(22) Related-Party Transactions

Approximately $4.8 million and $4.4 million was transferred to the colleges from the foundations for the years ended June 30, 2014 and 2013, respectively, in pursuit of providing financial support for instructional programs, facilities, equipment, student scholarship programs, and cultural activities.

(23) Subsequent Events

CCCS evaluated events subsequent to June 30, 2014 and through December 8, 2014, and there were no significant events subsequent to year end.

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

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

The Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities and the aggregate discretely presented component units of the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2014 and 2013 and the related notes to the financial statements, which collectively comprise CCCS' basic financial statements, and have issued our report thereon dated December 8, 2014. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on CCCS' financial statements, and an explanatory paragraph stating that the June 30, 2013 financial statements of the aggregate discretely presented component units have been restated to correct certain misstatements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or other significant deficiencies may exist that were not already identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we identified certain deficiencies in internal control over financial statement reporting, described in the Findings and Recommendations section of this report as Recommendations No. 1 and No. 2 that we consider to be significant deficiencies. Additionally, we identified certain deficiencies in internal control over the Federal Student Financial Aid program (Title IV), described in the Findings and Recommendations section of this report as Recommendations No. 3, No. 4 and No. 5 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCCS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the Findings and Recommendations section of this report as Recommendations No. 3, No. 4 and No. 5.

CCCS' Responses to Findings

CCCS' responses to the findings identified in our audit are described in the Findings and Recommendations section. CCCS' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

KPMG LLP

Denver, Colorado
December 8, 2014

KPMG

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

December 8, 2014

The Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2014 and 2013 and the related notes to the financial statements, which collectively comprise CCCS' basic financial statements, and have issued our report thereon dated December 8, 2014. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on CCCS' financial statements, and an explanatory paragraph stating that the June 30, 2013 financial statements of the aggregate discretely presented component units have been restated to correct certain misstatements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements, which have been prepared by management with the oversight of the State Board for Community Colleges and Occupational Education (SBCCOE), are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the 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 financial statements are detected. Our audit does not relieve management and the SBCCOE of their responsibilities.

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

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

Other Information in Documents Containing Audited Financial Statements

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

Accounting Practices and Alternative Treatments

Significant Accounting Policies

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

Unusual Transactions

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

Qualitative Aspects of Accounting Practices

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

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of CCCS to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

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

Uncorrected Misstatements

In connection with our audit of CCCS' financial statements, we have not identified any significant financial statement misstatements that have not been corrected in CCCS' books and records as of and for the year ended June 30, 2014 and have communicated that finding to management.

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 the CCCS' 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 year ended June 30, 2014.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management prior to Retention

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

Material Written Communications

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

1. Engagement letter

2. Management representation letter

3. Findings and recommendations included in this report

Significant Difficulties Encountered during the Audit

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

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all relationships between our firm and CCCS and persons in a financial reporting oversight role at CCCS and provide confirmation that we are independent accountants with respect to CCCS.

Confirmation of Audit Independence

We hereby confirm that as of December 8, 2014 we are independent accountants with respect to CCCS under all relevant professional and regulatory standards.

* * * * * * *

This letter is intended solely for the information 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

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

The financial and compliance examination of the various state-funded student financial assistance programs at CCCS for the year ended June 30, 2014 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHE) Financial Aid Policy. The state-funded student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2014.

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

Colorado Need-Based Grants Awards:

– Colorado Student Grants Program

Colorado Work-Study Program

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

The total state-funded student financial assistance expenditures made by CCCS were approximately $30.0 million during the year ended June 30, 2014.

Authorizations and expenditures for state-funded student financial assistance programs are detailed by program in the accompanying statement of allocations, expenditures, transfers, and reversions for the year ended June 30, 2014. CCCS also obtained authorizations for federal student financial aid funds as follows:

- Supplemental Educational Opportunity Grant of approximately $2.1 million

College Work-Study of approximately $1.7 million

In addition to these programs, CCCS also received funding through the Pell Grant Program in the amount of approximately $126.7 million and through direct lending in the amount of approximately $166.5 million. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

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Independent Auditors' Report

The Members of the Legislative Audit Committee:

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

We have audited the accompanying statement of allocations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance (SFSFA) Programs (the Statement) of the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado, for the year ended June 30, 2014.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Statement in accordance with the Colorado Department of Higher Education (CDHE) *Audit Guide* and the policies and procedures for State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System, as described in note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the Statement referred to above presents fairly the allocations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance programs of Colorado Community College System for the year ended June 30, 2014, 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 notes 1 and 2 to the Statement.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Statement in accordance with the format set forth in the CDHE *Audit Guide*, and in conformity with the provisions of the CCHE *Financial Aid Policy*. The accompanying introduction and schedules of allocations, expenditures, transfers, and reversions of each of the colleges (the Schedules) are presented for purposes of additional analysis and are not a required part of the Statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In opinion, the Schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Report Restriction

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated December 8, 2014 on our consideration of CCCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCCS' internal control over financial reporting and compliance.

KPMG LLP

December 8, 2014

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Assistance Programs

Statement of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	30,008,332	25,440,731	4,567,601
Supplementals		—	—	—
Transfers		—	(34,600)	34,600
Total allocations		30,008,332	25,406,131	4,602,201
Less expenditures		29,996,029	25,406,131	4,589,898
Reversions to state general fund	$	12,303	—	12,303

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

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2014

(1) Basis of Presentation

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

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

The accompanying statement of allocations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format as prescribed by the 2013-2014 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid issued by the Department of Education (DHE), and in conformity with the provisions of the State-Funded Student Financial Assistance Programs established by the State Board for Community Colleges and Occupational Education of the Colorado Community College System. The purpose of the Statement is to present, in summary form, the state-funded student financial assistance (SFSFA) activities of CCCS' 13 campuses for the year ended June 30, 2014.

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

(2) Basis of Accounting

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

ARAPAHOE COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	2,238,248	1,963,409	274,839
Supplementals		—	—	—
Transfers		—	(27,484)	27,484
Total allocations		2,238,248	1,935,925	302,323
Less expenditures		2,238,248	1,935,925	302,323
Reversions to state general fund	$	—	—	—

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

COLORADO NORTHWESTERN COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	270,683	201,496	69,187
Supplementals		—	—	—
Transfers		—	—	—
Total allocations		270,683	201,496	69,187
Less expenditures		270,683	201,496	69,187
Reversions to state general fund	$	—	—	—

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

COMMUNITY COLLEGE OF AURORA

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	2,288,087	2,055,607	232,480
Supplementals		—	—	—
Transfers		—	—	—
Total allocations		2,288,087	2,055,607	232,480
Less expenditures		2,288,087	2,055,607	232,480
Reversions to state general fund	$	—	—	—

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

COMMUNITY COLLEGE OF DENVER

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:			
Original	$ 4,495,261	3,808,664	686,597
Supplementals	—	—	—
Transfers	—	(68,000)	68,000
Total allocations	4,495,261	3,740,664	754,597
Less expenditures	4,495,261	3,740,664	754,597
Reversions to state general fund	$ —	—	—

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

FRONT RANGE COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	5,878,970	5,136,123	742,847
Supplementals		—	—	—
Transfers		—	—	—
Total allocations		5,878,970	5,136,123	742,847
Less expenditures		5,878,970	5,136,123	742,847
Reversions to state general fund	$	—	—	—

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

LAMAR COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	373,938	265,091	108,847
Supplementals		(10,884)		(10,884)
Transfers		10,884	10,884	—
Total allocations		373,938	275,975	97,963
Less expenditures		361,635	275,975	85,660
Reversions to state general fund	$	12,303	—	12,303

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

MORGAN COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:			
Original	$ 565,877	451,859	114,018
Supplementals	—	—	—
Transfers	—	—	—
Total allocations	565,877	451,859	114,018
Less expenditures	565,877	451,859	114,018
Reversions to state general fund	$ —	—	—

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

NORTHEASTERN JUNIOR COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	683,846	530,850	152,996
Supplementals		—	—	—
Transfers		—	—	—
Total allocations		683,846	530,850	152,996
Less expenditures		683,846	530,850	152,996
Reversions to state general fund	$	—	—	—

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

OTERO JUNIOR COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	767,631	579,384	188,247
Supplementals		—	—	—
Transfers		—	—	—
Total allocations		767,631	579,384	188,247
Less expenditures		767,631	579,384	188,247
Reversions to state general fund	$	—	—	—

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

PIKES PEAK COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	5,300,242	4,528,312	771,930
Supplementals		—	—	—
Transfers		—	50,000	(50,000)
Total allocations		5,300,242	4,578,312	721,930
Less expenditures		5,300,242	4,578,312	721,930
Reversions to state general fund	$	—	—	—

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

PUEBLO COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

	Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:			
Original	$ 3,501,916	2,867,843	634,073
Supplementals	—	—	—
Transfers	—	—	—
Total allocations	3,501,916	2,867,843	634,073
Less expenditures	3,501,916	2,867,843	634,073
Reversions to state general fund	$ —	—	—

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

RED ROCKS COMMUNITY COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	2,580,182	2,294,771	285,411
Supplementals		—	—	—
Transfers		—	—	—
Total allocations		2,580,182	2,294,771	285,411
Less expenditures		2,580,182	2,294,771	285,411
Reversions to state general fund	$	—	—	—

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

TRINIDAD STATE JUNIOR COLLEGE

State-Funded Student Assistance Programs

Schedule of Allocations, Expenditures, Transfers, and Reversions

Year ended June 30, 2014

		Total Colorado Financial Aid	Colorado Student Grants	Colorado Work-Study
Allocations:				
Original	$	1,063,451	757,322	306,129
Supplementals		—	—	—
Transfers		—	—	—
Total allocations		1,063,451	757,322	306,129
Less expenditures		1,063,451	757,322	306,129
Reversions to state general fund	$	—	—	—

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

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

The Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of allocations, expenditures, transfers and reversions of the State-Funded Student Assistance Programs (the Statement) for the Colorado Community College System (CCCS), an institution of higher education of the State of Colorado, for the year ended June 30, 2014, and have issued our report thereon dated December 8, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

Denver, Colorado
December 8, 2014

COLORADO COMMUNITY COLLEGE SYSTEM

State-Funded Student Financial Assistance Programs
Audit Comments and Recommendations

Year ended June 30, 2014

There are no audit comments and recommendations related to the state-funded student financial assistance programs.