

Colorado Community College System

Financial Statements and Independent Auditor's Reports

Financial Audit

Years Ended June 30, 2019 and 2018

Compliance Audit

Year Ended June 30, 2019

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Members of the Legislative Audit Committee:

We have completed the financial statement audits of the Colorado Community College System as of and for the years ended June 30, 2019 and 2018. Our audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We were engaged to conduct our audits pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions and agencies of state government. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.

BKD, LLP

Denver, Colorado
November 15, 2019

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Colorado Community College System

June 30, 2019

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Colorado Community College System

June 30, 2019

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Colorado Community College System

Report Summary

Year Ended June 30, 2019

Purpose and Scope of Audit

The Office of the State Auditor of the State of Colorado engaged BKD, LLP (BKD) to conduct a financial and compliance audit of the Colorado Community College System (CCCS or the System) for the years ended June 30, 2019 and 2018. BKD performed the 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. BKD was not engaged to audit the System's aggregate discretely presented component units which includes the Colorado Community College System Office Foundation and 13 college foundations (the Foundations). The Foundations were audited by other auditors as disclosed in the Independent Auditor's Report and the audits of the Foundations were not performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

The purposes and scope of the audit were to:

- Express opinions on the financial statements of the System as of and for the years ended June 30, 2019 and 2018.
- Issue a report on the System's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audit of the financial statements performed in accordance with *Government Auditing Standards* for the year ended June 30, 2019.
- Evaluate progress in implementing prior year audit recommendations.

The System's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, are included in the Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

The independent auditor's reports included herein expressed unmodified opinions on the System's financial statements as of and for the years ended June 30, 2019 and 2018. Our report included a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the System's financial statements.

No material weaknesses in internal control over financial reporting were identified.

No instances of noncompliance considered material to the financial statements were disclosed by the audit.

Significant Audit Adjustments

There were no proposed audit adjustments identified during the audit.

Summary of Audit Findings

There were no findings for the year ended June 30, 2019.

Colorado Community College System
Report Summary
Year Ended June 30, 2019

Summary of Progress in Implementing Prior Audit Recommendations

For the Fiscal Year 2019 audit, we performed test work to determine the disposition of the prior year recommendation relating to Fiscal Year 2018. We found that the recommendation for the fiscal year ended June 30, 2018, was fully implemented. See the Disposition of Prior Audit Findings and Recommendations section of this report for further information.

Colorado Community College System
Financial and Compliance Audit
Description of the Colorado Community College System
Year Ended June 30, 2019

Organization

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

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

The Board consists of nine members appointed by the governor to four-year staggered terms of service. The statute requires that board members be selected so as to represent certain economic, political, and geographical constituencies. In addition, there are two nonvoting members consisting of a student and a faculty member.

Colorado Community College System’s (CCCS or the System) 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 (extended limited game proceeds). In addition, the SBCCOE receives and distributes state appropriations for LDCs, AVSs, and school districts offering vocational programs.

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

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

Colorado Community College System
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Description of the Colorado Community College System
Year Ended June 30, 2019

Enrollment, and faculty and staff information are presented below. Enrollment information was obtained from the Colorado Commission on Higher Education (CCHE), Final Student Full-Time Equivalent (FTE) Enrollment Report. Staff information was obtained from Format 10 and 40 within the Budget Data Book for fiscal years 2019, 2018 and 2017 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

Fiscal year:	Resident	Nonresident	Total
2018-2019	46,377	2,630	49,007
2017-2018	46,747	2,957	49,704
2016-2017	46,856	3,006	49,862

FTE Faculty and Staff

Fiscal year:	Faculty	Staff	Total
2018-2019	3,803	2,072	5,875
2017-2018	3,647	2,051	5,698
2016-2017	3,853	2,006	5,859

Colorado Community College System
Disposition of Prior Audit Findings and Recommendations
Year Ended June 30, 2019

No.	Recommendation	Disposition
Recommendation No. 2018-01	The Colorado Community College System should strengthen internal controls over its federal Student Financial Aid programs by establishing policies and procedures to ensure that all students who fail to submit verification documentation are reevaluated by the financial aid office and any aid previously received during the award year be returned as outlined in the federal guidelines, as applicable.	Implemented

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Colorado Community College System (a higher education institution of the State of Colorado) (the System), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the System'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 accounting principles generally accepted in the United States of America; 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.

Auditor's 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. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the aggregate discretely presented component units, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Colorado Community College System, as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements of the System, an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of the business-type activities and the aggregate discretely presented component units of the State of Colorado that are attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2019 and 2018 and 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 opinions are not modified with respect to this matter.

Other Matter

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated November 15, 2019, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's 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 the System's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
November 15, 2019

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Colorado Community College System

Management's Discussion and Analysis

(Unaudited)

June 30, 2019 and 2018

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, 2019 and 2018 (fiscal years 2019 and 2018, respectively), with comparative information presented for fiscal year 2017. 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

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 121,000 and 123,000 students (50,000 full-time equivalent students both years) during fiscal years ended June 30, 2019 and 2018, respectively. 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 (SBCCOE or 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 150 school districts throughout the State.

Higher education institutions in the State have the ability to designate themselves as enterprises under the State's Constitution Article X, Section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), if the institution meets the stated qualifications. CCCS qualified as an enterprise for fiscal years 2019 and 2018 because it is a government-owned business with legal authority to issue revenue bonds. In addition, the System is 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 2019, 2018 and 2017, the System received 4.5%, 3.1% and 3.1%, respectively, of total revenue in State support (notes 4 and 21).

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 year 2019 the COF stipend was \$85 per credit hour, and in fiscal years 2018 and 2017, the COF stipend was \$77 and \$75, per credit hour, respectively, 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 2019 and 2018, CDHE's contract with CCCS purchased educational services with an increased emphasis on support services for Pell-eligible, first-generation, and underserved undergraduate students as well as institutional performance related to student completion and retention statistics and additional metrics supporting policy goals. This includes educational services in

Colorado Community College System
Management's Discussion and Analysis
(Unaudited)
June 30, 2019 and 2018

rural areas, high cost/student programs, institutional research services, remediation and special skills courses, creation of student career pathways, and for inclusion service compliance (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 2019, CCCS had a \$14.0 million increase in net tuition and fee revenue resulting from a 3.0% increase in resident tuition and nonresident tuition rates offset by a 1.4% decrease in enrollment. This also includes an increase in COF funding of approximately \$9.7 million compared to fiscal year 2018. This net tuition and fee increase also included an increase 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 increased \$0.8 million due to an increase in the average Pell award per student offset by a decrease in the number of students receiving Pell awards.

The following table represents the change in tuition and fees from fiscal year 2018 to 2019 (in millions):

Tuition and fees increase due to enrollment changes			
and rate increases (including capital fees)	\$	6.1	
Plus: increase in COF stipend funding		<u>9.7</u>	
Gross tuition and fee increase		15.8	
Decrease as a result of an offsetting			
increase in bad debt		(1.0)	
Decrease as a result of an offsetting increase			
in scholarship allowance for tuition and			
fees and capital fees		<u>(0.8)</u>	
Net increase in student tuition and fees, net			
of scholarship allowance plus capital fees		<u>14.0</u>	
Plus decrease in capital fees currently classified as			
non-operating excluding scholarship allowance		<u>1.3</u>	
Net increase in student tuition and			
fees, net of scholarship allowance	\$	<u><u>15.3</u></u>	

Colorado Community College System
Management's Discussion and Analysis
(Unaudited)
June 30, 2019 and 2018

The following table represents the change in tuition and fees from fiscal year 2017 to 2018 (in millions):

Tuition and fees increase due to enrollment changes and rate increases (including capital fees)	\$	15.5
Plus: increase in COF stipend funding		<u>2.4</u>
Gross tuition and fee increase		17.90
Increase as a result of an offsetting decrease in bad debt		6.2
Decrease as a result of an offsetting increase in scholarship allowance for tuition and fees and capital fees		<u>(4.3)</u>
Net increase in student tuition and fees, net of scholarship allowance plus capital fees		<u>19.80</u>
Less increase in capital fees currently classified as non-operating		<u>(7.2)</u>
Net increase in student tuition and fees, net of scholarship allowance	\$	<u><u>12.6</u></u>

In November 2008, voters passed Amendment 50, which expanded limited stakes gaming in three Colorado mountain towns. A portion of the additional revenues from the increased gaming activity is distributed based on enrollment to Colorado community, junior and district colleges for financial assistance and classroom instruction. CCCS received approximately \$10.9 million in Amendment 50 funding in fiscal year 2019, of which \$10.3 million was used for classroom instruction related expenses and \$0.6 million was awarded to students for scholarships. CCCS received approximately \$8.8 million in Amendment 50 funding in fiscal year 2018, of which \$8.3 million was used for classroom instruction related expenses and \$0.5 million was awarded to students for scholarships. In addition, colleges used \$0.6 million and \$0.1 million of carryover funds from prior years on classroom instruction and related expenses, and student scholarships, respectively.

Financial Highlights

At June 30, 2019, CCCS' assets and deferred outflows of \$1,026,348,319 were less than its liabilities and deferred inflows of \$1,808,917,003 by \$782,568,684. At June 30, 2018, CCCS' assets and deferred outflows of \$1,221,720,571 were less than its liabilities and deferred inflows of \$2,121,497,533 by \$899,776,962. At June 30, 2017, CCCS' assets and deferred outflows of \$1,371,660,104 were less than

Colorado Community College System
Management's Discussion and Analysis
(Unaudited)
June 30, 2019 and 2018

its liabilities and deferred inflows of \$1,866,134,613 by \$494,474,509. The resulting net position is summarized into the following categories:

	June 30		
	2019	2018	2017
Net investment in capital assets	\$ 362,583,343	\$ 365,461,402	\$ 382,009,870
Restricted, expendable	10,381,853	8,707,609	8,154,713
Unrestricted	<u>(1,155,533,880)</u>	<u>(1,273,945,973)</u>	<u>(884,639,092)</u>
Total net position (deficit)	(782,568,684)	(899,776,962)	(494,474,509)
 GASB 68 - Pension			
Current Year Impact	1,378,844,205	1,492,898,520	1,143,866,751
GASB 75 - OPEB			
Current Year Impact	40,678,424	79,603,629	N/A
GASB 75 - OPEB			
Change in accounting principle	<u>N/A</u>	<u>(39,550,004)</u>	<u>N/A</u>
 Net position excluding impact from Pension and OPEB	<u>\$ 636,953,945</u>	<u>\$ 633,175,183</u>	<u>\$ 649,392,242</u>

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

During fiscal year 2019, the CCCS' total net position increased by \$117,208,278 due to an increase of \$3,778,762 in current activity, an increase of \$114,054,315 due to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB No. 27*, and an offsetting decrease of \$624,799 due to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Both GASB 68 and 75 are discussed in the overview.

During fiscal year 2018, the CCCS' total net position decreased by \$405,302,453 due to a decrease of \$16,217,059 in current activity with an additional decrease of \$349,031,769 due to GASB Statement No. 68, and \$40,053,625 (including the prior period adjustment of \$39,550,004) due to GASB Statement No. 75.

During fiscal year 2017, the CCCS' total net position decreased by \$290,764,735 due to a decrease of \$12,049,515 in current activity with an additional decrease of \$278,715,220 due to GASB Statement No. 68.

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.

Colorado Community College System
Management's Discussion and Analysis
(Unaudited)
June 30, 2019 and 2018

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

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

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.

In fiscal year 2018, CCCS implemented GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement No. 75), which was effective for financial statements for periods beginning after June 15, 2017. Statement No. 75 revises and establishes new financial reporting requirements for most governments that provide their employees with other post-employment benefits (OPEB) other than pensions. The System provides certain of its employees with OPEB through the State's multiple-employer cost-sharing Public Employees' Retirement Association of Colorado (PERA) Health Care Trust Fund (HCTF).

Statement No. 75 requires cost-sharing employers participating in the PERA HCTF program, such as CCCS, to record their proportionate share, as defined in Statement No. 75, of PERA's unfunded OPEB liability.

The System has no legal obligation to fund the shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly as it relates to pensions and OPEB. The requirements of Statements No. 68 and No. 75 to record a portion of PERA's unfunded pension and OPEB liabilities negatively impacts CCCS' unrestricted net position.

Information regarding PERA's Pension and HCTF current funding status' can be found in its Comprehensive Annual Financial Report.

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

The Statements of Net Position present information on all of CCCS' assets and deferred outflows of resources and liabilities and deferred inflows of resources at a point in time (June 30, 2019 and 2018), 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 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, 2019 and 2018). 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 of resources, expenses, and deferred inflows of resources are reported in these statements for some items that will only result in

Colorado Community College System
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(Unaudited)
June 30, 2019 and 2018

cash flows in future fiscal periods (*e.g.*, the payment for accrued compensated absences or the pension liability, or the receipt of amounts due from students and others for services rendered). The purpose is to assess CCCS' operating results. CCCS reports its activity as a special-purpose government engaged only in business-type activities using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Cash Flows present cash receipts and payments to and from CCCS for the reporting period (the fiscal years ended June 30, 2019 and 2018) 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 of resources, liabilities, and deferred inflows of resources, with the difference between the four reported as net position.

The assets and deferred outflows of resources reported by CCCS were less than liabilities and deferred inflows of resources at June 30, 2019 resulting in a net position of \$(782,568,684) and assets and deferred outflows of resources were less than liabilities and deferred inflows of resources at June 30, 2018 resulting in a net position of \$(899,776,962). Assets and deferred outflows of resources were less than liabilities and deferred inflows of resources at June 30, 2017 resulting in a net position of \$(494,474,509). Assets and deferred outflows of resources were less than liabilities and deferred inflows of resources primarily due to the impact of Statement No. 75 in fiscal year 2019 and 2018 and the impact of Statement No. 68 in fiscal years 2019, 2018 and 2017. The majority of CCCS' net position is net investment in capital assets (*e.g.*, land, buildings and equipment). These assets are used to provide services to students, faculty and administration. Consequently, these assets are not available to fund future spending. The resulting net position is summarized into the following categories:

Colorado Community College System
Management's Discussion and Analysis
(Unaudited)
June 30, 2019 and 2018

Condensed Statements of Net Position

	June 30		
	2019	2018	2017
Current assets	\$ 357,552,563	\$ 352,446,084	\$ 360,330,622
Noncurrent assets, including capital assets of \$485,756,321, \$471,713,646 and \$486,463,186, respectively	<u>505,910,116</u>	<u>503,809,673</u>	<u>496,326,424</u>
Total assets	<u>863,462,679</u>	<u>856,255,757</u>	<u>856,657,046</u>
Total deferred outflows of resources	<u>162,885,640</u>	<u>365,464,814</u>	<u>515,003,058</u>
Current liabilities	85,333,276	77,764,597	89,818,546
Noncurrent liabilities	<u>1,197,309,435</u>	<u>1,969,628,738</u>	<u>1,764,603,263</u>
Total liabilities	1,282,642,711	2,047,393,335	1,854,421,809
Total deferred inflows of resources	<u>526,274,292</u>	<u>74,104,198</u>	<u>11,712,804</u>
Net position			
Net investment in capital assets	362,583,343	365,461,402	382,009,870
Restricted - expendable	10,381,853	8,707,609	8,154,713
Unrestricted	<u>(1,155,533,880)</u>	<u>(1,273,945,973)</u>	<u>(884,639,092)</u>
Total net position	<u>\$ (782,568,684)</u>	<u>\$ (899,776,962)</u>	<u>\$ (494,474,509)</u>

Current assets increased as of June 30, 2019 compared with June 30, 2018 by approximately \$5.1 million, or 1.4%, as a result primarily of an increase in net accounts receivable of \$4.6 million and an increase in prepaid expenses and inventories of \$1.2 million, offset by a \$0.7 million decrease in cash and cash equivalents. Increases in net accounts receivable include an increase of approximately \$3.7 million and \$0.9 million in student receivable, net, and in other receivables, net.

Current assets decreased as of June 30, 2018 compared with June 30, 2017 by approximately \$7.9 million, or 2.2%, as a result primarily of a \$9.3 million decrease in cash and cash equivalents offset by an increase in accounts receivable of \$2.0 million. Increases in accounts receivable include an increase of \$7.1 million in due from other governments, net, offset by a decrease of \$3.4 million in student receivables, net, and \$1.7 million in other receivables, net, approximately.

Current liabilities increased as of June 30, 2019 compared with June 30, 2018 by approximately \$7.6 million, or 9.7%, as a result primarily of a \$7.7 million increase in accounts payable and a \$1.0 million increase in unearned revenue, offset by a decrease of \$0.6 million in bonds payable, current and a decrease of \$0.4 million in other long-term liabilities, current.

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Current liabilities decreased as of June 30, 2018 compared with June 30, 2017 by approximately \$12.1 million, or 13.4%, as a result primarily of a \$12.8 million decrease in accrued liabilities due to the absence of the pay date shift (C.R.S. 24-50-104(8)) in fiscal year 2018 and a \$1.6 million decrease in deposits held for others, offset by an increase of \$0.9 million in bonds payable, current, an increase of \$0.6 million in unearned revenue and an increase of \$0.9 million in compensated absences liability, current.

Noncurrent assets increased as of June 30, 2019 compared with June 30, 2018 by \$2.1 million, or 0.4%, due to an increase in net capital assets of \$14.0 million, primarily due to a \$17.6 million increase in buildings, and improvements, net of accumulated depreciation, an increase of \$1.6 million in construction in progress and \$1.5 million for nondepreciable land and land improvements offset by a \$6.4 million decrease of depreciable land improvements, leasehold improvements, and equipment, net of accumulated depreciation. This was offset further by a decrease in restricted investments of \$11.2 million from bond proceeds that were expended for capital projects, and a decrease in other long-term assets of \$0.7 million.

Noncurrent assets increased as of June 30, 2018 compared with June 30, 2017 by \$7.5 million, or 1.5%, due to a decrease in net capital assets of \$14.7 million, primarily due to a \$15.7 million decrease in buildings, leasehold improvements, equipment, and library materials, net of accumulated depreciation, offset by an increase of \$0.3 million in construction in progress and \$0.7 million for land improvements. Additionally, there is an increase of restricted investments of \$23.0 million from bond proceeds to be expended for capital projects and a crossover refunding to occur in November 2020, offset by a decrease in other long-term assets of \$0.8 million.

Noncurrent liabilities decreased as of June 30, 2019 compared with June 30, 2018 by \$772.3 million or 39.2%. This change was due to the decrease in the net pension liability of \$769.6 million offset by the increase in the net OPEB liability of \$1.5 million. The net pension liability decrease is primarily attributed to GASB requirements which require future benefit obligations to be measured at a lower discount rate when certain conditions exist. As such, in fiscal year 2018, GASB required the application of a 4.72% discount rate upon the blending of the assumed rate of return of 7.25% and a municipal bond rate of 3.43%. In fiscal year 2019, as a result of increases to future contributions from members and employers, a direct distribution to PERA from the State of Colorado, and changes to benefits, the blending of rates was not required, and the discount rate to value the collective total pension liability at the State was 7.25%. In addition, fiscal year 2019 had a decrease of \$4.5 million in bonds payable and \$1.0 million in leases payable, offset by an increase in compensated absences of \$1.3 million.

Noncurrent liabilities increased as of June 30, 2018 compared with June 30, 2017 by \$205.0 million, or 11.6%. This change was due to the increase in the net pension liability of \$135.8 million and the recognition of a net OPEB liability of \$40.6 million for the implementation of Statement No. 75. In addition, fiscal year 2018 had an increase of \$28.3 million in bonds payable, and an increase in compensated absences of \$1.8 million, offset by a decrease of \$0.9 million in leases payable and a decrease of \$0.5 million in other long-term payables.

Deferred outflows of resources decreased as of June 30, 2019 compared to June 30, 2018 by \$202.6 million or 55.4% due to a \$256.2 million decrease from changes of assumptions offset by a \$51.2 million increase of net difference between projected and actual earnings on pension plan investments. Deferred inflows of resources increased as of June 30, 2019 compared to June 30, 2018 by \$452.2 million or 610.2%, primarily due to an increase of \$523.3 million from changes in assumptions offset by a \$67.2 million reduction of net differences between projected and actual earnings. Statement No. 68 and 75 requires CCCS to record deferred outflows of resources and deferred inflows of resources related to

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pensions and OPEB, which primarily reflect the changes in actuarial assumptions used to value the overall PERA pension liability and OPEB liability that will be recognized in future periods.

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

The negative unrestricted net position of \$(1,155,533,880) and \$(1,273,945,973) as of June 30, 2019 and 2018, respectively, is primarily due to the continuing impact of Statement No. 68 and No. 75 on deferred outflows, the pension and OPEB liabilities and deferred inflows. PERA reviews the long-term expected return on plan assets every four or five years. This was last reviewed in November of 2016.

The Statements of Revenues, 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. In fiscal year 2019, CCCS recognized approximately \$7.0 million as State Support for pensions for the CCCS allocated portion of the \$225 million State of Colorado annual direct distribution to the Public Employees' Retirement Association (PERA) required statutorily. 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 5.8%, 5.0% and 5.1%; student tuition and fees represent approximately 43.4%, 44.0% and 43.4%, and FFS contracts represent approximately 8.7%, 7.9% and 8.5% of CCCS' total revenue from all sources in fiscal years 2019, 2018 and 2017, 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 \$61.0 million loss from operations in fiscal year 2019 compared to \$522.2 million and \$432.6 million losses from operations in fiscal years 2018 and 2017, respectively. In fiscal year 2019, this operating loss was offset by net state appropriations of \$32.1 million, state support for pensions of \$7.0 million, Federal Pell grants of \$89.4 million, and Amendment 50 funding of \$10.9 million. In fiscal year 2018, the operating loss of \$522.2 million was offset by net state appropriations of \$31.6 million, Federal Pell grants of \$93.5 million, and Amendment 50 funding of \$8.8 million. In fiscal year 2017, the operating loss of \$432.6 million was offset by net state appropriations of \$31.0 million, Federal Pell grants of \$90.3 million, and Amendment 50 funding of \$8.3 million.

The operating loss over the two-year period presented is a result of operating expenses in excess of operating revenues due to services provided through the flattening and decreases in enrollment over the two-year period coupled with the increase in pension expense for fiscal year 2018. Additionally in fiscal year 2019, significant changes of assumptions as a result of Statement No. 68, led to a \$256.2 million reduction of deferred outflows of resources and a \$523.3 million increase in deferred inflows.

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Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30		
	2019	2018	2017
Operating revenues			
Tuition and fees, net	\$ 293,554,609	\$ 278,288,189	\$ 265,681,218
Grants and contracts	97,571,170	95,505,855	100,773,088
Fee-for-service state contract	58,678,717	50,056,105	52,127,247
Sales and services of educational activities	1,169,283	1,097,563	1,410,934
Auxiliary enterprises, net	29,536,575	35,076,997	34,279,144
Other	12,081,352	11,727,944	12,355,675
Total operating revenues	<u>492,591,706</u>	<u>471,752,653</u>	<u>466,627,306</u>
Operating expenses			
Instruction	232,634,536	446,563,420	409,050,602
Public service	3,725,590	8,435,235	7,023,517
Academic support	37,392,202	76,376,887	65,799,903
Student services	63,149,932	127,230,547	112,275,097
Institutional support	78,976,118	156,107,456	132,025,659
Operation and maintenance of plant	48,242,226	72,552,516	71,349,870
Scholarships and fellowships	13,714,117	16,411,949	18,049,684
Auxiliary enterprises	33,249,067	49,270,256	45,076,192
Depreciation and amortization	42,506,676	41,005,283	38,605,609
Total operating expenses	<u>553,590,464</u>	<u>993,953,549</u>	<u>899,256,133</u>
Operating loss	<u>(60,998,758)</u>	<u>(522,200,896)</u>	<u>(432,628,827)</u>
Nonoperating revenues (expenses)			
State appropriations	62,121,264	57,756,814	56,600,299
State Support for Pensions	6,990,246	-	-
Federal Pell grants	89,436,054	93,501,943	90,263,735
Amendment 50 funding	10,904,253	8,843,987	8,255,091
Distributions to Local District Colleges and Area Vocational Schools	(30,045,985)	(26,192,333)	(25,560,936)
Other nonoperating revenues and expenses, net	16,916,321	4,827,603	1,553,110
Net nonoperating revenues (expenses)	<u>156,322,153</u>	<u>138,738,014</u>	<u>131,111,299</u>
Income (loss) before other revenues, expenses, gains or losses	95,323,395	(383,462,882)	(301,517,528)

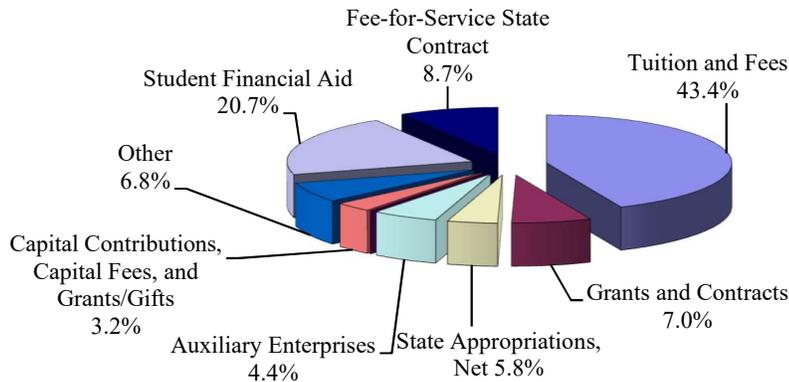
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	June 30		
	2019	2018	2017
State capital contributions	13,085,108	8,420,630	8,875,436
Capital fees	5,955,703	7,240,161	-
Capital grants and gifts	<u>2,844,072</u>	<u>2,049,642</u>	<u>1,877,357</u>
Increase (decrease) in net position	117,208,278	(365,752,449)	(290,764,735)
Net position			
Beginning of year	<u>(899,776,962)</u>	<u>(534,024,513) *</u>	<u>(203,709,774)</u>
End of year	<u>\$ (782,568,684)</u>	<u>\$ (899,776,962)</u>	<u>\$ (494,474,509)</u>

* Includes the effect of the restatement of Statement No. 75 in the amount of (\$39,550,004)

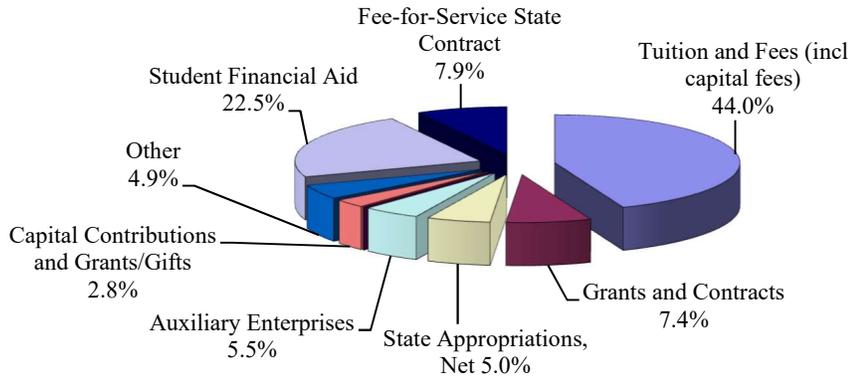
The charts below give a summary of the total CCCS revenues and expenses with no delineation between operating and nonoperating revenue and expense streams:

Sources of Revenue
Fiscal Year 2019

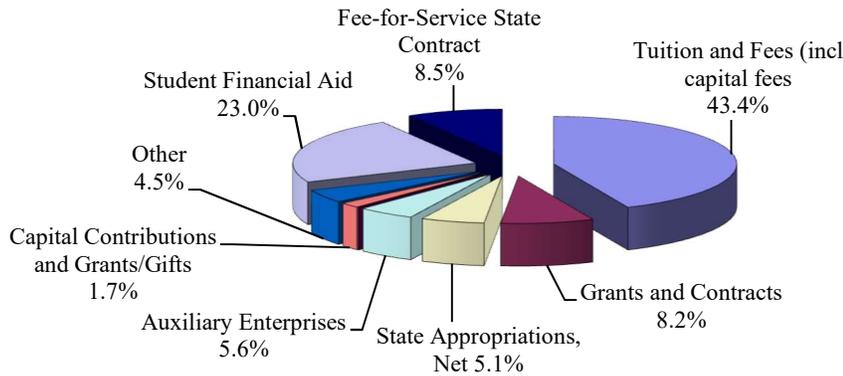


Colorado Community College System Management's Discussion and Analysis (Unaudited) June 30, 2019 and 2018

**Sources of Revenue
Fiscal Year 2018**



**Sources of Revenue
Fiscal Year 2017**



As the above charts demonstrate, student tuition and fees are the largest revenue source for CCCS in fiscal years 2019, 2018 and 2017. The operating loss of approximately \$61.0 million, \$522.2 million and \$432.6 million in fiscal years 2019, 2018 and 2017, respectively, noted above, is a result of operating expenses exceeding operating revenues. CCCS supplemented operating revenues with state appropriations, state support for pensions, Federal Pell grants, and Amendment 50 funding for fiscal years 2019, 2018 and 2017, which are classified as nonoperating revenues but are used to fund operations.

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Revenue activity highlights for fiscal year 2019 include:

- Student Tuition and Fees increased by \$15.3 million, or 5.5%, primarily due to a 3.0% base increase in resident and non-resident tuition rates along with a 10.0% increase in the COF stipend. Enrollment remained relatively flat from year to year, decreasing by 1.4%.
- Fee for Service increased by \$8.6 million, or 17.2%, primarily due to an increase in state support of \$2.7 million for role and mission, \$3.9 million for meeting performance measures, new funding of \$0.3 million for compliance with the Cyber Coding Cryptology for state records pursuant to C.R.S. Title 24 Article 33.5 Sections 1904 and 1905, and a one-time investment of approximately \$0.9 million from Senate Bill 262 for funding the Higher Education Targeted Master Plan. In addition, there was a transfer of \$1.3 million from COF funding to FFS to ensure compliance with guardrail provisions to ensure appropriations stay within a set percentage of prior year funding and adjust appropriately for the student FTE served.
- Auxiliary Enterprise revenue decreased by \$5.5 million, or 15.8%, primarily due to a decrease in bookstore revenues at FRCC of \$4.2 million and a decrease in OJC's workers compensation and unemployment cost-sharing of \$0.8 million.
- State Support for Pensions is a new item for fiscal year 2019 in the amount of \$7.0 million due to initial implementation of Senate Bill (SB) 18-200 as part of the effort to eliminate the unfunded actuarial accrued liability for pensions within the next 30 years.
- Federal PELL grants decreased by \$4.1 million, or 4.3%, primarily as a result of a decrease of approximately 2,665 recipients, or 8.5%, offset by an increase of approximately 4.5% of the average award.

Revenue activity highlights for fiscal year 2018 include:

- Grants and contracts decreased by \$5.3 million, or 5.2%, primarily as a result of a \$3.0 million decrease in Private Grants and Contracts due primarily to a change in classification of some activity to nonoperating, a \$4.9 million decrease for Trade Adjustment Assistance (TAA) grants that closed or are closing for ACC, CCD, FRCC, LCC, PCC, PPCC and RRCC. Additionally, OJC and TSJC had a \$1.2 million decrease in the Science Technology Engineering and Math (STEM) grant, offset by an increase in the CCCS Perkins grant of \$3.7 million.
- Nonoperating gifts increased by \$3.4 million, or 339.1%, primarily as a result of a \$3.0 million increase due to a change in classification of some activity from Private Grants and Contracts.
- Federal PELL grants increased by \$3.2 million, or 3.6%, primarily as a result of an increase of approximately 5.1% of the average award offset by a decrease of approximately 465 recipients, or 1.5%.
- Investment income increased by \$0.5 million, or 28.7%. The primary reason is a \$1.6 million increase in interest earned from funds held at the State Treasury offset by a \$1.1 million increase in the unrealized loss on investments for CCCS' share of the State Treasury pooled cash.

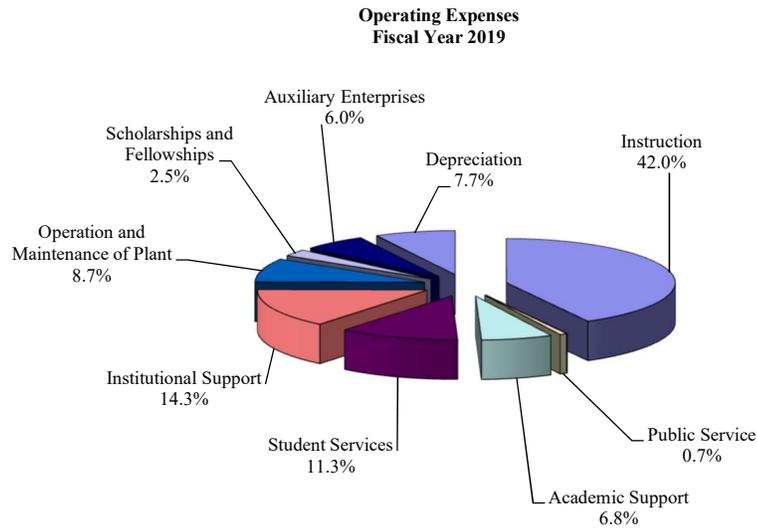
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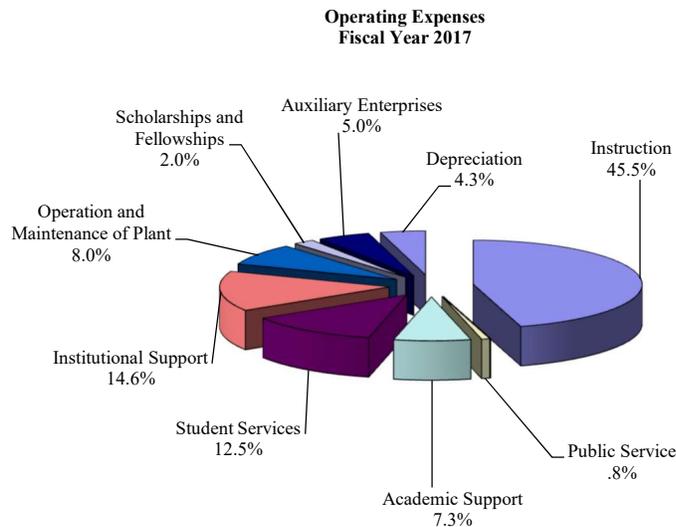
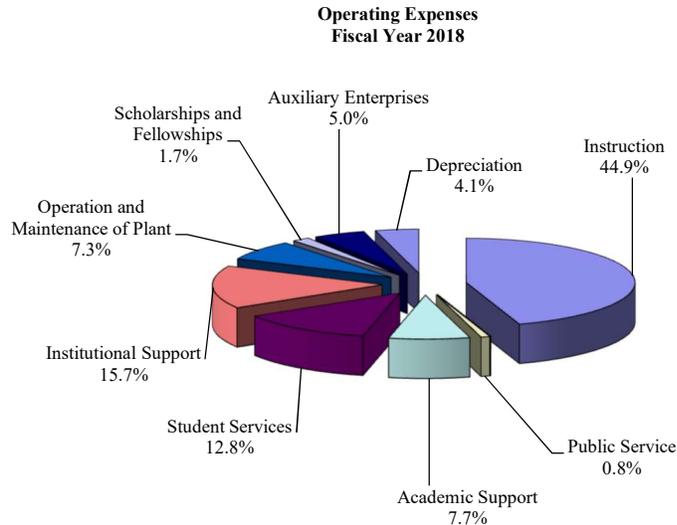
- Capital fees increased by \$7.2 million, or 100%, which were previously included in tuition and fees and reclassified to nonoperating capital fees in fiscal year 2019. Capital fees totaled \$7.0 million in fiscal year 2017.



Colorado Community College System

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Expense activity highlights for fiscal year 2019 include:

- Operating expenses across functional categories decreased \$440.4 million, or 44.3%, due primarily to a decrease in the Statement No. 68 calculated pension expense of \$456.1 million. The expense impact for each reduction of expense due to pension is Instruction (\$223.7 million), Public Service (\$4.9 million), Academic Support (\$42.8 million), Student Services (\$68.8 million), Institutional Support (\$74.3 million), Operation and Maintenance of Plant (\$26.8 million), and Auxiliary Enterprises (\$14.7 million).

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Additional changes to functional expenses are explained below, after excluding expenses related to the activity immediately preceding for pension and also excluding OPEB under Statements No. 68 and 75:

- Instructional expense increased \$9.7 million, or 3.5%, primarily as a result of a \$5.7 million increase in salaries and benefits for personnel across the system and a corresponding \$3.6 million increase in operating expenses.
- Academic Support expense increased by \$3.8 million, or 8.9%, primarily as a result of a \$2.4 million increase in salary and benefits for personnel across the system and a \$1.2 million increase in operating expenses.
- Student Service expense increased by \$4.7 million, or 6.3%, primarily as a result of a \$3.3 million increase in salary and benefits for personnel and a \$1.2 million increase in operating expenses.
- Institutional Support expense decreased by \$2.8 million, or 2.8%, primarily as a result of a \$4.7 million decrease in operating expenses due to a reduction in Information Technology expenses for the completion of the disaster recovery site in fiscal year 2018 and the reduction of Perkins grant expenses. This was offset by an increase of \$1.4 million in salary and benefits for personnel.
- Operations and Maintenance of Plant expense increased by \$2.5 million, or 4.8%, primarily as a result of a \$0.8 million increase in salary and benefits for personnel, and an increase of \$0.6 million in insurance for participation in the State risk pool.
- Scholarships and Fellowship expense decreased by \$2.7 million, or 16.4%, primarily because of a \$2.0 million decrease in financial aid and an increase in the scholarship allowance of \$0.7 million.
- Auxiliary Enterprise expense decreased by \$1.3 million, or 3.6%, primarily as a result of a decrease in Cost of Goods Sold of \$1.3 million as many of the colleges are eliminating or reducing their bookstore resale volume.

Expense activity highlights for fiscal year 2018 include:

- Instructional expense increased by \$37.5 million, or 9.2%, primarily as a result of a \$27.0 million increase for pension and a \$0.3 million increase for OPEB expense. Other increases include an increase of \$4.5 million in salaries and benefits across the system as well as an increase of \$1.7 million at CCA for payments to school districts for concurrent enrollment.
- Public Services expense increased by \$1.4 million, or 20.1%, primarily as the result of a \$1.4 million increase for pension expense.
- Academic Support expense increased by \$10.6 million, or 16.1%, primarily as the result of a \$9.7 million increase for pension expense as well as salary and benefit increases across the System.
- Student Services expenses increased by \$15.0 million, or 13.3%, primarily as the result of an \$11.4 million increase for pension expense as well as increase in staff and related salary and benefit increases system-wide. Specifically, FRCC increased \$1.9 million for new advisors to become a Career Pathways institution.

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- Institutional Support increased by \$24.1 million, or 18.2%, primarily as the result of a \$13.6 million increase for pension expense and a \$0.1 million increase in OPEB expense. In addition, CCCS had an increase of \$2.8 million for the implementation of a student success management system, \$3.3 million in Perkins program expenses system-wide, and \$0.9 million towards disaster recovery operations.
- Auxiliary Enterprises expenses increased by \$4.2 million, or 9.3%, primarily as the result of a \$4.0 million increase for pension expense.

Capital Asset and Debt Management

At June 30, 2019, CCCS had \$485,756,321 of capital assets, net of accumulated depreciation of \$519,832,111 and including current year depreciation of \$42,506,676. At June 30, 2018, CCCS had \$471,713,646 of capital assets, net of accumulated depreciation of \$484,917,972 and including current year depreciation of \$41,005,283. At June 30, 2017, CCCS had \$486,463,186 of capital assets, net of accumulated depreciation of \$448,036,871 and including current year depreciation of \$38,605,609. A breakdown of assets by category, net of accumulated depreciation is provided below:

	June 30		
	2019	2018	2017
Nondepreciable land and land improvements	\$ 34,957,335	\$ 33,415,435	\$ 33,372,686
Construction in progress	26,187,911	24,609,405	24,318,790
Collections	980,007	945,439	945,439
Land improvements, net	12,482,130	13,128,915	12,473,237
Buildings and improvements, net	366,641,693	349,026,383	361,516,142
Leasehold improvements, net	15,086,024	17,192,037	18,614,241
Equipment and software, net	28,416,397	32,095,634	33,459,086
Library materials, net	1,004,824	1,300,398	1,763,565
	<u>\$ 485,756,321</u>	<u>\$ 471,713,646</u>	<u>\$ 486,463,186</u>

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Major capital additions of \$500,000 or more completed during fiscal year 2019 are as follows:

College	Project	Total Project Cost	Source of Funding
		(In millions)	
Arapahoe Community College	Health and Physical Science Remodel	\$ 8.7	Internal
	Castle Rock Collaboration Campus	22.7	Bonds
Front Range Community College	Replace chiller & Upgrade Infrastructure	0.9	State
	Replace Boiler	1.8	Internal
Northeastern Junior College	Williams Hall Remodel	0.6	Internal
	Campus Access Doors and Cameras	0.9	State
Pikes Peak Community College	Upgrade Security, Doors, and Electronic Access	1.0	State
	Fire Sprinkler Improvements	1.0	State
Redrocks Community College	Security Systems Upgrades	0.9	State
	Hub and main Entry Renovation	1.3	Internal

The System has \$37.1 million and \$32.1 million in commitments for various upcoming capital construction and controlled maintenance projects as of June 30, 2019 and 2018, respectively.

CCCS had \$125,113,068, \$131,147,200 and \$102,973,973 in debt outstanding at June 30, 2019, 2018 and 2017, respectively.

In August 2019, Moody's assigned Aa3 underlying to CCCS' proposed \$25 million System-wide Revenue Refunding Bonds, Series 2019A to be issued by the Colorado State Board for Community Colleges and Occupational Education. Moody's also affirmed the Aa3 underlying ratings on approximately \$122 million CCCS' outstanding debt and Aa2 enhanced ratings for approximately \$37 million of that debt. The outlook for both underlying and enhanced ratings for CCCS is stable.

The breakdown of the debt is as follows:

	June 30		
	2019	2018	2017
Bonds payable	\$ 116,443,754	\$ 121,529,842	\$ 92,337,223
Notes and capital leases payable	8,669,314	9,617,358	10,636,750
Total debt	<u>\$ 125,113,068</u>	<u>\$ 131,147,200</u>	<u>\$ 102,973,973</u>

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Colorado Community College System Future

The budgetary situation for higher education continues to change. For fiscal year 2020 funding, CCCS is authorized to receive \$63.8 million in FFS revenue and \$126.5 million in student stipends. This support totaling \$190.3 million of anticipated fiscal year 2020 funding represents a 13.3% increase in state support from the \$168.0 million that was provided in 2019. CCCS anticipates receiving \$10.9 million of funding under the Amendment 50 funding in fiscal year 2020.

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

Enrollment: In fiscal year 2019, in our strong economy, CCCS' resident enrollment of 46,377 decreased by 0.8% from fiscal year 2018, and nonresident enrollment of 2,630 decreased by 11.1%, resulting in a total net enrollment decrease of 1.4%. Therefore, a further flattening or decrease in enrollment is anticipated in the fiscal year 2020 budget due to the counter cyclical nature between community college enrollment and the economy.

Tuition Rates: In an effort to mitigate increased costs along with marginal increases of state support during the previous two years, the Board raised the resident tuition and nonresident tuition by 3.0% in fiscal year 2019. The Board elected to maintain the same resident rate for fiscal year 2020, in accordance with the Governor's request and with approval by the State Joint Budget Committee.

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 East Lowry Boulevard
Denver, Colorado 80230-6011

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Colorado Community College System
Business-Type Activities
Statements of Net Position
June 30, 2019 and 2018

Assets	2019	2018
Current Assets		
Cash and cash equivalents	\$ 290,955,791	\$ 288,397,852
Restricted cash and cash equivalents	1,435,886	4,649,768
Accounts receivable, net	59,700,330	55,120,597
Inventories	2,565,571	2,881,681
Prepaid expenses	2,894,985	1,396,186
Total current assets	<u>357,552,563</u>	<u>352,446,084</u>
Noncurrent Assets		
Restricted cash and cash equivalents	12,734	9,821
Restricted investments	18,892,866	30,112,344
Other noncurrent assets	1,248,195	1,973,862
Capital assets, net	485,756,321	471,713,646
Total noncurrent assets	<u>505,910,116</u>	<u>503,809,673</u>
Total assets	<u>\$ 863,462,679</u>	<u>\$ 856,255,757</u>
Deferred Outflows of Resources		
Deferred Outflows		
Loss on Refunding	\$ 603,359	\$ 742,596
Pensions	160,231,335	363,207,547
OPEB	2,050,946	1,514,671
Total deferred outflows of resources	<u>\$ 162,885,640</u>	<u>\$ 365,464,814</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 23,705,343	\$ 15,964,573
Accrued liabilities	16,685,507	16,711,111
Unearned revenue	25,531,412	24,579,095
Deposits held for others	10,996,806	11,244,682
Bonds payable, current portion	4,280,000	4,840,000
Notes and capital leases payable, current portion	999,064	948,044
Other long-term liabilities, current portion	216,986	587,374
Compensated absences liability, current portion	2,918,158	2,889,718
Total current liabilities	<u>85,333,276</u>	<u>77,764,597</u>
Noncurrent Liabilities		
Bonds payable	112,163,754	116,689,842
Notes and capital leases payable	7,670,250	8,669,314
Other long-term liabilities	1,165,809	1,268,806
Compensated absences liability	20,779,004	19,430,611
Net pension liability	1,013,392,855	1,782,974,083
Net OPEB liability	42,137,763	40,596,082
Total noncurrent liabilities	<u>1,197,309,435</u>	<u>1,969,628,738</u>
Total liabilities	<u>\$ 1,282,642,711</u>	<u>\$ 2,047,393,335</u>
Deferred Inflows of Resources		
Deferred Inflows		
Pensions	\$ 525,682,685	\$ 73,131,984
OPEB	591,607	972,214
Total deferred inflows of resources	<u>\$ 526,274,292</u>	<u>\$ 74,104,198</u>
Net Position		
Net Position		
Net investment in capital assets	\$ 362,583,343	\$ 365,461,402
Restricted for expendable purposes		
Scholarships/fellowships	1,701,014	585,163
Loans	97,148	714,666
Capital projects	975,000	500,000
Training programs	3,231,279	2,717,429
Amendment 50	-	2
Debt service	3,450,156	2,860,280
Other	927,256	1,330,069
Total restricted for expendable purposes	<u>10,381,853</u>	<u>8,707,609</u>
Unrestricted	<u>(1,155,533,880)</u>	<u>(1,273,945,973)</u>
Total net position	<u>\$ (782,568,684)</u>	<u>\$ (899,776,962)</u>

Colorado Community College System
Discretely Presented Component Units
Statements of Financial Position
June 30, 2019 and 2018

Assets

	2019	2018
Cash and cash equivalents	\$ 6,654,646	\$ 6,003,131
Accounts and pledges receivable	8,857,514	2,606,892
Due from primary government	14,984	2,068
Investments	46,297,017	46,652,405
Beneficial interest in charitable remainder trust	789,084	782,774
Other assets	624,144	1,358,190
Capital assets, net	3,574,639	1,774,887
Total assets	\$ 66,812,028	\$ 59,180,347

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 977,377	\$ 722,189
Due to primary government	235,155	491,842
Accrued liabilities	42,148	-
Deferred revenue	355,348	44,000
Other liabilities	1,274,142	1,049,031
Total liabilities	2,884,170	2,307,062

Net Assets

Without donor restrictions		
Undesignated	10,574,597	11,221,430
Designated by the Board for operating reserve	276,715	352,955
Designated by the Board for endowment	190,528	60,575
Invested in property and equipment, net of related debt	3,081,453	2,623,857
With donor restrictions		
Perpetual in nature	24,771,370	19,231,286
Purpose restrictions	22,950,306	22,241,220
Time-restricted for future periods	2,161,132	1,141,962
Underwater endowments	(78,243)	-
Total net assets	63,927,858	56,873,285
Total liabilities and net assets	\$ 66,812,028	\$ 59,180,347

Colorado Community College System
Business-Type Activities
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Student tuition and fees, net of scholarship allowances of \$127,245,728 and \$127,819,592; including revenues pledged for bonds of \$29,355,461 and \$27,828,819 in 2019 and 2018, respectively	\$ 293,554,609	\$ 278,288,189
Grants and contracts	97,571,170	95,505,855
Fee-for-service state contract	58,678,717	50,056,105
Sales and services of educational activities	1,169,283	1,097,563
Auxiliary enterprises, net of scholarship allowances of \$2,923,864 and \$3,019,787 in 2019 and 2018, respectively	29,536,575	35,076,997
Other operating revenues and gifts	12,081,352	11,727,944
Total operating revenues	492,591,706	471,752,653
Operating Expenses		
Instruction	232,634,536	446,563,420
Public service	3,725,590	8,435,235
Academic support	37,392,202	76,376,887
Student services	63,149,932	127,230,547
Institutional support	78,976,118	156,107,456
Operation and maintenance of plant	48,242,226	72,552,516
Scholarships and fellowships	13,714,117	16,411,949
Auxiliary enterprises	33,249,067	49,270,256
Depreciation and amortization	42,506,676	41,005,283
Total operating expenses	553,590,464	993,953,549
Operating loss	(60,998,758)	(522,200,896)
Nonoperating Revenues (Expenses)		
State appropriations	62,121,264	57,756,814
State support for pensions	6,990,246	-
Federal Pell grants	89,436,054	93,501,943
Amendment 50 funding	10,904,253	8,843,987
Distributions to local district college and area vocational schools	(30,045,985)	(26,192,333)
Gifts	6,166,790	4,351,752
Investment income	12,518,505	2,003,984
Interest expense on capital debt	(4,902,974)	(4,430,444)
Other nonoperating revenues	3,134,000	2,902,311
Net nonoperating revenues (expenses)	156,322,153	138,738,014
Gain (loss) before other revenues, expenses, gains or losses	95,323,395	(383,462,882)
Other Revenues, Expenses, Gains or Losses		
State capital contributions	13,085,108	8,420,630
Capital fees, net of scholarship allowances of \$1,400,261 and \$0; including revenues pledged for bonds of \$595,570 and \$0 in 2019 and 2018, respectively	5,955,703	7,240,161
Capital grants and gifts	2,844,072	2,049,642
Increase (decrease) in net position	117,208,278	(365,752,449)
Net Position, Beginning of Year	(899,776,962)	(534,024,513)
Net Position, End of Year	\$ (782,568,684)	\$ (899,776,962)

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Colorado Community College System
Discretely Presented Component Units
Statements of Activities
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support						
Contributions	\$ 2,059,146	\$ 11,677,953	\$ 13,737,099	\$ 1,636,311	\$ 10,981,129	\$ 12,617,440
Grants	243,252	5,565,180	5,808,432	712,271	586,759	1,299,030
Investment income, net	882,693	339,237	1,221,930	917,749	1,634,883	2,552,632
Rental income	177,856	272,529	450,385	149,835	314,632	464,467
Special events	361,357	129,821	491,178	303,792	177,779	481,571
Other income	838,948	65,880	904,828	586,550	179,599	766,149
Net assets released from restrictions	10,699,752	(10,699,752)	-	10,296,419	(10,296,419)	-
Reclassification of net assets	160,751	(160,751)	-	44,533	(44,533)	-
Total revenues, gains and other support	<u>15,423,755</u>	<u>7,190,097</u>	<u>22,613,852</u>	<u>14,647,460</u>	<u>3,533,829</u>	<u>18,181,289</u>
Expenses and Losses						
Program services	<u>12,430,745</u>	-	<u>12,430,745</u>	<u>11,502,885</u>	-	<u>11,502,885</u>
Total program services	12,430,745	-	12,430,745	11,502,885	-	11,502,885
Fundraising	1,198,171	-	1,198,171	1,092,801	-	1,092,801
Management and general	<u>1,930,363</u>	-	<u>1,930,363</u>	<u>1,720,231</u>	-	<u>1,720,231</u>
Total support services	<u>3,128,534</u>	-	<u>3,128,534</u>	<u>2,813,032</u>	-	<u>2,813,032</u>
Total expenses and losses	<u>15,559,279</u>	-	<u>15,559,279</u>	<u>14,315,917</u>	-	<u>14,315,917</u>
Change in Net Assets	(135,524)	7,190,097	7,054,573	331,543	3,533,829	3,865,372
Net Assets, Beginning of Year	<u>14,258,817</u>	<u>42,614,468</u>	<u>56,873,285</u>	<u>13,927,274</u>	<u>39,080,639</u>	<u>53,007,913</u>
Net Assets, End of Year	<u>\$ 14,123,293</u>	<u>\$ 49,804,565</u>	<u>\$ 63,927,858</u>	<u>\$ 14,258,817</u>	<u>\$ 42,614,468</u>	<u>\$ 56,873,285</u>

Colorado Community College System

Business-Type Activities

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Cash received		
Tuition and fees	\$ 289,657,096	\$ 282,623,541
Student loans collected	530,838	909,060
Sales of products and services	30,251,919	36,176,491
Grants, contracts and gifts	157,564,788	140,469,485
Other operating receipts	11,224,143	11,916,148
Cash payments		
Scholarships disbursed	(13,447,945)	(16,411,949)
Student loans disbursed	(521,490)	(880,926)
Payments for employees	(400,193,399)	(395,770,313)
Payments to suppliers	(200,710,165)	(195,452,823)
Net cash used in operating activities	<u>(125,644,215)</u>	<u>(136,421,286)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations – noncapital	62,121,264	57,756,814
Federal Pell grants	88,252,291	92,228,446
Amendment 50 funding	10,904,253	8,843,987
Distributions to local district colleges and area vocation schools	(30,045,985)	(26,192,333)
Gifts and grants for other than capital purposes	5,916,168	4,348,794
Agency (inflows)	128,794,109	128,187,005
Agency (outflows)	(127,203,138)	(130,184,758)
Other noncapital financing activities	3,228,709	3,399,324
Net cash provided by noncapital financing activities	<u>141,967,671</u>	<u>138,387,279</u>
Cash Flows from Capital and Related Financing Activities		
Capital grants, contracts and gifts	1,232,034	2,021,828
Proceeds from capital debt	-	47,973,002
Capital fees	5,955,703	7,240,161
State contribution for capital assets	11,665,218	7,909,144
Proceeds from sale of capital assets	-	3,500
Acquisition and construction of capital assets	(48,582,661)	(30,152,436)
Principal paid on capital debt	(5,788,044)	(20,460,465)
Interest on capital debt	(5,176,246)	(4,479,314)
Amount paid on bond issuance cost	-	(363,978)
Net cash provided by (used in) capital and related financing activities	<u>(40,693,996)</u>	<u>9,691,442</u>
Cash Flows from Investing Activities		
Investment income	12,323,396	2,111,288
Proceeds from sale of investments	(5,047,737)	10,228,330
Purchase of investments	16,441,851	(33,409,143)
Net cash provided by (used in) investing activities	<u>23,717,510</u>	<u>(21,069,525)</u>
Net decrease in cash and cash equivalents	(653,030)	(9,412,090)
Cash and Cash Equivalents, Beginning of Year	<u>293,057,441</u>	<u>302,469,531</u>
Cash and Cash Equivalents, End of Year	<u>\$ 292,404,411</u>	<u>\$ 293,057,441</u>

Colorado Community College System

Business-Type Activities

Statements of Cash Flows (continued)

Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net		
Cash Used in Operating Activities		
Operating loss	\$ (60,998,758)	\$ (522,200,896)
Adjustments to reconcile operating loss to to net cash used in operating activities		
Depreciation and amortization	42,506,676	41,005,282
Increase in other nonoperating assets/noncash expenses	7,921,563	1,818,473
Decrease (increase) in assets and deferred outflows of resources		
Receivables, net	(4,459,587)	18,486
Inventory and prepaids	(1,233,571)	492,777
Other noncurrent assets	757,160	801,039
Deferred outflows of resources related to pensions	202,976,212	151,795,511
Deferred outflows of resources related to OPEB	(536,275)	(231,837)
Increase (decrease) in liabilities and deferred inflows of resources		
Accounts payable	1,538,455	1,908,324
Accrued liabilities	(25,604)	(12,767,797)
Unearned revenues	951,032	524,091
Deposits held for others	(156,604)	(25,680)
Compensated absences liability	1,376,834	2,694,579
Other liabilities	(392,296)	(225,354)
Pension liability	(769,581,227)	135,817,078
OPEB liability	1,541,680	(236,756)
Deferred inflows of resources related to pensions	452,550,702	61,419,180
Deferred inflows of resources related to OPEB	(380,607)	972,214
Net cash used in operating activities	\$ (125,644,215)	\$ (136,421,286)
Noncash Investing, Capital and Noncapital Financing Activities		
State funding for acquisitions of capital assets	\$ 503,766	\$ 149,971
State funding for acquisitions of noncapital assets	916,124	350,876
Liabilities for capital assets	8,467,336	2,240,302
Equipment donations and capital gifts	1,617,828	27,814
(Gain) loss on disposal of capital assets	(487,000)	24,205
Amortization of bond/premium discount and refunding loss	106,851	81,905

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Colorado Community College System

Notes to Financial Statements

June 30, 2019 and 2018

Note 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. In addition, there are two non-voting members consisting of a student and a faculty member. The SBCCOE governs the system office and the 13 state system colleges and administers vocational technical education funds distributed to the two Local District Colleges (LDCs), three Area Vocational Schools (AVSs), and school districts offering vocational programs.

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

The financial statements of CCCS, which is an institution of higher education of the State 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, 2019 and 2018, 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 statewide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in the statewide financial statements in the Comprehensive Annual Financial Report.

Accordingly, the accompanying CCCS 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)

Colorado Community College System

Notes to Financial Statements

June 30, 2019 and 2018

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

As an institution of higher education in the State of Colorado, the income of CCCS is generally exempt from income taxes under Section 115(a) of the Internal Revenue Code. Income generated from activities unrelated to the exempt purpose of CCCS would be subject to tax under Section 511(a)(2)(B). There was no material tax liability related to income generated from activities unrelated to CCCS' exempt purpose as of June 30, 2019 and 2018.

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.

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. Separate unaudited financial statements of the Benefit Trust are available upon request.

Discretely Presented Component Units

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

Colorado Community College System

Notes to Financial Statements

June 30, 2019 and 2018

The foundations adopted a Change in Accounting Principle, FASB Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*, in fiscal year 2019. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. During the year ended June 30, 2019, foundations' management implemented ASU 2016-14 and adjusted the presentation in these consolidated foundation financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

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.; Otero Junior College Foundation; 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
Department of Finance and Administration
9101 East Lowry Boulevard
Denver, Colorado 80230-6011

Joint Venture

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

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

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

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

Colorado Community College System

Notes to Financial Statements

June 30, 2019 and 2018

Note 2: Implementation of New Accounting Standard

In fiscal year 2019, CCCS implemented GASB No. 88, *Certain Disclosures Related to Debt including Direct Borrowing and Direct Placements* (Statement No. 88), which was effective for financial statements for periods beginning after June 15, 2018. Statement No. 88 clarifies which liabilities should be included in disclosures related to debt and the information that should be disclosed related to the debt for a better understanding of the debt effects on future resource flows. Specifically, CCCS has added disclosures for notes payable related to energy performance contracts regarding significant events of default with finance-related consequences or significant acceleration clauses.

Additionally CCCS implemented GASB Statement No. 83, *Certain Asset Retirement Obligations* (Statement No. 83), which was effective for financial statements for periods beginning after June 15, 2018. Statement No. 83 establishes criteria for the timing and pattern for recognizing legally enforceable liabilities related to the retirement of tangible capital assets. The System has inventoried those assets which had the potential for related disposal costs under the standard. The identified capital assets were nominal in volume and the disposal costs were not estimable, though considered immaterial overall. Thus no amounts have been recorded for adoption of this standard and will be monitored for future potential liability as appropriate.

Note 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.

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.

Accounts Receivable

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

Restricted Cash and Cash Equivalents and Restricted Investments

Restricted cash and cash equivalents and restricted investments primarily represent monies from unspent bond proceeds, including funds for a crossover refunding, and monies restricted for Benefit Trust benefits. Investments are reported at fair value, which is determined based on quoted market prices as of June 30, 2019 and 2018.

Colorado Community College System

Notes to Financial Statements

June 30, 2019 and 2018

Inventories

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

Other Noncurrent Assets

Other noncurrent assets consist of prepaid assets that will be expensed more than one year from the fiscal year-end.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. CCCS uses a capitalization threshold of \$50,000 for buildings and improvements (land, buildings and leasehold) and internally developed software and \$5,000 for all other capital assets, including capital assets acquired through notes payable or capital leases. 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: 27 years for buildings, the greater of 5 years or term of lease for improvements other than buildings, 3–10 years for equipment, 7 years for library collections, 15 years of internally developed software, and 3–5 years for all other software. Depreciation expense is not allocated among functional categories.

Assets acquired 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, 2019 and 2018, the construction in progress includes capital construction projects in process, but not substantially complete.

Deposits Held for Others

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

Accrued Liabilities

Accrued liabilities primarily represent accrued payroll, benefits payable, and other payroll related liabilities at June 30, 2019 and 2018.

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

Colorado Community College System

Notes to Financial Statements

June 30, 2019 and 2018

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.

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.

Notes and Capital Leases Payable

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

Deferred Outflows and Inflows of Resources

Deferred outflows of resources is a consumption of net position by a government that is applicable to a future reporting period and deferred inflows of resources is an acquisition of net position by a government that is applicable to a future reporting period. Both deferred outflows and inflows are reported in the statements of net position but are not recognized in the financial statements as revenues, expenses or reduction of liabilities until the period(s) to which they relate.

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

In addition, for refundings resulting in a defeasance of debt the difference between the reacquisition price and the net carrying amount of the old debt is reported as deferred outflows or deferred inflows and amortized as a component of interest expense over the remaining life of the old debt or new debt, whichever is shorter.

Net Pension Liability

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

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Net Other Postemployment Benefits (OPEB) Liability

The net OPEB liability is the liability of CCCS, the employer, to employees for the health care trust fund, a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by PERA. OPEB is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

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 legislation or 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. Unrestricted net position has been reduced for the impact of Statement No. 68 and Statement No. 75 during fiscal years 2019 and 2018.

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 year 2019 and 2018, CDHE's contract with CCCS purchased educational services with an increased emphasis on support services for Pell-eligible, first-generation, and underserved undergraduate students as well as institutional performance related to student completion and retention statistics and additional metrics supporting state policy goals. This includes educational services in rural areas, high

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cost/student programs, institutional research services, remediation and special skills courses, creation of student career pathways, and for inclusion service compliance.

- Nonoperating revenues and expenses are those that do not meet the definition of operating revenues or capital revenues. In fiscal years 2019 and 2018, nonoperating revenues include Career and Technical Act (CTA) state appropriations, state support for pensions in accordance with Senate Bill 18-200, 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, capital fees, and gifts and grants restricted for capital purposes.

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.

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, certain other auxiliary enterprises revenue, and capital fees 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.

Amendment 50 Funds

In November 2008, the passage of Amendment 50 recognized the importance of community colleges and LDCs to the State's economic development through the development of a highly skilled workforce. This legislation approved the expansion for limited gaming with new rules, hours, and games beginning July 2, 2009. Gaming tax revenue is collected by the State in the fiscal year that the gaming play takes place and a portion is allocated out to the recipients the following fiscal year, per the provisions of H.B. 09-1272 Title 44, Article 30. Community colleges are to use the funds for classroom instruction related activities and scholarships for students.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, disclosure of contingent assets and liabilities at the date of the financial statements, and the

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reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Revisions

Certain revisions have been made to the 2018 financial statements. These revisions did not have a significant impact on the financial statement lines effected and had no effect on the change in net position.

Note 4: Appropriations

The Colorado State Legislature establishes spending authority for CCCS in its annual Long Appropriations Bill. Appropriated funds include an amount from the State of Colorado's General Fund, the student share of tuition COF stipend, and FFS contract revenue.

For the years ended June 30, 2019 and 2018, appropriated expenditures were within the authorized spending authority. CCCS received a total general fund appropriation of \$62,121,264 and \$57,756,814 for 2019 and 2018, respectively. Included in the State appropriations are general fund appropriations specified to be passed through to two LDCs and three AVSs for 2019 and 2018 of \$30,045,985 and \$26,192,333, respectively. This amount consists of \$17,734,550 and \$15,974,294 for LDCs, and \$12,311,435 and \$10,218,039 for AVSs, for 2019 and 2018, respectively. Also, included in general fund appropriations were capital contributions of \$13,085,108 and \$8,420,630 for 2019 and 2018, respectively. During 2019 and 2018, CCCS received FFS contract revenue in the amount of \$58,678,717 and \$50,056,105 and COF stipends in the amount of \$113,393,329 and \$103,653,110, respectively.

Note 5: Tuition, Fees and Auxiliary Revenue

Tuition, fees and auxiliary revenue and the related scholarship allowances for the years ended June 30, 2019 and 2018 were as follows:

	2019			
	Tuition and Fees	Auxiliary Revenue	Capital Fees	Total
Gross revenue	\$ 420,800,337	\$ 32,460,439	\$ 7,355,964	\$ 460,616,740
Scholarship allowances				
Federal	80,697,034	1,660,671	647,160	83,004,865
State	36,274,538	705,921	297,712	37,278,171
Private	3,138,290	97,761	28,586	3,264,637
Institutional	7,135,866	459,511	426,803	8,022,180
Total scholarship allowance	<u>127,245,728</u>	<u>2,923,864</u>	<u>1,400,261</u>	<u>131,569,853</u>
Net revenue	<u>\$ 293,554,609</u>	<u>\$ 29,536,575</u>	<u>\$ 5,955,703</u>	<u>\$ 329,046,887</u>

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	2018			
	Tuition and Fees	Auxiliary Revenue	Capital Fees	Total
Gross revenue	\$ 406,107,781	\$ 38,096,784	\$ 7,240,161	\$ 451,444,726
Scholarship allowances				
Federal	82,957,283	1,798,097	-	84,755,380
State	35,143,246	709,313	-	35,852,559
Private	2,485,525	54,166	-	2,539,691
Institutional	7,233,538	458,211	-	7,691,749
	<u>127,819,592</u>	<u>3,019,787</u>	<u>-</u>	<u>130,839,379</u>
Total scholarship allowance				
Net revenue	<u>\$ 278,288,189</u>	<u>\$ 35,076,997</u>	<u>\$ 7,240,161</u>	<u>\$ 320,605,347</u>

Note 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,	
	2019	2018
Cash on hand and change funds	\$ 185,126	\$ 191,263
Deposits with financial institutions	3,412,990	1,263,727
Restricted cash at other institutions	1,448,620	4,659,589
	<u>\$ 5,046,736</u>	<u>\$ 6,114,579</u>
Total		

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

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

	Carrying Amount June 30,	
	2019	2018
Footnote amounts		
Deposits	\$ 5,046,736	\$ 6,114,579
Deposits held with State Treasurer	287,357,675	286,942,862
Restricted investments	18,892,866	30,112,344
Total	<u>\$ 311,297,277</u>	<u>\$ 323,169,785</u>
Financial statement amounts		
Cash and cash equivalents	\$ 290,955,791	\$ 288,397,852
Current restricted cash and cash equivalents	1,435,886	4,649,768
Noncurrent restricted cash and cash equivalents	12,734	9,821
Total cash and cash equivalents	292,404,411	293,057,441
Restricted investments	18,892,866	30,112,344
	<u>\$ 311,297,277</u>	<u>\$ 323,169,785</u>

CCCS deposits its cash with the Treasurer as required by C.R.S. The Treasurer pools these deposits and invests them in securities approved by C.R.S. Section 24-75-601.1. The Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2019 and 2018, CCCS had cash on deposit with the Treasurer of \$287,357,675 and \$286,942,862, which represented approximately 3.2% and 3.8% of the total of \$9,055.2 million and \$7,635.8 million, respectively, in deposits in the Treasurer's Pool (Pool). The total \$9,096.5 million fair value of deposits, including unrealized gains, in the State Treasurer's Pool, as of June 30, 2019, included Pool resources of \$73.7 million of cash on hand and \$9,022.8 million of investments. As of June 30, 2019 and 2018, CCCS had \$18,892,866 and \$30,112,344 in restricted investments, respectively, which are comprised of marketable securities in active markets that have observable inputs and prices.

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 State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Additional information on investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the years ended June 30, 2019 and 2018.

Custodial Credit Risk

Investments 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.

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

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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.

As of June 30, 2019 and 2018, 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.

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.

As of June 30, 2019 and 2018, 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.

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, 2019, there were no investments greater than 5.0% of total investments of \$8,248,906. As of June 30, 2018, the fair value of Benefit Trust investments greater than 5.0% of total investments of \$3,601,523, was as follows:

	2018	
	Fair Value	Percentage of Investments
Ishares Barclays Intermediate Credit Bond Fund	\$ 316,595	8.79%
Ishares Barclays 1-3 Year Credit Bond Fund	311,100	8.64%

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.

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Foreign Currency Risk

The Benefit Trust does not have a documented risk policy on its investments relative to foreign currency risk. The Benefit Trust was not subject to foreign currency risk in fiscal years 2019 and 2018.

Note 7: Accounts Receivable, Accounts Payable and Accrued Liabilities

Accounts receivable at June 30, 2019 and 2018 were as follows:

	2019		
	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
Student accounts receivable	\$ 70,433,227	\$ (35,929,486)	\$ 34,503,741
Due from other governments	21,474,392	-	21,474,392
Other receivables	4,208,119	(485,922)	3,722,197
	<u> </u>	<u> </u>	<u> </u>
Total receivables	<u>\$ 96,115,738</u>	<u>\$ (36,415,408)</u>	<u>\$ 59,700,330</u>

	2018		
	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
Student accounts receivable	\$ 67,648,843	\$ (36,837,052)	\$ 30,811,791
Due from other governments	21,457,772	-	21,457,772
Other receivables	3,120,269	(269,235)	2,851,034
	<u> </u>	<u> </u>	<u> </u>
Total receivables	<u>\$ 92,226,884</u>	<u>\$ (37,106,287)</u>	<u>\$ 55,120,597</u>

Accounts payable and accrued liabilities at June 30, 2019 and 2018 was as follows:

	2019	2018
Amounts owed to vendors	\$ 18,690,370	\$ 10,240,505
Salaries and benefits payable	16,685,507	16,711,111
Accrued interest payable	793,285	820,469
Other payables	4,221,688	4,903,599
	<u> </u>	<u> </u>
Total accounts payable and accrued liabilities	<u>\$ 40,390,850</u>	<u>\$ 32,675,684</u>

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Note 8: Capital Assets

The following tables present changes in capital assets and accumulated depreciation for the years ended June 30, 2019 and 2018. Adjustments reflect one-time adjustments to properly classify buildings and improvements, leasehold improvements and equipment. Adjustments to construction in progress reflect projects not deemed capitalizable.

	Balance, June 30, 2018	Additions	Deletions	Transfers	Adjustments	Balance June 30, 2019
Nondepreciable capital assets						
Land and land improvements	\$ 33,415,435	\$ 1,541,900	\$ -	\$ -	\$ -	\$ 34,957,335
Construction in progress	24,609,405	43,825,371	-	(42,199,137)	(47,728)	26,187,911
Collections	945,439	34,568	-	-	-	980,007
Total nondepreciable capital assets	58,970,279	45,401,839	-	(42,199,137)	(47,728)	62,125,253
Depreciable capital assets						
Land improvements	27,903,989	-	-	462,608	-	28,366,597
Buildings and improvements	724,981,742	5,363,509	-	41,577,080	111,697	772,034,028
Leasehold improvements	31,335,500	-	-	55,970	-	31,391,470
Equipment and software	107,178,309	5,977,522	(3,555,706)	103,479	(207,384)	109,496,220
Library materials	6,261,799	215,808	(4,302,743)	-	-	2,174,864
Total depreciable capital assets	897,661,339	11,556,839	(7,858,449)	42,199,137	(95,688)	943,463,179
Less accumulated depreciation						
Land improvements	14,775,074	1,186,398	-	-	(77,005)	15,884,467
Buildings and improvements	375,955,359	29,425,881	-	-	11,095	405,392,335
Leasehold improvements	14,143,463	2,084,978	-	-	77,005	16,305,446
Equipment and software	75,082,675	9,298,037	(3,281,579)	-	(19,310)	81,079,823
Library materials	4,961,401	511,382	(4,302,743)	-	-	1,170,040
Total accumulated depreciation	484,917,972	42,506,676	(7,584,322)	-	(8,215)	519,832,111
Net depreciable capital assets	412,743,367	(30,949,837)	(274,127)	42,199,137	(87,473)	423,631,068
Total capital assets, net	\$ 471,713,646	\$ 14,452,002	\$ (274,127)	\$ -	\$ (135,201)	\$ 485,756,321

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	Balance, June 30, 2017	Additions	Deletions	Transfers	Adjustments	Balance June 30, 2018
Nondepreciable capital assets						
Land and land improvements	\$ 33,372,686	\$ 42,749	\$ -	\$ -	\$ -	\$ 33,415,435
Construction in progress	24,318,790	21,765,447	-	(19,970,158)	(1,504,674)	24,609,405
Collections	945,439	-	-	-	-	945,439
Total nondepreciable capital assets	<u>58,636,915</u>	<u>21,808,196</u>	<u>-</u>	<u>(19,970,158)</u>	<u>(1,504,674)</u>	<u>58,970,279</u>
Depreciable capital assets						
Land improvements	26,087,101	-	-	1,816,888	-	27,903,989
Buildings and improvements	709,665,466	342,122	-	14,974,154	-	724,981,742
Leasehold improvements	30,698,146	134,768	-	502,586	-	31,335,500
Equipment and software	103,417,825	5,218,434	(4,113,735)	2,676,530	(20,745)	107,178,309
Library materials	5,994,604	267,195	-	-	-	6,261,799
Total depreciable capital assets	<u>875,863,142</u>	<u>5,962,519</u>	<u>(4,113,735)</u>	<u>19,970,158</u>	<u>(20,745)</u>	<u>897,661,339</u>
Less accumulated depreciation						
Land improvements	13,613,864	1,161,210	-	-	-	14,775,074
Buildings and improvements	348,149,324	27,806,035	-	-	-	375,955,359
Leasehold improvements	12,083,905	2,059,558	-	-	-	14,143,463
Equipment and software	69,958,739	9,248,118	(4,103,437)	-	(20,745)	75,082,675
Library materials	4,231,039	730,362	-	-	-	4,961,401
Total accumulated depreciation	<u>448,036,871</u>	<u>41,005,283</u>	<u>(4,103,437)</u>	<u>-</u>	<u>(20,745)</u>	<u>484,917,972</u>
Net depreciable capital assets	<u>427,826,271</u>	<u>(35,042,764)</u>	<u>(10,298)</u>	<u>19,970,158</u>	<u>-</u>	<u>412,743,367</u>
Total capital assets, net	<u>\$ 486,463,186</u>	<u>\$ (13,234,568)</u>	<u>\$ (10,298)</u>	<u>\$ -</u>	<u>\$ (1,504,674)</u>	<u>\$ 471,713,646</u>

Note 9: Long-term Liabilities

The following tables present changes in long-term liabilities at June 30, 2019 and 2018:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Current Portion
Bonds payable	\$ 121,529,842	\$ -	\$ (5,086,088)	\$ 116,443,754	\$ 4,280,000
Notes and capital leases payable	9,617,358	-	(948,044)	8,669,314	999,064
Other long-term liabilities	1,856,180	769,834	(1,243,219)	1,382,795	216,986
Compensated absences liability	22,320,329	27,546,389	(26,169,556)	23,697,162	2,918,158

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion
Bonds payable	\$ 92,337,223	\$ 48,063,663	\$ (18,871,044)	\$ 121,529,842	\$ 4,840,000
Notes and capital leases payable	10,636,750	-	(1,019,392)	9,617,358	948,044
Other long-term liabilities	2,159,833	562,934	(866,587)	1,856,180	587,374
Compensated absences liability	19,625,749	22,585,711	(19,891,131)	22,320,329	2,889,718

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Note 10: Bonds Payable

Systemwide Revenue Bonds

The State's Department of Higher Education, through the SBCCOE, issued revenue bonds in 2010, 2012, 2013, 2016 and 2017 known as Systemwide Revenue Bonds. Bond proceeds were used to benefit facilities at the individual colleges, as noted below:

Series 2010 Bonds

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

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

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	<u>541,535</u>
	<u>\$ 7,335,000</u>

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

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

The proceeds from the 2010B-2 bonds were used to finance construction, improvement, and equipping of 78,000 square feet of the Craig Campus Academic Building at CNCC, 14,000 square feet of the Craig Career and Technical Center at CNCC, and a new student residence hall for the housing of students at NJC. A portion of these bonds will be crossover refunded in 2020 with proceeds of the Series 2017B bonds.

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

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

The Series 2010C bonds were paid in full on November 1, 2017.

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 2010D issue was distributed between the colleges as follows:

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

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

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

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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 principal of the Series 2012A issue was used to current refund the Colorado Educational and Cultural Facilities Authority Lease Revenue Bonds (Community Colleges of Colorado System Headquarters Project), Series 2001 (the Series 2001 bonds), and the Colorado Educational and Cultural Facilities Authority, Community Colleges of Colorado, Lease Revenue Bonds (Pikes Peak Community College Project), Series 2001A (the Series 2001A bonds) and advance refund the Colorado Educational and Cultural Facilities Authority, Community Colleges of Colorado, Lease Revenue Bonds (Arapahoe Community College Project), Series 2002 (the Series 2002 bonds), and together with the Series 2001 bonds and Series 2001A bonds (the Refunded Bonds) held by the Colorado Community College System Foundation (the Foundation) which replaced capital leases between the Foundation and the System Office, Pikes Peak Community College, and Arapahoe Community College, respectively, as follows:

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

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

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

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

Series 2013 Bonds

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

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

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Series 2016 Bonds

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

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

Red Rocks Community College	\$ 15,415,000
Pikes Peak Community College	<u>2,925,000</u>
	<u>\$ 18,340,000</u>

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

The remaining proceeds of these funds were used to construct and equip a new student recreation center on the Lakewood campus of RRCC.

Series 2017 Bonds

The Series 2017A Systemwide Revenue Refunding and Improvement Bonds for \$34,850,000 were issued on December 28, 2017. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2047. A portion of the 2017A principal was used to advance refund a portion of the Series 2013 bonds for Front Range Community College. The funds were placed into an irrevocable escrow fund for the future debt service payments on the previous series bonds. The principal of the 2017A issue was distributed between the colleges follows below.

Arapahoe Community College	\$ 21,065,000
Front Range Community College	<u>13,785,000</u>
	<u>\$ 34,850,000</u>

The net present value of savings was approximately \$698,974. A deferred outflow of \$881,833 was recognized in fiscal year 2018 related to a portion of the Series 2013 debt. The principal of the Series 2017A was used to construct and equip new academic facilities at the ACC Castle Rock Collaboration Campus.

The Board has adopted a resolution statement that it will not participate in the State Intercept Program for the 2017A bonds.

The 2017B Systemwide Revenue Refunding Bonds were issued on December 28, 2017. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2041. The proceeds were placed into revocable escrows for the advance refunding on a crossover basis of a portion of the 2010B-2 Taxable Systemwide Revenue Bonds for future debt service payments on the previous series bonds. The principal of the 2017B issue was distributed to the colleges as follows:

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Colorado Northwestern Community College	\$	3,870,000
Northeastern Junior College		4,325,000
		\$ 8,195,000

The Board has adopted a resolution stating that it will participate in the State Intercept Program for the 2017B bonds. Pursuant to the State Intercept Program, the Treasurer shall pay the principal and interest on the Series 2017B bonds if the Board does not make such payments when they are due.

The System advanced refunded a portion of the System’s Series 2013 bonds. The defeased bonds are not considered a liability of the System. As June 30, 2019, \$13,465,000 of refunded Series 2013 bonds are considered legally defeased.

Security

The bonds are special obligations of CCCS payable from certain net pledged revenues as defined in the bond indentures. The Series 2017, 2016, 2013, 2012 and 2010 bonds are payable solely out of and secured by an irrevocable pledge of 10.0% of tuition and fee revenues, net of scholarship allowances. The debt was used to refund debt, finance the construction, improvement, equipping, renovation, expansion, and upgrade of various campus facilities for the ACC, CCD, CNCC, FRCC, NJC, PCC, and RRCC colleges. Principal and interest paid for the current year were \$9,620,010 and \$23,012,704 for fiscal years 2019 and 2018, respectively. The pledge expires upon the extinguishment of the debt with the final debt payment on November 1, 2047.

Total net pledged revenue for bonds was \$30,604,902 and \$29,214,758 for fiscal years 2019 and 2018, respectively. These amounts primarily consisted of \$29,355,461 and \$27,828,819 student tuition and fees, net of scholarship allowance for fiscal years 2019 and 2018, respectively. The remaining pledged revenue represents the capital fees and federal direct payments received on the “Build America Bonds” which the Board has pledged to pay the Series 2010B-2 bonds.

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.

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.

Bond Accounting

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

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Long-term Bond Principal Maturities

Bond principal payments to be made during fiscal years 2020 through 2024 are enumerated in the following tables:

Bond Issue	Principal Maturing in Next Five Years by Year				
	FY20	FY21	FY22	FY23	FY24
Series 2010A					
Community College of Aurora	\$ 86,935	\$ -	\$ -	\$ -	\$ -
Northeastern Junior College	173,040	-	-	-	-
Red Rocks Community College	220,025	-	-	-	-
Series 2010B-2					
Colorado Northwestern					
Community College	125,000	130,000	130,000	135,000	140,000
Northeastern Junior College	130,000	135,000	140,000	140,000	145,000
Series 2010D					
Community College of Denver	945,000	970,000	995,000	1,020,000	1,050,000
Pueblo Community College	385,000	390,000	405,000	410,000	425,000
Series 2012A					
Arapahoe Community College	90,000	95,000	95,000	100,000	105,000
Colorado Community					
College System	265,000	270,000	280,000	285,000	295,000
Pikes Peak Community College	215,000	220,000	225,000	235,000	235,000
Series 2013					
Front Range Community College	810,000	845,000	875,000	915,000	955,000
Series 2016					
Pikes Peak Community College	335,000	340,000	345,000	355,000	365,000
Red Rocks Community College	200,000	205,000	205,000	210,000	215,000
Series 2017A					
Arapahoe Community College	265,000	280,000	290,000	315,000	335,000
Front Range Community College	35,000	35,000	35,000	40,000	40,000
Series 2017B					
Colorado Northwestern Community	-	-	130,000	135,000	135,000
Northeastern Junior College	-	-	135,000	135,000	140,000
Total revenue bonds payable	4,280,000	3,915,000	4,285,000	4,430,000	4,580,000
Interest	4,682,528	4,547,919	4,407,533	4,243,682	4,064,773
Total annual debt service	<u>\$ 8,962,528</u>	<u>\$ 8,462,919</u>	<u>\$ 8,692,533</u>	<u>\$ 8,673,682</u>	<u>\$ 8,644,773</u>

Bond debt service payments after fiscal year 2024 to maturity are as follows:

Fiscal Years	Principal	Interest	Total
2025-2029	\$ 25,240,000	\$ 17,370,583	\$ 42,610,583
2030-2034	26,880,000	11,320,345	38,200,345
2035-2039	17,675,000	6,038,097	23,713,097
2040-2044	11,955,000	2,836,221	14,791,221
2045-2049	7,355,000	671,962	8,026,962
	<u>\$ 89,105,000</u>	<u>\$ 38,237,208</u>	<u>\$ 127,342,208</u>

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Remaining debt service by bond issuance is as follows:

	Revenue Bonds Outstanding*, June 30, 2019	Interest Rate	Maximum Annual Principal	Callable	Call Premium	Final Payment
State Board for Community Colleges and Occupational Education Systemwide Revenue Bonds						
Series 2010A						
Community College of Aurora	\$ 87,980	2.00% to 3.00%	\$ 86,935	No	None	11/1/2019
Northeastern Junior College	174,565	2.00% to 3.00%	233,038	No	None	11/1/2019
Red Rocks Community College	223,795	2.00% to 3.00%	220,025	No	None	11/1/2019
Series 2010B-2						
Colorado Northwestern Community College						
	4,124,462	2.00% to 6.10%	280,000	Yes (after 11/2021)	None	11/1/2040
Northeastern Junior College	4,597,972	2.00% to 6.10%	305,000	Yes (after 11/2021)	None	11/1/2041
Series 2010D						
Community College of Denver	19,034,859	3.37% to 5.35%	1,510,000	Yes (after 11/2021)	None	11/1/2034
Pueblo Community College	11,104,277	3.37% to 5.50%	730,000	Yes (after 11/2021)	None	11/1/2039
Series 2012A						
Arapahoe Community College	1,614,379	2.50% to 3.375%	140,000	Yes (after 11/2022)	None	11/1/2032
Colorado Community College System	4,243,896	2.50% to 3.375%	375,000	Yes (after 11/2022)	None	6/30/2032
Pikes Peak Community College	2,253,131	2.50% to 3.375%	270,000	Yes (after 11/2022)	None	6/30/2028
Series 2013						
Front Range Community College	4,706,743	3.00% to 5.00%	1,500,000	Yes (after 11/01/2023)	None	11/1/2034
Series 2016						
Red Rocks Community College	14,798,812	1.50% to 4.00%	760,000	Yes (after 11/2026)	None	11/1/2046
Pikes Peak Community College	2,519,099	3.375% to 4.125%	285,000	Yes (after 11/2026)	None	11/1/2030
Series 2017A						
Arapahoe Community College	22,814,129	2.00% to 5.00%	1,490,000	Yes (after 11/2027)	None	11/1/2034
Front Range Community College	15,496,519	2.00% to 5.25%	1,390,000	Yes (after 11/2027)	None	11/1/2047
Series 2017B						
Colorado Northwestern Community College						
	4,094,948	3.00% to 5.00%	275,000	Yes (after 11/2027)	None	11/1/2040
Northeastern Junior College	4,554,188	3.00% to 5.00%	290,000	Yes (after 11/2027)	None	11/1/2041
	<u>\$ 116,443,754</u>					

* Bonds have related unamortized bond premium and discount of \$5,848,754

Note 11: Notes, Leases, and State of Colorado Certificates of Participation

CCA, CNCC, FRCC, LCC, NJC, RRCC, TSJC and CCCS have recorded notes payable in conjunction with building improvements and equipment related to energy performance contracts. The interest rate on the notes payable range from 4.75% to 5.50%.

The outstanding notes payable from direct borrowings related to energy performance contracts contain provisions regarding the event of a default or unavailability of funds by CCCS. In the event of a default, the lender may accelerate and recover from CCCS any and all amounts currently due and becoming due at the end of the then current fiscal period of CCCS and take possession of equipment. This financial consequence is limited to the amount of payments still due within the current fiscal period and the value of the equipment at the time of default.

NJC has recorded capital leases for several copier machines. The interest rate on the capital leases is 5.75%. 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 2019 and 2018, capitalized assets relating to these leases were approximately \$253,183, with amortization expense of \$51,250 each year. Accumulated amortization was \$178,361 and \$127,111 for 2019 and 2018, respectively.

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Future minimum payments under notes payable are as follows for the years ending June 30:

	Principal	Interest	Total
2020	\$ 945,614	\$ 311,052	\$ 1,256,666
2021	1,008,039	276,418	1,284,457
2022	1,010,965	239,340	1,250,305
2023	822,945	203,383	1,026,328
2024	871,350	169,322	1,040,672
2025-2029	3,263,199	400,863	3,664,062
2030-2034	637,146	31,509	668,655
	\$ 8,559,258	\$ 1,631,887	\$ 10,191,145

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

	Principal	Interest	Total
2020	\$ 53,450	\$ 4,934	\$ 58,384
2021	56,606	1,779	58,385
	\$ 110,056	\$ 6,713	\$ 116,769

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.

On September 26, 2018, the State issued State of Colorado Rural Colorado Certificates of Participation, Series 2018A with a par value of \$500,000,000 and a premium of \$47,368,567 and a discount of \$526,047. The certificates have interest rates ranging from 1.84% to 5.00% and mature in December 2037. 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 2008 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 2018 COP proceeds were used to finance various higher education controlled maintenance and capital construction projects, including 18 controlled maintenance projects at 10 CCCS college campuses and capital construction projects at Lamar Community College, Otero Junior College, and Pueblo Community College. The CCCS portion of

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the proceeds totals \$17.99 million. The underlying capitalized assets are contributed to CCCS from the State and are reflected in the accompanying financial statements.

CCCS also has building and equipment operating leases. Total rent expense for all operating leases for the years ended June 30, 2019 and 2018 was \$4,903,195 and \$5,287,438, respectively. Future minimum rental payments, exclusive of real estate taxes and other expenses, under operating leases are as follows:

Year Ending June 30:	
2020	\$ 4,200,461
2021	3,226,874
2022	2,766,582
2023	2,383,125
2024	2,013,865
2025-2029	8,082,083
2030-2034	530,675
2035-2039	530,675
2040-2044	499,445
2045-2049	458,471
	<hr/>
	\$ 24,692,256
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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.

Note 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:

2020	\$ 216,986
2021	260,334
2022	224,362
2023	166,893
2024	145,857
2025-2029	368,363
	<hr/>
	\$ 1,382,795
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Note 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, 2019 and 2018 is \$23,697,162 and \$22,320,329, 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, 2019 and 2018, the Public Employees' Retirement Association of Colorado (PERA) estimated that 53.6% and 54.0%, respectively, of the State's employees would remain until retirement. This percentage is used to calculate the amount of compensated absence liability related to sick leave each year.

Note 14: Retirement Plan

Defined Benefit Pension Plan

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

Prior to legislation passed during the 2006 session, higher education employees had the option to participate 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 12 months. In that case, they are required to remain in the PERA plan in which they participated previously.

Virtually all CCCS' employees participate in the SDTF. The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from the fiduciary net position of the SDTF have been determined on the same basis as they are reported by the SDTF, using the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. A brief description of some of the major changes to plan provisions required by SB 18-200 for the SDTF are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

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- Increases employer contribution rates for the SDTF by 0.25% on July 1, 2019.
- Increases employee contribution rates for the SDTF by a total of 2% (to be phased in over a period of three years starting on July 1, 2019).
- As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, increases the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the State, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.
- Expands eligibility to participate in the PERA DC Plan to certain new members of the State Division hired on or after January 1, 2019, who are classified State College and University employees. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the SDTF will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

Benefits Provided. 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.

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

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

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

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

As of December 31, 2018, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments in certain years, referred to as annual increases in the C.R.S. Pursuant to SB 18-200, there are no annual increases (AI) for 2018 and 2019 for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 will receive an annual increase, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 1.5% or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 will receive the lesser of an annual increase of 1.5% or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve (AIR) for the SDTF. The automatic adjustment provision may raise or lower the aforementioned AI for a given year by up to one-quarter of 1% based on the parameters specified C.R.S. § 24-51-413. Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the lifetime retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

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

Contributions. Eligible employees and CCCS are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. and § 24-51-413. Eligible employees are required to contribute 8% of their PERA-includable salary. The employer contribution requirements for all employees are summarized in the table below:

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	Fiscal Year 2018		Fiscal Year 2019	
	CY17	CY18	CY19	
	7/1/2017 to 12/31/2017	1/1/2018 to 6/30/2018	7/1/2018 to 12/31/2018	1/1/2019 to 6/30/2019
Employer contribution rate	10.15	10.15	10.15	10.15
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	(1.02)	(1.02)	(1.02)	(1.02)
Amount Apportioned to the SDTF Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	9.13	9.13	9.13	9.13
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	5.00	5.00	5.00	5.00
	<u>5.00</u>	<u>5.00</u>	<u>5.00</u>	<u>5.00</u>
Total employer contribution rate to the SDTF	<u>19.13%</u>	<u>19.13%</u>	<u>19.13%</u>	<u>19.13%</u>

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

As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. As a result of SB18-200, the State of Colorado contributed to PERA \$6,990,246, on behalf of CCCS on July 1, 2018. This contribution is considered an employer contribution for Statement No. 68 reporting purposes.

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and CCCS is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from CCCS were \$52,608,120 and \$50,711,688 for the years ended June 30, 2019 and 2018, respectively.

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

At June 30, 2019 and 2018, CCCS reported a liability of \$1,013.4 million and \$1,783.0 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016, respectively. Standard update procedures were used to roll forward the total pension liability to December 31, 2018 and 2017. The CCCS proportion of the net pension liability was based on CCCS contributions to the SDTF for the calendar year associated with the above measurement date, relative to the total contributions of participating employers and, as applicable, the State as a nonemployee contributing entity for participating employers of the SDTF that are outside of the State's financial reporting entity.

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At December 31, 2018, CCCS proportion was 8.91%, which was a decrease of 0.0008% from its proportion measured as of December 31, 2017. At December 31, 2017, CCCS proportion was 8.91% which was a decrease of 0.06% from its proportion measured as of December 31, 2016.

For the years ended June 30, 2019 and 2018, the CCCS recognized a reduction of pension expense of \$54.5 million and a pension expense of \$399.7 million, respectively. At June 30, 2019 and 2018, the CCCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 28,979,647	\$ -
Changes of assumptions or other inputs	53,360,288	523,300,394
Net difference between projected and actual earnings on pension plan investments	51,187,829	-
Changes in proportion	-	2,145,885
Differences between contributions recognized and proportionate share of contributions	-	236,406
Contributions subsequent to the measurement date	<u>26,703,571</u>	<u>N/A</u>
Total	<u>\$ 160,231,335</u>	<u>\$ 525,682,685</u>
	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 27,800,722	\$ -
Changes of assumptions or other inputs	309,592,289	-
Net difference between projected and accrual earnings on pension plan investments	-	67,153,110
Changes in proportion	-	5,666,440
Differences between contributions recognized and proportionate share of contributions	-	312,434
Contributions subsequent to the measurement date	<u>25,814,536</u>	<u>N/A</u>
Total	<u>\$ 363,207,547</u>	<u>\$ 73,131,984</u>

At June 30, 2019, the System reported \$26,703,571 as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at the collective level at June 30, 2019 will be recognized in pension expense as follows:

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Year ending June 30,	
2020	\$ (186,922,589)
2021	(235,778,736)
2022	2,514,630
2023	<u>28,031,774</u>
	<u>\$ (392,154,921)</u>

Actuarial assumptions. The total pension liability in the actuarial valuations for each measurement date presented were determined using the following actuarial cost method, actuarial assumptions and other inputs:

Measurement Date	December 31, 2018 and 2017
Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 - 9.17 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	4.72 percent
Post-retirement benefit increases	
PERA benefit structure hired prior to 1/1/07	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

The revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2017 to December 31, 2018:

Discount rate	7.25%
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	0% through 2019 and 1.5% compounded annually, thereafter
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Both measurement periods utilized the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70% factor applied to male rates and a 55.0% factor applied to female rates.

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Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73% factor applied to rates for ages less than 80, a 108% factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78% factor applied to rates for ages less than 80, a 109% factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90% of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

The long-term expected return on plan assets is also reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the SDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25% for both the 2018 and 2017 measurement dates.

Discount rate. The discount rate used to measure the total pension liability was 7.25% for the 2018 measurement date and 4.72% for the 2017 measurement date. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows for each measurement date presented, as applicable:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50% in both the 2018 and 2017 measurement period.
- Employee contributions were assumed to be made at the current member contribution rate, including scheduling increases in SB 18-200. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increases in SB 18-200. Employer contributions also include current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

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- As specified in law, the State will provide an annual direct distribution of \$225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the middle of the year.

Based on the above assumptions and methods, the projection test indicates the SDTF’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25% on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25%.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25% and the municipal bond index rate of 3.43% were used in the discount rate determination resulting in a discount rate of 4.72%, 2.53% lower compared to the current measurement date.

Sensitivity of the CCCS proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Proportionate share of the net pension liability	\$ 1,259,821,742	\$ 1,013,392,855	\$ 804,891,548

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

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Note 15: Other Retirement Plans

Defined Contribution Retirement Plan (DC Plan)

Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008 which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan). SB 18-200 expands eligibility to participate in the PERA DC Plan to certain new employees hired on or after January 1, 2019, who are classified State College employees. The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA's comprehensive annual financial report as referred to above.

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

	Fiscal Year 2018		Fiscal Year 2019	
	CY17	CY18	CY18	CY19
	7/1/2017 to 12/31/2017	1/1/2018 to 6/30/2018	7/1/2018 to 12/31/2018	1/1/2019 to 6/30/2019
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	5.00%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411	5.00%	5.00%	5.00%	5.00%
Total employer contribution rate to the SDTF	10.00%	10.00%	10.00%	10.00%

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

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50% vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10%. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.80 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense. Employer contributions recognized by the DC Plan from CCCS were \$1,649,478 and \$1,573,735 for the years ended June 30, 2019 and 2018, respectively.

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401(k) Defined Contribution Plan

Employees of CCCS that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. CCCS does not match contributions made by employees participating in this plan. Employees are immediately vested in their own contributions and investment earnings. PERA issues a publicly available comprehensive annual financial report for the program. That report can be obtained at www.copera.org/investments/pera-financial-reports. At December 31, 2018 and 2017, CCCS had 703 and 711 participants, respectively, in the plan.

457 Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. Contributions and earnings are tax deferred. CCCS does not match contributions made by employees participating in this plan. At December 31, 2018 and 2017, CCCS had 286 and 279 participants, respectively, in the plan. In calendar year 2019, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8% PERA contribution) to a maximum of \$19,000. Participants who are age 50 and older, and contributing the maximum amount allowable were allowed to make an additional \$6,000 contribution in 2019. Special 457(b) catch-up contributions allow a participant for three years prior to the normal retirement age to contribute the lesser of (1) twice the annual limit (\$38,000 in 2019), or (2) the basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age 50 or over catch-up contributions).

Note 16: Employee Benefit Trust Fund

The Benefit Trust provides health and welfare benefits to all employees participating in the Health and Welfare Program sponsored by the SBCCOE. For fiscal years 2019 and 2018, CCCS made contributions of excess receipts of insurance premiums to the Benefit Trust of approximately \$1,884,000 and \$322,000, respectively.

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Note 17: Other Postemployment Benefits – CCCS

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.

Note 18: Other Postemployment Benefits – PERA Health Care Trust Fund

CCCS participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined on the same basis as they are reported by the HCTF, using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

General Information About the OPEB Plan

Plan description. Eligible employees of CCCS are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided. The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

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C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

PERA Benefit Structure. The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$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 basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5% reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF on behalf of benefit recipients not covered by Medicare Part A.

Contributions. Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02% of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and CCCS is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from CCCS were \$2,720,398 and \$2,619,862 for the years ended June 30, 2019 and 2018, respectively.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, CCCS reported a liability of \$42.1 million and \$40.6 million, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017 and 2016, respectively. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2018 and 2017. CCCS' proportion of the net OPEB liability was based on CCCS' contributions to the HCTF for the calendar year associated with the above measurement date, relative to the total contributions of participating employers to the HCTF.

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At December 31, 2018, CCCS' proportion was 3.10%, which was a decrease of 0.02% from its proportion measured as of December 31, 2017. At December 31, 2017, CCCS' proportion was 3.12%, which was a decrease of 0.03% from its proportion measured as of December 31, 2016.

For the years ended June 30, 2019 and 2018, CCCS recognized OPEB expense of \$3,345,197 and \$3,123,483, respectively. At June 30, 2019 and 2018, CCCS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 152,936	\$ 64,142
Changes of assumptions or other inputs	295,590	-
Net difference between projected and accrual earnings on OPEB plan investments	242,320	-
Changes in proportion	-	515,312
Differences between contributions recognized and proportionate share of contributions	10,779	12,153
Contributions subsequent to the measurement date	1,349,321	N/A
	<u>\$ 2,050,946</u>	<u>\$ 591,607</u>
Total		
	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 191,985	\$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and accrual earnings on OPEB plan investments	-	679,163
Changes in proportion	-	277,927
Differences between contributions recognized and proportionate share of contributions	-	15,124
Contributions subsequent to the measurement date	1,322,686	N/A
	<u>\$ 1,514,671</u>	<u>\$ 972,214</u>
Total		

At June 30, 2019 \$1,349,321 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2019 will be recognized in OPEB expense as follows:

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Year ending June 30,		
2020	\$	(11,536)
2021		(11,536)
2022		(11,474)
2023		156,763
2024		(11,764)
Thereafter		<u>(435)</u>
	\$	<u>110,018</u>

Actuarial assumptions. The total OPEB liability in the actuarial valuations for each measurement period were determined using the following actuarial cost method, actuarial assumptions and other inputs:

Measurement Date	December 31, 2018	December 31, 2017
Actuarial cost method	Entry age	Entry age
Price inflation	2.40 percent	2.40 percent
Real wage growth	1.10 percent	1.10 percent
Wage inflation	3.50 percent	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate	3.50 percent in aggregate
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent	7.25 percent
Discount rate	7.25 percent	7.25 percent
Health care cost trend rates		
PERA benefit structure:		
Service-based premium subsidy	0.00 percent	0.00 percent
PERACare Medicare plans	5.00 percent	5.00 percent
Medicare Part A premiums	3.25 percent for 2018, gradually raised to 5.00 percent in 2025	3.00 percent for 2017, gradually raised to 4.25 percent in 2013

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

The actuarial assumptions used in the valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012 through December 31, 2015, as well as the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as discussed below.

In determining the additional liability for PERACare enrollees who are age 65 or older and who are not eligible for premium-free Medicare Part A, the following monthly costs/premiums are assumed for 2018 for the PERA Benefit Structure:

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Medicare Plan	Cost for Members Without Medicare Part A	Premiums for Members Without Medicare Part A
Self-funded Medicare Supplement Plans	\$736	\$367
Kaiser Permanente Medicare Advantage HMO	602	236
Rocky Mountain Health Plans Medicare HMO	611	251
UnitedHealthcare Medicare HMO	686	213

The 2018 Medicare Part A premium is \$422 per month.

In determining the additional liability for PERACare enrollees in the PERA Benefit Structure who are age sixty-five or older and who are not eligible for premium-free Medicare Part A, the following chart details the initial expected value of Medicare Part A benefits, age adjusted to age 65 for the year following the valuation date:

Medicare Plan	Cost for Members Without Medicare Part A
Self-funded Medicare Supplement Plans	\$289
Kaiser Permanente Medicare Advantage HMO	300
Rocky Mountain Health Plans Medicare HMO	270
Unitedhealthcare Medicare HMO	400

All costs are subject to the health care cost trend rates, as discussed below.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year ending June 30,	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.25%
2023	5.00%	4.50%
2024	5.00%	4.75%
2025+	5.00%	5.00%

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70.0% factor applied to male rates and a 55.0% factor applied to female rates.

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73.0% factor applied to rates for ages less than 80, a 108.0% factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78.0% factor applied to rates for ages less than 80, a 109.0% factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90.0% of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 and 2018 plan year.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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June 30, 2019 and 2018

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	<u>100.00%</u>	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Sensitivity of CCCS proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates. The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

Colorado Community College System

Notes to Financial Statements

June 30, 2019 and 2018

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare part A trend rate	2.25%	3.25%	4.25%
Ultimate Medicare Part A trend rate	4.00%	5.00%	6.00%
Net OPEB Liability (PERA)	\$ 40,974,171	\$ 42,137,763	\$ 43,476,095

Discount rate. The discount rate used to measure the total OPEB liability was 7.25% respectively for each measurement period. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50% in both the 2018 and 2017 measurement periods.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made in the middle of the year.

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25% on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25%.

Sensitivity of CCCS proportionate share of the net OPEB liability to changes in the discount rate.

The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25%, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Proportionate share of the net OPEB liability	<u>\$ 47,148,486</u>	<u>\$ 42,137,763</u>	<u>\$ 37,854,059</u>

Colorado Community College System

Notes to Financial Statements

June 30, 2019 and 2018

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

Note 19: Risk Financing and Insurance Related Activities

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

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

Note 20: Commitments and Contingencies

The System has \$37.1 million and \$32.1 million in commitments for various capital construction and controlled maintenance projects as of June 30, 2019 and 2018, respectively.

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

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

Colorado Community College System

Notes to Financial Statements

June 30, 2019 and 2018

Note 21: Tax and Spending Limitations (TABOR Amendment)

Certain state revenues, such as taxes and fees, are constitutionally limited. The growth in these revenues from year to year is limited to the rate of population growth plus the rate of inflation. These limitations are applied to the State as a whole, not to each individual college, department, or agency of the State. The Colorado State Legislature establishes spending authority, within these constitutional limits, for CCCS in its annual Appropriations Long Bill.

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 year 2019 the System received 4.5% in State support, and in fiscal year 2018, the System received 3.1%, 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.

Note 22: Related-party Transactions

Approximately \$8.4 million and \$7.7 million was transferred to the colleges from the foundations for the years ended June 30, 2019 and 2018, respectively, in pursuit of providing financial support for instructional programs, facilities, equipment, student scholarship programs, and cultural activities.

Note 23: Subsequent Events

The series 2019A Systemwide Revenue Refunding Bonds for \$25,150,000 were issued on October 10, 2019. Interest is payable semiannually on May 1 and November 1. Final maturity of the bonds is November 1, 2039. The 2019 principal was used to advance refund a portion of the outstanding State of Colorado, Department of Education, by the State Board for Community Colleges and Occupational Education Taxable Systemwide Revenue Bonds (Community College of Denver Project and Pueblo Community College Projects) (Build America Bonds – Direct Payment to the Board), Series 2010D and pay costs of issuance. The funds were placed into an irrevocable escrow fund for the future debt service payments on the previous series bonds. The principal of the 2019 A issue was distributed between the colleges as follows:

Community College of Denver	\$ 15,555,000
Pueblo Community College	<u>9,595,000</u>
	<u>\$ 25,150,000</u>

The net present value of savings was approximately \$2.1 million.

The Board has adopted a resolution statement that it will not participate in the State Intercept Program for the 2019A bonds.

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Required Supplementary Information

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Colorado Community College System
Schedule of Proportionate Share of Net Pension Liability (NPL)
(Unaudited)
Last Ten Fiscal Years *
(Dollars in Thousands)

June 30,	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the NPL as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	8.9060724015%	\$ 1,013,393	\$ 280,192	361.68%	55.11%
2018	8.9068622559%	1,782,974	267,807	665.77%	43.20%
2017	8.9674721580%	1,647,157	261,925	628.87%	42.60%
2016	8.9937735926%	947,137	255,917	370.10%	56.10%
2015	9.1682986069%	862,417	253,165	340.65%	59.80%

Information above is presented as of the measurement date for the respective reporting periods.

* Information is not currently available for prior years, additional years will be displayed as they become available

Unaudited - see accompanying Independent Auditor's Report

Colorado Community College System
Schedule of Contributions for Net Pension Liability (NPL)
(Unaudited)
Last Ten Fiscal Years *
(Dollars in Thousands)

June 30,	Statutorily Required Contributions	Contributions Related to the Statutory Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$ 54,130	\$ 59,598	\$ (5,468)	\$ 282,959	21.06%
2018	52,087	50,712	1,375	272,277	18.63%
2017	49,451	48,196	1,255	264,730	18.21%
2016	46,355	44,917	1,438	260,716	17.23%
2015	42,872	41,806	1,066	253,980	16.46%

Information above is presented as of the System's fiscal year for the respective reporting periods.

* Information is not currently available for prior years, additional years will be displayed as they become available

Unaudited - see accompanying Independent Auditor's Report

Colorado Community College System
Notes to Required Supplementary Information (NPL)
June 30, 2019 and 2018

Changes in benefit terms and actuarial assumptions

Changes in assumptions or other inputs effective for the December 31, 2018 measurement period are as follow:

- The assumed investment rate of return of 7.25% was used as the discount rate, rather than using the blended rate of 4.72%

Changes in assumptions or other inputs effective for the December 31, 2017 measurement period are as follow:

- The discount rate was lowered from 5.26% to 4.72%.

Changes in assumptions or other inputs effective for the December 31, 2016 measurement period are as follows:

- The investment return assumption was lowered from 7.50% to 7.25%.
- The price inflation assumption was lowered from 2.80% to 2.40%.
- The real rate of investment return assumption increased from 4.70% per year, net of investment expenses, to 4.85% per year, net of investment expenses.
- The wage inflation assumption was lowered from 3.90% to 3.50%.
- The mortality tables were changed from RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection scale of Scale AA to 2020 to RP-2014 White Collar Employee Mortality for active employees, RP-2014 Healthy Annuitant Mortality tables projected to 2020 using the MP-2015 projection scale for retirees, or RP-2014 Disabled Retiree Mortality Table for disabled retirees.
- The discount rate was lowered from 7.50% to 5.26%.

There were no changes in terms or assumptions for the December 31, 2015 measurement period for pension compared to the prior year.

Colorado Community College System
Schedule of Proportionate Share of Other Postemployment Benefits (OPEB)
(Unaudited)
Last Ten Fiscal Years *

June 30,	Proportion of OPEB	Proportionate Share of OPEB	Covered Payroll	Proportionate Share of the OPEB as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB
2019	3.0971306087%	\$ 42,138	\$ 264,095	15.96%	17.03%
2018	3.1237367081%	40,596	252,942	16.05%	17.53%

Information above is presented as of the measurement date for the respective reporting periods.

* Information is not currently available for prior years, additional years will be displayed as they become available

Unaudited - see accompanying Independent Auditor's Report

Colorado Community College System
Schedule of Contributions for Other Postemployment Benefits (OPEB)
(Unaudited)
Last Ten Fiscal Years *

June 30,	Statutorily Required Contributions	Contributions Related to the Statutory Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$ 2,720	\$ 2,720	-	\$ 266,706	1.02%
2018	2,620	2,620	-	256,849	1.02%

Information above is presented as of the System's fiscal year for the respective reporting periods.

* Information is not currently available for prior years, additional years will be displayed as they become available

Unaudited - see accompanying Independent Auditor's Report

Colorado Community College System
Notes to Required Supplementary Information (OPEB)
June 30, 2019 and 2018

Changes in benefit terms and actuarial assumptions

There were no changes in assumptions or other inputs effective for the December 31, 2018 measurement period for OPEB compared to the prior year.

There were no changes in assumptions or other inputs effective for the December 31, 2017 measurement period for OPEB compared to the prior year.

**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***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Colorado Community College System (a higher education institution of the State of Colorado) (the System), as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 15, 2019, which contained a paragraph emphasizing a matter regarding the financial statements and contained a reference to the report of other auditors. 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 the System's 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 the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's 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 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
November 15, 2019

Required Communications to Legislative Audit Committee

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

As part of our audit of the financial statements of the Colorado Community College System (a higher education institution of the State of Colorado) (the System) as of and for the year ended June 30, 2019, we wish to communicate the following to you.

Auditor's Responsibility Under 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

An audit performed 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The System's significant accounting policies are described in Note 3 of the audited financial statements.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowance for doubtful accounts
- Allocation of deferred tuition revenue
- Fair value of investments
- Useful lives of capital assets and related depreciation expense
- Compensated absences
- Net pension liability
- Net OPEB liability
- Scholarship allowance

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Related-party transactions (note 22)
- Subsequent events (note 23)

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

- No matters are reportable

Proposed Audit Adjustments Not Recorded

- Included on pages 99-102 is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole

Auditor's Judgments About the Quality of the System's Accounting Principles

During the course of the audit, we made the following observations regarding the System's application of accounting principles:

- The System adopted GASB Statement No. 83, *Certain Asset Retirement Obligations* and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

Disagreements with Management

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements:

- No matters are reportable

Consultation with Other Accountants

During our audit, we became aware that management had consulted with other accountants about the following auditing or accounting matters:

- The Foundations included in the aggregate discretely presented component units are audited by other auditors. We placed reliance on the audit of the financial statements of the Foundations as of June 30, 2019, and for the year then ended. The audits of the Foundations are not audited in accordance with *Government Accounting Standards*.

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

- No matters are reportable

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- No matters are reportable

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

- No matters are reportable

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter

* * * * *

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

BKD, LLP

Denver, Colorado
November 15, 2019

Colorado Community College System - OSA

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	357,552,563		357,552,563	
Non-Current Assets & Deferred Outflows	668,795,756	1,104,280	669,900,036	0.17%
Current Liabilities	(85,333,276)	(430,211)	(85,763,487)	0.50%
Non-Current Liabilities & Deferred Inflows	(1,723,583,727)	(568,000)	(1,724,151,727)	0.03%
Current Ratio	4.190		4.169	-0.50%
Total Assets & Deferred Outflows	1,026,348,319	1,104,280	1,027,452,599	0.11%
Total Liabilities & Deferred Inflows	(1,808,917,003)	(998,211)	(1,809,915,214)	0.06%
Total Net Position	782,568,684	(106,069)	782,462,615	-0.01%
Operating Revenues	(492,591,706)	1,267,121	(491,324,585)	-0.26%
Operating Expenses	553,590,464	(898,205)	552,692,259	-0.16%
Nonoperating (Revenues) Exp	(156,322,153)	(1,600,467)	(157,922,620)	1.02%
Change in Net Position	(117,208,278)	(1,231,551)	(118,439,829)	1.05%

Client: Colorado Community College System - OSA
Period Ending: June 30, 2019

Major Enterprise Fund

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred Outflows				Liabilities & Deferred Inflows				Net Effect on Following Year					
			Current		Non-Current		Current		Non-Current		Operating Revenues	Operating Expenses	Nonoperating (Revenues) Exp	Net Position	Change in Net Position	
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
To show effect of reclassification of Private Donations from other operating revenues to "Non-Operating Gifts" (Systemwide)		F	0	0	0	0	1,267,121	0	(1,267,121)	0	0	0	0	0	0	0
	Other Operating Revenue						1,267,121									
	Non-Operating Gifts									(1,267,121)						
To show effect of CCCS early adopting adopting GASB 89 which eliminates the requirement to capitalize interest; however, the state has not early adopted (Systemwide).		J	0	452,903	0	0	0	(452,903)	0	0	0	0	0	0	0	0
	Capital Asset - Construction in Process			452,903												
	Interest Expense							(452,903)								
To show effect of entries waived by the campuses for invoices received after year end which should have been accrued and paid (Systemwide)		F	0	83,377	(430,211)	0	0	346,834	0	0	0	0	(346,834)	346,834		
	Accounts Payable				(430,211)									346,834		
	Fixed assets			83,377												
	Expense							346,834					(346,834)			
To show reversing effect of entries waived by the campuses for invoices received after year end which should have been accrued in prior year (Systemwide)		F	0	0	0	0	0	(792,136)	0	792,136			0	0		
	Expense							(792,136)								
	Net position									792,136						
To show reversing effect of overstatement of Pell receivable for FY19 receivables (ACC)		F	0	0	0	0	0	0	(333,346)	333,346			0	0		
	Federal Pell Grants								(333,346)							
	Net Position									333,346						
To show effect of CCCS not adopting GASB 83 which requires entities to record asset retirement obligations.		J	0	568,000	0	(568,000)	0	0	0	0	0	0	0	0		
	ARO Liability					(568,000)										
	Deferred Outflow			568,000												
Total passed adjustments			0	1,104,280	(430,211)	(568,000)	1,267,121	(898,205)	(1,600,467)	1,125,482			(346,834)	346,834		
							Impact on Change in Net Position				(1,231,551)					
							Impact on Net Position				(106,069)					

Colorado Community College System

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets	66,812,028	0	66,812,028	0.00%
Total Liabilities	(2,884,170)	0	(2,884,170)	0.00%
Net Assets	(63,927,858)	0	(63,927,858)	0.00%
Revenues	(22,613,852)	(191,125)	(22,804,977)	0.85%
Expenses	15,559,279	(23,978)	15,535,301	-0.15%
Net (Increase) Decrease	(7,054,573)	(215,103)	(7,269,676)	3.05%

Client: Colorado Community College System

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Period Ending: June 30, 2019

Description	Location or Business Unit	Financial Line Item	Factual (F), Judgmental (J), or Projected (P)	Assets		Liabilities		(X) Non Tax	Revenues		Expenses		Net Assets		Net Effect on Following Year		
				DR	(CR)	DR	(CR)		DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR
To show prior period effect for restatements in individual foundation financial statements corrected in current year financials	Foundations		F	0		0			(191,125)		(23,978)		215,103		0		0
		Contribution Revenues							(191,125)								
		Management and general expense									(23,978)						
		Net Assets without Donor Restrictions											23,978				
		Net Assets with Donor Restrictions											191,125				
		Taxable passed adjustments							(191,125)		(23,978)		215,103		0		0
		Times (1 - effective tax rate of 00%)							100%		100%		100%				
		Taxable passed adjustments net of tax impact							(191,125)		(23,978)		215,103				
		Nontaxable passed adjustments		0		0			0		0		0				
		Total passed adjustments, net of tax impact (if any)		<u>0</u>		<u>0</u>			<u>(191,125)</u>		<u>(23,978)</u>		<u>215,103</u>				
									Impact on Net (Increase) Decre:		(215,103)						
									Impact on Net Assets		0						