

Financial statements and report of independent certified public accountants

University of Southern Colorado Bond Funds

June 30, 2001 and 2000

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Report Summary

Authority, Purpose and Scope

This audit was conducted under the authority of Section 2-3-103, et seq., C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions and agencies of state government. We were contracted by the State Auditor to perform this audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States and special requirements of the bond indentures. Audit work was performed during September 2001.

The purpose of this audit was to:

- Express an opinion on the University of Southern Colorado Bond Funds financial statements for the year ended June 30, 2001, including a review of internal controls as required by auditing standards generally accepted in the United States of America.
- Evaluate compliance with the restrictive covenant provisions of bond indentures.

Audit Opinion

We expressed an unqualified opinion dated September 26, 2001, on the University of Southern Colorado Bond Funds' financial statements for the year ended June 30, 2001.

Findings and Recommendations

Our audit did not disclose any instances of noncompliance with the provisions of bond resolutions.

There were no audit findings or recommendations noted during the audit. There were no prior year audit recommendations.

Report of Independent Certified Public Accountants

Members of the Legislative Audit Committee

We have audited the accompanying balance sheets of the University of Southern Colorado Bond Funds, a component unit of the Colorado State University System, as of June 30, 2001 and 2000, and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note A, the financial statements present only the University of Southern Colorado Bonds Funds and are not intended to present fairly the financial position and results of operations of the University of Southern Colorado or the Colorado State University System in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Southern Colorado Bond Funds as of June 30, 2001 and 2000, and the changes in its fund balances and its current funds revenues, expenditures and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Colorado Springs, Colorado
September 26, 2001

University of Southern Colorado
Bond Funds
BALANCE SHEET
June 30, 2001

	Series 1988B					Series 1992				
	Current Fund	Plant Funds				Current Fund	Plant Funds			
		Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant		Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
ASSETS										
Cash, including time deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,865	\$ -	\$ -	\$ -	\$ -
Cash on deposit with the State Treasurer	50,408	-	203,120	6,256	-	-	-	-	405,979	-
Restricted cash on deposit with the State Treasurer	-	-	60,000	155,500	-	-	-	150,000	516,186	-
Accounts receivable, less allowance for doubtful accounts of \$306,266	-	-	-	-	-	619,285	-	-	-	-
Inventories and prepaids	-	-	-	-	-	700,964	-	-	-	-
Fixed assets:										
Land	-	-	-	-	-	-	-	-	-	28,632
Land improvements	-	-	-	-	-	-	-	-	-	836,235
Buildings	-	-	-	-	2,515,292	-	-	-	-	9,822,436
Equipment	-	-	-	-	-	-	-	-	-	1,226,997
Total assets	<u>\$ 50,408</u>	<u>\$ -</u>	<u>\$ 263,120</u>	<u>\$ 161,756</u>	<u>\$ 2,515,292</u>	<u>\$ 1,364,114</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 922,165</u>	<u>\$ 11,914,300</u>
LIABILITIES AND FUND BALANCES										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,261	\$ -	\$ -	\$ -	\$ -
Accrued liabilities and deposits held for others	599	-	-	6,256	-	35,326	-	-	104,662	-
Deferred credits	32,878	-	-	-	-	177,455	-	-	-	-
Bonds payable	-	-	-	155,500	299,500	-	-	-	674,213	3,355,787
Unamortized bond discount and issuance costs	-	-	-	-	-	-	-	-	(21,807)	-
Capital lease payable	-	-	-	-	-	-	-	-	1,605	155,081
Due to other funds	-	-	-	-	-	113,440	-	148,822	147,400	-
Compensated absence liability	-	-	-	-	-	78,917	-	-	-	-
Total liabilities	<u>33,477</u>	<u>-</u>	<u>-</u>	<u>161,756</u>	<u>299,500</u>	<u>442,399</u>	<u>-</u>	<u>148,822</u>	<u>906,073</u>	<u>3,510,868</u>
Fund Balances										
Unrestricted – undesignated	16,931	-	263,120	-	2,215,792	1,000,632	-	1,178	16,092	8,403,432
Unrestricted – designated for compensated absences	-	-	-	-	-	(78,917)	-	-	-	-
Total fund balances	<u>16,931</u>	<u>-</u>	<u>263,120</u>	<u>-</u>	<u>2,215,792</u>	<u>921,715</u>	<u>-</u>	<u>1,178</u>	<u>16,092</u>	<u>8,403,432</u>
Total liabilities and fund balances	<u>\$ 50,408</u>	<u>\$ -</u>	<u>\$ 263,120</u>	<u>\$ 161,756</u>	<u>\$ 2,515,292</u>	<u>\$ 1,364,114</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 922,165</u>	<u>\$ 11,914,300</u>

The accompanying notes are an integral part of this statement.

University of Southern Colorado
Bond Funds
BALANCE SHEET
June 30, 2000

	Series 1988B					Series 1992				
	Current Fund	Plant Funds				Current Fund	Plant Funds			
		Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant		Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
ASSETS										
Cash, including time deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,665	\$ -	\$ -	\$ -	\$ -
Cash on deposit with the State Treasurer	61,274	-	147,254	8,044	-	-	-	271,283	205,801	-
Restricted cash, including time deposits	-	-	-	-	-	-	-	-	268,000	-
Restricted cash on deposit with the State Treasurer	-	-	60,000	155,500	-	-	-	150,000	253,125	-
Accounts receivable, less allowance for doubtful accounts of \$265,231	100	-	-	-	-	624,619	-	-	-	-
Inventories and prepaids	-	-	-	-	-	689,437	-	-	-	-
Interest receivable	-	-	-	-	-	-	-	-	7,350	-
Fixed assets:										
Construction in progress	-	-	-	-	-	-	-	110,527	-	-
Land	-	-	-	-	-	-	-	-	-	28,632
Land improvements	-	-	-	-	-	-	-	-	-	836,235
Buildings	-	-	-	-	2,515,292	-	-	-	-	9,645,403
Equipment	-	-	-	-	-	-	-	-	-	1,172,707
Total assets	<u>\$ 61,374</u>	<u>\$ -</u>	<u>\$ 207,254</u>	<u>\$ 163,544</u>	<u>\$ 2,515,292</u>	<u>\$ 1,435,721</u>	<u>\$ -</u>	<u>\$ 531,810</u>	<u>\$ 734,276</u>	<u>\$ 11,682,977</u>
LIABILITIES AND FUND BALANCES										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,376	\$ -	\$ 161,406	\$ -	\$ -
Accrued liabilities and deposits held for others	1,863	-	-	8,044	-	43,662	-	-	124,297	-
Deferred credits	24,044	-	-	-	-	138,866	-	-	-	-
Bonds payable	-	-	-	155,500	429,500	-	-	-	674,213	3,610,787
Unamortized bond discount and issuance costs	-	-	-	-	-	-	-	-	(66,737)	-
Capital lease payable	-	-	-	-	-	-	-	-	-	185,015
Due to other funds	-	-	-	-	-	123,643	-	-	-	-
Compensated absence liability	-	-	-	-	-	76,859	-	-	-	-
Total liabilities	<u>25,907</u>	<u>-</u>	<u>-</u>	<u>163,544</u>	<u>429,500</u>	<u>474,406</u>	<u>-</u>	<u>161,406</u>	<u>731,773</u>	<u>3,795,802</u>
Fund Balances										
Unrestricted – undesignated	35,467	-	207,254	-	2,085,792	1,038,174	-	370,404	2,503	7,887,175
Unrestricted – designated for compensated absences	-	-	-	-	-	(76,859)	-	-	-	-
Total fund balances	<u>35,467</u>	<u>-</u>	<u>207,254</u>	<u>-</u>	<u>2,085,792</u>	<u>961,315</u>	<u>-</u>	<u>370,404</u>	<u>2,503</u>	<u>7,887,175</u>
Total liabilities and fund balances	<u>\$ 61,374</u>	<u>\$ -</u>	<u>\$ 207,254</u>	<u>\$ 163,544</u>	<u>\$ 2,515,292</u>	<u>\$ 1,435,721</u>	<u>\$ -</u>	<u>\$ 531,810</u>	<u>\$ 734,276</u>	<u>\$ 11,682,977</u>

The accompanying notes are an integral part of this statement.

University of Southern Colorado
Bond Funds
STATEMENT OF CHANGES IN FUND BALANCES
Year ended June 30, 2001

	Series 1988B					Series 1992				
	Current Fund	Plant Funds				Current Fund	Plant Funds			
	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant		
Revenues and other additions:										
Unrestricted current fund revenues	\$ 348,704	\$ -	\$ -	\$ -	\$ -	\$ 7,354,798	\$ -	\$ -	\$ -	
Investment income	8,556	-	15,866	13,022	-	20,384	-	12,996	44,930	
Acquisition of plant facilities	-	-	-	-	-	-	-	-	278,911	
Retirement of indebtedness	-	-	-	130,000	-	-	-	-	284,934	
Total revenues and other additions	<u>357,260</u>	<u>-</u>	<u>15,866</u>	<u>13,022</u>	<u>130,000</u>	<u>7,375,182</u>	<u>-</u>	<u>12,996</u>	<u>44,930</u>	<u>563,845</u>
Expenditures and other deductions:										
Unrestricted current fund expenditures	171,480	-	-	-	-	6,034,567	-	-	-	
Retirement of indebtedness	-	-	-	130,000	-	-	-	284,122	-	
Expended for plant facilities	-	-	-	-	-	-	369,226	-	45,258	
Interest on indebtedness	-	-	-	46,475	-	-	-	318,029	-	
Disposal of plant assets	-	-	-	-	-	-	-	-	2,330	
Other deductions	-	-	-	863	-	-	-	600	-	
Total expenditures and other deductions	<u>171,480</u>	<u>-</u>	<u>-</u>	<u>177,338</u>	<u>-</u>	<u>6,034,567</u>	<u>-</u>	<u>369,226</u>	<u>602,751</u>	<u>47,588</u>
Transfers among funds - additions (deductions):										
Mandatory:										
Principal and interest	(176,475)	-	-	176,475	-	(570,810)	-	570,810	-	
Nonmandatory:										
Renewal and replacement	(40,000)	-	40,000	-	-	-	-	-	-	
Interfund transfers	12,159	-	-	(12,159)	-	12,396	-	(12,996)	600	
Transfer to Student Activity Fund	-	-	-	-	-	(821,801)	-	-	-	
Total transfers	<u>(204,316)</u>	<u>-</u>	<u>40,000</u>	<u>164,316</u>	<u>-</u>	<u>(1,380,215)</u>	<u>-</u>	<u>12,996</u>	<u>571,410</u>	<u>-</u>
Net increase (decrease) in fund balances	(18,536)	-	55,866	-	130,000	(39,600)	-	(369,226)	13,589	516,257
Fund balances at beginning of year	<u>35,467</u>	<u>-</u>	<u>207,254</u>	<u>-</u>	<u>2,085,792</u>	<u>961,315</u>	<u>-</u>	<u>370,404</u>	<u>2,503</u>	<u>7,887,175</u>
Fund balances at end of year	<u>\$ 16,931</u>	<u>\$ -</u>	<u>\$ 263,120</u>	<u>\$ -</u>	<u>\$ 2,215,792</u>	<u>\$ 921,715</u>	<u>\$ -</u>	<u>\$ 1,178</u>	<u>\$ 16,092</u>	<u>\$ 8,403,432</u>

The accompanying notes are an integral part of this statement.

University of Southern Colorado
Bond Funds
STATEMENT OF CHANGES IN FUND BALANCES
Year ended June 30, 2000

	Series 1988B				Series 1992				
	Current Fund	Plant Funds			Current Fund	Plant Funds			
	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant	
Revenues and other additions:									
Unrestricted current fund revenues	\$ 352,543	\$ -	\$ -	\$ -	\$ 6,933,644	\$ -	\$ -	\$ -	\$ -
Investment income	9,746	-	14,945	13,233	24,958	-	35,761	46,374	-
Acquisition of plant facilities	-	-	-	-	-	-	-	-	9,391
Retirement of indebtedness	-	-	-	125,000	-	-	-	-	258,315
Total revenues and other additions	<u>362,289</u>	<u>-</u>	<u>14,945</u>	<u>13,233</u>	<u>6,958,602</u>	<u>-</u>	<u>35,761</u>	<u>46,374</u>	<u>267,706</u>
Expenditures and other deductions:									
Unrestricted current fund expenditures	149,183	-	-	-	5,775,446	-	-	-	-
Retirement of indebtedness	-	-	-	125,000	-	-	269,144	-	-
Expended for plant facilities	-	-	23,679	-	-	57,028	-	-	-
Interest on indebtedness	-	-	-	56,595	-	-	297,072	-	-
Disposal of plant assets	-	-	-	-	-	-	-	-	37,543
Other deductions	-	-	-	575	-	-	500	-	-
Total expenditures and other deductions	<u>149,183</u>	<u>-</u>	<u>23,679</u>	<u>182,170</u>	<u>5,775,446</u>	<u>-</u>	<u>57,028</u>	<u>566,716</u>	<u>37,543</u>
Transfers among funds - additions (deductions):									
Mandatory:									
Principal and interest	(181,596)	-	-	181,596	(548,242)	-	548,242	-	-
Nonmandatory:									
Renewal and replacement	(50,000)	-	50,000	-	-	-	-	-	-
Interfund transfers	27,547	-	(14,888)	(12,659)	63,660	(35,760)	(27,900)	-	-
Transfer to Student Activity Fund	-	-	-	-	(761,533)	-	-	-	-
Total transfers	<u>(204,049)</u>	<u>-</u>	<u>35,112</u>	<u>168,937</u>	<u>(1,246,115)</u>	<u>(35,760)</u>	<u>520,342</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in fund balances	9,057	-	26,378	-	(62,959)	-	(57,027)	-	230,163
Fund balances at beginning of year	<u>26,410</u>	<u>-</u>	<u>180,876</u>	<u>-</u>	<u>1,024,274</u>	<u>-</u>	<u>427,431</u>	<u>2,503</u>	<u>7,657,012</u>
Fund balances at end of year	<u>\$ 35,467</u>	<u>\$ -</u>	<u>\$ 207,254</u>	<u>\$ -</u>	<u>\$ 961,315</u>	<u>\$ -</u>	<u>\$ 370,404</u>	<u>\$ 2,503</u>	<u>\$ 7,887,175</u>

The accompanying notes are an integral part of this statement.

University of Southern Colorado
Bond Funds
STATEMENTS OF CURRENT FUNDS REVENUES,
EXPENDITURES AND OTHER CHANGES
Years ended June 30, 2001 and 2000

	<u>Series 1988B</u>		<u>Series 1992</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Revenues				
Student fees	\$304,866	\$304,605	\$1,298,070	\$1,226,039
Sales and services of auxiliary enterprises				
Facilities rental	-	-	1,548,281	1,379,363
Food sales	-	-	1,913,904	1,845,755
Bookstore sales	-	-	2,361,779	2,216,195
Other sales and services	5,198	9,298	175,829	184,067
Investment income	8,556	9,746	20,384	24,959
Private gifts and contracts	38,640	38,640	-	-
Other	<u>-</u>	<u>-</u>	<u>56,935</u>	<u>82,224</u>
Total revenues	<u>357,260</u>	<u>362,289</u>	<u>7,375,182</u>	<u>6,958,602</u>
Expenditures and mandatory transfers				
Direct operating and general expenses	161,635	136,160	2,546,627	2,352,651
Cost of books and supplies sold	-	-	1,775,822	1,615,577
Cost of food service and operations	-	-	1,405,875	1,504,978
Allocation of general and administrative costs	<u>9,845</u>	<u>13,023</u>	<u>306,243</u>	<u>302,240</u>
Total expenditures	171,480	149,183	6,034,567	5,775,446
Mandatory transfers for principal and interest	<u>176,475</u>	<u>181,596</u>	<u>570,810</u>	<u>548,242</u>
Total expenditures and mandatory transfers	<u>347,955</u>	<u>330,779</u>	<u>6,605,377</u>	<u>6,323,688</u>
Excess of revenues over expenditures and mandatory transfers	9,305	31,510	769,805	634,914
Other changes				
Transfers to renewal and replacement	(40,000)	(50,000)	-	-
Interfund transfers	12,159	27,547	12,396	63,660
Transfers to Student Activity Fund	<u>-</u>	<u>-</u>	<u>(821,801)</u>	<u>(761,533)</u>
Net increase (decrease) in fund balances	<u>\$ (18,536)</u>	<u>\$ 9,057</u>	<u>\$ (39,600)</u>	<u>\$ (62,959)</u>

The accompanying notes are an integral part of this statement.

University of Southern Colorado
Bond Funds
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies used in the preparation of the accompanying financial statement follows.

Governance – The University of Southern Colorado Bond Funds are a component unit of the University of Southern Colorado (the University). The University is a component unit of the Colorado State University System, which is a component unit of the State of Colorado. The State Board of Agriculture is the governing board.

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis. The statements of current funds revenues, expenditures and other changes are statements of financial activities of operating funds related to the current reporting period. These statements do not purport to present the results of operations or the net income or loss for the period as with a statement of income or statement of revenues and expenses.

Fund accounting – The accounts of the University are maintained in accordance with the principles of fund accounting. This is a procedure by which resources for various functions are classified for accounting and reporting purposes into funds that are in accordance with the activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Cash on deposit with the Colorado State Treasurer – The University deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools their deposits and invests them in securities approved by CRS 24-75-601.1. The University reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's pool. All of the Treasurer's investments are reported at fair market value which is determined based on quoted market prices at June 30, 2001. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Inventories – Inventories consist of bookstore inventory which is valued at cost determined by the retail method which approximates the lower of cost or market.

Fixed assets – Land, buildings and equipment acquired by issued revenue bonds are stated at cost. Other fixed assets are stated at cost at the date of acquisition or fair market value at the date of donation. The policy of the University provides for capitalization of equipment with a unit cost of \$1,000 or more and a useful life of two years or more. Depreciation of fixed assets is not recorded, which is consistent with accounting principles generally accepted in the United States of America for public colleges and universities.

University of Southern Colorado
Bond Funds
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Description of funds – In conformity with the requirements of the bond resolutions, the University has established and maintained certain funds wherein amounts are deposited for designated purposes. These funds consist of the Current Fund, the Unexpended Fund, the Renewal and Replacement Fund, the Retirement of Indebtedness Fund and the Investment in Plant as described below:

Current Fund – Gross revenues of all facilities pledged to secure the bonds are recorded in the Current Fund. These revenues are then used to pay all general operating expenses, make transfers to the Renewal and Replacement Fund and the Retirement of Indebtedness Fund and pay all other expenses of the pledged facilities.

Unexpended Fund – This fund was established to record bond proceeds and to account for the construction of the facilities being funded by the bonds. Once construction was completed, the assets and related liabilities were transferred to the Investment in Plant Fund.

The Renewal and Replacement Fund – This fund has been established as a reserve for repair and replacement of the sports recreational facilities under the 1988B Bond issue and the auxiliary facilities and leased auxiliary facilities under the 1992 Bond issue. Under the 1988B Bond resolution, \$60,000 could be accumulated over five years in equal annual installments commencing in May 1991; however, this fund was established with one installment of \$60,000 in May 1991. At the time of the 1992 Bond issue, \$150,000 was invested for the Renewal and Replacement Fund. As long as the Renewal and Replacement Fund balances remain at their required levels of \$60,000 and \$150,000 for the 1988B and 1992 Bonds, respectively, the interest related to those funds may be transferred to the Current Fund. The Renewal and Replacement Fund monies are to be used for the purpose of maintaining, improving and enlarging auxiliary and sports recreational facilities when the activities are not annually recurring in nature and are not a part of the ordinary cost of operations. If any of the required minimum reserve funds are used, they are to be replaced within five years in five equal annual installments from the net revenues of the pledged facilities. The Renewal and Replacement funds are at or above their required balances at June 30, 2001 and 2000.

Retirement of Indebtedness Fund – All debt service payments are deposited and held in this fund prior to their delivery to the bondholders. Appropriate amounts are required to be transferred from the Current Fund by the fifth business day prior to the semi-annual payment dates of May 1 and November 1 for the Series 1988B Bonds and February 1 and August 1 for the 1992 Series Bonds.

The Fund is established as a continuing reserve to be used only to prevent deficiencies in the payment of the principal and interest on the bonds. Under the terms of the 1988B and 1992 Bond indentures, \$155,500 and \$516,186, respectively, have been established as the minimum reserves as of June 30, 2001 and have been invested. In the event amounts on deposit in the Retirement of Indebtedness Fund are less than the minimum reserve requirement, the deficiencies would be replenished with monies from the Current Fund. As long as the minimum reserve requirement is maintained, interest earned on investments may be transferred to the Current Funds. The Retirement of Indebtedness Funds are at or above their required balances at June 30, 2001 and 2000.

University of Southern Colorado
Bond Funds
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Description of funds – continued

Investment in Plant Fund – This fund represents the total invested in land, buildings and equipment and the related liabilities.

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

NOTE B – CASH AND INVESTMENTS

All cash deposits are placed in authorized depositories and are insured by the FDIC or FSLIC or were fully collateralized with securities held by the State or its agent in the State's name.

NOTE C – BONDS PAYABLE

Series 1988B – On November 1, 1988, the University of Southern Colorado issued \$1,555,000 in revenue bonds (Series 1988B Bonds) to fund, in part, the construction of a student sports recreational facility.

Payment of the Series 1988B Bonds is secured by the net pledged revenues derived from the operation of the new facility. Net pledged revenues, as defined in the agreement, include gross revenues derived from the operation of the student sports recreational facility, less general operating expenses, payments from the University of Southern Colorado Foundation to the Colorado State Board of Agriculture and the University pursuant to an agreement dated October 24, 1988, any investment earnings derived from amounts on deposit in the Current Fund and any amounts deposited to the Current Fund in accordance with the 1988B Bond Resolution from any other fund or account established thereunder, including student fees.

As specified in the bond agreement, interest income earned in the 1988B Series Renewal and Replacement Fund and Retirement of Indebtedness Fund is recognized in each respective fund. If the funds are maintained at their required minimum amount, however, the interest may be transferred to the Current Fund. For fiscal years 2001 and 2000, the University has been able to transfer the interest to the current fund.

University of Southern Colorado
Bond Funds
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE C – BONDS PAYABLE - Continued

Series 1992 – On July 1, 1992, the University issued \$5,745,000 in revenue bonds (Series 1992 Bonds) to advance refund \$4,440,000 of outstanding 1986 Series Bonds and to finance in part the constructing, otherwise acquiring and equipping additional recreational facilities consisting of a child care center and renovating certain existing housing and recreational facilities at the University. Proceeds of \$4,687,185 were used to purchase certain United States governmental obligations which were deposited in a trust with an escrow agent to provide for all future debt service payments on the 1986 Series Bonds. As a result, the 1986 Series Bonds are considered to be defeased.

Payment of the Series 1992 Bonds is secured by the net pledged revenues derived from student fees and net revenues from the operation of the University's auxiliary facilities, including the University's student housing facilities, student center facilities, parking facilities and facilities comprising the construction project.

Net pledged revenues, as defined in the Agreement, include gross revenues less general operating expenses as well as monies credited to the Bond Fund or the Reserve Fund in accordance with the provisions of the Bond Resolution. Gross revenues of the auxiliary facilities include (i) all income and revenues derived by the University directly or indirectly from the operation of or otherwise relating to the auxiliary facilities including any special fees or general fee assessed against students and any other fee, rental rate or other charge assessed against employees or any other persons to the privilege of using or otherwise relating to any auxiliary facility, (ii) any amounts deposited to the Current Fund in accordance with the Bond Resolution from excess monies and investment earnings derived from any other fund or account established thereunder, and (iii) any investment earnings derived from amounts on deposit in the Current Fund. General operating expenses of the auxiliary facilities include all reasonable and necessary current expenses for operating, maintaining and repairing the auxiliary facilities.

As specified in the Bond agreement, interest income earned in the 1992 Series Renewal and Replacement Fund and Retirement of Indebtedness Fund is recognized in each respective fund. If the funds are at their required minimum amount, however, the interest may be transferred to the Current Fund. For fiscal years ended June 30, 2001 and 2000, the University has been able to transfer the interest to the Current Fund.

Bonds payable consist of the following:

	<u>Amount authorized & issued</u>	<u>Bonds outstanding as of June 30, 2001</u>	<u>Bonds outstanding as of June 30, 2000</u>
Student Sports Recreational Facility Revenue Bonds (Series 1988B Bonds), interest rates ranging from 6.5% to 8.25%	\$1,555,000	\$ 455,000	\$ 585,000
Auxiliary Facilities Refunding and Improvement Revenue Bonds (Series 1992 Bonds), interest rates ranging from 3.4% to 6.375%	5,745,000	<u>4,030,000</u>	<u>4,285,000</u>
		<u>\$4,485,000</u>	<u>\$4,870,000</u>

University of Southern Colorado
Bond Funds
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE C – BONDS PAYABLE - Continued

Aggregate annual maturities for the remaining terms of the bonds payable as of June 30, 2001 are as follows:

<u>Years ending June 30,</u>	<u>Series 1988B</u>	<u>Series 1992</u>
2002	\$145,000	\$ 270,000
2003	310,000	285,000
2004	-	300,000
2005	-	320,000
2006	-	340,000
Thereafter	-	<u>2,515,000</u>
	<u>\$455,000</u>	<u>\$4,030,000</u>

Interest is payable semiannually on May 1 and November 1 for the Series 1988B Bonds and on August 1 and February 1 for the Series 1992 Bonds.

NOTE D – DEBT SERVICE COVERAGE

Determination of debt service coverage, as specified in the bond resolutions, requires certain adjustments from amounts which are reported on the statement of changes in fund balances in accordance with accounting principals generally accepted in the United States of America.

The minimum excess requirements are computed as 110% of the combined principal and interest payments on the Series 1988B bonds and 125% of the combined principal and interest payments on the Series 1992 bonds due during the fiscal year.

For the purpose of determining compliance with the bond resolutions, debt service coverage is computed as follows:

	<u>Series 1988B</u>		<u>Series 1992</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Gross revenues				
Operational	\$ 64,553	\$ 85,231	\$6,089,508	\$5,796,223
Student fees and other	<u>304,866</u>	<u>304,605</u>	<u>1,298,070</u>	<u>1,226,039</u>
	369,419	389,836	7,387,578	7,022,262
Less: General operating expenses	<u>171,480</u>	<u>149,183</u>	<u>6,034,567</u>	<u>5,775,446</u>
Available net revenue	<u>197,939</u>	<u>240,653</u>	<u>1,353,011</u>	<u>1,246,816</u>
Debt service requirement	176,475	181,596	570,810	548,242
	<u>110%</u>	<u>110%</u>	<u>125%</u>	<u>125%</u>
Minimum excess requirement	<u>194,123</u>	<u>199,756</u>	<u>713,513</u>	<u>685,303</u>
Excess of available net revenue over minimum excess requirement	<u>\$ 3,816</u>	<u>\$ 40,897</u>	<u>\$ 639,498</u>	<u>\$ 561,513</u>

University of Southern Colorado
Bond Funds
NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE E – CAPITAL LEASE PAYABLE

	<u>2001</u>	<u>2000</u>
Computer scanning equipment leased from CSU Research Foundation, interest at 5.23%, payments of \$10,971 semiannually including interest, due December 2003	\$ 50,748	\$ 60,120
Utility improvements leased from GE Capital, interest at 6.1%, payments of \$1,515 monthly including interest, due July 2008	<u>105,938</u>	<u>124,895</u>
	<u>\$156,686</u>	<u>\$185,015</u>

Aggregate annual payments for the remaining terms of capital lease obligations as of June 30, 2001, are as follows:

<u>Year ending June 30,</u>	
2002	\$ 40,119
2003	40,119
2004	29,148
2005	18,178
2006	18,178
Thereafter	<u>37,870</u>
	183,612
Less amount representing interest	<u>26,926</u>
Present value of future minimum lease payments	<u>\$156,686</u>

NOTE F – COMPENSATED ABSENCE FOR ANNUAL VACATION AND SICK LEAVE

University employees may accrue annual vacation and sick leave based on the length of service and, subject to certain limitations, such amount will be paid upon termination. The recording of the liability for compensated absences results in fund balance deficits, which will be funded by the Colorado State Board of Agriculture appropriation, federal funds or other fund sources available in future years when the liability is paid.

NOTE G – ENCUMBRANCES

Outstanding purchase commitments against future funds not reflected in the financial statements were \$2,474 and \$15,150 at June 30, 2001 and 2000, respectively.

University of Southern Colorado
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NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE H – PENSION PLANS

Plan Description – Virtually all of the University's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203.

Plan members vest after five years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates and are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

Funding Policy – Most employees contribute 8 percent (10 percent for state troopers) of their gross covered wages to an individual account in the plan.

During the year ended June 30, 2001, the University contributed 10.4 percent (13.1 percent for state troopers and 14 percent for the Judicial Branch) of the employee's gross covered wages which was allocated by PERA before January 1, 2001, as follows:

- 1.1 percent was allocated to the Health Care Trust Fund.
- 9.3 percent was allocated to the defined benefit plan.

After January 1, 2001, the state contribution was allocated to three separate programs by PERA according to a statutory change in funding policy:

- 1.42 percent was allocated to the Health Care Trust Fund.
- The amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (see note I below).
- The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The University's contributions to the three programs described above for the year ended June 30, 2001 and 2000, were \$1,203,260 and \$1,266,668, respectively. These contributions met the contribution requirement for the year.

University of Southern Colorado
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NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE I – VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month (7 percent for judges in the Judicial Branch). The PERA Board sets the level of the match annually – based on the actuarial funding of the defined benefit pension plan. Two percent of the gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403(b) plan. Members who contribute to any of these plans also receive state match.

NOTE J – POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Health Care Program began covering retired benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the year ended June 30, 2001, the premium subsidy was \$115 for those with 20 years of service credit (\$230 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in note H.

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 1999 there were 31,266 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Rocky Mountain Life. Members may join one or both plans and they may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

University of Southern Colorado
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NOTES TO FINANCIAL STATEMENTS
June 30, 2001 and 2000

NOTE K – ALLOCATION OF GENERAL AND ADMINISTRATIVE COSTS

Certain departments of the University provide services to various operations of the University and assign a portion of their costs related to the operations receiving the service. Such costs appear with the caption “Allocation of General and Administrative Costs” on the Statements of Current Funds Revenues, Expenditures and Other Changes.

NOTE L – RISK-FINANCING AND INSURANCE-RELATED ACTIVITIES

The University is subject to risks of loss from liability for accident or acts of nature. Such risks are managed under statutory authority by the State Office of Risk Management, an agency formed by statute and funded by the Long Bill. The University does not retain risk of loss except for damage incurred to property belonging to the State limited to a \$1,000 deductible per occurrence.

University of Southern Colorado
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