State of Colorado
Auraria Higher Education Center

Financial and Compliance Audit

Fiscal Year Ended June 30, 2001

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STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER

JUNE 30, 2001

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STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER

Report Summary

June 30, 2001

Purposes and Scope of Audit

The purposes and scope of this audit were:

- To express an opinion on the financial statements of Auraria Higher Education Center (the Center) and the following revenue bond funds as of and for the year ended June 30, 2001, including a review of the related systems of internal controls as required by auditing standards generally accepted in the United States of America:

  - Parking Facilities System Refunding Revenue Bonds, Series 1993 and Parking Facilities System Revenue Bonds, Series 2000

  - Student Fee Revenue Refunding Bonds, Series 1996 and Series 1991A

  (The reports for the revenue bond funds are issued under separate covers.)

- To review the Center's compliance with rules and regulations governing the expenditure of federal and state funds for the year ended June 30, 2001.

- To evaluate progress in implementing the prior audit recommendations; and

- To evaluate compliance with restrictive covenants of the revenue bond funds.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

The Auditors' Findings and Recommendations Section contains the following recommendations:

- The Auraria Book Center (the Book Center) requires certain documentation to process cash advances to cashiers and refunds and buy-backs for customers. In some cases, that documentation was not complete or accurate. The Book Center should require that documentation be complete and accurate.

- The Book Center is ordering excessive amounts of merchandise. This increases the Book Center's accounts receivable balance and need to borrow money from the State Treasurer. The Book Center should set a target return rate and monitor its ordering practices to meet that rate

- The Book Center's physical inventory count during the year did not agree to its inventory system records due to the miscoding of new textbooks as used textbooks. The Book Center should monitor the coding of its textbook inventory to reduce coding errors, pricing errors and potential inventory reporting errors.

- The Auraria Child Care Center (the Child Care Center) prepares monthly billing statements that require staff to manually enter billing rates into the system. The manager reviewing those rates should document the review with a signature.

Audit Opinions and Reports

The independent accountants' reports included herein state that the financial statements of the Center are fairly stated, in all material respects, in accordance with accounting principles generally accepted in the United States of America, and that no material weaknesses in internal controls were discovered during the course of the audit. In addition, the Center complied in all material respects with federal and state regulations. The independent auditors' reports on the revenue bond funds (under separate covers) indicate that the financial statements are fairly stated, in all material respects, in accordance with generally accepted accounting principles.

Auditors' Communication to Legislative Audit Committee

The Auditors' Communication to the Legislative Audit Committee describes the auditors' responsibility under generally accepted auditing standards and significant management judgements and estimates. It also notes that all proposed audit adjustments were recorded by the Center.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2000 contained five recommendations. Four of those recommendations were fully implemented in the current fiscal year. One recommendation was partially implemented in the current fiscal year, but we noted exceptions related to that recommendation in the current year (see Recommendation No. 1).

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER

June 30, 2001

RECOMMENDATION LOCATOR

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	5	Require all Book Center documentation to be complete and accurate.	Agree	November 15, 2001
2	7	Review and revise procedures related to Book Center ordering and merchandise returns.	Agree	March 15, 2002
3	7	Review and revise policies and procedures related to Book Center purchases and return of merchandise.	Agree	March 1, 2002
4	10	Monitor inventory coding.	Agree	November 5, 2001 and ongoing
5	11	Document review of Child Care Center monthly billing rates.	Agree	November 1, 2001

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER

DESCRIPTION OF THE CENTER

JUNE 30, 2001

The Board of Directors of the Auraria Higher Education Center (the Center) is a body corporate created by the State of Colorado. The authority under which the Center operates is Article 70 of Title 23, C.R.S. Its mission is to plan, manage and operate the physical plant, facilities, buildings and grounds of the Auraria Campus. The Auraria Campus houses the University of Colorado at Denver, the Metropolitan State College of Denver and the Community College of Denver (the constituent institutions). The Center operates shared facilities on the Campus that, in addition to classrooms and offices, include the Auraria Book Center; the Tivoli Student Union; the Health, Physical Education and Recreation facility; the Child Care Center; and parking facilities. The Center provides a number of shared student and administrative services to the constituent institutions.

The Center's Board of Directors consists of nine voting members and two nonvoting members. Three of the voting members are appointed by the Governor of the State of Colorado. In addition, the governing boards of each of the three constituent institutions appoint a voting member, and the president of each of those systems or the chief executive officer of the constituent institution also serves as a voting member. The non-voting members are appointed by the students and faculties of the constituent institutions.

Book Center

The Auraria Book Center (the Book Center) is an auxiliary enterprise of the Center located in the Tivoli student union that serves the Center's constituent institutions by providing an on-campus source for course materials, education supplies and general merchandise. Book Center sales represent approximately thirty percent of the Center's total revenues. The Book Center experiences its highest sales and cash activity volumes at the start and end of each academic semester. As part of our testing of the Center's internal control policies and procedures, we tested the Book Center's sales and cash receipts and its policy on credit memos for returned merchandise and inventory. As a result of that testing, we noted certain issues related to the Book Center's policies and procedures, and we address those issues in Recommendation Nos. 1, 2 and 3.

The following is a summary of Book Center activity for the years ended June 30:

	2001	2000	1999
Book Center revenue	$ 13,951,154	$ 12,683,817	$ 12,638,944
Cost of goods sold	(10,702,449)	(9,237,288)	(9,325,829)
Gross profit	3,248,705	3,446,529	3,313,115
Investment income	20,170	17,312	25,793
Other expenses	(2,604,105)	(3,296,547)	(2,983,175)
Net income	$ 664,770	$ 167,294	$ 355,733
Transfers to other Center activities	$ 266,637	$ 420,129	$ 355,733

Improve Controls Over Book Center Sales and Cash Receipts

In order to obtain cash to replenish their register drawer, Book Center cashiers must complete a cash advance slip. The Book Center requires that a supervisor and the cashier sign the cash advance slip as part of the controls over cash. During our testing we noted that, for one of the eight days tested, one cash advance slip was signed by the supervisor but was not signed by the cashier.

The Book Center requires customers to complete a refund slip in order to receive a refund. Book Center procedures require the customer to print his name and student identification number on the slip and to sign it. A Book Center employee who is not a cashier then signs the slip to authorize the refund. This requirement helps deter fraudulent refund claims. During our testing, for one of the eight days tested, one refund slip was authorized by a bookstore employee, but the refund slip did not include the required customer information or the customer's signature. We also noted that, for the same day tested, 15 of the 83 refunds processed included the required customer information and signature, but did not include an employee signature authorizing the refund. In addition, we noted that for three of the eight days tested, numerous refunds were authorized by cashiers at their own registers.

The Center requires customers selling books to complete a book buy-back slip. The buy-back slip includes a "Declaration of Ownership" section that acknowledges the customer's right to sell the book. We noted that, for two days tested, one book buy-back slip was not completed by the customer. The completion of this slip is a control procedure over the disbursement of cash in the Book Center. Without this slip, there is no support for the payment to the customer.

Recommendation No. 1

The Book Center should require all cash advance, refund and buy-back documentation to be completely and accurately filled out by Book Center personnel and customers.

Center Response

The Center agrees. The Book Center's new management team will emphasize these procedures as they train and monitor the performance of Book Center cashiers and other personnel.

Purchase and Return of Merchandise

The Center has a line of credit with the State Treasurer that is used to purchase inventory for the Book Center. Although the Book Center maintains a bond fund reserve of $1 million that is used to supplement its cash needs, the Book Center must borrow cash to purchase inventory for its peak sales periods (at the start of each semester). The Book Center uses cash generated from its sales to make payments on the loan, and the State Treasurer requires the Center to bring the loan balance to zero at least once a year.

The timing of merchandise purchases and sales determines the Book Center cash borrowing needs at any point during the year. During non-peak periods, the Book Center purchases inventory, but cash inflows from sales are low. When cash inflows from sales are high (January and August), the Book Center pays for merchandise ordered in the prior one to two months. As a result, the net gain in cash during peak activity periods has not been enough to overcome the cash deficit occurring in non-peak periods or for cash payments the following month. During fiscal year 2001, the loan balance ranged between $-0- and $2.75 million. Another factor contributing to the deficit cash balance is the transfers of monies from the Book Center for other purposes. Each June, the Book Center contributes an amount that is intended to represent the excess of its revenues over expenditures for the year to the Student Fee Bond Fund. That contribution is added to student fees and funds from other sources and is used to pay for debt service and maintenance of various student facilities on campus.

We performed a limited review of the Book Center's inventory levels and merchandise purchase and return practices. We noted some areas in which improvements in the procedures could reduce the Book Center's need to borrow cash and increase its net income.

Prior to and during peak sales periods, the Book Center has significant inventory balances. At June 30, 2001 and 2000, the Book Center's inventory balances were $1.2 million and $2.1 million, respectively. We analyzed the Book Center's inventory turnover rate and gross profit on sales. We found that the overall turnover rate and the gross profit on sales were consistent with industry averages. However, we noted the Book Center's ratio of returns to purchases was high.

The Book Center purchased approximately $16 million of inventory during fiscal year 2001, the majority of which was textbooks. For the period April 2000 through March 2001, the ratio of returns to purchases was 28.8 percent. This ratio is higher than the industry average of 20 percent. This means that the Book Center returned approximately $4.6 million of merchandise it had ordered.

Ordering excess merchandise results in the following negative consequences:

1. It increases the amount of accounts receivable. The Book Center had an accounts receivable balance at June 30, 2001 and 2000 of $885,358 and $1,418,548, respectively. The major portion of this balance was for merchandise returns to be applied (credited) against future purchases from vendors and publishers.

2. It increases the need to borrow money from the State Treasurer. If the Book Center can decrease its return to purchases ratio to 20 percent, it would make approximately $1.4 million less in cash payments for inventory during the year.

3. It can cause the loss of income from non-collection of amounts owed to the Book Center for returned merchandise from vendors that go out of business.

We also noted that the Book Center did not have written policies and procedures for certain functions such as merchandise orders, merchandise returns, approval of vendors, payment procedures, credit balance procedures, collections, and establishing an allowance for doubtful accounts and writing off credit balances that are not recognizable. Such policies and procedures are needed to provide guidance on and ensure consistent application of procedures to be followed.

Recommendation No. 2

The Book Center should improve its procedures for ordering and returning merchandise by:

1. Setting a target return rate that takes into account both industry averages and circumstances unique to the Book Center and its mission and developing a merchandise ordering policy to meet or exceed that target.

2. Monitoring its ordering practices to reduce the merchandise return rate.

3. Initiating merchandise returns as soon as it is determined that merchandise is not needed.

Center Response

The Center agrees. During the fiscal year just ended, Book Center management moved aggressively to minimize and accelerate its returns of unsold texts, as reflected in the balances reported in the finding. Among the steps taken was developing a merchandise return system including a time line that minimizes credit memos by permitting more application of credits to immediately ensuing orders. The Book Center will continue its emphasis on management in this area. Opportunities for further improvement include developing historical and trend data to help identify which professors and which courses have a pattern of requesting excessive text orders.

However, the Auraria Book Center, as a student fee funded operation, has other objectives than profit maximization. In order to meet the educational needs of the students whose purchases and fees support it as well as the educational missions of the AHEC constituent institutions, the Book Center may set a higher priority on avoiding out-of-stock conditions than on minimizing inventory costs. Even among profit-maximizing retail entities there would not be uniformity on the extent to which one or the other of these goals should be prioritized. The Book Center will, as the recommendation suggests, set a target for returns that considers practices at similar college bookstores as well as other factors.

Book Center management is working and will continue to work with vendors to minimize credit risks by adjusting ordering and return cycles so that more returns can be credited against orders in shipment rather than against future orders. The Book Center will pay particular attention to orders and returns from vendors vulnerable to going out of business; however, these constitute a small portion of textbook vendors, and the Book Center believes that well under $10,000 annually is lost as a result of vendors going out of business before return credits can be applied to future orders.

Recommendation No. 3

The Book Center should develop written policies and procedures related to the purchase and return of merchandise.

Center Response

The Center agrees. Book Center management has begun and will complete within FY 02 a complete set of policies and procedures for merchandise orders, merchandise returns, payment procedures, credit balance procedures, collections, establishment of an allowance for doubtful vendor accounts, and writing off credit balances that will not be realized. The ability to select vendors is quite limited, as course texts (and thus publishers) are not specified by the Book Center.

Book Center Inventory Coding

The Book Center performed a physical inventory during the fiscal year. Using the results of that interim physical inventory count and related estimated inventory losses, Book Center management is able to estimate the amount of inventory at year end. We noted that the physical inventory count of the Book Center's used textbooks was approximately $150,000 higher than the amount recorded in the Book Center's inventory system. We also noted that the physical inventory count of new textbooks was approximately $470,000 lower than the amount in the inventory system. As a result, the estimate of inventory losses for the used textbook inventory was potentially understated and the inventory losses for the new textbook inventory was potentially overstated. The Center's management believes that these discrepancies arise because new textbooks are erroneously miscoded as used textbooks. The effect of those misstatements effectively net to zero and do not cause a material misstatement of inventory or revenue; however, the miscoding creates other potential internal control issues. The miscoding could result in decreased sales revenue if new textbooks are sold at used textbook prices.

Recommendation No. 4

The Book Center should monitor the coding of inventory received to ensure proper coding is used when pricing new and used textbooks.

Center Response

The Center agrees. The receiving supervisor position has just been filled; this responsibility will receive strong emphasis in the performance plan and in the training of the individual who is hired. In addition, Book Center management will closely monitor other phases of the operation where such miscodings could occur.

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER

AUDITORS' FINDINGS AND RECOMMENDATIONS

June 30, 2001

Child Care Center

The Auraria Child Care Center (the Child Care Center) is located on the campus and provides child care services to children of students attending the constituent institutions and staff. The Child Care Center operates Monday through Friday and offers full-time or part-time care. As part of our testing of the Center's internal control policies and procedures, we tested the Child Care Center's sales and cash receipts.

Review of Child Care Center Billing Rates

The Child Care Center's billing system requires staff to manually assign billing rates for each participant. Billing rates vary based on the nature and frequency of a child's need for care and the family's economic characteristics and relationship to the Center and its constituents (student, faculty, Center employee, etc.). In order to prepare monthly billing statements, Child Care Center staff must manually enter rates into the billing system. A member of the Child Care Center's management then reviews the comprehensive monthly billing summary to ensure that the correct rates are applied. Such an independent review is an important part of the Center's controls over sales and receipts. During our testing, we noted that the billing summary review was not documented with the manager's signature or other evidence that the review had occurred.

Recommendation No. 5

The Child Care Center manager that reviews the monthly billing summary should sign the document to indicate that the review has taken place.

Center Response

The Center concurs. This step will be added immediately to the Child Care Center's billing review process.

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER

DISPOSITION OF PRIOR YEAR AUDIT RECOMMENDATIONS

JUNE 30, 2001

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2000 included five recommendations. The disposition of these recommendations as of September 7, 2001 was as follows:

	Recommendation	Disposition
1	The Book Center should require all cash advance, refund and buy-back documentation to be completely and accurately filled out by Book Center personnel and customers.	Partially implemented - see current year Recommendation No. 1
2	Book Center senior management should review the reconciliation of Book Center daily activity each day and approve all reconciling items.	Implemented
3	The Center should reevaluate its cash needs and take steps to stay within the policy it has established with respect to cash on-hand in the Book Center vault.	Implemented
4	The Center should request cash refunds from vendors when future transactions with those vendors in the near term are unlikely. The Center should research historical usage trends for credit memos from Book Center vendors and estimate and record an allowance for the portion of those credit memos deemed unusable.	Implemented
5	The Center should adhere to its policy on personnel paperwork.	Implemented

Independent Accountants' Report

Members of the Legislative Audit Committee:

We have audited the accompanying balance sheet of the Auraria Higher Education Center, a component unit of the State of Colorado, as of June 30, 2001 and the related statements of changes in fund balance and current fund revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Auraria Higher Education Center as of June 30, 2001 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2001 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

September 7, 2001
Colorado Springs, Colorado

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
BALANCE SHEET

JUNE 30, 2001
(With Comparative Totals at June 30, 2000)

			Plant Funds				Memorandum Only (Combined Totals)	
	Current Unrestricted Fund	Current Restricted Fund	Unexpended	Investment in Plant	Retirement of Indebtedness	Renewals and Replacements	2001	2000
ASSETS								
Cash and cash equivalents	$ 4,722,000	$ 244,843	$ 194,542	$ —	$ 694,226	$ 440,259	$ 6,295,870	$ 7,562,632
Investments	9,073,991	—	5,948,481	—	3,163,529	1,249,383	19,435,384	9,978,997
Due from other funds	—	—	—	—	—	—	0	566,885
Due from other state agencies	531,289	—	—	—	—	—	531,289	328,981
Accounts receivable, net	1,399,390	—	—	—	—	—	1,399,390	2,263,401
Accrued interest receivable	35,205	—	93,901	—	44,522	2,734	176,362	139,211
Deferred charges	—	—	199,140	854,394	—	—	1,053,534	914,997
Other assets	96,016	—	—	—	—	—	96,016	112,456
Inventories	1,311,173	—	—	—	—	—	1,311,173	2,306,733
Plant facilities:								
Land	—	—	—	9,562,312	—	—	9,562,312	9,562,312
Land improvements	—	—	—	18,372,170	—	—	18,372,170	18,336,597
Buildings and improvements	—	—	—	184,361,558	—	—	184,361,558	145,351,678
Furniture and equipment	—	—	—	4,492,226	—	—	4,492,226	6,230,986
Museum collections	—	—	—	566,989	—	—	566,989	566,989
Construction in progress	—	—	6,925,613	—	—	—	6,925,613	35,420,919
Total Assets	$ 17,169,064	$ 244,843	$ 13,361,677	$ 218,209,649	$ 3,902,277	$ 1,692,376	$ 254,579,886	$ 239,643,774

See Notes to Financial Statements

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
BALANCE SHEET (CONTINUED)

JUNE 30, 2001
(With Comparative Totals at June 30, 2000)

	Current Unrestricted Fund	Current Restricted Fund	Plant Funds: Unexpended	Plant Funds: Investment in Plant	Plant Funds: Retirement of Indebtedness	Plant Funds: Renewals And Replacements	Memorandum Only (Combined Totals): 2001	Memorandum Only (Combined Totals): 2000
LIABILITIES								
Accrued payroll	$ —	$ —	$ —	$ —	$ —	$ —	$ 0	$ 9,660
Accounts payable	1,957,643	8,399	31,785	—	2,148	2,807	2,002,782	3,353,892
Due to other funds	—	—	—	—	—	—	0	566,885
Due to other state agencies	18,476	—	—	—	—	—	18,476	53,634
Accrued interest payable	—	—	97,616	—	554,220	—	651,836	567,519
Due to State Treasurer	306,418	—	—	—	—	—	306,418	2,665,274
Due to State of Colorado	—	—	288,556	—	—	—	288,556	266,612
Deposits held for others	—	—	—	—	—	—	0	15,825
Deferred revenues	578,351	—	136,041	98,900	—	—	813,292	585,052
Compensated absence liability	1,180,576	—	—	—	—	—	1,180,576	1,190,022
Lease purchase agreements	—	—	50,127	19,000,407	213,000	59,862	19,323,396	19,661,770
Bonds payable, net of unamortized discount of $431,657 in 2001 and $347,893 in 2000	—	—	6,918,010	36,430,333	—	—	43,348,343	37,962,107
Total Liabilities	4,041,464	8,399	7,522,135	55,529,640	769,368	62,669	67,933,675	66,898,252
FUND BALANCES								
Unrestricted	14,308,176	—	(439,492)	—	—	—	13,868,684	10,701,694
Restricted	—	236,444	—	—	—	—	236,444	161,416
Net investment in plant	—	—	6,279,034	162,680,009	3,132,909	1,629,707	173,721,659	163,072,434
Designated for compensated absence liability	(1,180,576)	—	—	—	—	—	(1,180,576)	(1,190,022)
Total Fund Balances	13,127,600	236,444	5,839,542	162,680,009	3,132,909	1,629,707	186,646,211	172,745,522
Total Liabilities and Fund Balances	$ 17,169,064	$ 244,843	$ 13,361,677	$ 218,209,649	$ 3,902,277	$ 1,692,376	$ 254,579,886	$ 239,643,774

See Notes to Financial Statements

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2001
(With Comparative Totals at June 30, 2000)

	Current Unrestricted Fund	Current Restricted Fund	Plant Funds: Unexpended	Plant Funds: Investment In Plant	Plant Funds: Retirement of Indebtedness	Plant Funds: Renewals and Replacements	Memorandum Only (Combined Totals): 2001	Memorandum Only (Combined Totals): 2000
REVENUES AND OTHER ADDITIONS								
State appropriations	$ —	$ —	$ 10,348,601	$ —	$ —	$ —	$ 10,348,601	$ 28,397,112
Allocations from other State agencies	15,016,244	—	—	—	—	—	15,016,244	13,990,713
Auxiliary operating revenue	28,327,125	—	—	—	—	—	28,327,125	26,231,492
Investment income	607,137	—	12,274	—	283,000	41,378	943,789	706,976
Student fees	4,871,311	—	—	—	—	—	4,871,311	4,161,953
Federal grants	—	61,811	—	—	168,440	—	230,251	229,197
State grants	—	57,600	—	—	—	—	57,600	154,467
Private gifts and grants	61	11,850	311,561	—	—	—	323,472	1,289,931
Retirement of indebtedness (including $181,289 expensed from current funds)	—	—	—	1,906,289	—	—	1,906,289	1,712,980
Additions to plant facilities (including $163,650 charged to current funds)	—	—	—	39,034,513	—	—	39,034,513	991,074
Other revenues	191,007	13,001	—	—	—	—	204,008	6,725
Capitalization of fixed assets/debt	—	—	—	—	—	—	0	454,887
Total Revenues and Other Additions	49,012,885	144,262	10,672,436	40,940,802	451,440	41,378	101,263,203	78,327,507
EXPENDITURES AND OTHER DEDUCTIONS								
General operating	13,797,695	7,423	—	—	—	—	13,805,118	13,093,894
Auxiliary operating	26,550,394	61,811	—	—	—	—	26,612,205	24,911,413
Expended for plant facilities (including $1,311,653 not capitalized)	—	—	39,989,477	—	—	193,038	40,182,515	1,936,088
Interest on indebtedness	—	—	—	36,141	2,931,849	—	2,967,990	2,941,473
Retirement of indebtedness	—	—	—	—	1,725,000	—	1,725,000	1,684,872
Amortization of bond issue costs	—	—	—	58,710	—	—	58,710	57,079
Disposal of plant facilities	—	—	—	1,995,427	—	—	1,995,427	385,154
Other fund deductions	—	—	—	—	15,549	—	15,549	4,625
Total Expenditures and Other Deductions	$ 40,348,089	$ 69,234	$ 39,989,477	$ 2,090,278	$ 4,672,398	$ 193,038	$ 87,362,514	$ 45,014,598

See Notes to Financial Statements

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
STATEMENT OF CHANGES IN FUND BALANCES (CONTINUED)

YEAR ENDED JUNE 30, 2001
(With Comparative Totals at June 30, 2000)

			Plant Funds				Memorandum Only (Combined Totals)	
	Current Unrestricted Fund	Current Restricted Fund	Unexpended	Investment In Plant	Retirement of Indebtedness	Renewals and Replacements	2001	2000
TRANSFERS AMONG FUNDS – ADDITIONS (DEDUCTIONS)								
Mandatory renewals and replacements	$ (40,149)	$ —	$ —	$ —	$ —	$ 40,149	$ 0	$ 0
Mandatory principal and interest	(4,388,997)	—	118,668	—	4,270,329	—	0	0
Mandatory reserve	—	—	(702,000)	—	702,000	—	0	0
Other mandatory	(305,628)	—	256,178	49,450	—	—	0	0
Other nonmandatory	(314,093)	—	(15,338)	—	900	328,531	0	0
Total Transfers Among Funds	(5,048,867)	—	(342,492)	49,450	4,973,229	368,680	0	0
NET INCREASE (DECREASE) FOR THE YEAR	3,615,929	75,028	(29,659,533)	38,899,974	752,271	217,020	13,900,689	33,312,909
FUND BALANCE, BEGINNING OF YEAR	9,511,671	161,416	35,499,075	123,780,035	2,380,638	1,412,687	172,745,522	139,432,613
FUND BALANCE, END OF YEAR	$ 13,127,600	$ 236,444	$ 5,839,542	$ 162,680,009	$ 3,132,909	$ 1,629,707	$ 186,646,211	$ 172,745,522

See Notes to Financial Statements

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES

YEAR ENDED JUNE 30, 2001
(With Comparative Totals at June 30, 2000)

	Current Unrestricted Fund	Current Restricted Fund	Total 2001	Total 2000
REVENUES				
Allocations from other State agencies	$ 15,016,244	$ —	$ 15,016,244	$ 13,990,713
Commission on food sales, vending and other student union revenue	3,867,109	—	3,867,109	3,904,116
Parking permits, daily fees and fines	6,430,262	—	6,430,262	6,392,985
Book Center sales	13,951,154	—	13,951,154	12,936,689
Other auxiliary enterprise revenue	4,078,600	—	4,078,600	2,997,702
Student fees	4,871,311	—	4,871,311	4,161,953
Investment income	607,137	—	607,137	404,522
Federal grants	—	61,811	61,811	60,757
State grants	—	7,423	7,423	53,450
Private gifts, grants and contracts	61	—	61	180
Miscellaneous revenue	191,007	—	191,007	6,725
Total Revenues	49,012,885	69,234	49,082,119	44,909,792
EXPENDITURES AND MANDATORY TRANSFERS				
Educational and general:				
Academic support	320,708	—	320,708	135,952
Operation and maintenance of plant	9,574,258	7,423	9,581,951	8,627,018
Student services	385,359	—	385,359	347,122
Public safety	1,144,770	—	1,144,770	1,174,604
Institutional support	2,372,600	—	2,372,600	2,749,948
Total Educational and General	13,797,695	7,423	13,805,118	13,034,644
Restricted fund expenditures	—	61,811	61,811	120,007
Auxiliary operating expenditures	26,550,394	—	26,550,394	24,850,656
Total Expenditures	40,348,089	69,234	40,417,323	38,005,307
Mandatory transfers for:				
Principal and interest	4,388,997	—	4,388,997	3,975,870
Renewals and replacements	40,149	—	40,149	116,718
Other	305,628	—	305,628	49,450
Total Mandatory Transfers	4,734,774	—	4,734,774	4,142,038
Total Expenditures and Mandatory Transfers	45,082,863	69,234	45,152,097	42,147,345
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)				
Deficit of restricted receipts over transfers to revenue	—	75,028	75,028	102,328
Other nonmandatory	(314,093)	—	(314,093)	(1,282,050)
Total Other Transfers and Additions (Deductions)	(314,093)	75,028	(239,065)	(1,179,722)
NET INCREASE IN FUND BALANCE	$ 3,615,929	$ 75,028	$ 3,690,957	$ 1,582,725

See Notes to Financial Statements

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Auraria Higher Education Center (the Center) is an agency of the State of Colorado (the State), and its operations are funded largely through State appropriations transferred from its constituent institutions, student fees and fees for services. The Center is responsible for planning and managing the physical plant, auxiliary enterprises and other support services of the Auraria Campus in Denver, Colorado (the Campus). Educational services at the Campus are provided by the University of Colorado at Denver, Metropolitan State College of Denver and the Community College of Denver.

Basis of Presentation

The financial statements of the Center are presented in accordance with the accounting principles established by the Governmental Accounting Standards Board and those set forth in the American Institute of Certified Public Accountants' industry audit guide, *Audits of Colleges and Universities*.

In compliance with the aforementioned literature, the Statement of Current Funds Revenues, Expenditures and Other Changes is a statement of financial activities of operating funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as with a statement of income or a statement of revenues and expenses.

The accounts related to specific activities or objectives have been classified into separate funds, and similar funds have been combined for financial reporting purposes. The cost of earned but unused vacation leave and the sick leave estimated to be paid upon retirement is accrued for current unrestricted fund employees. All other vacation leave and sick leave are recorded when paid.

Inventory

Auraria Book Center (Book Center) inventory is carried at the lower of cost or market. Supply inventories are stated at the lower of cost (first-in, first-out method) or market.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Plant Funds

Plant Funds assets are recorded at cost or, if acquired by gift, at fair market value at the date of the gift. Additions, replacements and major repairs and renovations are recorded as additions to Plant Funds. No provision is made for depreciation on these assets.

Upon completion of a construction project, the Center transfers the asset from the Unexpended Plant Fund to the Investment in Plant Fund, along with any related long-term debt. As required by Colorado Higher Education Accounting Standard No. 10, any difference between the cost of the asset and related long-term debt is accounted for as Capitalization of Assets/Debt.

Capital construction appropriations are recorded as revenues in the year the funds are expended.

Bond Issuance Costs

Bond issuance costs have been recorded as deferred charges and are being amortized on a straight-line basis over the terms of the bond issues.

Capitalized Interest

The Center capitalizes interest costs, net of interest income, associated with the construction of buildings and building improvements.

Mandatory Transfers

Mandatory transfers include expenditures made in accordance with bond resolutions (for principal and interest, rebate of interest arbitrage, renewals and replacements and trust account management fees) and for amortization of deferred revenue.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonmandatory Transfers

Nonmandatory transfers are transfers among fund groups made at the discretion of the Center and not arising out of binding legal agreements. Transfers were made for the purposes of providing funds for construction, removing interest earnings of reserve funds excess to reserve requirements to operating funds and providing funds for renewals and replacements.

Cost Allocations

Personnel services and operating expenditures directly related to an activity are charged to the activity. Overhead and administrative costs of the Center are charged to the accounts of bond issues by a square-footage formula or by time and effort studies. Small amounts of expenditures are allocated based on other estimates. These allocated amounts are not necessarily the same as would be reflected if detailed timesheets were kept by all employees and used for the allocation formula or if the Center were not a related entity.

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 expenses during the reporting period. Actual results could differ from those estimates.

Prior Period Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by fund group. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2000 from which the summarized information was derived.

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 2: EQUITY IN POOLED CASH, CASH AND CASH EQUIVALENTS

The Center had $6,295,870 in cash and cash equivalents at June 30, 2001. It consisted of $3,738,885 on deposit with the State Treasurer, $2,458,561 in bank deposits and $98,424 of cash on hand. The Center's bank balance at June 30, 2001 was $2,444,820.

All of the bank balances were covered by collateral held in the pledging institutions' trust departments in the name of the public deposit pool as required by the Public Deposit Protection Act.

NOTE 3: OTHER INVESTMENTS

In accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Pools,* the Center accounts for investments at fair value. Though Statement No. 31 requires that investments be valued at market, the Center's intent is to hold its investments to maturity.

The Center has authority to invest in equity or nonequity investments as authorized by the Director of Administrative and Business Services. Those investments are categorized below to give an indication of the level of risk assumed by the Center.

Category 1
Includes investments insured, registered or held by the Center or its agent in the Center's name.

Category 2
Includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Center's name.

Category 3
Includes uninsured and unregistered investments held by the counterparty or by its trust department or agent but not in the Center's name.

All of the Center's investments at June 30, 2001 were in Category 2 and consisted entirely of U.S. Government securities and money market funds invested in U.S. Government securities.

NOTE 4: ACCOUNTS RECEIVABLE ALLOWANCES

Accounts receivable are recorded net of the following related allowances for doubtful accounts at June 30:

	2001
Prior year parking fines	$ 298,395
Tivoli building accounts	2,705
Book center bad checks	68,994
Child Care Center and other auxiliaries	51,860
	$ 421,954

NOTE 5: LOANS FROM THE STATE TREASURER

At June 30, 2001, the Center had loans of $306,418 from the State Treasurer for its auxiliary operations. The average annualized interest rate during fiscal year 2001 was 6.09 percent and the rate at June 30, 2001 was 5.61 percent. The loans are authorized in the Colorado Revised Statutes and approved by the State Controller.

NOTE 6: DEFERRED REVENUES

Deferred revenues include $102,837 of Regional Transportation District (RTD) bus pass fees; $364,752 of student fees for the Summer 2001 semester; $136,041 of advance payment for work in connection with the construction by RTD of light rail tracks through campus property; $98,900 of advance rent payments for space in the Tivoli student union and $110,762 of advance payments for minor remodeling work for the constituent institutions.

NOTE 7: COMPENSATED ABSENCES FOR ACCRUED ANNUAL AND SICK LEAVE

Center employees may accrue annual and sick leave based on length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested at June 30, 2001 is $1,180,576. Expenditures for the year ended June 30, 2001 include $9,446 representing the decrease in the estimated compensated absence liability.

NOTE 7: COMPENSATED ABSENCES FOR ACCRUED ANNUAL AND SICK LEAVE (Continued)

The recording of the liability for compensated absences could result in fund balance deficits that will be funded by revenues or other fund sources in future years when the liability is paid.

NOTE 8: LEASE OBLIGATIONS

State agencies may enter into lease or rental agreements for the use of buildings or equipment. Such contracts provide that any commitments for expenditures beyond the current year are contingent upon funds being appropriated for such purposes. At June 30, 2001, the Center had lease-purchase agreements with future minimum payments as follows:

	Principal	Interest	Total
2002	$ 386,556	$ 1,052,356	$ 1,438,912
2003	408,669	1,022,210	1,430,879
2004	630,812	991,363	1,622,175
2005	833,236	949,895	1,783,131
2006	888,193	902,187	1,790,380
2007 and after	16,640,418	11,035,798	27,676,216
Totals	19,787,884	15,953,809	35,741,693
Less unamortized discount	464,488	—	464,488
	$ 19,323,396	$ 15,953,809	$ 35,277,205

NOTE 8: LEASE OBLIGATIONS (Continued)

On October 15, 1996, the Center entered into an agreement with the Auraria Foundation to finance certain energy saving modifications to heating, ventilation and air conditioning and lighting equipment in Campus buildings. The Foundation acted as an intermediary in the issuance of Certificates of Participation (the Certificates) in the amount of $2,130,000 that will fund the improvements. Under the terms of the Certificates, the Center is directly liable for the repayment of the debt and will have title to the equipment and improvements. Interest rates on the Certificates range from 4.65 percent to 5.20 percent. Future minimum payments on the Certificates are as follows:

	Principal	Interest	Total
2002	$ 185,000	$ 73,665	$ 258,665
2003	195,000	64,877	259,877
2004	205,000	55,420	260,420
2005	210,000	45,375	255,375
2006	225,000	34,875	259,875
2007 and after	450,000	23,400	473,400
Totals	$ 1,470,000	$ 297,612	$ 1,767,612

The Certificates are shown net of a discount of $4,592 at June 30, 2001 that is amortized on a straight-line basis over the life of the Certificates.

On May 1, 1998, the Center entered into an agreement with the Auraria Foundation to finance the acquisition, construction and equipping of an Administrative Office Facility. The Foundation acted as an intermediary in the issuance of Certificates in the amount of $16,905,000 to fund the project. The Certificates and the interest on the Certificates are payable solely from annually appropriated base rentals to be paid by the Center. Upon full payment of the base rentals or the purchase option price, the Foundation will transfer and convey the office facility to the Center.

NOTE 8: LEASE OBLIGATIONS (Continued)

Interest rates on the Certificates range from 4.5 percent to 5.125 percent. Future minimum payments on the Certificates are as follows:

	Principal	Interest	Total
2002	$ —	$ 854,779	$ 854,779
2003	—	854,779	854,779
2004	200,000	854,779	1,054,779
2005	375,000	845,779	1,220,779
2006	395,000	828,529	1,223,529
2007 and after	15,935,000	10,967,568	26,902,568
Totals	$ 16,905,000	$ 15,206,213	$ 32,111,213

Approximately 75 percent of the Administrative Office Facility is occupied by the Center's three constituent institutions. It is anticipated that the institutions will share in the costs of debt service and operations of the facility through their annual allocation of State appropriated funds to the Center. It is anticipated that this funding will aggregate to $1,066,600 in fiscal year 2001 with increases of approximately 3.5 percent annually through fiscal year 2028.

The Certificates are shown net of a discount of $459,896 at June 30, 2001 and have related issuance costs reported as deferred charges of $311,858 at June 30, 2001. The discount and issuance costs are being amortized on a straight-line basis over the life of the Certificates.

The Center has also entered into lease-purchase contracts for telephone and printing equipment totaling $1,653,042 in cost. Interest rates on those leases are 9.13 percent and 10.09 percent. Future minimum payments are as follows:

	Principal	Interest	Total
2002	$ 201,556	$ 123,912	$ 325,468
2003	213,668	102,555	316,223
2004	225,813	81,164	306,977
2005	248,236	58,741	306,977
2006	268,193	38,783	306,976
2007 and after	255,418	9,956	265,374
Totals	$ 1,412,884	$ 415,111	$1,827,995

NOTE 8: LEASE OBLIGATIONS (Continued)

This equipment is included in the investment in plant fund at $1,653,042. The total carrying amount of assets under capital leases was $19,062,009 as of June 30, 2001.

The Center uses certain property and equipment under agreements classified as operating leases. Rent expense related to these leases was $77,717 for the fiscal year ended June 30, 2001. Future minimum lease payments under operating leases are as follows for the years ended June 30:

2002	$ 8,400
2003	4,200
	$ 12,600

NOTE 9: BONDS PAYABLE

The Center had the following bonds outstanding at June 30, 2001:

- Parking Facilities System Refunding Revenue Bonds, Series 1993 (Series 1993 Bonds)
- Student Fee Revenue Refunding Bonds, Series 1996 (Series 1996 Bonds)
- Student Fee Revenue Refunding Bonds, Series 1991A (Series 1991A Bonds)
- Parking Facilities System Revenue Bonds, Series 2000 (Series 2000 Bonds)

Series 1993 Bonds

On September 15, 1993, the Center issued Series 1993 Bonds in the amount of $21,510,000 for the purpose of refunding $17,980,000 of Parking Facilities and Refunding Revenue Bonds, Series 1989 Bonds (Parking Series 1989 Bonds) that had an outstanding balance on that date of $19,250,000. The proceeds from the sale of the Series 1993 Bonds that were used to refund the Parking Series 1989 Bonds were deposited in escrow with Norwest Bank Denver, N.A. (Escrow Agent). On April 1, 2000, the outstanding Parking Series 1989 Bonds were called.

NOTE 9: BONDS PAYABLE (Continued)

The Series 1993 Bonds are due in semiannual installments with annual payments ranging from $1,060,000 to $3,660,000 and interest ranging from 4.7 percent to 5.3 percent. The final installment is due April 1, 2012. The Series 1993 Bonds are collateralized by revenues from parking facilities.

Series 1993 Bonds maturing on and after April 1, 2004 can be called for redemption at par at the option of the Center's Board of Directors, in whole or in part on any interest payment date on or after April 1, 2003. Series 1993 Bonds maturing between April 1, 2003 and March 31, 2004 can be called for redemption at 101 percent of par at the option of the Center's Board of Directors.

Series 1996 Bonds

On February 15, 1996, the Center issued $18,030,000 in Series 1996 Bonds for the purpose of refunding $10,480,000 of Student Fee Revenue Bonds, Series 1991B (Series 1991B Bonds), $1,850,000 of Student Fee Revenue Bonds, Series 1992 (Series 1992 Bonds) and $3,975,000 of Student Fee Revenue Bonds, Series 1989 (Series 1989 Bonds). The Center refunded and defeased in substance these bonds by placing the proceeds of the Series 1996 bonds in an irrevocable trust to provide for all future debt service payments on the Series 1991B, Series 1992 and Series 1989 Bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Center's financial statements. On May 1, 2000, the outstanding Series 1989 Bonds were called. At June 30, 2001, the following amounts of bonds outstanding are considered defeased:

Series 1991B Bonds	$ 8,890,000
Series 1992 Bonds	1,430,000
	$ 10,320,000

NOTE 9: BONDS PAYABLE (Continued)

The Series 1996 Bonds are payable in semiannual installments with annual payments ranging from $310,000 to $1,560,000 and interest ranging from 4.25 percent to 5.30 percent. The final installment is due May 1, 2021. Bonds maturing on or after May 1, 2007 can be called for redemption at the option of the Center's Board of Directors, in whole at any time or in part on any interest payment date on or after May 1, 2006. A premium of one percent of principal will be paid on redemptions from May 1, 2006 through April 30, 2007. The bonds are redeemable at par thereafter. The Series 1996 Bonds are collateralized by revenues from student fees assessed for student facilities and from an agreement with the Department of Housing and Urban Development. The Bond Resolution requires that the collateral exceed 1.25 of the combined maximum annual debt service on the outstanding bonds during the fiscal year.

Series 1991A Bonds

On January 15, 1992, the Center issued $4,710,000 in Series 1991A Bonds. The Series 1991A Bonds are payable in semiannual installments with annual payments ranging from $245,000 to $410,000 and interest ranging from 5.85 percent to 6.60 percent. The final installment is due November 1, 2010. Bonds maturing on and after November 1, 2002 can be called for redemption at the option of the Center's Board of Directors on November 1, 2001 or on any interest payment date thereafter. A premium of one percent of principal will be paid on redemptions through October 31, 2002 and a premium of 0.5 percent will be paid on redemptions from November 1, 2002 through October 31, 2003. The bonds are redeemable at par thereafter. The Series 1991A Bonds are collateralized by revenues from student fees assessed for student facilities and from an agreement with the Department of Housing and Urban Development.

In January 1992, the Center refunded and defeased in substance its outstanding Series 1977A Student Facilities Refunding Revenue Bonds (Series 1977A Bonds) by placing the proceeds of the Series 1991A and Series 1991B Bonds in an irrevocable trust to provide for all future debt service payments on the Series 1977A Bonds, including the redemption on July 1, 2000 of bonds maturing after that date. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Center's financial statements. At June 30, 2000, $3,500,000 of Series 1977A Bonds outstanding are considered defeased. On July 1, 2000, the outstanding Series 1977A Bonds were called.

NOTE 9: BONDS PAYABLE (Continued)

Series 2000 Bonds

On December 7, 2000, the Center issued $7,020,000 in Series 2000 Bonds for the purpose of financing the costs of improving the Center's parking facilities. The Series 2000 Bonds are payable in semiannual installments with annual payments ranging from $315,000 to $1,330,000 and interest ranging from 5.0 percent to 5.5 percent. The final installment is due April 1, 2026. Bonds maturing on or after April 1, 2010 can be called for redemption at par at the option of the Center's Board of Directors, in whole or in part at any time on or after April 1, 2010. The Series 2000 Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

Bond issuance costs of $248,082 for the Series 1996 Bonds, $30,325 for the Series 1991A Bonds, $266,022 for the Series 1993 Bonds and $197,248 for the Series 2000 Bonds are reported as deferred charges and are amortized on a straight-line basis over the life of the bonds.

Debt service to maturity for all bonds for the fiscal year ended June 30 is as follows:

	Principal	Interest	Total
2002	$ 1,635,000	$ 2,328,700	$ 3,963,700
2003	1,705,000	2,245,920	3,950,920
2004	1,795,000	2,161,019	3,956,019
2005	1,880,000	2,069,766	3,949,766
2006	1,980,000	1,971,985	3,951,985
2007 and after	34,785,000	16,179,663	50,964,663
Totals	43,780,000	26,957,053	70,737,053
Less unamortized discount	431,657	—	431,657
	$ 43,348,343	$ 26,957,053	$ 70,305,396

NOTE 10: RESERVE REQUIREMENTS

Reserve requirements for outstanding bond issues are as follows:

	Reserve Balance June 30, 2001	Reserve Required June 30, 2001
Parking Facilities System Refunding Revenue Bonds, Series 1993 and Parking Facilities System Revenue Bonds, Series 2000:		
Debt Service Reserve	$ 2,782,387	$ 2,302,045
Arbitrage Rebate Reserve	$ 1,375	$ —
Renewals and Replacements Reserve	$ 585,095	$ 452,582
Student Fee Revenue Refunding Bonds, Series 1996 and Series 1991A:		
Renewals and Replacements Reserve	$ 300,000	$ 300,000

The Center has purchased a surety bond as insurance to satisfy the debt service reserve requirement of the Student Fee Revenue Refunding Bonds.

NOTE 11: STATE APPROPRIATIONS AND ALLOCATIONS FROM OTHER STATE AGENCIES

The Colorado State General Assembly establishes spending authority to the Center in its annual Long Appropriations Bill. Long Bill appropriated funds may include an amount from the State of Colorado's General fund as well as certain cash funds. The source of nearly all appropriated funds for the Center is cash, primarily in the form of appropriated funds transferred from the constituent institutions. Other sources of appropriated cash funds are the sale of goods and services and certain other revenues.

For the year ended June 30, 2001, appropriated expenditures were within the authorized spending authority. The Center had a total current funds appropriation of $15,565,897. Expenditures that, for the purposes of State spending authority, are defined as expenditures and transfers exclusive of changes in the compensated absence liability plus any increase or minus any decrease in fund balance, were $15,156,541.

NOTE 11: STATE APPROPRIATIONS AND ALLOCATIONS FROM OTHER STATE AGENCIES (Continued)

State appropriations in the Unexpended Plant Fund represent funds appropriated for controlled maintenance and capital construction and funds earned by the Center during the fiscal year ended June 30, 2001.

All other revenues, expenditures and transfers reported by the Center represent nonappropriated funds and are excluded from the annual appropriations bill.

Nonappropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain revenues of auxiliary, self-funding activities and miscellaneous revenues.

The accompanying financial statements contain revenues and expenditures from both appropriated and nonappropriated funds. Appropriated and nonappropriated revenues and expenditures are included in each fund group based on the principles of fund accounting.

NOTE 12: RESTRICTED FUND REVENUES

The amounts reported in the Statement of Changes in Fund Balances as Restricted Fund revenues and other additions represent new grant money actually received during the fiscal year. These monies are not earned by the Center until expenditures are made for the purposes prescribed by the grantors. The amount earned by the Center was $69,234 in fiscal year 2001.

NOTE 13: THE AURARIA FOUNDATION

The Auraria Foundation (the Foundation) is an independent, non-profit corporation organized and incorporated in 1983 for the purpose of receiving gifts, legacies and grants of money and property and administering those exclusively for educational purposes entirely benefitting the Center and constituent institutions on Campus. The Chairman of the Board of Directors of the Center and the Center’s Executive Vice President of Administration serve on the Foundation’s ten-person Board of Directors. The Foundation has a contract with the Center under which the Center provides staff for the management of the Foundation and use of a computerized scheduling system. Under that agreement, the Foundation paid the Center $173,655 during the year ended June 30, 2001. The Center made payments of $106,185 to the Foundation during the year ended June 30, 2001 for rent of meeting space and fees related to the financing of the administrative office facility

NOTE 13: THE AURARIA FOUNDATION (Continued)

The Foundation, in conjunction with the Colorado Postsecondary Educational Facilities Authority, issued tax-exempt bonds for the purchase of buildings which are leased to one of the Center's constituent institutions.

The appropriation of funds for a Performing Arts Building on Campus requires that $2 million or approximately 9.5 percent of the total project costs, be provided by the Center from non-appropriated sources. Legislative intent was that these sources be private gifts. The Foundation agreed to coordinate this fund-raising effort and to arrange financing that would enable the Center to meet its cash obligations to the project pending the receipt of pledged amounts.

At June 30, 2001 the Foundation had raised (net of its costs) and transmitted to the Center $1,433,082.

Summary audited financial data for the Foundation as of June 30, 2001 is as follows:

Cash, investments, receivables and other assets	$ 6,190,533
Investment in direct financing leases	23,856,698
Property and equipment, net	6,066,869
Total Assets	$ 36,114,100
Accrued liabilities, deferred income and other liabilities	$ 3,805,554
Bonds payable	30,006,265
Net assets	2,302,281
Total Liabilities and Net Assets	$ 36,114,100
Change in net assets	$ (116,152)

A complete copy of the Foundation's audited financial statements can be obtained by contacting the Foundation.

NOTE 14: PENSION PLAN

Plan Description

Virtually all Center 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 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 five 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 five 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 twelve 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 members die before retirement, their spouse or their eligible children under the age of 18 (23 if a full time 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 eight percent of their gross covered wages to an individual account in the Plan.

NOTE 14: PENSION PLAN (Continued)

During fiscal year 2001, the State contributed 10.4 percent 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 15).
- 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 wages subject to PERA are 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 Center's contributions to the three programs described above for the fiscal years ended June 30, 2001, 2000 and 1999 were $1,297,832, $1,427,817 and $1,319,969, respectively, and were equal to its required contributions for those years.

NOTE 15: VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA members' voluntary contributions to tax-deferred retirement plans. The match was 100 percent of up to three percent of the employee's gross covered wages paid during the month (seven 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 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 403b plan. Members who contribute to any of these plans also receive the State match.

NOTE 16: POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. 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 fiscal year 2001, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65), and was reduced by five percent for each year of service fewer than 20. Medicare eligibility also affects premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed in Note 14.

Monthly premium costs for participants depend on the health care plan selected, the number of persons 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.

NOTE 16: POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

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 paid monthly by payroll deduction or other means.

NOTE 17: RISK-FINANCING AND INSURANCE-RELATED ACTIVITIES

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

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

NOTE 18: FUTURE CHANGE IN ACCOUNTING PRINCIPLE

The Governmental Accounting Standards Board adopted Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* as amended by its Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities.* These pronouncements establish new financial reporting requirements intended to make annual reports more comprehensive and easier to understand and use through use of a new financial reporting model.

NOTE 18: FUTURE CHANGE IN ACCOUNTING PRINCIPLE (Continued)

The new financial reporting model differs from that currently used by the Center in a number of respects including:

1. Presentation of a narrative management's discussion and analysis that objectively analyzes the Center's financial performance and the facts, decisions and conditions expected to have a significant impact on future results.
2. Presentation of the Center as a business-type activity instead of as multiple separate funds using the accrual basis of accounting.
3. Presentation of a statement of financial position, a statement of revenues, expenses and changes in net assets and a statement of cash flows as basic financial statements.
4. Recognition of depreciation for all plant assets.

The Center expects to first apply the new standards during the year ending June 30, 2002 by retroactively restating beginning net assets (fund balances). Application of the new standards is expected to materially reduce the amount of net assets at July 1, 2001 from the amount of fund balances reported at June 30, 2001, principally as a result of recognition of accumulated depreciation on plant assets.

Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements in Accordance with Government Auditing Standards

Members of the Legislative Audit Committee:

We have audited the financial statements of the Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2001 and have issued our report thereon dated September 7, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting and its operation that we have reported to the management of the Center in the Auditors' Findings and Recommendations Section of this report.

Members of the Legislative Audit Committee

This report is intended solely for the information and use of the Legislative Audit Committee and the Board of Directors and management of the Center and is not intended to be and should not be used by anyone other than these specified parties.

September 7, 2001
Colorado Springs, Colorado

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of **AURARIA HIGHER EDUCATION CENTER** (the Center) as of and for the year ended June 30, 2001, we wish to communicate the following to you.

Auditor's Responsibility under Generally Accepted Auditing Standards

An audit performed in accordance with generally accepted auditing standards (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS 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.

Significant Accounting Policies

The Center's significant accounting policies are described in Footnote 1 of the financial statements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgements. 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
Compensated absence liability

Significant Audit Adjustments

During the course of any audit, an auditor will propose adjustments of financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgement, are required to prevent the financial statements from being materially misstated. In some instances, adjustments are 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. All proposed audit adjustments were recorded in the Center's financial statements.

Members of the Legislative Audit Committee

This letter is intended for the information and use of the Legislative Audit Committee, the Board of Directors and management of the Center and is not intended to be and should not be used by anyone other than these specified parties.

September 7, 2001
Colorado Springs, Colorado

State of Colorado
Auraria Higher Education Center

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Year Ended June 30, 2001

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