AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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AURARIA HIGHER EDUCATION CENTER

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AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Report Summary

Year ended June 30, 2012

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Auraria Higher Education Center (the Center) for the year ended June 30, 2012. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from May 2012 to October 2012.

The purpose and scope of our audit was to:

- Express opinions on the basic financial statements of the Center as of and for the years ended June 30, 2012 and 2011. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate the Center's compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior audit findings and recommendations.

Audit Opinions and Reports

We expressed an unqualified opinion on the Center's basic financial statements as of and for the years ended June 30, 2012 and 2011.

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

Summary of Key Findings

There were no reported findings and recommendations resulting from the audits for fiscal year 2012 and 2011.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Description of Auraria Higher Education Center

Year ended June 30, 2012

Organization

The Board of Directors of the Center is a corporate body 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 Metropolitan State College of Denver (Metro), the University of Colorado Denver (UCD), and the Community College of Denver (CCD) (the constituent institutions). The Center operates shared facilities on the Auraria 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 Auraria Early Learning Center; and various 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 or chief executive officer of each of the constituent institutions also serves as a voting member. The nonvoting members are appointed by the students and faculties of the constituent institutions.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2012

We have audited the basic financial statements of the Center as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon, dated November 12, 2012. In planning and performing our audit of the basic financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion of the Center's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated November 12, 2012 on our consideration of the Center's internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since November 12, 2012. We did not audit the financial statements of the Auraria Higher Education Center Foundation (the Foundation) discussed in note 1 to the basic financial statements. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards*, and included an explanatory paragraph about the Inn at Auraria's (a discreetly presented component unit of the Foundation) ability to continue as a going concern.

The maintenance of adequate internal control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Additionally, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

There were no findings and recommendations resulting from the audits for fiscal year 2012 and 2011.

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

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Auraria Higher Education Center (the Center), a component unit of the State of Colorado, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, as discussed in note 1 to the basic financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they related to the amounts included for the Foundation are based on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Auraria Higher Education Center as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

The financial statements of the discretely presented component unit were prepared assuming that the Inn at Auraria LLC will continue as a going concern. As discussed in note 4 to the basic financial statements of the discretely presented component unit, the Inn at Auraria LLC has incurred operating losses, has a net asset deficiency, and is in default under Series 2005 Revenue Bond agreements, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are discussed in note 4 of the discretely presented component unit. The financial statements of the discretely presented component unit do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2012 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6 – 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

November 12, 2012

This section of the Auraria Higher Education Center's (the Center) basic financial statements presents discussion and analysis, prepared by the Center's management, of the Center's financial performance during the fiscal years ended June 30, 2012 and 2011 with comparative information for 2010. The purpose of this section is to provide an objective and easily readable analysis of the Center's financial position and results of operations based on currently known facts, decisions, and opinions. It should be read in conjunction with the basic financial statements and the related notes.

Understanding the Comparative Financial Report

The financial statements of the Center are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Effective June 30, 2004, the Center adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Accordingly, the financial statements of the Auraria Foundation are included with the Center's financial statements and discussed in more detail in note 6 to the basic financial statements.

This report contains three basic financial statements: the statements of net assets; the statements of revenues, expenses, and changes in net assets; and the statements of cash flows. The statements report on all of the Center's activities including services provided to the Community College of Denver, Metropolitan State College of Denver, and the University of Colorado Denver (the constituent institutions), parking operations, and student fee operations. This management's discussion and analysis focuses on the financial activities of the Center and not the discretely presented component unit, the Auraria Foundation.

The statements of net assets and the statements of revenues, expenses, and changes in net assets report the Center's net assets and how they have changed using the accrual basis of accounting. This means that all revenues and expenses are reported in the year in which they are earned or incurred and not when the cash is received or paid.

Statements of Net Assets

The Center's net assets – the difference between assets and liabilities – are one way to measure the Center's financial health (or financial position). Over time, increases or decreases in the Center's net assets are one indicator of whether its financial health is improving or deteriorating. Nonfinancial factors are also important to consider, including student enrollment at the constituent institutions and the condition of campus buildings.

As of June 30, 2012 and 2011, total assets of the Center exceeded total liabilities by $177.1 million and $184.1 million, respectively. The largest portion of this excess, 85.8% in 2012 and 85.1% in 2011, was invested in capital, net of related debt. Since these are capital assets that provide the facilities and infrastructure necessary for the three constituent institutions to provide educational services, these assets are not available for future spending. The amount of unrestricted net assets as of June 30, 2012 was $19.0 million compared to $18.8 million in 2011, which represents 10.7% of net assets in 2012 and 10.2% of net assets in 2011. Restricted net assets totaled $6.2 million as of June 30, 2012 compared to $8.6 million in 2011, which represents 3.5% of net assets in 2012 and 4.7% of net assets in 2011.

During fiscal year 2012, total net assets decreased approximately $7.0 million from fiscal year 2011. Total assets decreased $9.5 million primarily due to the use of construction funds due and receivable from the State of

Colorado (the State) for the Science Building Project and from current year depreciation on capital assets. On June 30, 2012, the remaining $4.7 million of the proceeds from the Certificate of Participation, Series 2008 was categorized as Note Receivable current in anticipation of the close out of the project in the fiscal year 2013. Total liabilities decreased $2.5 million, primarily due to a decrease in long-term debt of $7.0 million offset by increases in accounts payable, deposits held for others and deferred revenue. During fiscal year 2011, total net assets decreased approximately $6.6 million from fiscal year 2010. Total assets decreased $11.9 million primarily due to the use of construction funds due and receivable from the State for the Science Building Project and from depreciation on capital assets. Total liabilities decreased $5.3 million primarily due to a decrease in long-term debt of $5.3 million.

Condensed Statements of Net Assets

		June 30	
	2012	2011	2010
		(In thousands)	
Assets:			
Current assets	$ 34,481	26,266	24,205
Capital assets, net	233,387	239,664	242,654
Other noncurrent assets	27,822	39,212	50,169
Total assets	295,690	305,142	317,028
Liabilities:			
Current liabilities	19,005	16,632	15,890
Noncurrent liabilities	99,601	104,445	110,439
Total liabilities	118,606	121,077	126,329
Net assets:			
Invested in capital assets, net of related debt	151,864	156,719	165,683
Restricted for expendable purposes	6,203	8,587	11,173
Unrestricted	19,017	18,759	13,843
Total net assets	$ 177,084	184,065	190,699

Statements of Revenues, Expenses, and Changes in Net Assets

The statements of revenues, expenses, and changes in net assets report operating and nonoperating revenues and expenses during the year, and the resulting increase or decrease in net assets at the end of the year.

For fiscal year 2012, the operating and nonoperating activities of the Center resulted in a decrease in net assets of $7.0 million as compared to a decrease of $6.6 million for fiscal year 2011. Operating revenues totaled $64.3 million while operating expenses totaled $67.7 million, resulting in an operating loss of $3.4 million. For fiscal year 2011, the operating and nonoperating activities of the Center resulted in a decrease in net assets of $6.6 million as compared to an increase of $29.0 million for fiscal year 2010. Operating revenues totaled $61.0 million while operating expenses totaled $62.0 million, resulting in an operating loss of $1.0 million. The

(Continued)

decrease of $2.4 million in operating loss for fiscal year 2012 was primarily the result of increased Auxiliary Enterprises expenses of $3.0 million in 2012. Support from the three constituent institutions increased approximately $2.2 million from 2011 to 2012, primarily from additional funding of $1.7 million for deferred maintenance projects. In 2012, approximately $3.0 million of auxiliary revenue and auxiliary reserves were used to support general operating costs. For 2012 and 2011, the State provided $.9 million and $3.1 million, respectively, in capital contributions primarily for the Science Building.

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

		Year ended June 30	
	2012	**2011**	**2010**
		(In thousands)	
Operating revenues:			
Auxiliary enterprises	$ 37,633	36,782	35,695
Revenue from constituent institutions	20,219	18,025	17,030
Student fees	5,958	5,902	5,905
Other operating revenues	505	302	209
Total operating revenues	64,315	61,011	58,839
Operating expenses:			
Auxiliary enterprises	36,147	33,099	30,114
Operation and maintenance of plant	14,715	12,739	12,347
Institutional support	3,313	3,111	2,871
Academic support	1,250	1,273	1,356
Public service	32	126	108
Depreciation	12,234	11,673	8,847
Total operating expenses	67,691	62,021	55,643
Operating (loss) income	(3,376)	(1,010)	3,196
Nonoperating revenues (expenses):			
Investment income	452	478	610
Interest expense on capital debt	(5,438)	(5,548)	(4,831)
Gain (loss) on disposal of capital assets	(321)	38	3
Total nonoperating expenses, net	(5,307)	(5,032)	(4,218)
Capital contributions, grants, and gifts	1,702	(592)	30,017
(Decrease) increase in net assets	(6,981)	(6,634)	28,995
Net assets, beginning of year	184,065	190,699	161,704
Net assets, end of year	$ 177,084	184,065	190,699

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions showed an average increase between Fall of 2010 and Fall of 2011 of 2% due to a 3.1% increase for Community College of Denver and 6.1% for University of Colorado Denver and a 1.1% decrease for Metropolitan State College of Denver. Estimates for Fall of 2012 predict no enrollment change for Metropolitan State College of Denver (Metro) and University of Colorado Denver, but a 6% to 8% decline in enrollment for the Community College of Denver.

Capital Assets

At June 30, 2012, the Center had approximately $233.4 million invested in capital assets, net of accumulated depreciation of approximately $175.4 million. At June 30, 2011, the Center had approximately $239.7 million invested in capital assets, net of accumulated depreciation of approximately $163.6 million. For the years ended June 30, 2012 and 2011, depreciation expense was approximately $12.2 million and $11.7 million, respectively.

A summary of capital assets is provided below:

		June 30	
	2012	2011	2010
		(In thousands)	
Land	$ 27,896	26,737	28,253
Land improvements	6,835	8,296	8,965
Buildings and improvements	195,708	200,918	119,218
Equipment	2,414	2,121	1,953
Construction in progress	534	1,592	84,265
Total capital assets, net	$ 233,387	239,664	242,654

Construction in progress decreased approximately $1.1 million during 2012 due to the completion of the Arts Building. The 360,000-square-foot renovation and expansion project, which added approximately 196,000 additional gross square feet of academic space, was occupied and opened for classes in January 2011. This resulted in $92.0 million of accumulated construction in progress being placed into service for the fiscal year 2011. As of June 30, 2012, there were some pending construction in progress project tasks that needed to be performed and all costs are expected to be incurred and completed by September 2012.

In December 2008, the Center purchased a parcel of land adjacent to campus, increasing the acreage of the campus by 13.54 acres. The cost of the new parcel was approximately $16.5 million, and as part of the campus master plan, the Center's Board of Directors, at their December 15, 2010 meeting, approved the property as the location for the relocated tennis courts and Metro's athletic fields (two soccer fields and a baseball field). Construction is expected to begin in the Fall of 2012.

On October 7, 2010, the Regional Transportation District (RTD) filed a Petition in Condemnation to acquire 1.04 acres of the aforementioned 13.54 acres of land. On December 8, 2010, the Court granted immediate possession of the property to RTD, including any and all claims, rights, title, interests, easements, liens, encumbrances, reversionary interests, and rights of entry, upon payment of just compensation in the amount of $1,515,700.

Net proceeds from the land condemnation in the amount of $1,491,120 are currently being held by Wells Fargo Bank, as trustee, until these funds are needed to pay the final debt service obligations on the Series 2008 Land Acquisition Certificates, with final maturity on May 1, 2028.

See note 3 to the basic financial statements for additional information on capital asset activity during the fiscal year.

Bonds and Capital Leases

At June 30, 2012, the Center had approximately $104.1 million of bond and capital lease obligations outstanding as compared to $110.1 million in 2011. The table below summarizes this debt by type. The outstanding revenue bonds as of June 30, 2012 are comprised of Parking Revenue Bonds totaling $31.0 million and Student Fee Revenue Bonds totaling $27.7 million. These debt service requirements are met by pledged revenues from the Center's parking operations and from student fees.

The capital lease obligations as of June 30, 2012 comprise three Certificates of Participation totaling $45.3 million and the remaining amount represents capital leases on copying equipment. During fiscal year 2012, long-term debt decreased $7.0 million as the result of scheduled principal payments on the debt described above. The constituent institutions share in the cost of debt service of the three Certificates of Participation. During fiscal year 2012, the constituent institutions provided funding of $1.6 million in excess of their annual allocation of state-appropriated funds to help fund these capital lease obligations.

See note 4 to the basic financial statements for additional information on bond and capital lease activity during the fiscal year.

Long-Term Debt

		June 30		
		2012	**2011**	**2010**
			(In thousands)	
Auxiliary enterprise revenue bonds	$	58,720	62,869	65,379
Capital lease obligations		45,351	47,233	49,027
Total long-term debt	$	104,071	110,102	114,406

Economic Outlook

During fiscal year 2012, the constituent institutions allocation to fund the Center's general operations was $16.3 million, the same as fiscal year 2011. However, the constituent institutions did agree to provide an additional $1.7 million in funding to be used exclusively for deferred maintenance projects across the aging campus. The Center's budget for fiscal year 2013 does reflect a 3.4% increase to the base allocation of the constituent institutions to fund three additional police positions as well as other operating increases.

During the past 5 to 10 years, enrollment growth has made classroom space a premium on the Auraria campus. The campus added a total of 38 modular units to help address the classroom shortage issue, but additional space was still needed. An extensive master plan study for the entire campus has been completed and provides direction on how to develop the campus over the next 20 years. The master plan indentified areas of the Auraria Campus

for each of the three constituent institutions to create their own neighborhoods, and for new facilities to be developed within those neighborhoods, primarily utilizing existing parking lots. As a result, during the last several years, the constituent institutions have been working earnestly to formulate plans to fund and build institution-specific buildings, as described in the campus master plan. On March 19, 2012, the first institution-specific building was opened to students, faculty and staff by Metro. The new Student Success Building adds an estimated 145,000 square feet of space on campus for classrooms and faculty offices, specifically for Metro students and professors, and will provide students with a central location for a wide range of Metro support services. Several months later, on August 1, 2012, Metro opened its second building, the new Spring Hill Suites Hotel and Hospitality Learning Center, which includes a 150-room hotel and conference center as well as an additional 28,000 square feet of space, including classrooms, specialty learning labs, and faculty offices, to provide hands on training opportunities for students in Metro's Hospitality, Tourism and Events Department. The operations of the Marriott chained hotel, a public/private partnership, are being managed by a hotel management company. The Community College of Denver (CCD) broke ground on its new building on January 12, 2012. The new Student Learning and Engagement Building is projected to be completed by April 2013 and will add an estimated 87,000 square feet of space on campus for classrooms, administrative offices, and a wide range of CCD support services. Finally, the University of Colorado Denver is working on plans for its own building as well, with groundbreaking expected sometime in early 2013.

While parking revenue and reserves remain stable and the financial position of the parking operation is strong, during the 2011 fiscal year, the Center prepared a comprehensive Parking Strategic Plan to provide a long-range strategy that will allow the Center's parking enterprise to meet future financial obligations and address future capital needs in the midst of shrinking parking availability. The plan was presented to the Auraria Board of Directors and on February 23, 2011, a price increase of approximately 15% was approved for the 2011-12 fiscal year; this marked the first increase since 2008. The plan provides for the annual transfer of $1.5 million to a parking capital reserve fund to accumulate funds towards the future construction of an additional parking structure, which will alleviate the future loss of parking spaces as the institutions continue to construct new buildings in their campus neighborhoods. The plan also provides for capital expenditures of almost $4.0 million over the next five years to upgrade the parking infrastructure. Finally, the price increase allows the parking enterprise to meet all required debt coverage ratios while maintaining an adequate operating reserve. As of June 30, 2012, the parking capital reserve has $3.0 million.

The Center's auxiliary enterprise facilities are funded with student fees and user charges. These revenues are currently sufficient to maintain adequate levels of maintenance for the Tivoli Student Union, the recreation center, the childcare center, and all parking facilities. However, these fees and charges are not sufficient to cover the ongoing maintenance needs of the general classroom facilities built approximately 34 years ago. The campus has one of the highest classroom utilization rates in the nation. State funding for maintenance projects has been limited and inadequate to meet the ever-increasing needs of the Center's aging campus infrastructure. Therefore, recognizing that reliance on the State is unrealistic given the current economic conditions, the Center prepared an 8-year deferred maintenance plan, totaling over $28.8 million, for the review and consideration of the constituent institutions. For year one, the 2012 fiscal year, the plan focused on maintenance projects primarily tied to life safety and critical campus operations, which totaled $1.7 million. As part of the Center's fiscal year 2011-12 budget, the three institutions committed and funded an additional appropriation, over and above the $16.3 million for general campus operations, of $1.7 million, which was earmarked exclusively for the aforementioned projects. As part of the Center's fiscal year 2012-13 budget, the three institutions committed an additional $1.9 million in funding for deferred maintenance projects, over and above the $16.9 million for general campus operations. During future budget discussions, the Center will work closely with the constituent institutions to continue to secure funding for the deferred maintenance plan.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller's Office at the Auraria Higher Education Center at P.O. Box 173361, Campus Box B, Denver, Colorado 80217.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Net Assets

June 30, 2012 and 2011

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	22,407,989	20,568,088
Accounts receivable, net		3,891,268	2,376,395
Notes receivable – current		5,422,515	664,768
Inventories		2,656,768	2,556,135
Prepaid expenses		102,120	100,309
Total current assets		34,480,660	26,265,695
Noncurrent assets:			
Restricted cash and cash equivalents		5,904,089	6,445,227
Deferred debt issuance costs		1,197,996	1,305,817
Restricted investments		4,603,994	6,051,280
Notes receivable		16,116,315	25,409,224
Capital assets, net		233,387,002	239,664,374
Total noncurrent assets		261,209,396	278,875,922
Total assets	$	295,690,056	305,141,617
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	$	6,799,185	4,494,408
Interest payable		591,094	628,224
Deposits held for others		4,459,203	3,559,356
Deferred revenue		1,303,749	827,886
Long-term debt, current portion		5,758,483	7,023,080
Compensated absences liability, current portion		93,243	98,906
Total current liabilities		19,004,957	16,631,860
Noncurrent liabilities:			
Long-term debt		98,312,964	103,078,496
Compensated absences liability		1,288,138	1,366,404
Total noncurrent liabilities		99,601,102	104,444,900
Total liabilities	$	118,606,059	121,076,760
Net Assets			
Net assets:			
Invested in capital assets, net of related debt	$	151,863,695	156,718,532
Restricted for expendable purposes		6,203,461	8,586,680
Unrestricted		19,016,841	18,759,645
Total net assets	$	177,083,997	184,064,857

See accompanying notes to basic financial statements.

AURARIA HIGHER EDUCATION CENTER

Discretely Presented Component Unit

Statements of Financial Position

June 30, 2012 and 2011

	2012			2011		
Assets	**Inn at Auraria LLC**	**The Auraria Foundation**	**Total**	**Inn at Auraria LLC**	**The Auraria Foundation**	**Total**
Cash and cash equivalents	$ 300,611	86,459	387,070	352,501	111,456	463,957
Investments	—	3,219,261	3,219,261	—	3,453,979	3,453,979
Accounts receivable, net of allowance for doubtful accounts of $0 and $221,830, respectively	28,357	3,592	31,949	110,485	—	110,485
Trustee-held cash limited as to use	568,178	—	568,178	411,556	—	411,556
Prepaid expenses and other	5,787	3,866	9,653	26,409	10,000	36,409
Advance to Inn at Auraria LLC	—	588,540	588,540	—	588,540	588,540
Property and equipment, net	28,070,254	590	28,070,844	28,288,096	777,361	29,065,457
Bond issuance costs, net	639,731	—	639,731	661,055	—	661,055
Elimination of intercompany balances	—	—	(588,540)	—	—	(588,540)
Total assets	$ 29,612,918	3,902,308	32,926,686	29,850,102	4,941,336	34,202,898
Liabilities and Net Assets (Deficit)						
Liabilities:						
Accounts payable	$ 254,151	—	254,151	356,088	25,052	381,140
Accrued expenses and other	—	—	—	127,614	—	127,614
Deferred revenue	109,771	—	109,771	98,805	—	98,805
Interest payable	3,441,994	—	3,441,994	1,237,928	—	1,237,928
Grants payable	—	—	—	—	—	—
Due to the Auraria Foundation	588,540	—	588,540	588,540	—	588,540
Bonds payable in default	37,280,000	—	37,280,000	37,280,000	—	37,280,000
Elimination of intercompany balances	—	—	(588,540)	—	—	(588,540)
Total liabilities	41,674,456	—	41,085,916	39,688,975	25,052	39,125,487
Net assets (deficiency) unrestricted	(12,061,538)	3,902,308	(8,159,230)	(9,838,873)	4,916,284	(4,922,589)
Total liabilities and net assets (deficit)	$ 29,612,918	3,902,308	32,926,686	29,850,102	4,941,336	34,202,898

See accompanying notes to basic financial statements.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Auxiliary enterprises	$ 37,633,400	36,781,572
Revenue from constituent institutions	20,218,607	18,025,240
Student fees	5,958,318	5,902,676
Other operating revenues	504,807	302,072
Total operating revenues	64,315,132	61,011,560
Operating expenses:		
Auxiliary enterprises	36,146,573	33,099,298
Operation and maintenance of plant	14,714,707	12,738,974
Institutional support	3,313,420	3,111,401
Academic support	1,250,084	1,272,856
Public service	31,712	126,088
Depreciation	12,234,011	11,672,550
Total operating expenses	67,690,507	62,021,167
Operating loss	(3,375,375)	(1,009,607)
Nonoperating revenues (expenses):		
Investment income	452,036	477,775
Interest expense on capital debt	(5,437,659)	(5,548,022)
Gain (loss) on disposal of capital assets	(321,526)	37,955
Nonoperating expenses, net	(5,307,149)	(5,032,292)
Loss before other revenues, expenses, gains, or losses	(8,682,524)	(6,041,899)
Other revenues, expenses, gains, or losses:		
State capital contributions	870,112	(591,779)
Capital grants and gifts	831,552	—
Decrease in net assets	(6,980,860)	(6,633,678)
Net assets, beginning of year	184,064,857	190,698,535
Net assets, end of year	$ 177,083,997	184,064,857

See accompanying notes to basic financial statements.

AURARIA HIGHER EDUCATION CENTER

Discretely Presented Component Unit

Statements of Activities

Years ended June 30, 2012 and 2011

	2012			2011		
	Inn at Auraria LLC	**The Auraria Foundation**	**Total**	**Inn at Auraria LLC**	**The Auraria Foundation**	**Total**
Revenues and other support:						
Rental income	$ 2,056,448	25,145	2,081,593	2,271,713	43,106	2,314,819
Investment income	45	65,307	65,352	12,311	658,818	671,129
Miscellaneous income	288,338	50,000	338,338	252,920	—	252,920
Total revenues and other support	2,344,831	140,452	2,485,283	2,536,944	701,924	3,238,868
Expenses:						
Inn at Auraria LLC operations	4,194,460	—	4,194,460	4,481,979	—	4,481,979
St. Francis program expense	—	40,026	40,026	—	74,975	74,975
Donations to AHEC	—	1,053,039	1,053,039	—	2,500	2,500
General and administrative	373,036	61,363	434,399	514,297	67,276	581,573
Total operating expenses	4,567,496	1,154,428	5,721,924	4,996,276	144,751	5,141,027
AHEC grants	—	—	—	—	257,300	257,300
Change in net assets	(2,222,665)	(1,013,976)	(3,236,641)	(2,459,332)	299,873	(2,159,459)
Unrestricted net assets (deficit), beginning of year	(9,838,873)	4,916,284	(4,922,589)	(7,379,541)	4,616,411	(2,763,130)
Unrestricted net assets (deficit), end of year	$ (12,061,538)	3,902,308	(8,159,230)	(9,838,873)	4,916,284	(4,922,589)

See accompanying notes to basic financial statements.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Cash received:			
Student fees	$	6,010,113	6,427,101
Revenue from constituent institutions		19,950,616	18,911,407
Sales of products and services		37,872,183	39,363,311
Cash payments:			
Payments for employees		(20,387,967)	(20,505,839)
Payments to suppliers		(32,469,007)	(27,989,158)
Net cash provided by operating activities		10,975,938	16,206,822
Cash flows from capital and related financing activities:			
Capital grants and gifts		—	1,534,723
Transfer capital donation to the state		—	(3,000,000)
Acquisition and construction of capital assets		(942,872)	(585,865)
Proceeds from sales and conveyances of capital assets		103,576	1,541,534
Principal received on notes receivable		664,768	636,073
Principal paid on long-term debt		(7,023,080)	(5,274,414)
Interest paid on long-term debt		(4,378,889)	(4,595,144)
Net cash used in capital and related financing activities		(11,576,497)	(9,743,093)
Cash flows from investing activities:			
Gross sales (purchases) of investments		1,495,287	1,821,685
Investment income		404,035	477,775
Net cash provided by investing activities		1,899,322	2,299,460
Net increase in cash and cash equivalents		1,298,763	8,763,189
Cash and cash equivalents, beginning of year		27,013,315	18,250,126
Cash and cash equivalents, end of year	$	28,312,078	27,013,315

(Continued)

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(3,375,375)	(1,009,607)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		12,234,011	11,672,550
Bad debt expense		93,978	485,807
Supplies and materials purchased with state funds		387,330	1,313,897
Decrease (increase) in assets:			
Accounts receivable		(1,608,850)	1,438,121
Inventories		(100,634)	244,857
Prepaid expenses		(1,812)	(6,808)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities		2,055,509	(77,429)
Deferred revenues		475,863	206,223
Compensated absences liability		(83,929)	62,794
Deposits held for others		899,847	1,876,417
Net cash provided by operating activities	$	10,975,938	16,206,822
Noncash operating and capital activities:			
Acquisitions under capital lease arrangements:			
Capital assets:			
Notes receivable	$	3,870,394	11,474,092
State capital contributions		—	(591,779)
Acquisitions and construction of capital assets funded by State capital contributions		(870,112)	(1,572,720)
Acquisition and construction of capital assets funded by State note receivable		(3,870,394)	(11,474,092)
Donation of land from AHEC Foundation		(831,552)	—
Reduction in capital assets for disposal of the tennis courts		425,102	—
Supplemental cash flow information:			
Accounts payable related to capital asset purchases	$	254,141	—

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) 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 revenue from its constituent institutions, student fees, auxiliary sales and services, and fees for services. The Center is responsible for planning and managing the physical plant assets, auxiliary enterprises, and other support services of the Auraria Campus in Denver, Colorado (the Campus). Educational services at the Campus are provided by constituent institutions including the University of Colorado at Denver, Metropolitan State College of Denver (Metro), and the Community College of Denver (the constituent institutions).

The Board of Directors of the Center is a corporate body created by the State. The authority under which the Center operates is Article 70 of Title 23, Colorado Revised Statutes (C.R.S.). 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. In addition, the governing boards of each of the three constituent institutions appoint a voting member, and the president or chief executive officer of each of the constituent institutions also serves as a voting member. The nonvoting members are appointed by the students and faculties of the constituent institutions.

(b) Basis of Accounting and Presentation

The financial statements of the Center have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, state appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income, and interest on capital asset-related debt are included in nonoperating or other revenues and expenses. The Center first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Center prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The Center has the option to apply all Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The Center has elected not to apply FASB pronouncements issued after the applicable date.

Effective June 30, 2004, the Center adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Accordingly, the financial statements of the Auraria Foundation (the Foundation) are included with the Center's financial statements. The Foundation is the sole member of the Inn at Auraria, LLC (the Inn) that is a limited liability corporation that is legally, financially, and operationally independent of the Foundation. For financial reporting purposes, the Inn is consolidated into the Foundation's reporting entity. The Foundation is a private,

nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Center's financial reporting entity for these differences. A complete copy of the Foundation's financial statements can be obtained by contacting: Auraria Foundation, Box 173361 Campus Box A, Denver, Colorado 80217-3361.

(c) 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, expenses, and other changes in net assets during the reporting period. Actual results could differ significantly from those estimates.

(d) Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 financial statement presentation.

(e) Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, cash and cash equivalents and restricted cash and cash equivalents consisted primarily of U.S. Treasury money market funds, certificates of deposit, cash on hand, and amounts on deposit with the Colorado State Treasurer (the Treasurer).

(f) Investments and Investment Income

Investments in debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in commercial paper are carried at cost, which approximates market.

Investment income consists of interest and dividend income, and realized and unrealized gains and losses.

(g) Restricted Cash and Cash Equivalents and Restricted Investments

Restricted cash and cash equivalents and restricted investments consist of deposits held for others and required bond reserves.

(h) Accounts Receivable, Net

Accounts receivable, net consist of the following at June 30:

		2012	2011
Constituent institutions	$	2,512,519	753,916
State of Colorado central collections		704,315	611,012
Book Center credit memos due from vendors		258,385	410,264
Auxiliary enterprises		611,941	378,983
Interest receivable		—	154,264
Auraria Foundation		295,256	25,052
Other		284,028	724,102
		4,666,444	3,057,593
Less allowance for doubtful accounts		(775,176)	(681,198)
Accounts receivable, net	$	3,891,268	2,376,395

Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance is based on past experience and analysis of the collectibility of current accounts receivable. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Accounts receivable are considered to be past due based on contractual terms.

(i) Notes Receivable

In 2009, the Center entered into capital lease arrangements with the constituent institutions to lease space in the Science Building. The proceeds of these capital lease arrangements will be used by the Center to fund the $20,133,417 due to the State as required under the State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 (the Certification) (refer to note 4 for more details).

Notes receivable consist of the following at June 30:

		2012	2011
Science building – receivable from constituent institutions, current	$	703,027	664,768
Science building – receivable from Treasurer, current		4,719,488	—
Total current		5,422,515	664,768
Science building – receivable from Treasurer, long term		—	8,589,882
Science building – receivable from constituent institutions, long term		16,116,315	16,819,342
Total long term		16,116,315	25,409,224
Total notes receivable	$	21,538,830	26,073,992

The notes receivable balances are considered to be fully collectible as of June 30, 2012 and 2011. The note receivable from the Treasurer represents cash obtained under the Certificates and held by the Treasurer to be utilized by the Center for the construction and completion of the Science Building. See note 14 for discussion of unspent construction proceeds.

(j) Inventories

The Campus provides an academic bookstore utilized by the three constituent institutions, consisting of new and used textbooks, insignia items, apparel, and other supplies. The Center is responsible for managing and maintaining the bookstore and carries the inventory at the lower of retail or cost method. Provisions are made for obsolete inventory on a periodic basis. Provisions recorded for the years ended June 30, 2012 and 2011 totaled $172,604 and $333,695, respectively.

(k) Deferred Debt Issue Costs

Debt issue costs incurred on the revenue bonds and capital leases have been deferred and are being amortized over the shorter of the life of the bonds or term of the leases.

(l) Capital Assets, Net

Capital assets, net, are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Center:

Land improvements	20 years
Buildings and improvements	27.5 – 40 years
Equipment	3 – 10 years

The following is the capitalization threshold used by the Center:

Furniture and equipment	$	5,000
Purchased software		5,000
Land and building improvements		50,000

Capital leases consist of lease-purchase contracts. Such contracts provide that commitments beyond the current year are contingent upon funds being appropriated for such purposes. Refer to note 4 for further discussion. In addition, the Center is the lessor in direct financing leases with the constituent institutions in relation to the Science Building.

The Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. As of June 30, 2012, there was no capitalized interest. As of June 30, 2011, capitalized interest included in construction in progress totaled $303,789.

(m) Accrued Salaries

State Senate Bill 03-197 requires monthly and certain biweekly salaries that would normally be paid at the end of June to be paid in July. This resulted in an accrual of $1,629,278 and $1,597,121 that were included in accounts payable and accrued liabilities at June 30, 2012 and 2011, respectively.

(n) Compensated Absences

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, 2012 and 2011 is $1,381,381 and $1,465,310, respectively. Operating expenses for the years ended June 30, 2012 and 2011 include $83,929 and $62,794, respectively, representing the decrease/increase in the estimated compensated absences liability.

(o) Deferred Revenue

Deferred revenue represents unearned fees and advance payments for which the Center has not earned the revenue. Deferred revenue includes the following for the years ended June 30:

	2012	2011
Student fees for the summer semester	$ 174,570	193,350
Childcare tuition collected in advance	7,545	—
Infrastructure grant	—	81,316
Early Learning Center grants	48,844	50,000
Facilities Services administration	3,000	—
Deferred maintenance	536,374	—
Parking	4,450	—
Tivoli prepaid rents	15,971	—
Facilities Services Project Services Aux	67,668	—
Lot I build-out fee	445,327	503,220
	$ 1,303,749	827,886

(p) Classification of Revenues and Expenses

The Center has classified its revenues as either operating or nonoperating according to the following criteria:

Operating revenues and expenses – Operating revenues include activities that have the characteristics of exchange transactions such as (1) revenue from constituent institutions for use of facilities and services, (2) student fees, (3) sales and services of auxiliary enterprises, and (4) grant reimbursements for services performed.

Nonoperating revenues and expenses – Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues and expenses by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state capital appropriations and investment income.

(q) Functional Allocation of Expenses

The costs of supporting the various services and other activities of the Center have been summarized on a functional basis in the statements of revenues, expenses, and changes in net assets. Accordingly, certain costs have been allocated among the appropriate activities and supporting services benefited.

(r) Income Taxes

As a state agency, the income of the Center is excluded from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, income

(Continued)

not earned in exercise of the Center’s essential government function would be subject to income tax. All income in fiscal years 2012 and 2011 was earned in the exercise of the Center's essential government functions.

(2) Deposits, Investments, and Investment Return

(a) Deposits and Cash Equivalents

At June 30, 2012 and 2011, the carrying value of the Center’s deposits was $28,312,078 and $27,013,315 respectively. Balances consist of deposits with the Treasurer, as described below, $4,792,250 and $3,805,220 in bank deposits, and $68,611 and $52,546 of cash on hand, respectively. The bank balances classified by custodial credit risk category are covered 100% by federal depository insurance and by collateral held by the pledging institutions’ trust departments in the name of the state public deposit pool as required by the Public Deposit Protection Act.

(b) Investments

The Center deposits its cash with the Treasurer as required by C.R.S. The Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The Treasurer acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited with the Treasury are invested until the cash is needed. Earnings are allocated in proportion to the average daily cash balance for all participants in the pool. As of June 30, 2012 and 2011, the Center had cash on deposit, including restricted cash and cash equivalents, with the Treasurer of $23,451,217 and $23,155,549, respectively, which represented approximately 0.36% of the total $6,541.7 million and 0.38% of the total $6,100.3 million, respectively, in deposits in the Treasurer’s Pool (Pool).

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

For the Center’s deposits with the Treasurer, the net unrealized gain for fiscal year 2012 was $318,713 and the net unrealized gain for fiscal year 2011 was $345,672. These unrealized gains are included in cash and cash equivalents on the statements of net assets.

(c) Custodial Credit Risk

Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in either the Center’s or the State’s name, and are held by either the counterparty to the investment purchase or the counterparty’s trust department or agency but not held in the Center’s or the State’s name. As of June 30, 2012 and 2011, the Center has no investments that are subject to custodial risk.

(Continued)

(d) *Credit Quality Risk*

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. The State requires two ratings with the rating level set by the investment portfolio and investment type. Based on these parameters, as of June 30, 2012 and 2011, approximately 89% and 86.7%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for $12,085,710 and $18,384,300 in 2012 and 2011, respectively, of corporate bonds rated lower-medium, these investments are rated from upper-medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

(e) *Interest Rate Risk*

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. The weighted average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in terms of years, weighted to reflect the dollar size of individual investments within an investment type. The overall portfolio WAM is derived by dollar weighting the WAM for each investment type. The State has selected WAM as the primary method for reporting interest rate risk. As of June 30, 2012, the WAM of investments in the Pool is 0.090 years for commercial paper (2.1% of the Pool), 0.803 years for U.S. government securities (75.2% of the Pool), 2.379 years for asset-backed securities (6.6% of the Pool), and 3.252 years for corporate bonds (16.1% of the Pool). As of June 30, 2011, the WAM of investments in the Pool is 1.015 years for commercial paper (1.3% of the Pool), 1.054 years for U.S. government securities (81.7% of the Pool), 1.06 years for asset-backed securities (6.9% of the Pool), and 3.133 years for corporate bonds (10.1% of the Pool).

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2012 or 2011.

The following table lists the Center's investments, by investment type, as of June 30, 2012 and 2011 for those investments not part of the Pool. The fair value amount is shown along with the credit quality rating and WAM:

Investment type		Fair value amount	Credit rating	Weighted average maturity
June 30, 2012:				
U.S. government agencies – explicitly guaranteed	$	2,602,738	Not rated	Not applicable
Commercial paper		2,001,256	Highest	0.4972
Total investments	$	4,603,994		
June 30, 2011:				
U.S. government agencies – explicitly guaranteed	$	4,048,831	Not rated	Not applicable
Commercial paper		2,002,449	Highest	0.0506
Total investments	$	6,051,280		

(f) Investment Income

Investment income consisted of the following for the years ended June 30:

		2012	2011
Interest and dividend income	$	500,037	517,858
Net decrease in fair value of investments		(48,001)	(40,083)
	$	452,036	477,775

(3) Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	Beginning balance	Additions	Disposals	Transfers	Ending balance
Land	$ 26,736,497	831,553	—	327,600	27,895,650
Land improvements	25,126,692	—	(636,207)	(327,600)	24,162,885
Buildings and improvements	342,670,353	—	—	5,753,132	348,423,485
Equipment	7,136,621	854,291	(184,285)	—	7,806,627
Construction in progress, net	1,592,090	4,698,441	(2,544)	(5,753,132)	534,855
Total capital assets	403,262,253	6,384,285	(823,036)	—	408,823,502
Less accumulated depreciation:					
Land improvements	16,830,251	709,119	(211,105)	—	17,328,265
Buildings and improvements	141,752,063	10,963,674	—	—	152,715,737
Equipment	5,015,565	561,218	(184,285)	—	5,392,498
Total accumulated depreciation	163,597,879	12,234,011	(395,390)	—	175,436,500
Total capital assets, net	$ 239,664,374	(5,849,726)	(427,646)	—	233,387,002

As of June 30, 2012 and 2011, the construction in progress primarily consists of the Infrastructure project and the Arts Building, respectively.

Capital asset activity for the year ended June 30, 2011 is as follows:

	Beginning balance	Additions	Disposals	Transfers	Ending balance
Land	$ 28,252,961	—	(1,516,464)	—	26,736,497
Land improvements	25,017,922	108,770	—	—	25,126,692
Buildings and improvements	250,657,308	—	—	92,013,045	342,670,353
Equipment	6,744,155	764,061	(371,595)	—	7,136,621
Construction in progress, net	84,264,785	9,340,350	—	(92,013,045)	1,592,090
Total capital assets	394,937,131	10,213,181	(1,888,059)	—	403,262,253
Less accumulated depreciation:					
Land improvements	16,052,619	777,632	—	—	16,830,251
Buildings and improvements	131,439,519	10,312,544	—	—	141,752,063
Equipment	4,791,071	582,374	(357,880)	—	5,015,565
Total accumulated depreciation	152,283,209	11,672,550	(357,880)	—	163,597,879
Total capital assets, net	$ 242,653,922	(1,459,369)	(1,530,179)	—	239,664,374

(4) Long-Term Debt

The following is a summary of long-term debt for the Center for the year ended June 30, 2012:

	Beginning balance	Additions	Deductions	Ending balance	Current portion
Revenue bonds payable:					
Series 2003 parking	$ 1,782,886	72,114	(1,855,000)	—	—
Series 2003 student fee	16,437,033	4,855	(590,000)	15,851,888	615,000
Series 2004 parking	24,485,476	809,605	(1,480,000)	23,815,081	1,605,000
Series 2006 parking	7,192,479	25,256	(55,000)	7,162,735	365,000
Series 2006 student fee	12,970,465	30,461	(1,110,000)	11,890,926	1,150,000
Total revenue bonds payable	62,868,339	942,291	(5,090,000)	58,720,630	3,735,000
Capital lease obligations:					
Administration facility, Series 2005	13,729,726	48,164	(620,000)	13,157,890	640,000
Equipment	150,083	—	(72,065)	78,018	78,018
Land acquisition, Series 2008	15,027,565	2,496	(535,000)	14,495,061	565,000
State capital construction					740,465
financing, Series 2008	18,325,863	—	(706,015)	17,619,848	—
Total capital lease obligations	47,233,237	50,660	(1,933,080)	45,350,817	2,023,483
Total long-term debt	$ 110,101,576	992,951	(7,023,080)	104,071,447	5,758,483

(Continued)

The following is a summary of long-term debt for the Center for the year ended June 30, 2011:

	Beginning balance	Additions	Deductions	Ending balance	Current portion
Revenue bonds payable:					
Series 2003 parking	$ 3,500,772	72,114	(1,790,000)	1,782,886	1,855,000
Series 2003 student fee	17,212,178	4,855	(780,000)	16,437,033	590,000
Series 2004 parking	23,698,383	787,093	—	24,485,476	1,480,000
Series 2006 parking	7,167,224	25,255	—	7,192,479	55,000
Series 2006 student fee	13,800,004	30,461	(860,000)	12,970,465	1,110,000
Total revenue bonds payable	65,378,561	919,778	(3,430,000)	62,868,339	5,090,000
Capital lease obligations:					
Administration facility, Series 2005	14,281,562	48,164	(600,000)	13,729,726	620,000
Equipment	216,625	—	(66,542)	150,083	72,065
Land acquisition, Series 2008	15,530,069	2,496	(505,000)	15,027,565	535,000
State capital construction financing, Series 2008	18,998,735	—	(672,872)	18,325,863	706,015
Total capital lease obligations	49,026,991	50,660	(1,844,414)	47,233,237	1,933,080
Total long-term debt	$ 114,405,552	970,438	(5,274,414)	110,101,576	7,023,080

(a) Revenue Bonds Payable

The Center had the following bonds outstanding at June 30, 2012:

- Student Fee Revenue Bonds, Series 2003 (Series 2003 Student Fee Bonds)
- Parking Enterprise Revenue Refunding Bonds, Series 2004 (Series 2004 Parking Bonds)
- Parking Enterprise Revenue Refunding Bonds, Series 2006 (Series 2006 Parking Bonds)
- Student Fee Revenue Refunding Bonds, Series 2006 (Series 2006 Student Fee Bonds)

(b) Series 2003 Parking Bonds

On January 30, 2003, the Center issued Series 2003 Parking Bonds in the amount of $14,805,000 for the purpose of advance refunding $15,835,000 of Series 1993 Bonds. The Center refunded those bonds by placing the proceeds of the Series 2003 Parking Bonds and amounts held in reserve related to the Series 1993 Bonds (total: $16,360,146) in an irrevocable trust to provide for the early redemption of the Series 1993 Bonds. As a result, the Series 1993 Bonds are considered defeased and the liability for those bonds has been removed from the Center’s statements of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $766,420, and was recorded as a loss on the refinancing of the bonds. The

loss is reported in the accompanying financial statements as a deduction from long-term debt and is being charged to operations through the year 2012. The Center completed the advance refunding to reduce its total debt service payments by $4.77 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $4.14 million.

On April 1, 2003, the outstanding Series 1993 Bonds were called at 101% of their face value.

The Series 2003 Parking Bonds were due in semiannual installments with annual principal payments ranging from $1,475,000 to $1,855,000 and interest ranging from 2.50% to 3.60%. The final installment was paid on April 1, 2012. The Series 2003 Parking Bonds were 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.

At June 30, 2011, the Series 2003 Parking Bonds are shown net of unamortized premium of $9,652 and unamortized deferred loss on refinancing of $81,766. The bonds were paid off on April 1, 2012.

(c) Series 2003 Student Fee Bonds

On April 29, 2003, the Center issued $23,450,000 in Series 2003 Student Fee Bonds for the purpose of financing the costs of various renovation projects and capital improvements to the Tivoli Student Union. The Series 2003 Student Fee Bonds are payable in semiannual installments with annual principal payments ranging from $815,000 to $2,725,000 and interest ranging from 2.0% to 4.5%. The final installment is due May 1, 2025. Bonds maturing on or after May 1, 2014 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 May 1, 2013. The Series 2003 Student Fee Bonds revenue is pledged to the bond from student fees assessed for student facilities, revenues including an agreement with the Department of Housing and Urban Development, and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2012 and 2011, the Series 2003 Student Fee Bonds are shown net of a discount of $63,113 and $67,968, respectively, and have related unamortized issue costs of $191,236 and $205,947 respectively.

(d) Series 2004 Parking Bonds

On March 10, 2004, the Center issued Series 2004A and 2004B Parking Enterprise Revenue Bonds in the amounts of $6,550,000 and $13,012,401, respectively, for the acquisition, construction, and equipping of an 850-car parking garage to be located at the Center and to relocate and construct eight tennis courts at the Center.

Interest on the Series 2004A bonds is payable in semiannual installments commencing on April 1, 2004. The principal amount of $6,550,000 is payable in two annual installments of $2,220,000 and $4,330,000 due on April 1, 2028 and 2029, respectively. The Series 2004B Bonds accrete in value from the date of issuance, compounding semiannually, beginning April 1, 2004. Principal payments begin on April 1, 2012 and range from $75,000 to $2,295,000. Interest payments also begin on April 1, 2012 and range from 3.6% to 5.2%. The final installment is due April 1, 2028.

The Series 2004A and 2004B Parking 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.

At June 30, 2012 and 2011, the Series 2004 Parking Bonds accreted interest of $805,520 and $783,007, respectively. The Bonds are shown net of a discount of $63,667 and $67,752, respectively, and have related unamortized issue costs of $335,376 and $355,498, respectively.

(e) Series 2006 Parking Bonds

On April 20, 2006, the Center issued Series 2006 Parking Bonds in the amount of $7,565,000 for the purpose of advance refunding $7,020,000 in Series 2000 Parking Bonds. The Center refunded those bonds by placing the proceeds of the Series 2006 Parking Bonds and amounts held in reserve related to the Series 2000 Bonds (total: $7,281,623) in an irrevocable trust to provide for the early redemption of the Series 2000 Bonds. The Series 2000 Parking Bonds were redeemed on April 1, 2010. As a result, the Series 2000 Bonds are considered defeased and the liability for those bonds has been removed from the Center's statements of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $511,679, and was recorded as a loss on the refinancing of the bonds. The loss is reported in the accompanying financial statements as a deduction from long-term debt and is being charged to operations through the year 2026. Bonds maturing on or after April 1, 2017 can be called for redemption at the option of the Center's Board of Directors on or after April 1, 2016 as a whole or in part on any interest payment date, at a redemption price equal to the principal amount of the bonds redeemed plus accrued interest to the redemption date. The Center completed the advance refunding to reduce its total debt service payments by $338,035 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $340,075.

The Series 2006 Bonds are payable in semiannual installments with annual principal payments beginning on April 1, 2012 ranging from $55,000 to $1,335,000 and interest ranging from 4.0% to 4.5%. The final installment is due April 1, 2026. The Series 2006 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.

At June 30, 2012 and 2011, the Series 2006 Bonds are shown net of a premium of $5,985 and $6,421, respectively, and unamortized deferred loss on refinancing of $353,251 and $378,942, respectively, and have related unamortized issue costs of $160,049 and $171,689, respectively.

(f) Series 2006 Student Fee Bonds

On February 16, 2006, the Center issued $15,315,000 in Series 2006 Bonds for the purpose of advance refunding $18,030,000 of Student Fee 1996 Refunding Bonds. These bonds were redeemed on May 1, 2006. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $435,873, and was recorded as a loss on the refinancing of the bonds. The loss is reported in the accompanying financial statements as a deduction from long-term debt and is being charged to operations through the year 2021. Bonds maturing on or after May 1, 2017 can be called for redemption at the option of the Center's Board of Directors on or after

May 1, 2016 as a whole or in part on any interest payment date, at a redemption price equal to the principal amount of the bonds redeemed, plus accrued interest to the redemption date.

The Center completed the advance refunding to reduce its total debt service payments by $1,152,780 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,061,093.

The Series 2006 Bonds are payable in semiannual installments with annual principal payments ranging from $180,000 to $1,575,000 and interest ranging from 3.5% to 4.1%. The final installment is due April 1, 2021. The Series 2006 Student Bonds are collateralized by revenues from student fees assessed for student facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2012 and 2011, the Series 2006 Bonds are shown net of a discount of $15,214 and $16,936, respectively, and unamortized deferred loss on refinancing of $253,860 and $282,598, respectively, and have related unamortized issue costs of $168,596 and $187,682, respectively.

(g) Bond Maturity Schedule

Debt service to maturity for all bonds as of June 30, 2012 is as follows:

	Principal	Interest	Total
Year(s) ending June 30:			
2013	$ 3,735,000	1,789,052	5,524,052
2014	3,820,000	1,705,815	5,525,815
2015	3,810,000	1,619,252	5,429,252
2016	3,895,000	1,530,264	5,425,264
2017	3,985,000	1,438,665	5,423,665
2018 – 2022	21,475,000	5,658,394	27,133,394
2023 – 2027	19,595,000	2,551,775	22,146,775
2028 – 2032	6,625,000	478,720	7,103,720
	66,940,000	16,771,937	83,711,937
Less unaccreted principal on Series 2004 Parking Bonds	(7,476,252)	—	(7,476,252)
Less unamortized discount/premium and deferred loss on refinancing	(743,118)	—	(743,118)
	$ 58,720,630	16,771,937	75,492,567

Reserve balances and requirements for outstanding bond issues at June 30, 2012 are as follows:

		Reserve balance	Required reserve
Series 2004 and Series 2006 Parking Bonds:			
Debt service reserve	$	2,712,740	2,712,740
Repair and replacement reserve		778,507	778,507
Series 2003 and 2006 Student Fee Bonds:			
Repair, replacement, and operation and maintenance reserve	$	350,000	350,000

As of June 30, 2012 and 2011, the Center was in compliance with all bond covenants and related reserve requirements.

Student bond fees and parking revenues were pledged as follows:

Revenue source		2012	2011
Student fees pledged for bond payments	$	5,958,318	5,902,676
Interest earned on student fees pledged for bond payments		36,001	11,729
Parking revenue		9,513,479	8,903,983
Interest earned on parking revenue		264,898	308,073
Total pledged revenue	$	15,772,696	15,126,461

(h) ***Capitalized Leases***

The Center is obligated under leases accounted for as capital leases. Assets under capital leases are included in the statements of net assets at June 30, 2012 and 2011 as follows:

		Cost	Accumulated depreciation	Carrying value
June 30, 2012:				
Administrative building	$	15,518,172	7,063,698	8,454,474
Equipment		334,800	234,360	100,440
Land		14,983,536	—	14,983,536
Science building		95,865,115	6,503,706	89,361,409
Science building equipment		1,050,330	235,965	814,365
Total capitalized leases	$	127,751,953	14,037,729	113,714,224
June 30, 2011:				
Administrative building	$	15,518,172	6,497,588	9,020,584
Equipment		334,800	167,400	167,400
Land		14,983,536	—	14,983,536
Science building		92,013,045	2,924,611	89,088,434
Science building equipment		950,727	133,104	817,623
Total capitalized leases	$	123,800,280	9,722,703	114,077,577

(i) ***Administrative Facility Series 2005***

On May 1, 1998, the Center entered into an agreement with the Foundation to finance the acquisition, construction, and equipping of an administrative office facility. The Foundation acted as an intermediary in the issuance of Certificates of Participation (Administrative Facility Certificates) in the amount of $16,905,000 to fund the project. The Administrative Facility Certificates and the interest thereon 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. Approximately 75% of the Administrative Office Facility is occupied by the Center’s three constituent institutions. The institutions share in the costs of debt service and operations of the facility through their annual allocation of state-appropriated funds to the Center.

On September 29, 2005, the Center issued Series 2005 Certificates of Participation (Administrative Office Facility Refunding Project) in the amount of $17,520,000 for the purpose of advance refunding the 1998 Administrative Facility Certificates. The 1998 Administrative Facility Certificates were fully redeemed on May 1, 2008.

The advance refunding of the 1998 Administrative Facility Certificates resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,422,087, and was recorded as a loss on the refinancing of the certificates. The loss is reported in the accompanying financial statements as a deduction from long-term debt and is being charged to operations through the year 2028. The Center completed the advance refunding to reduce its total debt service payments

by $722,936 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $704,397.

The Series 2005 Certificates are payable in semiannual installments with annual principal payments ranging from $145,000 to $1,170,000, maturing on May 1, 2028, and have interest rates ranging from 3.3% to 4.5%.

At June 30, 2012 and 2011, the Administrative Facility Certificates are shown net of an unamortized discount of $782,110 and $830,274, respectively, and unamortized issue costs of $248,659 and $264,363, respectively.

(j) Land Acquisition Series 2008

On December 30, 2008, the Center entered into an agreement to finance the acquisition of approximately 13.54 acres of land located south of West Colfax Avenue and west of Rio Court near the Campus. Issuance of Certificates of Participation (Series 2008 Land Acquisition Certificates) in the amount of $16,500,000 was used to fund the project. The Center has entered into a leased property agreement with the three constituent institutions in order to finance the property acquisition. The institutions share in the costs of debt service through their lease payments to the Center.

The Series 2008 Land Acquisition Certificates are payable in semiannual installments with annual principal payments ranging from $450,000 to $1,355,000, maturing on May 1, 2028, and have an interest rate of 6.0%.

At June 30, 2012 and 2011, the Series 2008 Land Acquisition Certificates are shown net of an unamortized discount of $39,938 and $42,435, respectively, and unamortized issuance costs of $94,080 and $99,960, respectively.

(k) State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008

On November 6, 2008, the Treasurer completed a lease purchase agreement under which a Trustee (Wells Fargo Bank, National Association) issued $230,845,000 of State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 (the Certificates). The Certificates were issued at a net premium of $180,940 and were a combination of serial and term maturities with the final maturity in November 2027. The Certificates carry coupon rates ranging from 3.00% to 5.50% with a total interest cost of 5.40%. The Certificate proceeds will be used to fund renovations, additions, and new construction at 12 state institutions of higher education and are collateralized with existing properties at 11 of the 12 institutions. C.R.S. § 23-1-106.3 enacted in the 2008 session of the Colorado State General Assembly authorized the lease purchase and limited the lease payments to average $16.2 million for the first 10 years and $16.8 million for the second 10 years. The legislation envisions annual appropriations of Federal Mineral Lease Program (FML) revenues to fund the semiannual lease payments required. Annual lease payments are made by the State and are subject to annual appropriations by the Legislature. As a result, the portion of the liability related to the Center of $63,619,181 is recognized by the State and not included in the Center's financial statements.

On November 6, 2008, certificate proceeds were allocated to the Science Building renovation and addition project on the Campus in the amount of $83,752,598 with $63,619,181 funded through state appropriations and $20,133,417 to be paid by the Center to the State. The Center pledged the Library/Media Center building and the King Center building as collateral for the project.

The Certificates are payable in semiannual installments with annual principal payments ranging from $493,645 to $1,590,823, with final payment maturing on November 1, 2027, and have an interest rate of 5.2%.

(l) Equipment Lease

The Center also entered into a lease-purchase contract for copier equipment for the year ended June 30, 2009. The interest rate on the lease was 8% in fiscal years 2012 and 2011.

(m) Future Minimum Lease Payments

The following is a schedule of future minimum lease payments under all capital leases for the year ended June 30, 2012:

		Principal	Interest	Total
Year(s) ending June 30:				
2013	$	2,023,483	2,424,194	4,447,677
2014		2,039,043	2,269,744	4,308,787
2015		2,136,547	2,170,141	4,306,688
2016		2,239,922	2,066,691	4,306,613
2017		2,350,913	1,955,224	4,306,137
2018 – 2021		10,642,034	6,578,366	17,220,400
2022 – 2026		16,724,314	4,801,599	21,525,913
2027 – 2029		8,016,610	597,477	8,614,087
		46,172,866	22,863,436	69,036,302
Less unamortized discount/premium and deferred loss on refinancing		(822,049)	—	(822,049)
	$	45,350,817	22,863,436	68,214,253

(n) Ground leases

On December 22, 2011, the Center entered into an interagency ground lease with the Community College of Denver (CCD) to lease land on which their new Student Learning and Engagement Building is being constructed. The new building will add an estimated 87,000 square feet of space on campus for classrooms, administrative offices, and a wide range of CCD support services. The groundbreaking for the building was held on January 12, 2012, with a scheduled opening date of April 2013.

(Continued)

The term of this lease shall be fifty (50) years and rent in the amount of $1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, CCD paid $10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. CCD shall be solely responsible for any and all operating expenses of the premises and improvements.

On February 1, 2012, the Auraria Foundation donated 0.57 acres of land located at 1030 St. Francis Way on the Auraria Campus with an estimated market value of $831,552 to the Center. The property is the site location of the St. Francis Center, a building formerly owned by the Auraria Foundation. Upon receipt of the donated land, the Center subsequently entered into an interagency ground lease with CCD to lease the donated land so that CCD could purchase the St. Francis Center building from the Auraria Foundation.

The term of this lease shall be fifty (50) years and rent in the amount of $1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, CCD paid $10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. CCD shall be solely responsible for any and all operating expenses of the premises and improvements.

On November 13, 2009, the Center entered into an interagency ground lease with Metro to lease land occupied by their new Student Success Building. The new building added an estimated 145,000 square feet of space on campus for classrooms and faculty offices, specifically for Metro students and professors, and will provide students with a central location for a wide range of Metro support services. The groundbreaking for the building was held on December 3, 2010, with an opening date of March 2012.

The term of this lease shall be fifty (50) years and rent in the amount of $1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, Metro paid $10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. Metro shall be solely responsible for any and all operating expenses of the premises and improvements.

On October 28, 2010, the Center entered into an interagency ground lease with Metro to lease land on which their new Hotel and Hospitality Learning Center is being constructed. The new structure will include a 150 room hotel and conference center as well as an additional 28,000 square feet of space, including classrooms, specialty learning labs and faculty offices, to provide hands on training opportunities for students in Metro's Hospitality, Tourism & Events Department. The groundbreaking for the building was held on March 31, 2011, with a scheduled opening date of August 2012.

The term of this lease shall be fifty (50) years and rent in the amount of $1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, Metro paid $15,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. Metro shall be solely responsible for any and all operating expenses of the premises and improvements.

(5) State Contributions and Allocations from Other State Agencies

The Colorado State General Assembly establishes spending authority for the Center in its annual Long Appropriations Bill (Long Bill). Long Bill appropriated funds may include an amount from the State'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, 2012, appropriated current fund expenditures were within the authorized spending authority. The Center had total current funds appropriations of $16,344,333 for which the constituent institutions funded $16,344,333. The constituent institutions also provided additional nonappropriated funding of $719,425 to fund a portion of the debt service payments on the additional 13 acres of land purchased in December 2008 as well as an additional $1,573,729 provided by Metro and the University of Colorado Denver in lease payments related to the financed portion of the Science Building Project. The constituent institutions provided nonappropriated funding of $1,740,000 for various deferred maintenance projects. Finally, following the execution of a Memorandum of Agreement between the four campus entities dated August 24, 2011, Metro agreed to fund the electrical infrastructure project, which has accumulated costs of $389,227, which is recognized as a receivable.

For the year ended June 30, 2011, appropriated current fund expenditures were within the authorized spending authority. The Center had total current funds appropriations of $17,670,252 for which the constituent institutions funded $16,344,333. The constituent institutions also provided additional nonappropriated funding of $719,725 to fund a portion of the debt service payments on the additional 13 acres of land purchased in December 2008 as well as an additional $1,572,255 provided by Metro and the University of Colorado Denver in lease payments related to the financed portion of the Science Building Project.

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, certain revenues of auxiliary, self-funding activities, and miscellaneous revenues.

(6) The Auraria Foundation and Inn at Auraria LLC

(a) The Auraria Foundation

The Foundation is a legally separate, tax-exempt component unit of the Center. The Foundation was 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 benefiting the Center and its constituent institutions. Although the Center does not control the timing or amount of receipts from the Foundation, the majority of resources that the Foundation holds and invests are restricted to the activities of the Center. Therefore, the Foundation is considered a component unit of the Center and is discretely presented in the Center's financial statements. The Vice Chairman of the Board of Directors of the Center and the Center's Executive Vice President of Administration serve on the Foundation's 10-person Board of Directors.

Transactions between the Center and the Foundation are considered to be related-party transactions. Amounts reported may differ from the Foundation's notes to the basic financial statements based on various timing differences, all of which have been substantially reconciled to the Foundation's balances.

The Foundation, in conjunction with the Colorado Postsecondary Educational Facilities Authority and the Colorado Educational and Cultural Facilities Authority, issued tax-exempt bonds for the

purchase of buildings that were leased to one of the Center's constituent institutions, the University of Colorado Denver. In June 2006, the Foundation sold certain buildings to the University of Colorado Denver and pledged $3,000,000 from the proceeds to the Center to be used toward the costs of the Science Building addition/renovation project.

In May 2012, the Center billed the Foundation $295,256 for the Center's Strategic Implementation/ Phasing Plan and Master Plan Verification. As of June 30, 2012, the Center expended $124,156 of those funds. The Foundation paid the Center the total amount of $295,256 on June 29, 2012; however, the funds were in transit as of June 30, 2012.

The Foundation has a contract with the Center under which the Center provides services for the Foundation. Under that agreement, the Foundation paid the Center $2,000 and $2,000, respectively, for the years ended June 30, 2012 and 2011. In addition, the Foundation paid the Center $8,750 and $3,133 during fiscal years 2012 and 2011, respectively, for room rentals and reimbursements.

The Foundation owned the St. Francis Center and leased it to the Center to provide office space for campus activities and for conferences. The lease requires the Center to pay an annual lease payment and the operating costs of the building. During the years ended June 30, 2012 and 2011, the Center paid the Foundation $25,145 and $43,106, respectively, for the use of the St. Francis Center. The land for the St. Francis Center was donated to Auraria and the building transferred to the Community College of Denver. See note 4(n) for further information.

(b) Inn at Auraria LLC

The Inn is a limited liability corporation that is legally, financially, and operationally independent of the Foundation and the Center. The Foundation is the sole member of the Inn. The Inn was created to provide housing for the students of the Auraria institutions. In July 2005, the Inn received a $37,280,000 loan from the Colorado Educational and Cultural Facilities Authority through the issuance of long-term serial bonds and purchased the top 14 floors (floors 17 through 30) of the former Executive Tower Inn building to create 125-apartment-style units to provide housing for 439 students. The Executive Tower Inn was built in 1972 and is located in downtown Denver, Colorado, a few blocks from the Campus. The facility opened to student residents on August 19, 2006. The Executive Tower Inn building is condominiumized between the Inn and the remainder of the building. A condominium association provides common building services, such as elevator maintenance and exterior street-level maintenance, to the Inn's portion of the building as well as making a portion of the building's underground parking and athletic facilities available to students on a monthly rental basis. The Inn has engaged American Campus Communities to provide administrative and residential management services under an agreement expiring in August 2016. For the fiscal year ended June 30, 2012, the Inn reported a net loss of $2,222,665 and has a net asset deficiency of $12,061,538. In the planning for this project, it was anticipated that the Inn's first years of operation would be difficult because the Inn represented the addition of student housing to a campus, which has historically been a nonresidential "commuter" campus.

As of June 30, 2012, the Inn was in default on its bonds payable. The Inn has been in default since July 1, 2008, and has received multiple default notifications. As of June 30, 2012, the past due principal and interest balances total $1,045,000 and $3,405,781, respectively.

In July 2011, the majority of the outstanding bonds were sold to a new investor. Concurrently, the bond trustee, at the direction of the majority bondholders, agreed to forbear from exercising its rights to appoint a receiver with respect to the Inn or to pursue any remedies available to it as a result of the default until December 31, 2012. The forbearance agreement included certain financial and operating requirements and restrictions. Additionally, the agreement requires the Inn to maintain a net operating income of not less than $150,000 for each designated two-month period. As of June 30, 2012, management has determined that the Inn is in compliance with its obligations under the forbearance agreement. Upon the occurrence of a Forbearance Default, as defined in the forbearance agreement, the forbearance agreement will terminate immediately without any notice to the Inn, and the bondholders will have all remedies available to them under applicable agreements, including without limitation acceleration of the bonds or foreclosure of the property.

In the event funds are not sufficient to pay for certain construction costs of the Inn, the Inn may borrow up to $1,500,000 from the majority bondholders, subject to their approval. The nonrecourse debt is senior to the Series 2005 bonds, and is secured by a deed of trust on the property and a pledge of the trustee's priority rights as to reimbursement. Interest shall accrue at the highest interest rate applicable on the Series 2005 bonds. As of June 30, 2012, no funds have been drawn on the additional senior debt.

Principal and interest payments on the bonds, inclusive of principal payments and interest payments in default, for the years ending June 30 are as follows:

		Principal	Interest	Total
2013	$	1,520,000	2,157,775	3,677,775
2014		515,000	2,132,244	2,647,244
2015		540,000	2,104,563	2,644,563
2016		550,000	2,075,538	2,625,538
Thereafter		34,155,000	34,096,900	68,251,900
	$	37,280,000	42,567,020	79,847,020

(7) Pension Plan

(a) Plan Description

Most of the Center'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 an actuarial assessment and legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

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

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case, they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan with 60 days, unless they had been a PERA member within the prior twelve months. In that case, they are required to remain in the PERA plan in which they participated previously.

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

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

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011 age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

(Continued)

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15.0% increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2.0% or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2.0% or the actual increase in the national Consumer Price Index, limited to a 10.0% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1.0% point of salaries contributed by employers for employees hired on or after January 1, 2007).
- The upper limits of benefits increase by 0.25% point each year when the funded ratio of PERA equals or exceeds 103.0% and declines by 0.25% point when the funded ratio drops below 90% after having exceeded 103.0%. The funded ratio increase does not apply for three years when a negative return on investment occurs.

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

(b) Funding Policy

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

Most employees contribute 8.0% of their salary, as defined in C.R.S. 24-51-101(42), to an individual account in the plan. Effective July 1, 2011, Senate Bill 11-076 extended the requirements for members in the State and Judicial Divisions to pay 2.5% additional member contributions through June 30, 2012. Employer contributions for members in these two divisions will be reduced by 2.5%.

From July 1, 2011, to December 31, 2011, the State contributed 12.25% of the employee's salary. From January 1, 2012, through June 30, 2012, the State contributed 13.15%. During all of fiscal year 2011-12, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2011, the division of PERA in which the State participates has a funded ratio of 57.7% and a 56-year amortization period based on current contribution rates. The funded ratio on the market value of assets is lower at 57.6%.

In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5% of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4% of salary through 2017, to a maximum of 5.0%.

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional 0.5% point of total salaries, for calendar years 2008 through 2017, to a maximum of 0.5%. The SAED will be deducted from the amount otherwise available to increase state employees' salaries.

At a 1.03% funding ratio, both the AED and SAD will be reduced by .5% point, and for subsequent declines to below 90% funded both the AED and SAED will be increased by 0.5%.

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

The Center's contributions to the PERA and/or the State's defined contribution plan for the fiscal years ended June 30, 2012, 2011, and 2010 were $1,655,210, $1,546,516, and $1,763,441, respectively. These contributions met the contribution requirement for each year.

(8) Other Retirement Plans

(a) Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees,

have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50% to 100% evenly over 5 years. Participants in the plan are required to contribute 8% of their salary. For fiscal years 2009-10 and 2010-11, the legislature temporarily increased the required contribution rate to 10.5%. At December 31, 2011, the plan had 4,029 participants.

(b) Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8.0% PERA contribution with a temporarily increase to 10.5% for fiscal years 2010 - 11 and 2011 - 12) to a maximum of $16,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $5,500 contribution in 2010, for total contributions of $22,000. Contributions and earnings are tax deferred. At December 31, 2011, the plan had 17,821 participants.

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan. The Center offers a tax-sheltered 403(b) plan, which covers substantially all employees. The Center did not contribute to the 403(b) plan and, as such, does not incur any expense with regards to the plan.

(9) Other Postemployment Benefits and Life Insurance

(a) Healthcare Plan

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

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

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in note 7. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The Center contributed $128,389, $106,946, and $129,871 as required by statute in fiscal years 2012, 2011, and 2010, respectively. In each year, the amount contributed was 100% of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully insured plans offered through health care organizations and self-insured plans administered for PERA by third-party vendors. As of December 31, 2011, there were 50,217 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2011, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.43 billion, a funded ratio of 16.5%, and a 49-year amortization period.

(b) Other Programs

Nonclassified administrative staffs are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multi-employer insurance purchasing pool, which allows for postemployment health coverage until the retiree is eligible for Medicare. For fiscal years 2012 and 2011, the Center has no retiree participants under CHEIBA.

CHEIBA financial statements are prepared under accounting principles generally accepted in the United States of America using the accrual basis of accounting following governmental accounting standards for a business-type activity. The financial statements can be obtained by contacting the Center at 303-556-2232. Contributions are recognized in the period due. Benefits and refunds are recognized and paid when due according to the participating plans. The fair value of the CHEIBA's investments is based on quoted market prices from national securities exchanges.

There are no long-term contracts for contributions to the plan. Participating institutions can withdraw their participation in the plan with at least one-year notice to the CHEIBA board.

(10) Land Condemnation

On December 30, 2008, Certificates of Participation (Series 2008 Land Acquisition Certificates) in the amount of $16,500,000 were issued pursuant to a Mortgage and Indenture of Trust, dated as of December 1, 2008, as amended and supplemented, by and between Wells Fargo Bank, National Association, as grantor, and Wells Fargo Bank, National Association, as trustee, to finance the acquisition of approximately 13.54 acres of land, located south of West Colfax Avenue and west of Rio Court near the Campus, to be used for recreational and athletic field purposes by the Constituent Institutions.

On October 7, 2010, the Regional Transportation District (RTD) filed a Petition in Condemnation to acquire 1.04 acres of the aforementioned 13.54 acres of land. On December 8, 2010, the Court granted immediate possession of the property to RTD, including any and all claims, rights, title, interests, easements, liens, encumbrances, reversionary interests, and rights of entry, upon payment of just compensation in the amount of $1,515,700. The 1.04 acres of land that was condemned by RTD was purchased on December 30, 2008 at a cost of $1,516,464, resulting in a net loss on the condemnation of this property of $25,344.

Net proceeds from the land condemnation in the amount of $1,491,120 are currently being held by Wells Fargo Bank, as trustee, until these funds are needed to pay the final debt service obligations on the Series 2008 Land Acquisition Certificates, with final maturity on May 1, 2028. These proceeds are included in cash and cash equivalents at June 30, 2012 and 2011.

(11) Risk Management

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 Bill. Therefore, the Center is not required to obtain additional 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. As of June 7, 2010, HB-10-1181 was signed into law increasing the property loss claim deductible from $1,000 to $5,000 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 claims by the Doctrine of Sovereign Immunity except under certain circumstances in which immunity is waived.

(12) Concentrations of Credit Risk

Operating revenues consist of revenue from the constituent institutions for services and facilities provided by the Center. These revenues currently do cover the costs of operating the Campus. In prior years, the Center has had to draw on reserves to fund operations and critical maintenance needs.

(13) Litigation

The Center is at times involved in litigation arising from the normal course of business. Management has consulted with legal counsel and estimates that these matters will be resolved without a material impact on the operations or financial position of the Center.

(14) Unspent Construction Proceeds – Science Building

State of Colorado House Bill 1357, concerning the use of unspent moneys after completion of capital construction projects at state-supported institutions of higher education authorized by a 2008 Federal Mineral Lease Revenues Lease Purchase Agreement, was signed into law on May 24, 2012. This legislation allowed the Center and its three constituent institutions to keep a pro rata share, up to $1 million, of any unspent proceeds upon completion of the Science Building. These funds will be distributed pro-rata to the constituent institutions. On August 1, 2012, per the provisions of the bill, the Center completed and submitted a Completion Certificate to the Colorado State Treasurer indicating unspent project funds remaining of $4,053,773. Based on this amount, the Center estimates that it will receive the maximum share of $1 million in September 2012 and the State will keep the remaining amount to be used for future capital development projects approved by the State.

(1) Nature of Operations – The Auraria Foundation and Inn at Auraria LLC

(a) The Auraria Foundation

The Auraria Foundation (the Foundation) is a not-for-profit corporation formed in June 1983. Its purpose is to receive, hold, invest, and administer property and to make donations, gifts, and expenditures for the direct benefit of the Auraria Higher Education Center (AHEC). The Inn at Auraria, LLC (the Inn) is a limited liability company. The Foundation is the sole member of the Inn. The Foundation and the Inn (collectively, the Entities) are operationally independent. There is no recourse against the Foundation for the Inn's debts incurred. Additionally, the Board of Directors of the Foundation do not intend to fund the future operations of the Inn.

AHEC is an agency of the State of Colorado (the State) and is responsible for the operation and maintenance of the physical facilities of the Auraria Campus in downtown Denver, Colorado. Instructional services at the Auraria Campus are provided by the University of Colorado Denver (UCD), Metropolitan State College of Denver (MSCD), and the Community College of Denver (CCD).

The Foundation also collected rental income from the St. Francis Center, a building owned by the Foundation and located on the Auraria Campus, which has been used for various purposes since 1983. On February 1, 2012, the Foundation transferred title to the St. Francis Center building and land to CCD and AHEC, respectively.

(b) Inn at Auraria LLC

The Inn was created to provide housing for the students of the Auraria Campus institutions. In July 2005, the Inn received a $37,280,000 loan through the Colorado Educational and Cultural Facilities Authority from the issuance of long-term serial bonds and purchased the top 14 floors (floors 17 through 30) of the Executive Tower Inn building to create 125 apartment-style units to house 439 students. The Executive Tower Inn was built in 1972 and is located in downtown Denver, Colorado, a few blocks from the Auraria Campus. The Inn opened to student residents on August 19, 2006.

The Executive Tower Inn building is condominiumized between the Inn and the remainder of the building which is not affiliated with the Entities. A condominium association provides common building services, such as elevator maintenance and exterior street level maintenance, to the Inn's portion of the building as well as making a portion of the building's underground parking and athletic facilities available to students on a monthly rental basis.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the U. S. GAAP. The consolidated financial statements include the accounts of the Foundation and the Inn. All material intercompany transactions have been eliminated in consolidation.

(b) Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. GAAP. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Entities and changes therein are classified and reported as follows:

- Unrestricted net assets are those net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets are net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation or the Inn, and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
- Permanently restricted net assets result from contributions and related earnings for which use is limited by donor-imposed restrictions that cannot be fulfilled or removed by the Foundation or the Inn and do not expire over time.

Neither of the entities have any temporarily or permanently restricted net assets at June 30, 2012.

(c) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect various amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all liquid investments with an initial maturity of three months or less.

(e) Accounts receivable

Accounts receivable consist primarily of rent and other revenues earned but not received. Management determines the adequacy of the allowance for doubtful accounts based upon reviews of individual accounts, recent loss experience, current economic conditions and other pertinent factors. There is no allowance for doubtful account as of June 30, 2012.

(f) Deferred rental income

Rent amounts received in advance of revenue recognition are recorded as deferred rental income on the statements of financial position.

(g) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the statement of activities.

(Continued)

(h) Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is recorded using the straight-line method at rates based on the following useful lives:

Building	40 years
Building improvements	7 years
Furniture, fixtures and equipment	3 to 7 years

Expenditures that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Depreciation expense for the year ended June 30, 2012 totaled $22,931 for the Foundation and $956,945 for the Inn.

Upon retirement, sale, or other disposition of property and equipment, the cost and related accumulated depreciation are removed from the related accounts and the resulting gains or losses are included in operations.

The Entities evaluate their investments in long-lived assets to assess whether impairment indicators are present that would impact the recovery of the investments' carrying value. An impairment is deemed to exist if the carrying value of the long-lived assets exceeds the sum of undiscounted cash flows. If such a situation occurs, the Entities will reduce the carrying value of the affected assets to the estimated fair value determined through an independent appraisal or other means and record an impairment loss in earnings. No indicators of impairment were noted for the year ended June 30, 2012.

(i) Bond Issuance Costs

Bond issuance costs consist of amounts paid to secure the bonds payable. The costs are amortized on a straight-line basis over the contractual term of the bonds. Accumulated amortization on bond issuance costs totaled $149,269 as of June 30, 2012. For the years ended June 30, 2012 and 2011, the Inn recognized $21,324 and $21,300, respectively, in amortization expense related to bond issuance costs.

(j) Revenue recognition

The Inn leases apartment units to students generally with annual lease commencement dates beginning in either May or August. Rent amounts are due in 12 equal monthly installments and income is recognized ratably over the life of the lease.

Prior to the transfer of St. Francis Center, the Foundation leased the building to AHEC for use as a conference center and office space for campus activities. This arrangement was terminated by the transfer of the St. Francis Center Property.

(k) Contributed Property and Services

Contributed property and equipment are recorded at fair value on the date received. If donors stipulate the duration of the assets use, the contributions are initially recorded as restricted support.

In the absence of such restrictions, contributions of property and equipment are recorded as unrestricted support.

The Foundation benefits from the services of many individuals who volunteer their time and perform a variety of tasks that assist the Foundation with specific programs. No amounts have been reflected in the consolidated financial statements for these donated services because they do not meet the criteria for recognition under authoritative guidance.

(l) Advertising and marketing

The Inn's policy is to expense advertising and marketing costs as incurred.

(m) Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code (the Code). The Internal Revenue Service has determined that the Foundation is not a private foundation under section 509(a) of the Code. However, income from activities not directly related to the Foundation's tax-exempt purpose may be subject to taxation as unrelated business income. The Foundation is the only owner of the Inn and therefore provides tax-exempt status to the Inn.

In accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, the Entities are required to recognize the financial statement effect of certain tax positions when it is more likely than not that the position will not be upheld upon examination by the taxing authority. The management of the Foundation and the management of the Inn evaluate their tax positions on an annual basis and address any uncertainties as they arise. As of June 30, 2012, there were no uncertain tax positions identified by management that would require recognition or disclosure in the consolidated financial statements.

The information returns are subject to review and examination by federal and state authorities. Information returns for years ended after June 30, 2008 are open to examination by those authorities. In certain circumstances the statute of limitations may remain open indefinitely.

(3) Concentrations of Credit Risk

Financial instruments that potentially subject the Entities to concentration of credit risk consist principally of cash deposited into three financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000. Effective December 31, 2010 through December 31, 2012, the FDIC will provide unlimited insurance protection to certain noninterest bearing accounts. The management of the Foundation and the management of the Inn continue to monitor these balances to mitigate the exposure of risk due to concentration and has not experienced any losses from such concentration.

(4) Inn at Auraria LLC Accounts

(a) Construction in progress

The Inn has entered into a construction contract, including approved change orders, in the amount of $437,246 to refurbish the lobby area and certain student housing units. As of June 30, 2012 and 2011, the Inn has incurred $414,023 and $0, respectively, in construction costs and owes $1,726

under the contract as of June 30, 2012. As of June 30, 2012 and 2011, construction in progress totaled $649,503 and $0, respectively.

(b) Bonds Payable

In July of 2005, Inn received a loan through the Colorado Educational and Cultural Facilities Authority pursuant to the issuance of Series 2005A tax-exempt bonds in the amount of $37,180,000 and Series 2005B taxable bonds in the amount of $100,000. Interest on the Series 2005A bonds is payable semiannually at increasing rates ranging from 5.375% to 6%. Principal on the Series 2005A bonds is payable annually from July 1, 2008 through July 1, 2042 at increasing amounts. Interest on the Series 2005B bonds is payable semiannually at 6.5%. Principal on the Series 2005B bonds was due in full on July 1, 2009. The loan is collateralized by a mortgage on the property, the Inn's revenues from the facility and restricted cash and investment accounts. Under the terms of the bond agreement, the Colorado Educational and Cultural Facilities Authority and Foundation have no obligation for payment of bond principal or interest. The Inn is required to maintain rental rates sufficient to provide income to cover the debt service payments. The Inn has failed to meet this requirement for the year ended June 30, 2012.

As of June 30, 2012, the Inn was in default on its bonds payable. The Inn has been in default since July 1, 2008, and has received multiple default notifications. As of June 30, 2012, the past due principal and interest balances total $1,045,000 and $3,405,781, respectively.

In July 2011, the majority of the outstanding bonds were sold to a new investor. Concurrently, the bond trustee, at the direction of the majority bondholders, agreed to forbear from exercising its rights to appoint a receiver with respect to the Inn or to pursue any remedies available to it as a result of the default until December 31, 2012. The forbearance agreement included certain financial and operating requirements and restrictions. Additionally, the agreement requires the Inn to maintain a net operating income of not less than $150,000 for each designated two-month period. As of June 30, 2012, management has determined that the Inn is in compliance with its obligations under the forbearance agreement. Upon the occurrence of a Forbearance Default, as defined in the forbearance agreement, the forbearance agreement will terminate immediately without any notice to the Inn, and the bondholders will have all remedies available to them under applicable agreements, including without limitation acceleration of the bonds or foreclosure of the property.

In the event funds are not sufficient to pay for certain construction costs of the Inn, the Inn may borrow up to $1,500,000 from the majority bondholders, subject to their approval. The nonrecourse debt is senior to the Series 2005 bonds, and is secured by a deed of trust on the property and a pledge of the trustee's priority rights as to reimbursement. Interest shall accrue at the highest interest rate applicable on the Series 2005 bonds. As of June 30, 2012, no funds have been drawn on the additional senior debt.

Principal and interest payments on the bonds, inclusive of principal payments and interest payments in default, for the years ending June 30 are as follows:

		Principal	Interest	Total
2013	$	1,520,000	2,157,775	3,677,775
2014		515,000	2,132,244	2,647,244
2015		540,000	2,104,563	2,644,563
2016		550,000	2,075,538	2,625,538
Thereafter		34,155,000	34,096,900	68,251,900
	$	37,280,000	42,567,020	79,847,020

(c) Restricted cash

Under terms of the bond indenture and related agreements, the Inn was required to establish and maintain various accounts with an independent trustee. The specific purposes, restrictions, and requirements are defined in the bond indenture. The general purpose and use of these accounts are described below.

Debt Service Reserve Fund

The amount to remain on deposit in this fund is dedicated to cover the Debt Service Reserve Requirement, as defined in the bond offering statement. The cash is to fund interest and principal payments should a shortfall in the Bond Fund exist. As of June 30, 2012, no amounts were on deposit in the debt service revenue fund.

Revenue Fund

Gross revenues are to be deposited into this fund. The trustee is authorized to withdraw amounts to satisfy the Operating Expense Fund. Any amounts remaining in the fund are used to satisfy the Bond Fund as well as other indenture requirements on a monthly basis. As of June 30, 2012, no amounts were on deposit in the Revenue Fund.

Operating Expense Fund

Amounts on deposit in the Revenue Fund are transferred to this fund up to the amount specified in the annual budget. The trustee is authorized to withdraw amounts in this fund to pay to the manager the operating expenses for the corresponding month in the fiscal year in the amount set forth in the annual budget.

Bond Fund

Amounts are to be deposited into this fund in amounts sufficient to satisfy the principal of bonds as they mature or become due upon redemption and the interest on bonds as it becomes payable.

Repair and Replacement Fund

The trustee is to make deposits into this fund from the Revenue Fund, if available, in order to meet the Repair and Replacement Fund Requirement. Approved repair and replacement expenditures are to be made from this fund.

Operating Reserve Fund

Funds used to pay any operating expenses in excess of those budgeted unless sufficient amounts are not on deposit in the Bond Fund to make a required payment of principal and interest on the bonds.

Guaranteed Investment Contract

The guaranteed investment contract for the debt service reserve pays interest of 4.532%. Amounts held under this contract are available for expenditure for restricted purposes As of June 30, 2012, no amounts were held in guaranteed investment contracts.

Project Reserve Fund

Pursuant to the forbearance agreement, the trustee established a project account to maintain excessive operating funds, if applicable. The funds are to be used to pay for approved construction and development costs that will enhance the marketability of the units.

Amounts on deposit in these trustee-held accounts at June 30, 2012 and 2011 were as follows:

	June 30	
	2012	**2011**
Project reserve fund	$ 363,223	—
Revenue fund	—	56,629
Interest accounts:		
A bonds	204,303	204,280
B bonds	601	601
Principal fund:		
A bonds	46	46
Operating expense fund	5	150,000
Total	$ 568,178	411,556

(d) Going Concern Considerations

The accompanying consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplates that the Inn will continue as a going concern. As of June 30, 2012, the Inn was in default on its debt, incurred recurring operating losses and had an equity deficiency of $12,061,538, which raises substantial doubt about its ability to continue as a going concern. The Inn has failed to make all required debt service payments on its bonds since July 1, 2008, and has received multiple default notifications. Management is taking considerable measures to increase the Inn’s cash inflows in order to rectify the bond default issue. Management believes that with the Inn

at full capacity and with the amenities added this past year and those to be added during this next year, the financial performance will improve significantly during the next few years.

(5) The Auraria Foundation Accounts

(a) Fair Value of investments

The Foundation measures its investments at fair value and groups them into three levels, based on the markets in which the investments are traded, if any, and the observability of the assumptions to determine fair value. These levels are:

Level 1 – Valuations using unadjusted quoted prices for assets traded in active markets, such as stocks listed on the New York Stock Exchange. Active markets are defined as having the following characteristics for the measured asset or liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information regarding the issuer is publicly available.

The Foundation currently reports some or all of its managed investments concentrated in short-term investments, U.S. Treasury and corporate obligations, and fixed income and equity securities using Level 1 inputs.

Level 2 – Valuations for assets and liabilities traded in less active, dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities. Level 2 inputs for fair value measurements are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

a. Quoted prices for similar assets or liabilities in active markets;

b. Quoted prices for identical or similar assets or liabilities in markets that are not active (that is, markets in which there are few transactions for the asset or liability, the prices are not current, price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly);

c. Inputs other than quoted prices that are observable within the market for the asset or liability (for example, interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates that are observable at commonly quoted intervals); and

d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (for example, market-corroborated inputs).

The Foundation currently reports certain U.S. Treasury and corporate obligation investments using Level 2 inputs.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and also incorporate significant

professional judgment in determining the fair value assigned to such assets or liabilities. The Foundation currently has no assets valued using Level 3 inputs.

The following is a summary of the categories and inputs used by the Foundation to measure at fair value on a recurring basis the Foundation's investments at June 30, 2012:

	June 30, 2012		
	Level 1	**Level 2**	**Total**
Short-term investments	$ 141,509	—	141,509
U.S. Treasury and corporate obligations	714,259	106,471	820,730
Fixed income securities	206,587	—	206,587
Equity securities	2,050,435	—	2,050,435
Totals	$ 3,112,790	106,471	3,219,261

	June 30, 2011		
	Level 1	**Level 2**	**Total**
Short-term investments	$ 105,067	—	105,067
U.S. Treasury and corporate obligations	482,714	146,236	628,950
Fixed income	418,990	—	418,990
Equities	2,300,972	—	2,300,972
Totals	$ 3,307,743	146,236	3,453,979

(b) Financial Assets – Cash and Cash Equivalents, Investments

The Foundation's financial assets are, for the most part, designated by the Board of Directors for the payment of the grants or as an endowment to fund future grants and projects. The balance in these accounts at June 30, 2012 are as follows:

June 30, 2012	**Cash**	**Investments**	**Combined**
Assets designated for future grants and projects:			
Investments	$ —	3,219,261	3,219,261
Operating cash:			
Checking account	25,008	—	25,008
Money market account	61,451	—	61,451
Totals	$ 86,459	3,219,261	3,305,720

June 30, 2011		Cash	Investments	Combined
Assets designated for future grants and projects:				
Managed investments	$	—	3,453,979	3,453,979
Operating checking account:				
Checking account		24,987	—	24,987
Money market account		86,469	—	86,469
Totals	$	111,456	3,453,979	3,565,435

The following is a reconciliation of the ending balance of the Foundation's investments measured at fair value on a recurring basis using Level 1 and Level 2 inputs for the year ended June 30, 2012:

Beginning balance, July 1, 2011	$	3,453,979
Withdrawal for provision of grants		(300,000)
Realized and unrealized gains on investments		65,282
Ending balance, June 30, 2012	$	3,219,261

The Foundation's investments in marketable securities are managed and monitored by reputable investment advisors in accordance with the Foundation's investment policy which requires diversification of investments.

(c) Related-Party Transactions

In July 2005, after the Inn obtained the bond funding, the Foundation loaned the Inn $250,000 to enable the Inn to make the required borrower contribution. The Foundation has made additional loans to the Inn through the payment of utility bills, property taxes and other expenses, which the Inn was unable to pay. The Foundation's payments of these expenses on behalf of the Inn totaled $588,540 as of June 30, 2012 and 2011. These amounts have been eliminated in these consolidated financial statements.

The Inn paid the Foundation $50,000 in management fees during the year ended June 30, 2012. The management fee has been eliminated in these consolidated financial statements.

In 2006, the Foundation agreed to provide funding for two major campus projects. The Foundation agreed to reimburse AHEC up to $3,000,000 for costs of the Science Building Addition/Renovation project and up to $500,000 for the Night Lighting and Emergency Phones project. The Foundation authorized a $250,000 grant to AHEC in 2008 and an additional $250,000 in 2009 for the construction of a roof over the foundry/kiln area of the Arts Building. During the year ended June 30, 2012 and 2011, the Foundation authorized grants to AHEC for studies related to campus infrastructure, which had final costs of $295,256 and $257,300, respectively. The grants were considered to be unconditional, and therefore, the expenses were recorded in the year granted. As of June 30, 2012, all grant amounts outstanding have been paid.

In 2012 and 2011, the Foundation contracted with AHEC for the use of certain office facilities and services at an annual cost of $2,000 each year.

The Foundation contributed $3,943 and $2,500 to various activities of AHEC during the years ended June 30, 2012 and 2011, respectively.

AHEC paid the Foundation $25,145 and $43,106 in 2012 and 2011, respectively, to lease the St. Francis Center. The Foundation paid AHEC $8,750 in 2012 for cleaning services in the building.

In the early 1970s, the State of Colorado (the State) purchased land through an urban renewal program and began construction of the Auraria Campus. The land included the site of St. Elizabeth's Church (the Church), which was not purchased by the State. In the mid-1970s, the St. Francis Center was built on a portion of the Church property as a religious outreach facility available to campus students.

In 1983, the religious order that owns the St. Francis Center offered the property to the campus. Under the State policies at that time, the State entities on the campus could not accept the offer despite their desire to bring this property under campus control. The Auraria Foundation was created at that time to provide an entity which could accept the property on behalf of the campus.

Over the years, the St. Francis Center has been used for various campus purposes. The building is within the area designated in the campus master plan.

On February 1, 2012, the Foundation donated title to the St. Francis Center building and land to CCD and AHEC, respectively. The St. Francis Center property was transferred at a net book value of $753,840.

(6) Subsequent Events

The Entities have evaluated subsequent events through September 21, 2012, which is the date these consolidated financial statements were available for issuance. Management has identified the following subsequent event that requires disclosure under ASC Topic 855, *Subsequent Events*.

In July 2012, the Foundation Board approved a grant to AHEC in an amount not to exceed $400,000 for a Comprehensive Signage Plan which is a campus initiative to promote connectivity through programmatic, social and physical means.

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

The Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities and discretely presented component unit of the Auraria Higher Education Center (the Center), a component unit of the State of Colorado, as of and for the year ended June 30, 2012, which collectively comprise the Center's basic financial statements, and have issued our report thereon, dated November 12, 2012. Our report was modified to include a reference to the report of other auditors.

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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the Center's basic financial statements. Those financial statements included an explanatory paragraph about the discretely presented component unit's ability to continue as a going concern. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

KPMG LLP

November 12, 2012

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

November 12, 2012

The Members of the Legislative Audit Committee:

We have audited the basic financial statements of the business type activities and discretely presented component unit of the Auraria Higher Education Center (the Center), a component unit of the State of Colorado, as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon, dated November 12, 2012. Our report was modified to include a reference to the report of other auditors for the discretely presented component unit. The financial statements of the discretely presented component unit included an explanatory paragraph about the discretely presented component unit's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. Under our professional standards, we are providing you with the accompanying information related to the conduct of our 2012 audit.

Our Responsibility under Professional Standards

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

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

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

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Center's basic financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the Center's

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report and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Accounting Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the Center are described in note 1 to the basic financial statements.

Unusual Transactions

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

Qualitative Aspects of Accounting Practices

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

Management Judgments and Accounting Estimates

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

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

Uncorrected and Corrected Misstatements

In connection with our audit of the Center's basic financial statements, no audit adjustments were proposed or made to the basic financial statements.

Disagreements with Management

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

Management's Consultation with Other Accountants

To the best of our knowledge, management has neither consulted with nor obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2012.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management prior to Retention

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

Material Written Communications

Management has been provided copies of the following material written communications with us:

1. Engagement letter
2. Management representation letter

Significant Difficulties Encountered in Performing the Audit

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

Independence

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

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

Confirmation of Audit Independence

We hereby confirm that as of November 12, 2012, we are independent accountants with respect to the Center under all relevant professional and regulatory standards.

* * * * * * *

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Center's Board of Directors, and the Center's management, and is not intended to be and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee, this report is a public document.

Very truly yours,

KPMG LLP

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

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