State of Colorado
Auraria Higher Education Center
Student Fee Revenue Refunding Bonds, Series 1996 and Series 1991A

Financial and Compliance Audit

Fiscal Year Ended June 30, 2001

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STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
STUDENT FEE REVENUE REFUNDING BONDS, SERIES 1996
AND SERIES 1991A

JUNE 30, 2001

TABLE OF CONTENTS

<u>Independent Accountants' Report</u>

Members of the Legislative Audit Committee:

We have audited the accompanying balance sheet of the Auraria Higher Education Center, Student Fee Revenue Refunding Bonds, Series 1996 and Series 1991A, a component unit of the State of Colorado, as of June 30, 2001 and the related statements of changes in fund balances and current fund revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Auraria Higher Education Center, Student Fee Revenue Refunding Bonds, Series 1996 and Series 1991A as of June 30, 2001 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

September 7, 2001
Colorado Springs, Colorado

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
STUDENT FEE REVENUE REFUNDING BONDS, SERIES 1996 AND SERIES 1991A
BALANCE SHEET

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

	Current Funds			Plant Funds				Combined Totals (Memorandum Only)	
	Unrestricted								
	Revenue Bonds	Operations	Restricted	Unexpended	Retirement of Indebtedness	Renewals and Replacements	Investment in Plant	2001	2000
ASSETS									
Cash on hand and in bank, on deposit with State Treasurer and certificates of deposit	$ 347,642	$ 1,315,140	$ 14,650	$ —	$ 252,660	$ 5,251	$ —	$ 1,935,343	$ 2,985,619
Other investments	—	3,874,000	—	—	1,468	300,000	—	4,175,468	3,018,962
Due from other funds	—	—	—	—	—	—	—	0	183,164
Due from other state agencies	—	95,518	—	—	—	—	—	95,518	42,163
Accounts receivable, net of allowance for doubtful accounts of $123,559 in 2001 and $118,523 in 2000	—	987,619	—	—	—	—	—	987,619	1,643,895
Accrued interest receivable	17,110	—	—	—	—	—	—	17,110	25,100
Deferred charges	—	—	—	—	—	—	278,407	278,407	294,286
Other assets	—	3,383	—	—	—	—	—	3,383	6,055
Inventories	—	1,214,500	—	—	—	—	—	1,214,500	2,151,649
Plant facilities:									
Land improvements	—	—	—	—	—	—	346,280	346,280	346,280
Buildings and improvements	—	—	—	—	—	—	28,053,941	28,053,941	28,053,942
Furniture and equipment	—	—	—	—	—	—	538,973	538,973	551,349
Total Assets	$ 364,752	$ 7,490,160	$ 14,650	$ 0	$ 254,128	$ 305,251	$ 29,217,601	$ 37,646,542	$ 39,302,464

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
STUDENT FEE REVENUE REFUNDING BONDS, SERIES 1996 AND SERIES 1991A
BALANCE SHEET (CONTINUED)

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

	Current Funds			Plant Funds				Combined Totals (Memorandum Only)	
	Unrestricted								
	Revenue Bonds	Operations	Restricted	Unexpended	Retirement of Indebtedness	Renewals And Replacements	Investment in Plant	2001	2000
LIABILITIES									
Due to State Treasurer	$ —	$ 228,428	$ —	$ —	$ —	$ —	$ —	$ 228,428	$ 2,477,120
Accrued payroll	—	—	—	—	—	—	—	0	9,660
Accounts payable	—	1,242,228	—	—	—	8	—	1,242,236	2,440,209
Due to other funds	—	—	—	—	—	—	—	0	183,164
Due to other agencies	—	—	—	—	—	—	—	0	22,813
Accrued interest payable	—	—	—	—	178,598	—	—	178,598	183,164
Deferred revenues	364,752	—	—	—	—	—	98,900	463,652	449,961
Compensated absence liability	—	201,031	—	—	—	—	—	201,031	194,200
Bonds payable, net of unamortized discount of $329,667 in 2001 and $347,893 in 2000	—	—	—	—	—	—	19,535,333	19,535,333	20,062,107
Total Liabilities	364,752	1,671,687	—	—	178,598	8	19,634,233	21,849,278	26,022,398
FUND BALANCES									
Unrestricted	—	6,019,504	—	—	—	—	—	6,019,504	4,050,451
Restricted	—	—	14,650	—	—	—	—	14,650	2,799
Net investment in plant	—	—	—	—	75,530	305,243	9,583,368	9,964,141	9,421,016
Designated for compensated absence liability	—	(201,031)	—	—	—	—	—	(201,031)	(194,200)
Total Fund Balances	—	5,818,473	14,650	—	75,530	305,243	9,583,368	15,797,264	13,280,066
Total Liabilities and Fund Balances	$ 364,752	$ 7,490,160	$ 14,650	$ 0	$ 254,128	$ 305,251	$29,217,601	$ 37,646,542	$39,302,464

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
STUDENT FEE REVENUE REFUNDING BONDS, SERIES 1996 AND SERIES 1991A
STATEMENT OF CHANGES IN FUND BALANCES

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

	Current Funds			Plant Funds				Combined Totals (Memorandum Only)	
	Unrestricted								
	Revenue Bonds	Operations	Restricted	Unexpended	Retirement of Indebtedness	Renewals And Replacements	Investment in Plant	2001	2000
REVENUES AND OTHER ADDITIONS									
Auxiliary operating revenue	$ —	$ 17,818,264	$ —	$ —	$ —	$ —	$ —	$ 17,818,264	$ 16,665,986
Investment income	271,211	—	—	—	72	—	—	271,283	149,782
Student fees	3,697,158	—	—	—	—	—	—	3,697,158	2,969,217
Federal grants	—	—	61,811	—	168,440	—	—	230,251	229,197
Private gifts and grants	—	—	11,851	—	—	—	—	11,851	1,311
Other revenues	—	145,738	—	—	—	—	—	145,738	0
Retirement of indebtedness	—	—	—	—	—	—	545,000	545,000	520,000
Additions to plant facilities	—	—	—	—	—	—	—	0	177,020
Transfers from other Center activities	—	57,653	—	—	—	—	—	57,653	0
Total Revenues and Other Additions	3,968,369	18,021,655	73,662	—	168,512	—	545,000	22,777,198	20,712,513
EXPENDITURES AND OTHER DEDUCTIONS									
Auxiliary operating expenditures	—	18,237,654	61,811	—	—	—	—	18,299,465	17,198,377
Expended for plant facilities (including $21,906 not capitalized)	—	—	—	—	—	21,906	—	21,906	103,718
Interest on indebtedness	—	—	—	—	1,090,969	—	18,226	1,109,195	1,135,225
Retirement of indebtedness	—	—	—	—	545,000	—	—	545,000	520,000
Amortization of bond issuance costs	—	—	—	—	—	—	15,880	15,880	15,880
Disposal of plant facilities	—	—	—	—	—	—	12,376	12,376	199,347
Transfers to other Center activities	—	256,178	—	—	—	—	—	256,178	107,879
Total Expenditures and Other Deductions	$ 0	$ 18,493,832	$ 61,811	$ 0	$ 1,635,969	$ 21,906	$ 46,482	$ 20,260,000	$ 19,280,426

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
STUDENT FEE REVENUE REFUNDING BONDS, SERIES 1996 AND SERIES 1991A
STATEMENT OF CHANGES IN FUND BALANCES (CONTINUED)

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

	Current Funds			Plant Funds				Combined Totals (Memorandum Only)	
	Unrestricted								
	Revenue Bonds	Operations	Restricted	Unexpended	Retirement of Indebtedness	Renewals And Replacements	Investment in Plant	2001	2000
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)									
Mandatory principal and interest	$ (1,457,371)	$ —	$ —	$ —	$ 1,457,371	$ —	$ —	$ 0	$ 0
Mandatory renewals and replacements	(27,149)	—	—	—	—	27,149	—	0	0
Other mandatory transfers	—	(49,450)	—	—	—	—	49,450	0	0
Operation and maintenance	(2,483,849)	2,483,849	—	—	—	—	—	0	0
Total Transfers Among Funds	(3,968,369)	2,434,399	—	—	1,457,371	27,149	49,450	0	0
NET INCREASE (DECREASE) FOR THE YEAR	—	1,962,222	11,851	—	(10,086)	5,243	547,968	2,517,198	1,432,087
FUND BALANCE, BEGINNING OF YEAR	—	3,856,251	2,799	—	85,616	300,000	9,035,400	13,280,066	11,847,979
FUND BALANCE, END OF YEAR	$ 0	$ 5,818,473	$ 14,650	$ 0	$ 75,530	$ 305,243	$ 9,583,368	$ 15,797,264	$ 13,280,066

AURARIA HIGHER EDUCATION CENTER
STUDENT FEE REVENUE REFUNDING BONDS, SERIES 1996 AND SERIES 1991A
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES AND OTHER CHANGES

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

	Current Unrestricted Funds			Combined Totals (Memorandum Only)	
	Revenue Bonds	Operations	Current Restricted Fund	2001	2000
REVENUES					
Commission on food sales, vending and other auxiliary enterprise revenues	$ —	$ 3,867,109	$ —	$ 3,867,109	$ 3,982,169
Book Center sales	—	13,951,155	—	13,951,155	12,683,817
Student fees	3,697,158	—	—	3,697,158	2,969,217
Investment income	271,211	—	—	271,211	148,146
Other auxiliary enterprise revenue	—	145,738	—	145,738	0
Federal grants – restricted	—	—	61,811	61,811	60,757
Transfers from other center activities	—	57,653	—	57,653	0
Total Revenues	3,968,369	18,021,655	61,811	22,051,835	19,844,106
EXPENDITURES AND MANDATORY TRANSFERS					
Auxiliary operating expenditures:					
Cost of goods sold – Book Center	—	10,702,449	—	10,702,449	9,490,160
Personnel services	—	5,298,602	—	5,298,602	5,678,058
Operating	—	2,236,603	—	2,236,603	1,792,380
Equipment	—	—	—	0	177,022
Restricted fund expenditures	—	—	61,811	61,811	60,757
Total Expenditures	—	18,237,654	61,811	18,299,465	17,198,377
Mandatory transfers for:					
Principal and interest	1,457,371	—	—	1,457,371	1,299,885
Other mandatory transfers	—	49,450	—	49,450	49,450
Renewals and replacements	27,149	—	—	27,149	103,718
Operation and maintenance of facilities	2,483,849	(2,483,849)	—	0	0
Total Mandatory Transfers	3,968,369	(2,434,399)	—	1,533,970	1,453,053
Total Expenditures and Mandatory Transfers	3,968,369	15,803,255	61,811	19,833,435	18,651,430
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)					
Restricted receipts over transfers to revenue	—	—	11,851	11,851	1,311
Transfers to other Center activities	—	(256,178)	—	(256,178)	(107,879)
Total Other Transfers and Additions (Deductions)	—	(256,178)	11,851	(244,327)	(106,568)
NET INCREASE IN FUND BALANCE	$ 0	$ 1,962,222	$ 11,851	$ 1,974,073	$ 1,086,108

See Notes to Financial Statements

STATE OF COLORADO
AURARIA HIGHER EDUCATION CENTER
STUDENT FEE REVENUE REFUNDING BONDS, SERIES 1996
AND SERIES 1991A

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

On January 15, 1992, the Center issued $4,710,000 in Student Fee Revenue Refunding Bonds, Series 1991A (Series 1991A Bonds) to finance the cost of certain student facilities. On February 15, 1996, the Center issued $18,030,000 in Student Fee Revenue Refunding Bonds, Series 1996 (Series 1996 Bonds) for the purpose of refunding previously issued Student Fee Revenue Bonds, Series 1991B (Series 1991B Bonds); Student Fee Revenue Bonds, Series 1992 (Series 1992 Bonds); and Student Fee Revenue Bonds, Series 1989 (Series 1989 Bonds).

Basis of Presentation

These financial statements report only those funds of the Center that relate to requirements of the bond resolutions and are presented in accordance with the accounting principles established by the Governmental Accounting Standards Board and those set forth in the American Institute of Certified Public Accountants' industry audit guide, *Audits of Colleges and Universities*.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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

Use of Estimates

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

Inventory

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

Plant Funds

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Issuance Costs

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

Capitalized Interest

The Center capitalizes interest costs associated with the construction of buildings and building improvements. No interest was capitalized during fiscal year 2001.

Transfers Among Funds

Mandatory transfers include expenditures made in accordance with bond resolutions. Other mandatory transfers represent amortization of deferred revenue that financed tenant improvements. Nonmandatory transfers are transfers among fund groups made at the discretion of the Center and not arising out of binding legal agreements.

Cost Allocations

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

Prior Period Information

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

NOTE 2: SPECIAL FUNDS

The Center has established and maintains certain funds as required by the bond resolutions, into which amounts are deposited for designated purposes. These special funds consist of the Revenue Bond Fund, Operations Fund, Unexpended Plant Fund, Investment in Plant Fund, Bonds and Interest Fund, Reserve Fund, Rebate Fund and Renewal and Replacement Fund.

The bond resolution further requires that all collections of student fees and other required amounts be deposited to and expenditures for operations be made from the Revenue Bond Fund. The following transfers and deposits are made from the Revenue Bond Fund to:

Bonds and Interest Fund

At least three days prior to May 1 and November 1 of each year, the Center is required to deposit an amount that, together with any amounts available for such purpose theretofore credited to and remaining on deposit in the Bonds and Interest Fund, must be sufficient to pay the installment of interest next due on the Series 1996 Bonds, Series 1991A Bonds and any additional parity bonds. At least three days prior to May 1 of each year, the Center is required to deposit an amount that, together with any amounts available for such purpose theretofore credited to and remaining on deposit in the Bonds and Interest Fund, will be sufficient to pay the installment of principal next due on the Series 1996 Bonds, Series 1991A Bonds and any additional parity bonds.

Reserve Fund

The Center is required to deposit any monies remaining from the Revenue Bond Fund into the Reserve Fund to maintain a minimum reserve. In accordance with the bond resolutions, the Center has purchased a surety bond to meet that requirement.

Rebate Fund

The Center is required to deposit into the Rebate Fund any interest or investment income on the other funds as are necessary to comply with the tax covenants of the bond resolution. There was no rebate liability at June 30, 2001.

NOTE 2: SPECIAL FUNDS (Continued)

Renewals and Replacements Fund

On or before November 1 of each year, the Center is required to deposit $100,000 or an amount necessary to bring the amount on deposit in this fund up to $300,000, whichever is greater. Assets in this fund at June 30, 2001 exceeded the minimum reserve of $300,000.

Any amounts remaining in the Revenue Bond Fund after the aforementioned transfers are used for the operation and maintenance of the facilities. The amount remaining for 2001 of $2,483,849 was used to pay a portion of the total operation and maintenance of the facilities of $3,525,676.

Any amounts remaining in the Revenue Bond Fund after all required transfers and payments above may be transferred and used for any one or any combination of lawful purposes as the Board may from time to time determine. In 2001, $256,178 was transferred to the non-bond auxiliary fund for remodeling of space for tenants.

NOTE 3: EQUITY IN POOLED CASH, CASH ON HAND AND IN BANK

The Center had $1,935,343 in cash and cash equivalents at June 30, 2001. It consisted of $585,243 on deposit with the State Treasurer, $1,275,453 in bank deposits and $74,647 of cash on hand. The Center's bank balance at June 30, 2001 was $1,261,739.

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

NOTE 4: OTHER INVESTMENTS

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

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

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

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

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

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

NOTE 5: LOANS FROM THE STATE TREASURER

At June 30, 2001, the Center had loans of $228,428 from the State Treasurer for its auxiliary operations. The average annualized interest rate during fiscal year 2001 was 6.09 percent and the rate at June 30, 2001 was 5.61 percent. The loans are authorized in the Colorado Revised Statutes and approved by the State Controller.

NOTE 6: DEFERRED REVENUES

Deferred revenues at June 30, 2001 include $364,752 of student fees for the Summer 2001 semester and $98,900 of advance rent payments for space in the Tivoli student union.

NOTE 7: COMPENSATED ABSENCES FOR ACCRUED ANNUAL AND SICK LEAVE

Center employees may accrue annual and sick leave based on length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested at June 30, 2001 is $201,031. Expenditures for the year ended June 30, 2001 include a credit of $6,831 representing the decrease in the estimated compensated absence liability.

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

NOTE 8: BONDS PAYABLE

Series 1996 Bonds

On February 15, 1996, the Center issued $18,030,000 in Series 1996 Bonds for the purpose of refunding the outstanding Series 1991B Bonds, Series 1992 Bonds and Series 1989 Bonds. The aggregate face value of the refunded bonds was $16,305,000 with maturities from May 1, 1996 to November 1, 2016 and a range of interest rates from 5.30 percent to 7.35 percent. Proceeds from the issuance of $17,432,558 (after payment of original issue and underwriting discounts and insurance) together with $57,150 from a forward purchase agreement and $83,819 in Center Student Fee funds were used to purchase U.S. Government securities that were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded issues. As a result, the bonds are considered defeased, and, accordingly, the trust account assets and the liability for the defeased bonds are not included in the Center's financial statements. The escrow agreement provides for the call on November 1, 2001 of all Series 1991B Bonds maturing on and after November 1, 2002. On May 1, 2000, the outstanding Series 1989 bonds were called.

NOTE 8: BONDS PAYABLE

At June 30, 2001, the following amounts of bonds outstanding are considered defeased:

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

Series 1996 Bonds (Continued)

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

Series 1991A Bonds

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

NOTE 8: BONDS PAYABLE (Continued)

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

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

Debt service to maturity for the Series 1996 and 1991A Bonds for the fiscal year ending June 30 is as follows:

	Principal	Interest	Total
2002	$ 575,000	$ 1,070,930	$ 1,645,930
2003	600,000	1,037,970	1,637,970
2004	635,000	1,006,109	1,641,109
2005	670,000	971,696	1,641,696
2006	705,000	934,415	1,639,415
2007 and after	16,680,000	7,931,055	24,611,055
Totals	19,865,000	12,952,175	32,817,175
Less unamortized discount	329,667	—	329,667
	$ 19,535,333	$ 12,952,175	$ 32,487,508

NOTE 9: TRANSFER TO/FROM OTHER CENTER ACTIVITIES

Transfers to other Center activities are transfers of funds in excess of the requirements of the bond indenture and for the operations of the activities that use the facilities funded by the Series 1996 and 1991A Bonds to other activities of the Center as permitted by the bond resolutions and authorized by the Center's Board of Directors. Transfers from other Center activities are transfers of amounts earned by and available from activities not funded by the Series 1996 and 1991A Bonds to activities of the Center that are funded by those issuances.

NOTE 10: PENSION PLAN

Plan Description

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

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

NOTE 10: PENSION PLAN (Continued)

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

Funding Policy

Most employees contribute eight percent of their gross covered wages to an individual account in the Plan.

During fiscal year 2001, the State contributed 10.4 percent of the employee's gross covered wages, which was allocated by PERA before January 1, 2001 as follows:

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

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

- 1.42 percent was allocated to the Health Care Trust Fund.
- The amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (see Note 11).
- The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

NOTE 10: PENSION PLAN (Continued)

The Center made retirement contributions of $204,753, $234,609 and $232,676 in fiscal years 2001, 2000 and 1999, respectively. For each year, the amount contributed was equal to the required contribution. Those amounts include the Health Care Fund contribution discussed in Note 12.

NOTE 11: VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

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

NOTE 12: POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

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

The Health Care Trust Fund is maintained by an employer's contribution as discussed in Note 10.

NOTE 12: POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

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

Life Insurance Program

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

NOTE 13: RISK-FINANCING AND INSURANCE-RELATED ACTIVITIES

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

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

NOTE 14: FUTURE CHANGE IN ACCOUNTING PRINCIPLE

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

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

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

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

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the Auraria Higher Education Center, Student Fee Revenue Refunding Bonds, Series 1996 and 1991A, a component unit of the State of Colorado, as of and for the year ended June 30, 2001 and have issued our report thereon dated September 7, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Auraria Higher Education Center's (the Center) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

September 7, 2001
Colorado Springs, Colorado

State of Colorado
Auraria Higher Education Center, Student Fee Revenue Refunding Bonds, Series 1996 and Series 1991A

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Year Ended June 30, 2001

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