University of Colorado

Financial and Compliance Audits

Fiscal Year Ended
June 30, 2001

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UNIVERSITY OF COLORADO

FINANCIAL AND COMPLIANCE AUDITS

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FINANCIAL AND COMPLIANCE AUDITS

REPORT SUMMARY

YEAR ENDED JUNE 30, 2001

Purpose and Scope

The Office of the State Auditor, State of Colorado engaged KPMG LLP (KPMG) to conduct certain financial and compliance audits of the University of Colorado (the University) for the year ended June 30, 2001. KPMG performed these audits in accordance with generally accepted auditing standards 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 field work from April to October 5, 2001.

The purpose and scope of our audits was to:

- Express an opinion on the consolidated financial statements of the University as of and for the year ended June 30, 2001. This includes a review 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.

- Express an opinion on the University's compliance and internal control over financial reporting based on our audit of the consolidated financial statements performed in accordance with Government Auditing Standards.

- Express an opinion on the financial statements of the University's bond funds as of and for the year ended June 30, 2001. This included an evaluation of compliance with bond indenture provisions.

- Express an opinion on the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Financial Assistance Programs of the University for the year ended June 30, 2001.

- Perform certain agreed-upon procedures regarding the records and internal control related to the University's Intercollegiate Athletics Program and the statements and records of outside organizations' expenditures for or on behalf of the University's Intercollegiate Athletics Program. These procedures were performed to assist the University in complying with the provisions of the National Collegiate Athletic Association (NCAA) Bylaws.

- Evaluate progress in implementing prior audit findings and recommendations.

The financial statements of the University's bond fund and the related opinion of the independent auditors are contained in the University's bond fund report issued under separate cover. The University's Schedule of Expenditures of Federal Awards and applicable opinions thereon of the Office of the State Auditor, State of Colorado are included in the June 30, 2001 Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on the University's consolidated financial statements, bond fund financial statements, and the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 2001.

Several audit adjustments were proposed to the consolidated financial statements, and twelve audit adjustments were not made to the consolidated financial statements totaling $2,800,000. These passed differences are not considered material to the University's consolidated financial statements.

We issued a report on the University's compliance and internal control over financial reporting based on an audit of consolidated financial statements performed in accordance with *Government Auditing Standards*. We did not note any material weaknesses or any material instances of noncompliance with legal or regulatory requirements based on our audit of the consolidated financial statements. However, we did note certain areas where the University could improve its internal control and compliance procedures, which are described in the Findings and Recommendations section of this report.

We issued a report detailing our performance of agreed-upon procedures related to the University's Intercollegiate Athletic Program in accordance with NCAA guidelines. Our report disclosed no exceptions as the result of our procedures.

Summary of Key Findings

Certain Components of the Payroll Process Should be Reviewed and Monitored

We reviewed the new Human Resources/Payroll system and business process at the University. Total payroll for fiscal year 2001 was approximately $719,000,000 covering approximately 19,000 employees. We noted that there are classes of users who have the ability to create a position, authorize funding sources, authorize hiring, and input time worked. As a result of these classes of access, there is an increased risk that fictitious employees may be created or other inappropriate payroll expenditures may be incurred. Also, there are users with corrective access to parts of the payroll system which allows for correction of employee payroll data. In most cases, those who are members of this class are also members of the approval classes for the actions of creating positions, funding and time collection.

As part of the financial reporting process, each department/unit in the University is responsible for reviewing a monthly financial report that lists all departmental financial transactions including payroll. We noted inconsistency within the University as to level of detail and frequency of this review. In some departments, the employee responsible for reviewing the transaction reports is also the payroll liaison. As a result, the risk of fraud, errors or omission is increased due to the fact that one person may be responsible for the payroll function, including input into the payroll system, as well as post transaction review.

Modifications to Systems Affecting Financial Statement Information Should Be Approved by the Controller's Group

In December 2000, University Management Systems (UMS) modified the Billing Receivable System (BRS) without an adequate understanding of the financial reporting consequences. As a result of that system change, the transmission of data between BRS and the PeopleSoft Financial System was disrupted. The disruption occurred at the beginning of the semester and caused large revenue and accounts receivable balances to not be posted properly to the general ledger. UMS discovered the error and took measures in January 2001 to fix the problem. As a result of the disruption, each campus had to reconcile the BRS and PeopleSoft Financial System. Each campus Bursar Office dedicated significant hours to reconciling the systems and completed their final reconciliatons in June 2001.

Compliance with the Procurement Card Policies Should Be Maintained

For the last four years, the University has used its Procurement Card for small dollar purchases, under $3,000, in order to reduce the cost and time involved with purchasing. To obtain a Procurement Card an employee must submit an authorized application to the Procurement Service Center (PSC). Prior to issuance, employees must attend training on the use of the card and sign a Cardholder Agreement. We noted instances in which:

- The cardholder did not sign his or her monthly statements.
- The approving official did not review or sign the monthly statements.
- The cardholder did not provide invoices supporting all purchases made.
- The cardholder did not sign the cardholder agreement.

Recommendations and University Responses

A summary of the recommendations for the above comments is included in the Recommendation Locator on the next page. The Recommendation Locator also shows the University's responses to the audit recommendations. A discussion of the audit comments and recommendations is contained in the Findings and Recommendation Section of our report.

Summary Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2000, included nine recommendations. The disposition of these audit recommendations as of October 5, 2001 was as follows.

Implemented	5
Partially Implemented	3
Not Implemented	1
Total	9

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	11	The University should ensure that security reviews are completed and appropriate action taken to ensure adequate segregation of duties; correction access is restricted and monitored; monthly financial transaction reports are consistently reviewed by someone independent of the payroll function; and reconciliations are performed in a timely manner and reconciling items cleared timely.	University of Colorado	Agree	December 2002
2	12	The University should design and document a process that ensures modifications to information technology systems generating financial information are understood and approved by the System Controller's Office.	University of Colorado	Agree	July 2002
3	13	The University should ensure that employees adhere to the policies of the Procurement Card program and that controls over the Procurement Card are in place and operating. The University should also reinstate a Procurement Card monitoring and follow-up function.	University of Colorado	Agree	June 2002
4	14	To ensure accurate and complete tracking and financial reporting of fixed assets, the UCHSC should work to resolve the issue of obtaining information from PeopleSoft for its fixed asset tracking system. Reconciliations between FAST and PeopleSoft should be performed at least on a quarterly basis.	University of Colorado	Agree	June 2001
5	15	The UCB should ensure that review of audit reports as the subrecipient monitoring activity address proper review and resolution, if any, of findings noted in the reports.	University of Colorado	Agree	December 2001

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
6	16	Each campus should reiterate policies regarding equipment disposals and ensure departments follow such procedures throughout the year.	University of Colorado	Agree	June 2002
7	16	The University should evaluate the GASB's Proposed Statement, *The Financial Reporting Entity-Affiliated Organizations, an amendment of GASB Statement No. 14* and the impact on the University's financial reporting.	University of Colorado	Agree	On-going

Description of the University of Colorado

Organization

The University of Colorado (the University) was established on November 7, 1861, by Act of the Territorial Government. Upon the admission of Colorado into the Union in 1876, the University was declared an institution of the State of Colorado (the State), and the Board of Regents was established under the State Constitution as its governing authority.

The University consists of a central administration and the following four campuses:

Boulder	Colorado Springs
Denver	Health Sciences Center

The four campuses comprise 16 schools and colleges which offer more than 140 fields of study at the undergraduate level and 100 fields at the graduate level. Approximately 116 bachelors and masters degrees along with 63 doctorates are offered.

The Board of Regents is charged constitutionally with the general supervision of the University and the exclusive control and direction of all funds of and appropriations to the University, unless otherwise provided by law. The Board of Regents consists of nine members serving staggered six-year terms, one elected from each of the State's six congressional districts and three elected from the State at large.

The President and Chancellors of the University are appointed by the Board of Regents. The President is the chief academic and administrative officer of the University. The duties and responsibilities of the President include providing academic leadership to the University and being the chief spokesperson for and interpreter of the University's policies. The Chancellors are the chief academic and administrative officers at the campus level. They are responsible for ensuring each campus complies with the policies of the Board of Regents and the President.

Description, continued

Enrollment, tuition, and faculty and staff information is presented below. Information was obtained from the Format 30 of the Budget Data Book for Fiscal Year 2001-2002, prepared for the Colorado Commission on Higher Education (CCHE).

Full-Time-Equivalent (FTE) Student Enrollment			
Fiscal Year	**Resident**	**Nonresident**	**Total**
2000-2001	**29,262**	**8,940**	**38,202**
1999-2000	**28,934**	**8,490**	**37,424**
1998-1999	**28,032**	**8,182**	**36,214**

Full-Time Faculty and Staff			
Fiscal Year	**Faculty**	**Staff**	**Total**
2000-2001	**2,200**	**3,251**	**5,451**
1999-2000	**2,140**	**3,267**	**5,407**
1998-1999	**2,111**	**3,099**	**5,210**

Findings and Recommendations

We have audited the consolidated financial statements of the University for the year ended June 30, 2001, and have issued our report thereon dated October 5, 2001. In planning and performing our audit of the consolidated financial statements, we considered the University's internal control solely to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on 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 October 5, 2001 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. We have not considered internal control since October 5, 2001.

Our procedures were designed primarily to enable us to form an opinion on the consolidated financial statements and on management's assertion regarding compliance and the effectiveness of internal control over financial reporting and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We have attempted, however, to use our knowledge of the University gained during our work to make comments and suggestions that we hope will be useful to the University.

During our engagement, we noted certain matters involving internal control and other operational matters that are presented for the University's consideration. These comments and recommendations, all of which have been discussed with the appropriate members of the University's management, are intended to improve internal control or result in other operating efficiencies.

Certain Components of the Payroll Process Should be Reviewed and Monitored

On July 1, 1999, the University replaced its legacy Financial Reporting System with the PeopleSoft application, an integrated package consisting of different modules (e.g., general ledger, accounts payable, purchasing, payroll, human resources). The payroll and human resources modules were implemented on July 1, 2000. A service center was created to consolidate payroll and benefit operations for the campuses of the University. The Payroll and Benefits Services Center (PBS) is located in the Administrative and Research Center on the UCB campus. Total payroll for fiscal year 2001 was approximately $719,000,000 covering 19,000 employees.

Our review of the Human Resources/Payroll business process at the University included inquiries of appropriate management, supervisory and staff personnel, observations, and detailed test work. Specifically, we gained an understanding of the Human Resources/Payroll cycle process and tested process flow control points specifically related to those controls that are most effective in mitigating risk related to the Human Resources/Payroll cycle.

Review Access within PeopleSoft HRMS for Consistency with Job Responsibilities

Within the payroll system, classes are set up to perform certain human resources and payroll functions. Such functions include creating positions, authorizing funding sources, hiring authorization, and time keeping. In addition, the majority of users within PBS and the Call Center have access to a class which allows the user correction access to set up and approve each of the following activities: create a position, determine the funding for that position, hire an employee, and collect time for that employee hired. As a result of these classes of access, there is an increased risk that fictitious employees may be created or other inappropriate payroll expenditures may be incurred.

We recommend the University continue to review actual user access and job responsibilities on a regular basis to ensure consistency and adequate segregation of duties within the payroll system. Specific attention should be given to those classes that grant broad access to the users across the system.

Restrict Corrective Access within PeopleSoft HRMS

In the payroll system, there is also a class which allows a person corrective access to parts of the payroll system. This access allows a person to make corrections to employee payroll data. In most cases, those who are members of this class are also members of the approval classes for the actions of creating positions, funding, and time collection. Originally, such access was to be restricted to the PBS; however, some departments have been granted access to this class as well. This correction access allows for changes which may overwrite existing data, rather than adding a new row of data, thus deleting the audit trail of information that would have existed prior to the change.

We recommend that guidelines be created to assist in determining users who should have corrective access. Additionally, these guidelines should require that adequate documentation be maintained to support the change and comments added to appropriate PeopleSoft panels stating the reason for the correction. Correction access should be limited to those users with clearly defined needs.

Ensure Monthly Financial Reports are Reviewed

The University's Administrative Policy Statement states that:

> "The review of the monthly financial report serves as a mechanism to detect whether fraud, errors and omissions have occurred. For some transactions, this review may provide the only way such fraud, errors, and omissions may be detected."

Each department/unit in the University is responsible for reviewing a monthly financial report that lists all departmental financial transactions including payroll. We noted inconsistencies within the University as to the level of detail and frequency of this review. In some departments, the employee responsible for reviewing the transaction reports is also the payroll liaison. As a result, the risk of fraud, errors or omissions is increased due to fact that one person may be responsible for the payroll function, including the input to the payroll system, as well as post – transaction review.

The University should ensure that the monthly financial transactions reports are consistently reviewed by someone independent of the payroll function.

Complete Reconciliations in a Timely Manner

There are a number of reconciliations completed by the PBS after the payroll is run to help ensure accurate transfer of information between the payroll system and general ledger, outside vendors and others. Some of these reconciliations have items that require resolution and correction entries to be made.

If reconciliations are not completed in a timely manner, information contained in the general ledger may not accurately reflect activity in the payroll system. We recommend that payroll reconciliations performed by the PBS be completed by year-end and make certain that no material discrepancies exist in the year-end information.

Recommendation No. 1:

The University should ensure that:

- Security reviews are completed and appropriate action taken to ensure adequate segregation of duties;
- Correction access is restricted and monitored;
- Monthly financial transaction reports are consistently reviewed by someone independent of the payroll function; and,
- Reconciliations are performed in a timely manner and reconciling items cleared timely.

University of Colorado Response:

Agree. The Human Resources Operation Group will coordinate and lead a comprehensive analysis that will evaluate segregation of duties, including independent post transaction reviews and correction access, within the human resources/payroll processes. Results of the analysis and recommendations for changes will be coordinated with other interested parties, such as the Financial and Procurement Advisory Group, and brought before the System Administrative Support Steering Committee, by December 2002, for consideration and approval. The Payroll Benefits Service Center has continued to refine its reconciliation processes since the implementation of the PeopleSoft system. Comprehensive reconciliations of various payroll information with the general ledger, outside vendors, and others have been fully in place since June 2001.

Modifications to Systems Affecting Financial Statement Information Should Be Approved by the Controller's Group

The University utilizes a number of information technology systems to support operations and maintain financial information. University Management Systems (UMS) is the organization responsible within the University for developing and supporting these major University-wide administrative systems, including the:

- Student Information System (SIS)
- PeopleSoft HR/Payroll/Benefits system
- PeopleSoft Financial System
- Billing and Receivable System (BRS)
- Sponsored Programs Information System (SPINS)

UMS development and support activities include software implementation, maintenance, and enhancement and support for on-line transaction processing and overnight batch processing.

In December 2000, UMS modified BRS in order to solve an identified problem, without an adequate understanding of the financial reporting consequences. As a result of that system change, the transmission of data between BRS and the PeopleSoft Financial System was disrupted. The disruption occurred at the beginning of the semester and caused large revenue and accounts receivable balances to not be posted properly to the general ledger. UMS discovered the error and took measures in January 20001 to fix the problem.

As a result of the disruption, each campus had to reconcile the BRS and PeopleSoft Financial System. Each campus Bursar Office, with the assistance of UMS, dedicated significant hours to reconcile the BRS and PeopleSoft Financial System. The final reconciliations were completed in June 2001. The reconciliation was made more difficult as there was little understanding of the elements interfacing between the two systems. Since the issue arose, procedures have been implemented by the University to identify interfacing elements between these systems.

The University has a significant number of electronic systems that interface with the financial reporting systems. Communication between organizations and a formal review process are critical to ensuring system changes are made appropriately and ensure financial reporting data are accurate and complete. The University should ensure that future modifications to systems interfacing with the general ledger are closely controlled.

Recommendation No. 2:

The University should design and document a process that ensures modifications to information technology systems generating financial information are understood and approved by the System Controller's Office. The University should also ensure that reconciliations continue to be performed between BRS and the PeopleSoft Financial System.

University of Colorado Response:

Agree. The recently formed Financial and Procurement Advisory Group (FPAG) provides a forum for discussion of issues affecting the University's financial systems, and acts as a liaison between various involved parties. As one of its first topics, FPAG addressed the issue of ensuring continuing reliability of financial information as systems that interface with the general ledger are changed or brought on line. In September 2001 FPAG agreed that the controllers must be involved in such changes prior to their implementation, in order to review the impact of the changes on the financial system and ensure appropriate controls are in place to assure financial information reliability. University Management Systems and the Controllers' Group will, by July 2002, develop and implement a process by which the controllers are notified of and involved in planned changes such that the controllers may assure the changes do not adversely affect financial information.

Compliance with the Procurement Card Policies Should Be Maintained

For the last four years, the University has used Procurement Cards for small dollar purchases, under $3,000, in order to reduce the cost and time involved with purchasing. To obtain a Procurement Card an employee must submit an authorized application to the Procurement Service Center (PSC). Prior to issuance, employees must attend training on the use of the card and sign a Cardholder Agreement.

Under University policy, each cardholder receives a monthly statement, which is to be signed indicating that purchases were made for the duty of the University and that goods were received in satisfactory condition. The cardholder's approving official must also review the charges and sign the statement indicating approval. The signed statement is maintained by the department with all receipts relating to the statement attached.

We tested 20 Procurement Card transactions and noted:

- Two instances in which the cardholder did not sign his or her monthly statements;
- Three instances in which the approving official did not review or sign the monthly statements;
- Five instances in which the cardholder did not provide invoices supporting all purchases made; and,
- One instance in which the cardholder did not sign the cardholder agreement.

In order to mitigate risks of noncompliance and misappropriation of assets, the University should review the procedures it has in place to monitor compliance with the policies of the Procurement Card program. Compliance procedures should ensure that statements are reviewed and approved by an appropriate individual and that receipts are maintained supporting purchases.

Recommendation No. 3:

The University should ensure that employees adhere to the policies of the Procurement Card program and that controls over the Procurement Card are in place and operating. The University should also reinstate a Procurement Card monitoring and follow-up function.

University of Colorado Response:

Agree. An audit function over procurement card purchases is currently being developed to help assure compliance with the program requirements. The new process will include a risk-based approach and use "best practices" from the audit functions that previously occurred on the campuses. The review process is expected to be operational by June 2002.

Data in the Health Sciences Center Fixed Asset Tracking System Should be Updated on a Regular Basis

The University of Colorado Health Sciences Center (UCHSC) utilizes the FAST system to track capital equipment. As noted above, in July 1999, the University implemented PeopleSoft as its financial reporting and purchasing and accounts payable system. The UCHSC has experienced difficulties with the transition from the legacy system to PeopleSoft, specifically related to integrating FAST and PeopleSoft.

We noted that additions and deletions had not been recorded in the FAST system in a timely manner. During fiscal year 2001, the UCHSC had approximately $7,000,000 of additions and approximately $2,500,000 of disposals. By not having a reliable subsidiary fixed asset system, there is an increased risk that the UCHSC's assets are not safeguarded and maintained in accordance with applicable federal, state and University regulations. We recommend the UCHSC ensure the timely resolution of its fixed assets system issues which have precluded it from maintaining and tracking its fixed assets in detail.

Recommendation No. 4:

To ensure accurate and complete tracking and financial reporting of fixed assets, the UCHSC should work to resolve the issue of obtaining information from the PeopleSoft system for its fixed asset tracking system. Reconciliations between the FAST and PeopleSoft systems should be performed at least on a quarterly basis.

> **University of Colorado Response:**
>
> Agree. Capital equipment data was entered into the FAST System beginning in April 2001 and was completed and reconciled before the fiscal year was closed. On-site physical equipment inventories and missing equipment inquiries were accomplished throughout the year as the physical equipment inventory process was not affected by the delay in entering data into the FAST System. Since June 2001 the FAST System continues to be both updated and reconciled to PeopleSoft on a monthly basis.

Subrecipient Monitoring at the University of Colorado Should Be Expanded

The University receives substantial federal awards at each of its campuses. Some of these funds are passed on to other universities, local municipalities, nonprofit organizations and private companies. Under Office of Management and Budget (OMB) Circular A-133, the University, as a pass-through entity of federal awards, is responsible for:

- Identifying to the subrecipient the Federal award information and applicable compliance requirements.
- Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.
- Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures.

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan. The University of Colorado at Boulder (UCB) utilizes receipt of single audit reports as their monitoring activity.

We noted that UCB's policy states that for subcontracts over $25,000, the pass-through entity must supply the UCB with a letter stating its compliance with OMB Circular A-133 and/or supply it with the audit report. Any reports received with findings related to the University's specific subawards or Research and

Development cluster control findings must be followed up on to ensure the corrective action plan is put in place and the findings are resolved. We tested 13 subawards and noted that two entities had single audit reports with findings related to the Research and Development cluster. There was no documentation of the review of the A-133 reports to determine if the findings would impact or were related to the specific subawards the University had granted to these subcontractors.

We recommend the UCB ensure there is a documented review of each subrecipient audit report. This review could be a single sheet of paper or documentation of the work performed in a spreadsheet (currently in use at the UCHSC). This documentation should be completed when each audit report is received and reviewed. The documentation should include whether the subcontractor was in compliance with the OMB A-133 requirements as well as any findings related to the university's specific subaward and/or the Research and Development Cluster. Discussions with the subcontractor or principal investigator relating to the status of findings and the corrective action plan should be included.

Recommendation No. 5:

The UCB should ensure that review of audit reports as the subrecipient monitoring activity address proper review and resolution, if any, of findings noted in the reports.

University of Colorado Response:

Agree. UCB's Office of Contracts and Grants will implement a process no later than December 31, 2001 to document its review of each subrecipient's audit report and resolution, if any, of findings in the reports.

Equipment Inventory Procedures Should be Strengthened

Each campus performs bi-annual inventories of equipment, conducted by different campus offices. For example, UCB relies on each department to perform the inventory and report the results to Property Accounting. At UCHSC, the Office of Space and Asset Management performs the initial inventory and develops a list of items that could not be located. The list is provided to the department that is responsible for notifying the Office of Space and Asset Management where the asset was found.

Our review of the annual inventories revealed that a number of items were discovered to be missing/sold/otherwise disposed of. Although these equipment items were properly removed from the fixed asset records, it appears as though some departments may not be following the normal asset disposal process developed by each campus. As a result, equipment balances could be misstated at any given time. The equipment balance for the four campuses at June 30, 2001 was approximately $439,000,000. Each campus should reiterate campus policies regarding equipment disposal and reporting.

Recommendation No. 6:

Each campus should reiterate policies regarding equipment disposals and ensure departments follow such procedures throughout the year.

University of Colorado Response:

Agree. In addition to the instructions regarding asset disposal procedures given each department when conducting the bi-annual inventories, each of the campuses will evaluate and implement, by June 30, 2002, the most appropriate method and timing of communication to reiterate equipment disposal policies.

The University Should Evaluate the New Affiliated Organization Standard

On August 15, 2001, the Governmental Accounting Standards Board (GASB) issued a proposed Statement, *The Financial Reporting Entity – Affiliated Organizations, an amendment of GASB Statement No. 14.* This proposed Statement would amend GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether an affiliated organization is a component unit of a financial reporting entity. According to the Statement:

> "Entities that are legally separate, tax-exempt organizations that are affiliated with a primary government, and that meet all of the following criteria, would be discretely presented within the primary government's financial reporting entity. These criteria are:
>
> - The economic resources of the separate affiliated organization entirely or almost entirely directly benefit the primary government, its component units, or its constituents.
> - The primary government or its component units are entitled to, or can otherwise access, a majority of the economic resources of the separate affiliated organization.
> - The economic resources that the specific primary government is entitled to, or can otherwise access, are significant to that primary government."

The provisions of this proposed Statement would be effective for financial statements for periods beginning after June 15, 2003; however, earlier application would be encouraged. Under this Statement, the University will evaluate certain related organizations such as the University of Colorado Foundation, Inc. and the new foundations created to receive University gifts, under the criteria noted above to determine whether these organizations should be included in the financial reporting entity of the University. As a result of the significant, potential changes to its financial reporting entity, we recommend the University begin to examine the requirements of the proposed standard and its impact.

Recommendation No. 7:

The University should begin to evaluate the GASB's Proposed Statement, *The Financial Reporting Entity- Affiliated Organizations, an amendment of GASB Statement No. 14* and its impact on the University's financial reporting.

University of Colorado Response:

Agree. The University has recently reviewed the proposed standard and has initiated meetings with its significant affiliates to assess the impact of the standard. We will monitor the proposed standard as it proceeds through the adoption process, and will work with our affiliates as necessary to implement processes to comply with the standard as adopted.

Disposition of Prior Audit Findings Recommendations

Following are the audit recommendations made by KPMG included in our report to the Legislative Audit Committee for the year ended June 30, 2000, and their disposition at October 5, 2001.

Recommendation	Disposition
1. The University should clearly define accounting and financial reporting responsibilities at the Consolidated Service Centers	Implemented.
2. The University of Colorado Health Sciences Center should continue to monitor the Colorado Psychiatric Hospital's operations.	Partially implemented. The University continues to focus on the crucial financial issues of the Hospital. The University and the University of Colorado Hospital are pursuing reorganization of Colorado Psychiatric Hospital in order to stabilize its on-going operations and financial position. It is anticipated that the reorganization will be complete by June 30, 2002.
3. The University system should develop a plan, including milestones, to implement GASB Statement No. 35.	Implemented.
4. The University of Colorado at Colorado Springs (UCCS) should strengthen its processes over fixed assets to ensure such assets are safeguarded, records are maintained, and disposals are handled in accordance with applicable guidelines.	Partially implemented. The UCCS began efforts to better track fixed assets.
5. The University should reinstate the Procurement Card audit function.	Not implemented. See current year recommendation No. 3.
6. The University of Colorado at Boulder should strengthen its processes to ensure allowable costs are charged to grants.	Implemented.
7. The University of Colorado at Boulder should ensure proper authorization is obtained prior to disposition of federally funded equipment.	Implemented.
8. Each campus should annually obtain and review the Perkins Loan servicer reports for findings impacting University operations.	Implemented.
9. The University should review the controls over the Central Information Warehouse and implement necessary procedures to ensure data integrity is maintained.	Partially implemented. The University should examine programmer access and implement change control procedures.

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying consolidated balance sheet of the University of Colorado (the University), a component unit of the State of Colorado, as of June 30, 2001, and the related consolidated statements of changes in fund balances and current funds expenditures for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2001, and the changes in its fund balances and current funds expenditures 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 October 5, 2001 on our consideration of the University's internal control over financial reporting and on 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.

KPMG LLP

October 5, 2001

University of Colorado
Consolidated Balance Sheet
June 30, 2001 (in thousands)

	Current Funds		Student Loan Funds
	Unrestricted	**Restricted**	
Assets			
Cash and cash equivalents	$ 3,138	$ 42	$ -
Investments	201,127	54,692	6,206
Accounts Receivable (less allowance for doubtful receivables of $16,027 in 2001 and $22,119 in 2000)	26,054	45,964	42
Inventories	7,319	-	-
Other assets	9,279	194	-
Notes and loans receivable (less allowance for doubtful receivables of $3,136 in 2001 and $3,226 in 2000)	950	-	33,167
Fixed assets:			
Land and improvements	-	-	-
Buildings	-	-	-
Construction in progress	-	-	-
Equipment/library holdings	-	-	-
Due from other funds	14,283	760	-
Total Assets	**$ 262,150**	**$ 101,652**	**$ 39,415**
Liabilities			
Accounts payable and accrued expenses	$ 53,363	$ 26,592	$ 36
Accrued compensated absences	56,154	194	-
Unearned revenue	44,296	5,294	-
Notes payable	-	-	-
Lease obligations	-	-	-
Revenue bonds payable	-	-	-
Risk financing related liabilities	19,813	-	-
Other liabilities	13,983	2,040	-
Due to other funds	3,474	1,360	-
Total liabilities	191,083	35,480	36
Fund Balances			
Unfunded compensated absences	(56,154)	(194)	-
Restricted or internally designated	127,221	66,366	39,379
Net investment in plant	-	-	-
Total fund balances	71,067	66,172	39,379
Total Liabilities and Fund Balances	**$ 262,150**	**$ 101,652**	**$ 39,415**

The accompanying summary of significant accounting policies and notes are an integral part of this consolidated financial statement.

Endowment and Similar Funds	Plant Funds: Unexpended	Plant Funds: Retirement of Indebtedness	Plant Funds: Investment in Plant	Totals (Memorandum Only): 2001	Totals (Memorandum Only): 2000
$ 14	$ 45	$ -	$ -	$ 3,239	$ 1,341
58,439	145,317	5,538	-	471,319	460,247
17	333	15	-	72,425	70,556
-	-	-	-	7,319	7,273
-	892	-	-	10,365	9,175
-	-	-	-	34,117	34,369
4,135	-	-	97,930	102,065	90,121
-	-	-	795,476	795,476	743,563
-	136,070	-	-	136,070	83,300
-	-	-	439,107	439,107	408,695
-	866	-	-	15,909	21,387
$ 62,605	**$ 283,523**	**$ 5,553**	**$ 1,332,513**	**$ 2,087,411**	**$ 1,930,027**
$ -	$ 7,733	$ 816	$ -	$ 88,540	$ 92,333
-	-	-	-	56,348	41,376
-	-	-	-	49,590	45,760
-	18,589	-	427	19,016	21,468
-	1,909	-	65,736	67,645	76,057
-	10,497	-	85,754	96,251	98,265
-	-	-	-	19,813	23,517
14	17	87	-	16,141	12,670
1,540	1,400	-	8,135	15,909	21,387
1,554	40,145	903	160,052	429,253	432,833
-	-	-	-	(56,348)	(41,376)
61,051	243,378	4,650	-	542,045	479,931
-	-	-	1,172,461	1,172,461	1,058,639
61,051	243,378	4,650	1,172,461	1,658,158	1,497,194
$ 62,605	**$ 283,523**	**$ 5,553**	**$ 1,332,513**	**$ 2,087,411**	**$ 1,930,027**

University of Colorado

Consolidated Statement of Changes in Fund Balances

Year ended June 30, 2001 (in thousands)

	Current Funds		
	Unrestricted	Restricted	Student Loan Funds
REVENUES AND OTHER ADDITIONS			
State of Colorado appropriations	$ 206,914	$ 33,241	$ -
Student tuition and fees	297,363	-	-
Investment income (loss)	18,411	7,609	983
Federal grants, contracts and advances	-	370,591	274
State and local grants and contracts	-	18,793	-
Private and other gifts, grants and contracts	-	110,269	2
Sales and services of educational departments	65,081	-	-
Additions to plant facilities	-	-	-
Retirement of indebtedness	-	-	-
Loss on retirement of debt	-	-	-
Auxiliary operating revenue	111,740	-	-
Hospitals and clinics	7,878	-	-
Other sources:			
Indirect cost reimbursement	81,561	-	-
Denver AHEC library funding	4,318	-	-
Other additions	40,641	2	342
Total Revenue and Other Additions	**833,907**	**540,505**	**1,601**
EXPENDITURES AND OTHER DEDUCTIONS			
Educational and general	655,942	420,446	-
Auxiliary operating expenditures	103,589	6,404	-
Hospitals and clinics	17,869	-	-
Loan cancellations and administrative/collection costs	-	-	250
Expended for plant facilities	-	-	-
Retirement of indebtedness	-	-	-
Interest on indebtedness	-	-	-
Disposal of plant facilities	-	-	-
Other expenditures and deductions:			
Indirect cost recovered	-	81,534	27
Capitalization of asset/debt	-	-	-
Other deductions	-	-	9
Total Expenditures and Other Deductions	**777,400**	**508,384**	**286**
TRANSFERS BETWEEN FUNDS-(additions) deductions			
Mandatory transfers:			
Educational and general			
Principal and interest	1,525	26	-
Matching funds/other	116	(24)	(93)
Auxiliary enterprises			
Principal and Interest	19,619	-	-
Matching funds/other	45	-	-
Total mandatory transfers	21,305	2	(93)
Voluntary transfers			
Nonmandatory transfers	40,735	13,722	255
Total Expenditures, Other Deductions and Transfers	**839,440**	**522,108**	**448**
Net Increase (Decrease) in Fund Balances	**(5,533)**	**18,397**	**1,153**
Fund Balances - beginning of year as previously reported	**76,600**	**47,775**	**38,226**
Restatements	**-**	**-**	**-**
Fund balances - beginning of year as restated	**76,600**	**47,775**	**38,226**
Fund Balances - end of year	**$ 71,067**	**$ 66,172**	**$ 39,379**

The accompanying summary of significant accounting policies and notes are an integral part of this consolidated financial statement.

	Plant Funds		
Endowment and Similar Funds	**Unexpended**	**Retirement of Indebtedness**	**Investment in Plant**
$ 21	$ 52,210	$ -	$ -
-	-	-	-
(6,892)	8,881	112	-
-	270	-	-
-	-	-	-
1,007	7,571	605	1,713
-	-	-	-
-	-	-	115,364
-	3,255	-	21,330
-	-	-	(1,051)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	5,525	-	-
(5,864)	**77,712**	**717**	**137,356**
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	78,891	-	-
-	-	24,585	-
-	-	10,713	-
-	-	-	17,394
-	-	-	-
-	-	-	444
244	911	21	5,696
244	**79,802**	**35,319**	**23,534**
-	8,995	(30,164)	-
-	(45)	-	-
-	-	-	-
-	-	-	-
-	8,950	(30,164)	-
(1,359)	(53,971)	618	-
(1,115)	**34,781**	**5,773**	**23,534**
(4,749)	**42,931**	**(5,056)**	**113,822**
65,800	**205,809**	**9,706**	**1,064,692**
-	**(5,362)**	**-**	**(6,053)**
65,800	**200,447**	**9,706**	**1,058,639**
$ 61,051	**$ 243,378**	**$ 4,650**	**$ 1,172,461**

University of Colorado
Consolidated Statement of Current Funds Expenditures
Year ended June 30, 2001 (in thousands)

	2001			2000
	Unrestricted Funds	Restricted Funds	Total	Total
Expenditures				
Educational and general				
Instruction	329,840	71,700	401,540	365,735
Research	19,386	278,840	298,226	292,751
Public Service	24,459	24,560	49,019	46,412
Academic Support	86,545	4,647	91,192	83,432
Student Services	46,078	2,058	48,136	45,331
Institutional Support	72,901	3,437	76,338	63,670
Operation of Plant	60,579	54	60,633	52,572
Scholarships & Fellowships	16,154	35,150	51,304	47,056
Auxiliary operating expenditures	103,589	6,404	109,993	100,134
Hospital and clinics	17,869	-	17,869	18,158
Total Expenditures	**777,400**	**426,850**	**1,204,250**	**1,115,251**

The accompanying summary of significant accounting policies and notes are an integral part of this consolidated financial statement.

1. Basis of Presentation and Summary of Significant Accounting Policies

GOVERNANCE

The University of Colorado (the University) is governed by the University of Colorado Board of Regents (the Regents). The Regents are elected by popular vote in the State of Colorado's (the State) general elections and serve staggered terms of six years. Six of the Regents are elected by qualified electors in the State's six congressional districts and three Regents are elected on an at-large basis.

BASIS OF PRESENTATION AND FINANCIAL REPORTING ENTITY

In accordance with Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity* (GASB No. 14), the financial reporting entity of the University includes the consolidated operations of the system office, the campuses of the University and all related entities for which the University is financially accountable. As defined in GASB No. 14, financial accountability may stem from the University's ability to appoint a majority of the governing board of the related organization, its ability to impose its will on the related organization, its ability to access assets or its responsibility for debts of the related organization.

Accordingly, the accompanying consolidated financial statements contain the operations of the system office and the following four campuses. All significant intercampus accounts and transactions have been eliminated in the consolidation.

- University of Colorado at Boulder (CU-Boulder)
- University of Colorado Health Sciences Center (CU-Health Sciences Center)
- University of Colorado at Denver (CU-Denver)
- University of Colorado at Colorado Springs (CU-Colorado Springs)

In addition, the accompanying consolidated financial statements contain the financial position and results of operations of the following related entities for which the University is financially accountable:

- University of Colorado Insurance Pool (UCIP)
- The University Improvement Corporation (TUIC)
- University Technology Corporation (UTC)
- Buffalo Power Corporation
- University of Colorado Finance Corporation

UCIP, a public entity insurance pool operated for the benefit of the University and the University of Colorado Hospital Authority (Note 17), insures property, liability, and workers' compensation risks. UCIP operates under the regulatory authority of the Colorado Division of Insurance that requires an annual actuarial opinion and certification of reserve adequacy. After September 30, 1996, the University utilized a protected self-insurance program. The University assumes losses up to certain limits and purchases excess insurance for losses over those limits. UCIP is responsible for claims covered under the terms of its policies. When all of UCIP's liabilities are discharged, UCIP will be legally dissolved. Detailed financial information may be obtained directly from UCIP at 4110 Discovery Drive, Suite 230, Boulder, Colorado 80303.

The University Improvement Corporation (TUIC) was established in 1976 as a separate corporation to manage real estate investments for the sole benefit of the University. TUIC is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. Detailed financial information may be obtained directly from TUIC at P.O. Box 1140, Boulder, Colorado 80306-1140.

The University Technology Corporation (UTC) was established in 1992 as a separate corporation to further the transfer of newly created technologies from the University to the private sector. UTC is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. Detailed financial information may be obtained directly from UTC at 401 Discovery Drive, Suite 390B, Boulder, Colorado 80303.

Buffalo Power Corporation is a Colorado nonprofit corporation organized to facilitate the construction and financing of a cogeneration plant project. The project is designed to supply steam and electric power to CU-Boulder. Excess electricity produced by the project is sold to Excel Energy, an investor-owned utility. Buffalo Power Corporation's directors are appointed by the Board of Regents.

The University of Colorado Finance Corporation is a Colorado nonprofit corporation organized in 1998 to facilitate the acquisition of personal and real property for the University. The corporation is the lessor for The Regents of the University of Colorado Master Lease Purchase Agreement Adjustable Tender Certificates of Participation, Series 1998A (the Certificates). The Certificates provide a lease/purchase financing mechanism for certain equipment, construction projects and real property necessary for the University's operation.

For financial reporting purposes, the University is a component unit of the State.

TAX EXEMPT STATUS

The income generated by the University, as an instrumentality of the State, is excluded from federal income taxes under section 115(a) of the Internal Revenue Code. The University also has a determination letter from the Internal Revenue Service stating it is exempt under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Income generated from activities unrelated to the University's exempt purpose is subject to tax under Internal Revenue Code section 511.

RESTATEMENTS AND RECLASSIFICATIONS

Fund balances in the unexpended plant funds and investment in plant funds have been restated at July 1, 2000 by approximately $5,362,000 and $6,053,000, respectively, to correct fixed asset capitalization errors made in the prior year. Also, certain prior years' amounts have been reclassified to conform to the current year's presentation.

MEMORANDUM TOTALS

The total columns on the Consolidated Balance Sheet is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present the financial position of the University in conformity with the AICPA Industry Audit Guide for Colleges and Universities, as certain interfund borrowings have not been eliminated in the aggregation of this data.

BASIS OF ACCOUNTING

The consolidated financial statements have been prepared on the accrual basis of accounting and in accordance with the accounting guidance and reporting practices applicable to governmental colleges and universities as promulgated by Governmental Accounting Standards Board Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models* (GASB No.15). The prescribed guidance and practices are outlined in the American Institute of Certified Public Accountants industry audit guide, *Audits of Colleges and Universities,* and the *Financial Accounting and Reporting Manual* published by the National Association of College and University Business Officers.

In compliance with the aforementioned literature, the Consolidated Statement of Current Funds Expenditures presents financial activities of operating funds by function 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 changes in fund balances. To the extent that current operating funds are used to finance plant assets, amounts so provided are accounted for as: (1) expenditures, in the case of normal acquisition and/or replacement of movable equipment and library books, (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement, and (3) voluntary transfers for all other cases.

The significant accounting policies of the University are as follows:

Investments reported in the consolidated financial statements are at fair value, which is determined primarily based on quoted market prices at June 30, 2001. Amortized costs (which approximate fair value) are used for money market investments.

The University's investment policy permits investments in investment grade fixed-income and equity securities. This policy is implemented using individual securities, mutual funds, and commingled funds.

Some of the investments are endowments which are pooled to the extent possible under gift agreements. Certain of these endowments funds are managed for the University by the University of Colorado Foundation, Inc. (Notes 14 and 15). These endowment funds are invested in fixed income securities, equity securities, mutual funds, and alternative investments.

Inventories are stated at the lower of cost or market. Cost is determined using either the first-in, first-out, average cost, or retail method.

Summer session revenues and related direct instructional expenditures are reported within the fiscal year in which the summer session ends. Accordingly, only the student tuition and fee revenues and instructional expenditures of the 2000 summer session are included in the Consolidated Statement of Changes in Fund Balances and the Consolidated Statement of Current Funds Expenditures. Student tuition and fee revenues and related direct instructional expenditures for the 2001 summer session are deferred and are reported as unearned revenue and other assets, respectively, at June 30, 2001.

Land and improvements, buildings, and equipment, including library books and major software systems, are stated at cost at the date of acquisition or fair value at the date of donation. In conformity with generally accepted accounting principles for public colleges and universities, the University does not provide for depreciation on fixed assets.

Interfund borrowings are recorded in each fund as due to/due from other funds. Interfund borrowings are authorized in advance as required by administrative policy to provide needed working capital or cash advances for special capital projects. They typically have specific repayment schedules, and where appropriate, are interest bearing.

Internal service units are accounted for in the unrestricted current fund. Revenues and expenditures of self-funded internal service units are recorded in the appropriate accounts of the operating units. To accommodate external financial reporting of these units, the internal revenues are netted against expenditures to avoid duplicate reporting of the expenditures. Examples of activities accounted for as internal service units are telecommunication operations, cogeneration operations, service departments, and storerooms.

FUND ACCOUNTING

To ensure the observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with the activities or objectives specified for the resources. Separate accounts are maintained for each fund; however, in the accompanying consolidated financial statements, funds with similar characteristics have been combined. Accordingly, all financial transactions have been recorded and reported by fund group.

The different fund groups used by the University are as follows:

Current Funds—used primarily to account for transactions that are expended in performing the primary and support objectives of the University: i.e., instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships, and auxiliary activities.

Current funds are segregated into separately balanced fund groups as follows:

Unrestricted Fund—used to account for transactions related to the University's state general fund appropriated budget as approved by the state legislature and the Regents and for transactions of auxiliary enterprises and substantially self-supporting activities. Auxiliary enterprises include, but are not limited to, student housing, food services, bookstores, and intercollegiate athletics. Self-supporting activities primarily provide services for students, faculty, and staff and are funded by fees, unrestricted gifts, and other income designated for specific purposes by the Regents.

CU-Health Sciences Center operates the Colorado Psychiatric Hospital, of which the related revenues and expenditures are reflected as Hospitals and Clinics in the accompanying Consolidated Statements of Changes in Fund Balances and Current Funds Expenditures.

Restricted Fund—used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

Restricted current fund revenues, principally grants and contracts, recognized as the related expenditures are incurred, were $426,850,000 and $407,175,000 in fiscal years 2001 and 2000, respectively.

CU-Boulder and CU-Health Sciences Center participate in the federal government's Direct Loan Program. This program provides loans from the federal government to qualifying students and their families for educational purposes. While the University helps students obtain these loans, the University is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers as the U.S. Department of Education performs these functions.

Previously, student loans under the Direct Loan Program were accounted for in the restricted fund as additions from federal grants and deductions for student financial aid. The net of this loan activity is now accounted for in the agency fund as deposits held in custody and reported in the restricted fund as other liabilities. The amount of CU-Boulder direct loans during fiscal years 2001 and 2000 were $71,887,000 and $73,207,000, respectively. The amount of CU-Health Sciences Center direct loans during the fiscal years 2001 and 2000 were $21,144,000 and $19,894,000, respectively.

Student Loan Funds—financed by various sources including the federal government, private donors and interest income; used to account for loans to students and operated on a revolving fund basis. These loans are administered by the University.

Endowment and Similar Funds—consist of true endowment, quasi-endowment, life income, and annuity funds. True endowment funds are subject to the restrictions of donor gift instruments requiring the principal be invested in perpetuity. Term endowment funds provide that upon passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. Quasi-endowment funds have been established by the Regents to function as true endowment funds until the restrictions are lifted by the Regents. Life income funds are used to account for cash or other property contributed to the University subject to the requirement that the University periodically pay the income earned on such assets to a designated beneficiary. The assets of life income funds become the property of the University upon the death of the designated beneficiary. Annuity funds are used to account for property contributed to the University in exchange for a promise to pay a fixed amount to the donor for a specified period of time.

Plant Funds—used to account for the transactions relating to investment in University properties.

Plant funds are segregated into separately balanced fund groups as follows:

Unexpended Plant Fund—comprised of amounts that have been appropriated or designated for maintenance, construction, equipment replacement reserves, or purchase of land, improvements, buildings, and equipment. Fund balances totaling $22,175,000 and $30,680,000 in fiscal years 2001 and 2000, respectively, in the unexpended plant fund are considered to be restricted under existing revenue bond indentures and the remaining unexpended plant fund balances totaling $221,203,000 and $175,129,000 in fiscal years 2001 and 2000, respectively, are unrestricted but have been internally designated by the individual campuses for construction, repair, and maintenance projects.

Retirement of Indebtedness Fund—funds accumulated to meet future debt service obligations, including interest and principal payments pursuant to the terms of bond indentures and other contractual agreements.

Investment in Plant Fund—represents the total of property, buildings, and equipment, and the related liabilities. Additions to plant facilities on the Consolidated Statement of Changes in Fund Balances include $25,778,000 and $27,578,000 in fiscal years 2001 and 2000, respectively, charged to current funds expenditures.

2. Legislative Appropriations

APPROPRIATED FUNDS

The Colorado State Legislature establishes spending authority for the University in its annual Long Appropriations Bill. Appropriated funds include an amount from the State of Colorado's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources, which are recognized in various revenue lines and funds, as appropriate, in the accompanying Consolidated Statement of Changes in Fund Balances.

For the years ended June 30, 2001 and 2000, appropriated expenditures were within the authorized spending authority. The University had a total appropriation of $527,939,000 and $503,709,000, respectively. Actual appropriated revenues earned totaled $529,117,000 and $493,502,000, respectively, and actual appropriated expenditures and transfers totaled $523,613,000 and $489,856,000, respectively. The net increase in appropriated fund balances was $5,504,000 and $3,646,000, respectively.

NON-APPROPRIATED FUNDS

All other revenues and expenditures reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

FINANCIAL STATEMENT PRESENTATION

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

3. Cash Balances

At June 30, 2001 and 2000, the University's cash balances, including deposits in transit, were $7,052,000 and $3,469,000, respectively. For financial reporting purposes at June 30, 2001 and 2000, these balances are classified according to GASB Standards. Cash funds totaling $3,239,000 and $1,341,000 have been reported as cash and cash equivalents, and the remaining balances of $3,813,000 and $2,128,000 have been reported as investments. Corresponding bank balances were $1,034,000 and $759,000, respectively. The differences between the bank balances and the reported balances are due to reconciling items such as deposits in transit and outstanding checks. In accordance with Governmental Accounting Standards Board Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements* (GASB No. 3), the following table provides information concerning the credit risk for the University's bank balances as of June 30, 2001 and 2000 (in thousands):

Category of credit risk	*2001*	*2000*
Insured or collateralized with securities held by the University or its agent in the University's name	$ 266	$ 331
Collateralized with securities held by the pledging institution in the University's name	655	203
Uninsured or uncollateralized	113	225
	$1,034	$ 759

4. Investments

In accordance with GASB No. 3, as amended by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, University investments have been categorized into the following three categories of credit risk:

Category 1—Investments that are insured or registered or investments which are held by the University in the University's name.

Category 2—Investments that are uninsured or unregistered which are held by the counterparty's agent or trust department in the University's name.

Category 3—Investments that are uninsured or unregistered which are held by the counterparty's agent or trust department but not in the University's name.

A summary of the fair value of the University's investments at June 30, 2001, with comparative totals for 2000 follows (in thousands). All of the 2001 investments are in Category 1, except for investments in trusts and pools managed by others, which are uncategorized.

	Category of Risk	*2001*	*2000*
	Category No. 1	*Fair value total*	*Fair value total*
U.S. government and agency securities	$ 81,565	$ 81,565	$ 131,428
Corporate securities and commercial paper	71,750	71,750	51,034
Repurchase agreements	3,409	3,409	4,038
Subtotal	$ 156,724	156,724	186,500
Investments in trusts and pools managed by others–uncategorized		292,845	265,471
Fitzsimons Trust Fund – uncategorized		21,750	8,276
Total investments		**$ 471,319**	**$ 460,247**

An investment policy statement approved by the Regents directs the Treasurer of the University to meet the following investment objectives:

(1) liquidity for daily operations,
(2) protection of the nominal value of assets, and
(3) generation of distributable earnings at a level commensurate with the time horizon of the investments.

Generally, investments include direct obligations of the U.S. Government and its agencies, commercial paper, corporate bonds, asset backed securities, mortgages, money market funds, commingled and mutual funds, repurchase agreements, and equities. With respect to investments reported in these financial statements, the University is subject to market risk, which represents the exposure to changes in the market, such as changes in interest rates or a change in price or principal value of a security. In addition, these investments are exposed to credit risk except for those backed by the full faith and credit of the U.S. Government. Credit risk is the exposure to the default of counterparties to investment transactions.

To the extent permitted, the University pools cash balances and other funds of all University entities for investment purposes. For financial statement purposes, investment income is reported on a total return basis and is allocated among funds based on average daily balances, using amortized costs, which were $348,163,000 for the year ended June 30, 2001, and $331,428,000 for the year ended June 30, 2000. For the years ended June 30, 2001 and 2000, the total return on this pool of funds was 4.57% and 6.87%, respectively. In addition, the University has non-pooled cash balances and other funds which are separately invested.

For the years ended June 30, 2001 and 2000, investments in portfolios managed by others totaling $292,845,000 and $265,471,000, respectively, consist primarily of money market funds and bond and equity mutual funds. In addition, certain endowment fund investments are managed by the University of Colorado Foundation, Inc. (Note 14), and the Fitzsimons Trust Fund is managed by the State of Colorado.

The University Treasurer, under the authority granted by the Regents, entered into an agreement with the trust department of its custodial bank to lend its fixed income and equity securities to certain, qualified borrowers. Loans can be terminated on demand by either the University or the borrowers. The loans consist of two types: term and open. A term loan is for a fixed number of days while an open loan may be renewed by both parties daily.

The custodian, acting as lending agent, lends the University's securities for collateral of 102% to broker-dealers and other entities (borrowers) with a simultaneous agreement to return the collateral for the same security in the future. Acceptable forms of collateral are cash, irrevocable standby letters of credit, and obligations issued or guaranteed by the U.S. Government or its agencies. If the fair value of a loaned security increases, the borrower is required to deliver additional collateral to the custodian to protect the University. For both term and open loans collateralized by cash from the borrower, the collateral is invested in high-quality, U.S. dollar-denominated short-term money market instruments which can have fixed, variable, or floating rates of interest. Collateral is invested in diversified instruments to provide adequate liquidity and to avoid concentration by issuer or industry except that no concentration limits are set for obligations of the U.S. Government or its agencies. At June 30, 2001 and 2000, the University had no securities on loan.

The custodian provides indemnification to protect against a borrower's failure to perform or a borrower's default on a loan. There were no violations of legal or contractual provisions and no borrower or custodian defaulted.

5. Notes Receivable

The University has accepted notes receivable from dentistry students pursuant to a State statute whereby the notes are forgiven when the student, after graduation, complies with certain service requirements within the State of Colorado. Most of the notes receivable are expected to be forgiven. As of June 30, 2001 and 2000, 50 and 58 performance bonds have been signed for a total potential forgiveness of $915,579 and $947,000, respectively. The statutes generally require the student to provide services to rural areas of the State of Colorado or to provide indigent or institutionalized patient care.

6. Long-Term Obligations

At June 30, 2001 and 2000, the University had long-term obligations totaling $182,912,000 and $195,790,000, respectively. Details of the long-term obligations are as follows (in thousands):

	Interest rates	*Final maturity*	*2001*	*2000*
Revenue Bonds:				
Auxiliary Facilities	5.10–6.40%	6/1/09	$ –	$ 3,440
Recreation Facilities	7.05–7.25%	6/1/05	–	1,290
Research Building Revolving Fund	4.25–9.00%	6/1/12	6,565	34,010
Enterprise System (including premium of $1,306 for 2001)	3.80–7.00%	6/1/20	89,686	59,525
			96,251	98,265
Certificates of participation:				
Telecommunications project & cogeneration plant	4.63–6.00%	12/1/05	22,210	27,170
Master lease purchase - 1991	4.43–6.29%	6/1/01	–	2,395
Master lease purchase - 1998	3.50–4.45%	7/1/19	14,300	15,160
			36,510	44,725
Other capital lease obligations	4.75–6.95%	Various	31,135	31,332
Tax exempt commercial paper	3.95–4.30%	12/31/25	18,589	21,000
Notes payable	5.00–6.00%	12/31/09	427	468
Total long-term obligations			$182,912	$195,790

REVENUE BONDS

The revenue bonds consist of multiple issues to finance construction, repair and enhancement of various auxiliary and research facilities of the University. The revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the University to redeem at various dates, portions of the outstanding revenue bonds at prices varying from 100% to 101% of the principal amount of the revenue bonds redeemed.

The Research Building Revolving Fund (RBRF) revenue bonds are secured by a pledge of revenues of the Research Building Support Services Enterprise, including: all rents and charges generated from buildings and facilities; allocated investment earnings on balances in the Revolving Fund; and to the extent necessary, indirect cost recoveries received by the University on research grants and contracts performed by the University.

The Enterprise System Bonds are secured by a pledge of all net revenues of certain auxiliary facilities and further secured by a subordinate pledge of RBRF net revenues as defined above. The pledge of the RBRF revenues to the Enterprise System Bonds is subordinate to the Series 1986 RBRF bonds with an outstanding balance of $70,000, and to the Series 1995 RBRF bonds with an outstanding balance of $6,495,000.

There are no outstanding Auxiliary Facilities and Recreation Facilities revenue bonds as of June 30, 2001. All previously outstanding bonds have been repaid, or refinanced and in-substance defeased with the proceeds of the Enterprise System Revenue Refunding Bonds, Series 2001A, issued on May 10, 2001. The economic gain on defeasance was $1,044,000 and the accounting loss recorded at June 30, 2001 was $1,051,000.

The revenue bonds are special limited obligations of the Regents and are payable solely from the pledged revenues. The revenue bonds are not secured by any encumbrance, mortgage, or other pledge of property, except the Net Income of the facilities as defined in the Bond Resolution, and do not constitute general obligations of the Regents.

The revenue bonds contain provisions for debt service coverage (generally 125% or 200% of the current year's debt service) and also require the University to comply with various other covenants while the bonds are outstanding. Management of the University believes the University has met all debt service coverage ratios and has complied with all bond covenants.

CERTIFICATES OF PARTICIPATION

Certificates of participation have been issued to fund lease purchase agreements for a cogeneration plant, and the acquisition and refinancing of equipment. The certificates are secured by the buildings or equipment acquired with the lease proceeds (capitalized asset cost of $51,783,000 and $79,158,000 at June 30, 2001 and 2000, respectively), and unexpended lease proceeds, and contain optional redemption provisions allowing the University to redeem at various dates, portions of the outstanding certificates at prices varying from 100% to 102% of the principal amount of the certificates redeemed. Interest on the certificates of participation is payable semiannually, and principal is payable annually or semiannually with a final maturity in 2019, subject to annual appropriation by the Board of Regents.

NOTES PAYABLE

This category is composed of three different obligations.

The note payable of $323,000 and $355,000 for fiscal years 2001 and 2000, respectively, is a contractual obligation of CU-Boulder resulting from the acquisition of land for the site of student housing known as Williams Village. The obligation requires future minimum annual payments of $50,000 through 2009. The entire obligation is payable from student housing revenue.

The mortgage payable of $104,000 and $113,000 for fiscal years 2001 and 2000, respectively, is a contractual obligation resulting from the acquisition of a property known as the Bennett Property contiguous to the CU-Colorado Springs campus and is paid by the general fund.

The tax exempt commercial paper (TECP) is issued to finance capital facilities for enterprises. To date, the Board of Regents has used this financing vehicle for the following projects: the

University Center at the Colorado Springs campus, Boulder campus housing renovation, Boulder campus University Memorial Center expansion and renovation, Boulder campus Student Recreation Center utility-related deferred maintenance, and Boulder campus Telecommunications project. Additional projects may be authorized in the future. The proceeds of the notes may be used to pay notes at maturity, to pay capitalized interest on any notes, and to repay any amounts due to the Credit Facility Provider under the Reimbursement Agreement. $29,000,000 and $21,000,000 of notes had been issued, and $18,589,000 and $21,000,000 were outstanding on June 30, 2001 and 2000, respectively. This financing vehicle is intended to be used as construction financing. When projects are completed or nearing completion it is expected that long-term debt will be issued refunding the related outstanding TECP notes. The TECP notes are secured by a pledge of all University Enterprise revenues. The pledge is on a parity basis with respect to the Series 1994, 1997, and 2001A Enterprise Revenue bonds and is subordinate to the outstanding Research Building Revolving Fund Revenue bonds, Series 1986 and 1995.

OTHER CAPITAL LEASES

In addition to the long-term obligations described above, the University had capital lease obligations in effect at June 30, 2001 and 2000, with a capitalized asset cost of $34,201,000 and $33,864,000 and a related outstanding liability of $31,135,000 and $31,332,000, respectively. Such contracts provide that any commitments for expenditures beyond the current year are contingent upon funds being appropriated for such purposes by the Board of Regents.

MATURITIES OF LONG-TERM OBLIGATIONS

Payments of principal for long-term obligations for the five succeeding fiscal years and thereafter are as follows (in thousands):

Year ending June 30	*Revenue Bond obligations*	*Revenue Bond premium amortization*	*Certificates of participation*	*Other Capital leases*	*Notes/TECP payable*	*Total 2001*	*Total 2000*
2001							$ 19,216
2002	$ 6,440	$ 267	$ 4,389	$ 1,079	$ 44	$ 12,219	11,393
2003	6,895	230	4,592	960	46	12,723	11,928
2004	7,235	203	4,804	940	48	13,230	12,186
2005	6,820	172	4,968	881	51	12,892	12,022
2006	7,070	143	8,531	875	53	16,672	–
Thereafter	60,485	291	9,226	26,400	18,774	115,176	129,045
	$ 94,945	$ 1,306	$ 36,510	$ 31,135	$ 19,016	$182,912	$195,790

7. Extinguishment of Debt

Previous revenue bond issues and certificates of participation, considered to be extinguished through in-substance defeasance under generally accepted accounting principles, are not included in the accompanying Consolidated Balance Sheet. The amount of debt in this category, covered by assets placed in trust to be used solely for future payments, amounted to $30,585,000 and $19,630,000 as of June 30, 2001 and 2000, respectively.

8. Risk Financing Related Liabilities

The University has chosen to finance its risk-related liabilities through a variety of risk financing alternatives. Those alternatives include self-insurance programs, self-insurance pools, and self-insurance trusts.

As described in Note 1, the University established an insurance pool, UCIP, to insure its property, liability, and workers' compensation risks. UCIP operates under the regulatory authority of the Colorado Division of Insurance, which requires an annual actuarial opinion and certification of reserve adequacy. After September 30, 1996, the University utilized a protected self-insurance program. The University assumes losses up to certain limits and purchases excess insurance for losses over those limits. These limits range from $50,000 to $500,000. UCIP is responsible for claims covered under its policies. When all of UCIP's liabilities are discharged, UCIP will be legally dissolved. At June 30, 2001 and 2000, the reserves for unpaid claims held by UCIP and the protected self-insurance program totaled $11,386,000 and $13,344,000, respectively. These reserves are based upon the annual actuarial valuation and include reserves for incurred but not reported claims.

In addition, the University has established a self-insurance trust for the purpose of providing professional liability coverage for CU-Health Sciences Center and the University of Colorado Hospital Authority. Reserves for unpaid claims under this trust are actuarially reviewed and evaluated for adequacy each year. A separate self-insurance program has also been established for health insurance for graduate medical students. As of June 30, 2001 and 2000, the University had reserves totaling $8,427,000 and $8,212,000 respectively, which represent the present value of unpaid claims including incurred but not reported claims.

Effective January 1, 2000, the University transitioned from a self-insured program to a fully insured program for the University's benefit plans. At that time, a reserve was established based on actuarial estimates for incurred but not reported claims related to medical, dental, and prescription services for the old self-insurance plans. As of June 30, 2000, this reserve totaled $1,961,000 which included $1,576,000 due to University Physicians, Inc. for performance measures, and $385,000 for incurred but not reported claims. At June 30, 2001, the University eliminated the reserve, as all material claims have been paid.

Estimates of claims liabilities depend on many factors including inflation, damage awards, investment return, and changes in legal doctrine. Accordingly, computation of the claims liabilities requires an annual estimation process. Claims liabilities are reevaluated on a periodic basis and take into consideration recently settled claims, frequency of claims, and other relevant factors.

Changes in the balances of estimated claims liabilities for the year ended June 30, 2001, are as follows (in thousands):

	Liability at July1, 30,2000	*Claims and changes in estimates*	*Claim payments*	*Liability at June 30, 2001*
Property, general liability and workers' compensation	$ 13,344	$ 1,194	$ 3,152	$ 11,386
CU-Health Sciences Center and University of Colorado Hospital Authority professional liability	7,671	1,461	1,256	7,876
Graduate medical student health benefits	541	2,598	2,588	551
Self-funded benefit plans	1,961	(21)	1,940	–
	$ 23,517	$ 5,232	$ 8,936	$ 19,813

9. Compensated Absence Liability

University employees may accrue annual and sick leave based on length of service, but amounts paid upon termination are subject to certain limitations. The estimated cost of compensated absences for which employees are vested as of June 30, 2001 and 2000, is $56,348,000 and $41,376,000, respectively. The accrued annual leave includes the employer's share of the Public Employees' Retirement Association contribution.

The portion of the state-appropriated current unrestricted funds compensated absence liability relating to the current restricted fund is $17,842,000 and $14,660,000 at June 30, 2001 and 2000, respectively. Expenditures for the fiscal years ended June 30, 2001 and 2000, include $14,972,000 and $3,475,000, respectively, for the increase or (decrease) in the estimated compensated absence liability. The recording of the liability for compensated absences may result in fund balance deficits that are expected to be funded by state appropriations, federal funds, or other fund sources available in future years when the liability is paid.

10. Commitments and Contingencies

Contracts have been entered into for the purpose of planning, acquiring, constructing, and equipping certain building additions and other projects with outstanding amounts totaling $55,758,000 and $51,837,000 as of June 30, 2001 and 2000, respectively. These additions will be funded or financed by donor contributions, appropriations from the State of Colorado, issuance of revenue bonds, and other borrowings. The amount of the authorized capital construction appropriations from the State for these projects as of June 30, 2001 and 2000 was $26,489,000 and $24,206,000, respectively.

The Regents of the University (as lessee) and Sempra Energy Colorado, Inc (as lessor), issued $28,545,000 in certificates of participation (COP's) for the design, construction, equipping, and testing of a central utility plant on the Fitzsimons Campus of the Health Sciences Center. The project is expected to be complete on February 1, 2002. During the construction period, payments on the COP's will be made from proceeds that have been placed with the trustee. At the completion of construction and acceptance of the plant by the Regents, the University will record the capital lease liability and begin making principal and interest payments according to the lease terms, subject to annual appropriation by the Regents.

The University also leases various buildings and equipment under operating lease rental agreements. Total rental expense under these agreements was $4,123,000 and $3,117,000 for the fiscal years ended June 30, 2001 and 2000, respectively. Operating lease rental obligations for the five succeeding fiscal years in the aggregate annual amounts are as follows (in thousands):

Years ending June 30	*Minimum lease Obligation*
2002	4,074
2003	3,478
2004	2,696
2005	2,030
2006	1,292
Thereafter	5,175
	$ 18,745

Substantial amounts are received and expended by the University under federal and state grants and contracts, and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

The University is a defendant in a number of legal actions. While the final outcome of many of these legal actions cannot be determined at this time, management is of the opinion that the ultimate liability not covered by insurance, if any, for these legal actions will not have a material effect on the University's financial position.

11. Retirement Plans and Health Insurance Programs

Employees of the University eligible for retirement benefits participate in one of three retirement plans. Eligible student employees participate in a student retirement plan that is funded solely by contributions from the student employees. The student retirement plan is a defined contribution plan administered by a consortium of higher educational institutions in the State of Colorado. All other eligible employees of the University participate in one of the two additional plans, the Public Employees' Retirement Association (PERA) plan and the University's optional retirement plan.

The University's total payroll for the fiscal years ended June 30, 2001 and 2000 was $718,804,000 and $675,916,000, respectively. The total payroll of employees covered by the PERA plan, the University's optional retirement plan, and the student retirement plan was $196,289,000, $305,343,000 and $7,736,000, respectively, for fiscal year 2001, and $184,974,000, $317,207,000, and $9,212,000, respectively, for fiscal year 2000. The remaining employees were not eligible for participation in any of the University's retirement plans.

PERA DEFINED BENEFIT PENSION PLAN

Plan Description: 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 PERA. PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203.

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

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under the age of 18 (23 if a 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: Employees contribute 8% of their gross covered wages to an individual account in the plan.

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

- 1.1% was allocated to the Health Care Trust Fund.
- 9.3% 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% 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 Voluntary Tax Deferred Retirement Plans, below).

- The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The University's contributions to the three programs described above for the fiscal years ended June 30, 2001, 2000, and 1999 were $20,416,000, $21,087,000 and $19,826,000, respectively. These contributions met the contribution requirement for each year.

VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

On January 1, 2001, the Matchmaker Program established a State match for PERA member's voluntary contributions to tax-deferred retirement plans. The match was 100 percent of up to 3% of the employee's gross covered wages paid during the month. 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 401k 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.

UNIVERSITY OPTIONAL RETIREMENT PLAN

Under the University's optional retirement plan, certain members of the University participate in a defined contribution retirement plan administered by the University for the benefit of full-time faculty and unclassified staff members. The Constitution of the State of Colorado assigns the authority to establish and amend plan provisions to the Regents. The contribution requirements of plan members and the University are established and may be amended by the Regents. For fiscal year 2001 the University's contribution to the defined contribution retirement plan was equal to 10.0% of covered payroll and the employee contribution was equal to 5% of covered payroll. The University's contribution under the optional retirement plan for the years ended June 30, 2001 and 2000, amounted to $30,534,000 and $30,928,000, respectively, and the employee's contribution under the optional retirement plan was $17,932,000 and $15,860,000, respectively.

Participants in the University's optional retirement plan choose to invest all contributions into one or more of three designated vendors. In addition, participants in the University's optional retirement plan are covered under federal Social Security (FICA). Federal Social Security regulations require both the employer and employee to contribute 6.2% of covered payroll to the plan.

HEALTH INSURANCE PROGRAMS

The University's contributions to the various health insurance programs were $23,963,000 and $23,081,000 for the years ended June 30, 2001 and 2000, respectively.

12. Post-Employment Benefits

UNIVERSITY POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE PLAN

In addition to providing pension benefits described in Note 11, the University provides certain post-retirement health care and life insurance benefits for retired employees in accordance with the Regents' authority. Substantially all of the institution's employees may become eligible for those benefits if they reach normal retirement age while working for the University. For fiscal years 2001 and 2000, respectively, 3,383 and 3,106 retirees met the eligibility requirements and are receiving benefits. Under this program the University subsidizes a portion of health care and life insurance premiums by charging them as a current expense. These costs amounted to $2,501,000 and $1,938,000 for the years ended June 30, 2001 and 2000, respectively.

PERA 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 FY00-01, the premium subsidy was $115.00 for those with 20 years of service credit ($230.00 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution (see PERA Defined Benefit Pension Plan, above).

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 collected monthly by payroll deduction or other means.

13. Common Facilities

The Auraria Higher Education Center (AHEC), established by legislation in 1974, is jointly utilized by CU-Denver, the Community College of Denver, and Metropolitan State College of Denver. The institutions operate independently as educational institutions responsible to their own governing boards but share the costs of operating common plant and library facilities. Costs of common plant and library facilities are shared in accordance with an operating agreement between AHEC and the respective institutions.

14. Endowment and Similar Funds

True endowment funds are subject to restriction of gift instruments which require that the principal be invested in perpetuity. Quasi-endowment funds have been established by the Regents to function as true endowments until the restrictions are lifted by the Regents. The University has entrusted the management of investments (at fair value) of the majority of endowment funds and undistributed revenue of $58,724,000 and $61,995,000 as of June 30, 2001 and 2000, respectively, to the University of Colorado Foundation, Inc. (Foundation). Undistributed revenues of $3,572,000 and $3,350,000 in fiscal years 2001 and 2000, respectively, have been reported in the restricted fund.

A summary of the combined endowment fund balances held by the University and those for which the University is income beneficiary, at fair value as of June 30, 2001, is as follows (in thousands). Since the University has neither possession nor control of endowments owned by the Foundation, the principal has not been included in the accompanying Consolidated Balance Sheet.

	Owned by University		Owned by Foundation	Total 2001	Total 2000
	Managed by University	*Managed by Foundation*			
True endowments	$ 1,376	$ 24,940	$ 220,573	$ 246,889	$ 258,575
Quasi-endowments	2,343	30,159	129,972	162,474	153,771
Life income funds	–	–	–	–	121
Annuity funds (at cost)	2,180	53	–	2,233	2,180
Undistributed revenue	–	3,572	–	3,572	3,350
	$ 5,899	$ 58,724	$ 350,545	$ 415,168	$ 417,997

15. The University of Colorado Foundation, Inc.

The University of Colorado Foundation, Inc. (Foundation), an unconsolidated affiliated corporation, was established in 1967 as a separate corporation to solicit, collect, and invest donations for the University and for University of Colorado Hospital Authority. The Foundation is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. A member of the Board of Regents and the President of the University serve as ex officio members of the Board of Directors. The Foundation is not considered a component unit of the University because the University is not financially accountable for the Foundation.

Under an operating agreement between the Foundation and the University, the Foundation provides development services to the University in exchange for operating support. Distributions made by the Foundation to the University for the years ended June 30, 2001 and 2000 were $58,511,000 and $40,051,000, respectively. These amounts have been recorded as gift revenue in the accompanying consolidated financial statements, and do not include income on University endowments.

Summarized audited financial statements of the Foundation for the years ended June 30, 2001 and 2000 are as follows (in thousands):

	2001	*2000*
Investments (at fair value)	$ 524,937	$ 506,582
Other assets	114,864	87,003
Total assets	639,801	593,585
University custodial funds	59,484	62,945
Other liabilities	48,658	51,652
Net assets	$ 531,659	$ 478,988
Net assets:		
Unrestricted	$ 28,512	$ 27,465
Temporarily restricted	345,866	310,218
Permanently restricted	157,281	141,305
Total net assets	$ 531,659	$ 478,988
Contributions and other revenues	$ 136,644	$ 163,776
Distributions, other expenses and adjustments	83,973	61,638
Change in net assets	$ 52,671	$ 102,138

The University is the ultimate beneficiary of substantially all restricted and trust funds held by the Foundation and is income beneficiary of a significant portion of endowment funds held by the Foundation. As described in Note 14, Foundation endowment funds include $58,724,000 (fair value) and $61,995,000 (fair value) as of June 30, 2001 and 2000, respectively, of investments and undistributed revenue of endowment, restricted, and trust funds managed on behalf of the University. In note 14, funds managed by the Foundation are net of a $760,000 and $950,000 loan for El Pomar matching funds against the asset for fiscal years 2001 and 2000, respectively, while University custodial funds in this note are reported gross.

In January 2001 private donors pledged up to $250 million for research and to establish a center for cognitive disabilities at the University. The pledge amount is based on the value of certain stock holdings of the donor at the date of the pledge. The fluctuation of the value of these holdings could accelerate or defer contributions, originally scheduled over a period of five years. Future amounts under this agreement will be paid to either the Foundation or another non-profit organization separate from the University. As a result, the pledge has not been recorded on the financial records of the University or the Foundation.

16. The Colorado Medical Services Foundation, Inc.

The Colorado Medical Services Foundation, Inc. an unconsolidated affiliated corporation, a.k.a. University Physicians, Inc. (UPI), was established on July 1, 1982. UPI is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code and was established to support patient health care and to assist the University in achieving its primary mission in education, research, and public service. UPI collects patient and other revenues generated from professional activities by members of the faculty of the CU-Health Sciences Center School of Medicine. While certain University faculty and administrative officials are board members of UPI, UPI is not considered a component unit of the University because the University is not financially accountable for UPI.

UPI reimburses the University for UPI's estimated share of salaries, fringe benefits and other directly related operating costs of their members that are paid for by the University. The reimbursements are based upon estimated time devoted by its members to UPI activities. Reimbursements for these salaries and related expenses for the years ended June 30, 2001 and 2000 totaled approximately $87,378,000 and $82,140,000, respectively, and amounts provided as gift funds to the University totaled $9,403,000 and $6,732,000, respectively. In addition, for the years ended June 30, 2001 and 2000, UPI reimbursed the University approximately $1,103,000 and $655,000, respectively, for professional liability insurance and other administrative costs.

Summarized audited financial statements for UPI for the years ended June 30, 2001 and 2000 are as follows (in thousands):

	2001	*2000*
Assets	$ 84,348	$ 74,145
Liabilities	12,559	7,889
Unrestricted net assets	$ 71,789	$ 66,256
Revenues, primarily patient revenues	$144,306	$132,319
Expenses, primarily salaries and benefits	138,773	125,374
Change in net assets	$ 5,533	$ 6,945

17. University of Colorado Hospital Authority

In accordance with 1991 State legislation, the University of Colorado Hospital Authority (Hospital Authority) is a separate and distinct entity. The University does not control the appointment of staff nor does it assume responsibility for the debts of the Hospital Authority. Accordingly, the Hospital Authority is not considered a component unit of the University because the University is not financially accountable for the Hospital Authority. Detailed financial information may be obtained directly from the Hospital Authority.

CU-Health Sciences Center has several types of financial transactions with the University of Colorado Hospital Authority. On an annual basis, CU-Health Sciences Center and the Hospital Authority enter into agreements specifying the fees to be charged for services and the allocation of expenses between the two organizations. In certain circumstances, CU-Health Sciences Center may bear the entire cost of certain services in exchange for educational or other services provided by the Hospital Authority. In some instances, the fee charged by CU-Health Sciences Center or the Hospital Authority is a set amount for specific services to be provided. In other circumstances, the fee charged is based upon the amount or type of services requested by either CU-Health Sciences Center or the Hospital Authority. Total payments issued by the University of Colorado Hospital Authority to the Health Sciences Center were $27,236,000, and $26,631,000 for fiscal years 2001 and 2000, respectively, and total payments issued by the Health Sciences Center to University of Colorado Hospital Authority were $10,779,000 and $13,867,000 for fiscal years 2001 and 2000, respectively.

Examples of services provided by CU-Health Sciences Center to the Hospital Authority include telecommunications services, rental of office space, and resident doctors. Examples of services provided by the Hospital Authority to CU-Health Sciences Center include shipping and receiving services, student health services, and nursing staff for Colorado Psychiatric Hospital. In general, amounts receivable from, or payable, to the Hospital Authority are settled within the following calendar quarter.

The University of Colorado Hospital Authority and the CU-Health Sciences Center are relocating to the Fitzsimons Campus in Aurora, Colorado. The new Fitzsimons site will require substantial infrastructure improvements to support the current and future buildings. The Hospital Authority and CU-Health Sciences Center are sharing in the costs of the infrastructure projects based on estimates of future usage. An agreement governs the sharing of infrastructure costs between the two parties. The CU-Health Sciences Center is responsible for managing the infrastructure improvement projects and is then reimbursed by the Hospital Authority for its share under the agreement.

18. Subsequent Events

Subsequent to June 30, 2001, the University issued additional Enterprise System Refunding and Improvement Revenue Bonds totaling $51,320,000 (Series 2001B Bonds). Bond proceeds were used to pay maturing TECP in the principal amount of $31,589,000 and to provide sufficient funds to complete three projects on the CU-Boulder campus.

Principal payments on the Series 2001B Revenue Bonds are payable each June 1 beginning June 1, 2003, in varying amounts until all outstanding bonds are retired. The Series 2001B Bonds require semiannual interest payments on June 1 and December 1. Interest rates on the Series 2001A Bonds range from 3.5% to 5.5%.

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

Members of the Legislative Audit Committee:

We have audited the consolidated financial statements of the University of Colorado (the University), a component unit of the State of Colorado, as of and for the year ended June 30, 2000, and have issued our report thereon dated October 5, 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 University's consolidated 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 consolidated 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 University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated 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 consolidated 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, the Board of Regents and University management and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 5, 2001

October 5, 2001

Members of Legislative Audit Committee:

We have audited the consolidated financial statements of the University of Colorado (University) for the year ended June 30, 2001, and have issued our report thereon dated October 5, 2001. Under auditing standards generally accepted in the United States of America, we are providing you with information related to the conduct of our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

We have a responsibility to conduct our audit in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the consolidated 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, but 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 consolidated financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Significant Accounting Policies

The significant accounting policies used by the University are described in the notes to the consolidated financial statements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the consolidated 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 consolidated 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 University's consolidated financial statements are the allowance for doubtful accounts, compensated absences, and self-insurance trust funds. We evaluated the key factors and assumptions in determining that these estimates are reasonable in relation to the consolidated financial statements taken as a whole.

Significant Audit Adjustments

Several audit adjustments were proposed to the consolidated financial statements, and twelve audit adjustments were not made to the consolidated financial statements totaling $2,800,000. These passed differences are not considered material to the University's consolidated financial statements.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters.

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 past year that are subject to the requirements of AU 625, *Reports on the Application of Accounting Principles.*

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 University's auditors. However, these discussions occur in the normal course of our professional relationship, and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

* * * * *

This information is intended solely for the information and use of the Legislative Audit Committee, the Board of Regents, and University management and should not be used for any other purpose.

Very truly yours,

KPMG LLP

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Programs
Introduction

Year ended June 30, 2001

The University of Colorado is a state-supported institution of higher education with campuses at four locations: University of Colorado at Boulder, University of Colorado Health Sciences Center, University of Colorado at Denver and University of Colorado at Colorado Springs.

The financial and compliance audit of the state-funded student financial assistance programs at the four University campuses for the fiscal year ended June 30, 2001, was directed toward the objectives and criteria set forth in the Colorado Handbook for State-Funded Student Assistance Programs, issued by the Colorado Commission on Higher Education (CCHE), 2001 revision.

State-Funded Student Financial Assistance Programs

The state-funded student financial assistance programs at the University campuses include the Colorado Student Grant program, Colorado Graduate Grant program, Governor's Opportunity Scholarship, Extended Studies Grant program, Need-based Diversity Grant program, Part-time Student Grant program, Colorado Work-Study program, Undergraduate Merit program, Colorado Graduate Fellowship program, Merit-based Diversity Grant program, Perkins (formerly NDSL) Loan Matching and Health Professions Student Loan Matching programs, Student Incentive Grant program and the Colorado Nursing Grant program.

The state-funded student financial assistance expenditures made by the four campuses were $15,099,410 during the fiscal year ended June 30, 2001. Of this amount, state-funded matching funds of $92,783 for the fiscal year ended June 30, 2001, were transferred to the Perkins Loan and Health Professions Student Loan Funds.

The Director of Financial Aid at each campus is responsible for administration of these programs. This responsibility includes application processing, eligibility determination and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the University in federal and state financial assistance programs. The Finance Office at each campus is responsible for the programs' financial management, general ledger accounting, payments and collections.

During the fiscal year ended June 30, 2001, the University obtained authorizations to award federal student financial aid funds of $12,119,391 in the Pell Grant program, $93,032,853 in the Direct Loan program, $1,350,539 in the Supplemental Educational Opportunity Grant program, $2,678,723 in the College Work-Study program and $326,273 of new federal capital contributions in the Perkins Student Loan program.

During the year ended June 30, 2001, the University obtained authorizations to award Colorado student financial aid funds of $294,154 in the Colorado Leverage Education Assistance program, $61,496 in the Supplemental Leverage Education Assistance program, $491,082 in the Governor's Opportunity Scholarship, $8,117,820 in the Need-based Diversity Grant program, $2,678,723 in the Colorado Work-Study program, $3,344,372 in the Merit-based Diversity Grant program, $92,783 in the Perkins (formerly NDSL) Loan Matching and Health Professions Student Loan Matching programs, and $18,980 in the Colorado Nursing Grant program.

Independent Auditors' Report on the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Financial Assistance Programs

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Financial Assistance Programs (the Statement) of the University of Colorado (the University), a component unit of the State of Colorado, for the year ended June 30, 2001. The Statement is the responsibility of the University's management. Our responsibility is to express an opinion on the Statement 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 Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the Statement, the Statement was prepared in accordance with the format set forth in the *Colorado Handbook for State-Funded Student Financial Assistance Programs* issued by the Colorado Commission on Higher Education (CCHE), 2001 revision. The Statement is a summary of cash activity of the state-funded student financial assistance programs with the exception of the Colorado Work-Study program and Perkins Loan Program, and does not present certain transactions that would be included in the Statement of the state-funded student financial assistance programs if it was presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America. Accordingly, the accompanying Statement is not intended to present the financial position or changes in fund balances of the University in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly the appropriations, expenditures, transfers and reversions of the state-funded student financial assistance programs of the University for the year ended June 30, 2001, in conformity with the provisions of the CCHE *Colorado Handbook for State-Funded Student Financial Assistance Programs*, as described in note 1 to the Statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2001 on our consideration of the University's internal control over financial reporting and on 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.

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Regents, University management and the Colorado Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 5, 2001

UNIVERSITY OF COLORADO
State – Funded Student Financial Assistance Programs
STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS
Year ended June 30, 2001

	Total Financial Aid	Colorado Need-based Grant	Colorado Merit Scholarship	Colorado Work-Study	Governor's Opportunity Scholarship	CLEAP	SLEAP	Colorado Nursing Grant	Loan Match
Boulder Campus									
Appropriations:									
Original Official Allocation Notice	$ 7,652,314	$ 3,984,137	$ 1,881,731	$ 1,482,782	$ 76,698	$ 186,721	$ 31,763	$ —	$ 8,482
Additional funds reallocated by CCHE	63,650	20,000	—	—	43,650	—	—	—	—
Total available	7,715,964	4,004,137	1,881,731	1,482,782	120,348	186,721	31,763	—	8,482
Total expenditures	7,715,964	4,004,137	1,881,731	1,482,782	120,348	186,721	31,763	—	8,482
Reversion	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Denver Campus									
Appropriations:									
Original Official Allocation Notice	$ 3,642,182	$ 1,924,473	$ 769,522	$ 594,775	$ 268,402	$ 50,466	$ 15,391	$ —	$ 19,153
Additional funds reallocated by CCHE	3,219	—	—	—	3,219	—	—	—	—
Total available	3,645,401	1,924,473	769,522	594,775	271,621	50,466	15,391	—	19,153
Total expenditures	3,645,401	1,924,473	769,522	594,775	271,621	50,466	15,391	—	19,153
Reversion	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

UNIVERSITY OF COLORADO
State – Funded Student Financial Assistance Programs
STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS
Year ended June 30, 2001

	Total Financial Aid	Colorado Need-based Grant	Colorado Merit Scholarship	Colorado Work-Study	Governor's Opportunity Scholarship	CLEAP	SLEAP	Colorado Nursing Grant	Loan Match
Colorado Springs Campus									
Appropriations:									
Original Official Allocation Notice	$ 2,288,566	$ 1,180,257	$ 471,185	$ 472,797	$ 81,174	$ 45,023	$ 12,337	$ 5,390	$ 20,403
Additional funds reallocated by CCHE	67,939	—	—	50,000	17,939	—	—	—	—
Total available	2,356,505	1,180,257	471,185	522,797	99,113	45,023	12,337	5,390	20,403
Total expenditures	2,356,505	1,180,257	471,185	522,797	99,113	45,023	12,337	5,390	20,403
Reversion	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Health Sciences Center									
Appropriations:									
Original Official Allocation Notice	$ 1,344,070	$ 958,953	$ 196,934	$ 111,369	$ —	$ 11,944	$ 2,005	$ 18,120	$ 44,745
Additional funds reallocated by CCHE	75,000	50,000	25,000	—	—	—	—	—	—
Funds released to CCHE	(37,530)	—	—	(33,000)	—	—	—	(4,530)	—
Total available	1,381,540	1,008,953	221,934	78,369	—	11,944	2,005	13,590	44,745
Total expenditures	1,381,540	1,008,953	221,934	78,369	—	11,944	2,005	13,590	44,745
Reversion	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Programs
Summary of Significant Accounting Policies and
Notes to Statement of Appropriations, Expenditures, Transfers and Reversions

Year ended June 30, 2001

(1) Basis of Presentation and Accounting

The accompanying Statement of appropriations, expenditures, transfers and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format as set forth in the CCHE publication, Colorado Handbook for State-Funded Student Assistance Programs. The purpose of the Statement is to present, in summary form, the State-Funded student financial assistance activities of the University's four campuses for the fiscal year ended June 30, 2001.

The University's accounting system is structured and administered in accordance with the accounting principles promulgated by the American Institute of Certified Public Accountant's Industry audit guide, Audits of Colleges and Universities and the National Association of College and University Business Officers (NACUBO) in their revised publication, *Financial Accounting and Reporting Manual*. The accounts related to the state-funded student financial assistance are included in the University's current restricted fund.

All state-funded student financial assistance is expensed on a cash basis, except for the Perkins Loan Program and the Colorado Work-Study program. Perkins student loans are recorded as loans receivable when the funds are disbursed. Colorado Work-Study wages are recorded on the accrual basis recognizing expenses when the services are performed.

Because the Statement presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position or changes in fund balances of the University in conformity with accounting principles generally accepted in the United States of America.

(2) Student Incentive Grants

Student incentive grants consist of non-federal state funds and federal funds. The state must match 50 percent of the federal funds. The amount shown in the Statement is a combined total of non-federal and federal funds.

Independent Accountants' Report on the Application of Agreed-Upon Procedures to the Records of the University of Colorado and to its Internal Control Related to the Intercollegiate Athletics Program

Members of the Legislative Audit Committee:

We have performed the procedures enumerated below, which were agreed to by the management of the University of Colorado (the University) and the Office of the State Auditor, State of Colorado, solely to assist in evaluating (1) whether the Statement of Revenues and Expenditures of the Intercollegiate Athletics Department of the University is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 6.2.3.1, for the year ended June 30, 2001 and (2) the effectiveness of the University Intercollegiate Athletics Department's internal control over financial reporting as of June 30, 2001. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures Related to the Statement of Revenues and Expenditures

a. We obtained the statement of revenues and expenditures for the year ended June 30, 2001, as prepared by management and shown in the accompanying statement herein. We recalculated the summations of amounts on this statement and agreed the general ledger amounts to the statement.

   The schedule and the general ledger were in agreement.

b. We compared the total dollar amount of current restricted fund gifts revenues per the University's general ledger to the corresponding total dollar amount in the accompanying statement. We confirmed the related total amount of cash contributions received by the University's Intercollegiate Athletics Department during the year ended June 30, 2001 directly with the University of Colorado Foundation, Inc. (the Foundation) and agreed the confirmation to the general ledger.

   The statement and the general ledger were in agreement.

   The confirmation and the general ledger were in agreement.

c. We inspected the Athletic Department's schedule of Foundation transfers that constituted more than 10 percent of gift revenue in the statement. For each transfers group, we reviewed supporting documentation from the Foundation noting that the gift was for the Athletic Department.

   There were four transfer accounts that exceeded 10 percent of gift revenue: Golden Buffalo Scholarship for $2,950,000, Dal Ward Team House for $691,000, Coaches Incentive Fund for $636,000 and Flatirons Club for $701,000. The description and amount of the transfer matched the supporting documentation for each transfer account.

d. We compared the amount of Conference Distribution revenues of $5,602,599 in the accompanying statement to the corresponding sum of amounts per copies of the checks and related correspondence received by the University from the NCAA.

   We found such amounts to be in agreement.

e. We compared the amount of the July and January Nike Contract revenues in the accompanying schedule of revenues and expenditures to the corresponding sum of amounts per copies of checks and related correspondence received by the University from Nike.

   We found such amounts to be in agreement.

f. We compared each line of actual expenditures in the Schedule to the corresponding prior year expenditures. The prior year expenditures were obtained from the Statement of Revenues and Expenditures for the year ended June 30, 2000. We identified variances of greater that 10 percent and $60,000 and obtained the following explanations from University management regarding the reasons for the variances:

   Team/Individual Travel – Football travel accounts for a majority of the variance as the schedule dictates travel costs and the football team did not travel as much as in the prior year.

   Recruiting Travel – Men's basketball and Title IX (other women's sports) spent more on recruiting in an expanded effort to improve their teams.

   Maintenance & General Admin – Increase in cost of maintenance due to an administration attempt to make maintenance a priority.

   Equipment Purchases – The football team did not go to a bowl game in 2001, therefore, there was a decrease in equipment purchases.

   Local Food/Lodging – The football team did not go to a bowl game in 2001, therefore, there was a decrease in food and lodging expenses.

   Medical – The football team did not go to a bowl game in 2001, therefore, there was a decrease in medical expenses.

   Building & Equipment Rental – In 2001 money was spent renting a covering for the stadium grass field for commencement and the Boulder Boulder race and rental of the Pepsi Center complex for the Women's Regional basketball tournament.

   Fees/Licenses/Registration – Variance was due to increased expenses for cheerleader conference registration fees, credit card fees due to easier credit card usage through our ticketing system, and fees to support student football ticket sales over the Internet.

General Admin Recharge – This charge is directly related to the expenditures incurred by the Department. As expenditures increase, the general admin recharge also increases.

Foundation Costs – Each year the Athletics arm of the Foundation prepares a budget which the campus funds. As the Foundation attempts to raise money for stadium expansion, their expenses increase.

Miscellaneous Expense – This account includes gift-in-kind expense. In fiscal year 2001, there were increased gifts in kind for plane usage, student message services and golf greens fees.

Debt Service – In 2001, the first payment was made on debt for the new video boards.

Capital Fund – The variance can be explained by expenditures incurred in 2000 for the grass fields and no similar expenditure in 2001.

No additional procedures were performed with respect to management's representations as to the reasons for the variances.

Procedures Related to Internal Control over Financial Reporting

a. We obtained the Athletics Department cash receipts worksheets for the year ended June 30, 2001, as prepared by management. From these worksheets, we selected the January and April Conference Distributions, the July and January Nike contract payments and five football game ticket sale receipts (Washington, Oklahoma, Texas, Colorado State and Nebraska), and performed the following procedures:

(i) For all items, we traced the receipt to the University-prepared cash receipt form and the cash log records.

(ii) The daily cash receipt was traced to the monthly summary report, and the monthly summary report was traced to the general ledger.

(iii) For the two conference distributions and two Nike contract payments, we traced the cash receipt to the supporting documentation prepared by the external payor.

(iv) For the five ticket sales we traced the cash receipt to the cashier's report prepared by the ticket office of the University's Intercollegiate Athletics Department, noting that both the cashier and the supervisor had approved the report. We traced the cashier's report to the batch report. We traced the batch report to the PACIOLAN System which is used to track ticket sales.

The information we compared was in agreement.

b. We haphazardly selected the following ten cash disbursements for the University for the year ended June 30, 2001 from the University's monthly disbursements statements. For each of these ten disbursements, we compared the disbursed amount and payee to the corresponding information on the vendor invoice which was authorized by the appropriate individual depending on the disbursement.

Travel Month		Vendor	Amount
July	*	Team Travel	$ 30,370
September	*	Team Travel	5,043
November	*	R. Patton	1,080
December	*	Team Travel	6,233
February	*	Team Travel	2,054
		Karsten Mfg. Corp.	2,208
		Nike	15,165
		Dell	2,915
		Port-a-cool Sales	3,592
		All American Sports	3,590

*Travel for specified month.

c. We haphazardly selected the following ten employees from the Department's payroll register. For each of these employees, we agreed the rate per the PeopleSoft system to the employee's file; for student employees, we recalculated the hourly wage based on the gross pay and the hours worked, and agreed it to the PeopleSoft system and obtained the time sheets to ensure that they were properly completed and that the hours reported agreed to the hours paid.

Employee ID Number	Classification
113814	Full Time
129796	Full Time
127133	Full Time
132983	Full Time
126234	Full Time
132442	Student
121511	Student
100877	Student
125799	Student
101102	Student

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the Statement of Revenues and Expenditures of the Intercollegiate Athletics Department of the University, or the examination of the University's Intercollegiate Athletics Department internal control over financial reporting the objective of which would be the expression of an opinion on its effectiveness. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Regents, University management and the Office of the State Auditor, State Colorado and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

KPMG LLP

October 5, 2001

UNIVERSITY OF COLORADO
INTERCOLLEGIATE ATHLETICS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES

Year ended June 30, 2001

		Football	Men's Basketball	Women's Basketball	Other Men's Sports	Other Women's Sports	Non-Program Specific	Total
Operating revenue:								
Ticket Sales	$	8,042,230	630,811	201,719	5,063	22,291	111,316	9,013,430
Guarantees Received		250,000	8,000	—	—	—	—	258,000
Bowl Game Proceeds		—	—	—	—	—	—	—
Conference Distribution		—	—	—	—	—	5,602,599	5,602,599
Programs		33,051	—	—	—	—	4,135	37,186
Novelties		25,634	420	337	—	—	1,022	27,413
Licensing		—	—	—	—	—	399,440	399,440
Credit Card Sponsorship		—	—	—	—	—	207,526	207,526
Radio & TV		421,269	195,220	123,835	—	—	—	740,324
Signage		—	—	—	—	—	514,624	514,624
Buff Vision		—	—	—	—	—	545,263	545,263
Corporate Sponsor Days		106,022	33,261	27,336	—	14,944	—	181,563
Nike Contract		265,070	49,767	57,568	93,078	142,515	505,671	1,113,669
Concessions		98,010	62,916	23,245	—	3,942	27,240	215,353
Parking		43,804	—	—	355	355	6,299	50,813
Banquets		5,875	1,710	4,020	1,110	3,765	—	16,480
Student Fees		—	—	—	—	1,339,949	—	1,339,949
Ski Club		—	—	—	—	—	48,145	48,145
Facility Rentals		—	—	—	—	—	297,942	297,942
Miscellaneous Income		—	—	—	—	5,100	(6,271)	(1,171)
Gifts:		—	—	—	—	—	—	—
Unrestricted		—	—	—	—	—	—	—
Restricted		923,585	—	25,393	57,659	24,705	4,094,916	5,126,258
Investment Income:		—	—	—	—	—	—	—
Unrestricted		—	—	—	—	—	—	—
Restricted		—	—	—	—	—	11,112	11,112
Endowment Income:		—	—	—	—	—	—	—
Unrestricted		—	—	—	—	—	—	—
Restricted		—	—	—	—	—	—	—
Financial Aid Support:		—	—	—	—	—	—	—
CHE		56,966	3,745	9,783	45,035	72,471	—	188,000
Boulder Campus		506,108	11,618	34,855	81,512	244,920	—	879,013
President's Support		—	—	—	—	—	740,000	740,000
Chancellor's ECC Support		—	—	—	—	—	121,000	121,000
Total operating revenue		10,777,624	997,468	508,091	283,812	1,874,957	13,231,979	27,673,931

UNIVERSITY OF COLORADO
INTERCOLLEGIATE ATHLETICS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES

Year ended June 30, 2001

	Football	Men's Basketball	Women's Basketball	Other Men's Sports	Other Women's Sports	Non-Program Specific	Total
Operating Expenditures:							
Coach's Salaries	$ 1,737,750	673,140	489,353	286,903	539,798	42,440	3,769,384
Other Salaries	296,666	83,783	89,383	26,847	77,232	4,293,715	4,867,626
Compensated Absences				—	—	75,239	75,239
Guarantees Paid	350,000	204,000	36,600	—	7,000	—	597,600
Contractual Services	520,548	238,310	187,806	2,620	38,389	206,679	1,194,352
Film/Videotape/Photography	14,152	1,684	898	157	580	86,080	103,551
Travel:				—			—
Team/Individual	614,936	263,803	221,420	183,139	427,793	121,538	1,832,629
Recruiting	261,234	130,923	94,912	11,986	81,265	—	580,320
Motor Vehicle Rental	16,512	816	—	30,187	39,827	9,331	96,673
Financial Aid	2,072,302	288,883	330,200	504,518	1,264,327	50,628	4,510,858
Maint & General Admin	73,643	1,335	2,021	438	528	1,331,117	1,409,082
Equipment Purchases	196,156	4,694	4,657	30,288	41,991	1,126,894	1,404,680
Publicity	177,413	121,571	115,989	2,075	9,566	359,028	785,642
Insurance	—	—	—	—	—	223,629	223,629
Telephone	60,174	37,147	16,505	13,422	23,046	186,864	337,158
Entertainment	236,017	58,017	56,632	16,103	36,305	211,098	614,172
Training Table	123,682	17,821	16,930	629	21,457	35,232	215,751
Local Food/Lodging	255,357	30,109	18,691	1,280	35,675	426	341,538
Medical	180,314	20,072	17,004	27,958	82,599	55,041	382,988
Postage	34,802	7,353	13,520	2,195	5,876	84,719	148,465
Building & Equipment Rent	219,574	3,869	1,799	15,956	30,465	208,973	480,636
Moving	16,110	11,312	—	1,211	12,187	20,045	60,865
Gifts/Awards	22,515	960	8,921	5,233	13,088	58,783	109,500
Fees/Licenses/Registrations	1,752	969	1,735	231	1,381	192,085	198,153
IT Costs	20,318	10,226	7,200	2,987	8,447	148,578	197,756
General Admin Recharge	(108)	—	600	716	716	811,072	812,996
Band Support				—	—	79,850	79,850
Foundation Costs				—	—	1,080,771	1,080,771
Miscellaneous Expense	120,536	11,347	17,968	8,251	17,186	296,635	471,922
Debt Service				—	—	425,124	425,124
Capital Fund				—	—	400,000	400,000
Total operating expenses	7,622,355	2,222,144	1,750,744	1,175,330	2,816,724	12,221,614	27,808,910
Excess/(Deficiency)	$ 3,155,269	(1,224,676)	(1,242,653)	(891,518)	(941,767)	1,010,365	(134,979)

Independent Accountants' Report on the Application of Agreed-Upon Procedures to Statements and Records of Outside Organizations' Expenditures for or on Behalf of the University of Colorado's Intercollegiate Athletics Program

Members of the Legislative Audit Committee:

We have performed the procedures, enumerated below, which were agreed to by the management of the University of Colorado (the University), and the Office of the State Auditor, the State of Colorado, to the accounting records of the University and the related booster organizations as reported to us by the University of Colorado Foundation, Inc. (the Foundation), in connection with activities of the Intercollegiate Athletics Program of the University. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In determining the financial activities of these booster organizations, we relied upon information supplied to us by the Foundation. We did not confirm directly with the officers of the booster organizations the financial activities of those organizations. Our procedures were as follows:

1. We obtained a list of booster organizations and the related financial activities for the year ended June 30, 2001 from the Foundation. The following is a summary of the list obtained. Endowments, trusts, and other gifts have been summarized for this report.

Organization		Fund balance July 1, 2000	Gifts and other additions	Distributions to the University	Other additions (deductions)	Fund balance June 30, 2001
Buff Club	$	115,292	3,095,829	(2,941,049)	33,554	303,626
Flatirons		21,000	634,625	(700,935)	46,720	1,410
Endowments		6,680,654	714,907	(1,213,500)	(533,967)	5,648,094
Trusts		918,998	500,059	—	(72,836)	1,346,221
Other		1,712,092	1,887,030	(2,346,492)	(149,230)	1,103,400
Total	$	9,448,036	6,832,450	(7,201,976)	(675,759)	8,402,751

2. We reconciled the total amount of distributions made to the University on behalf of intercollegiate athletics, as reported by the Foundation, to the amount of restricted gift revenues reported by the University's Intercollegiate Athletics Department as follows:

Total distributions to the University (see above)	$	7,201,976
Gifts recorded directly to plant fund		(605,250)
Amounts paid directly to vendors on behalf of University		(1,182,857)
Gifts-in-kind		(287,611)
Total restricted gifts per the statement of revenues and expenditures of the University's Intercollegiate Athletics Department	$	5,126,258

3. We reviewed the audited financial statements of the Foundation for the year ended June 30, 2001, which had been audited by other auditors who expressed an unqualified opinion on those statements.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Regents, University management and the Office of the State Auditor, State of Colorado, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

KPMG LLP

October 5, 2001

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