University of Colorado

Financial and Compliance Audits

For the Year Ended June 30, 2002

LEGISLATIVE AUDIT COMMITTEE
2002 MEMBERS

Senator Jack Taylor
Chairman

Senator Ron Tupa
Vice-Chairman

Senator Norma Anderson
Representative Fran Coleman
Senator Stephanie Takis
Representative Val Vigil
Representative Al White
Representative Tambor Williams

Office of the State Auditor Staff

Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

UNIVERSITY OF COLORADO
FINANCIAL AND COMPLIANCE AUDITS
FOR THE YEAR ENDED JUNE 30, 2002
TABLE OF CONTENTS

TABLE OF CONTENTS (CONTINUED)

UNIVERSITY OF COLORADO
FINANCIAL AND COMPLIANCE AUDITS
AUDIT REPORT SUMMARY
FOR THE YEAR ENDED JUNE 30, 2002

PURPOSE AND SCOPE

The Office of the State Auditor, State of Colorado engaged Deloitte & Touche LLP to conduct certain financial and compliance audits of the University of Colorado (the University) for the year ended June 30, 2002. Deloitte & Touche performed these audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from April 29, 2002 to September 20, 2002.

The purpose and scope of our audits were to:

- Express an opinion on the financial statements of the University for the year ended June 30, 2002. This included 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 financial statements performed in accordance with *Government Auditing Standards.*

- Express an opinion on the financial statements of the University's bond fund for the year ended June 30, 2002. 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, 2002.

- Perform certain agreed-upon procedures regarding the records and internal control related to the University of Colorado at Boulder's Intercollegiate Athletics Program and the statements and records of outside organizations' expenditures for or on behalf of the University of Colorado at Boulder'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 the University's 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, 2002, Statewide Single Audit Report issued under separate cover.

AUDIT OPINIONS AND REPORT

We expressed unqualified opinions on the University's financial statements; bond fund financial statements; and the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs for the year ended June 30, 2002.

Several audit adjustments were proposed but not recorded in the financial statements. Had these adjustments been made, net assets would have decreased $68,000. These passed adjustments are not considered material to the University's financial statements. We issued a report on the University's compliance and internal control over financial reporting based on an audit of 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 financial statements. 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 of Colorado at Boulder's Intercollegiate Athletic Program in accordance with NCAA guidelines. Our report disclosed no exceptions as the result of our procedures.

SUMMARY OF KEY FINDINGS

Student Loan Reconciliation Procedures Should Be Formalized and Strengthened at the University of Colorado Health Sciences Center

The University of Colorado Health Sciences Center utilizes a loan servicer to invoice, collect amounts due, and maintain individual student loan balances. Our review of seven loan files revealed that two manual student loan files did not agree with the information in the Student Information System or the loan servicer's records. In one case, the loan servicer's student loan balance was overstated by $2,813, or 25%. This resulted in the student being invoiced more than required by the loan agreement. In another case, the required signed promissory notes were not included in the manual student file.

Controls Should be Strengthened Regarding the Disposition of All Gift and Donation Checks Payable to the University of Colorado

When gifts and donations are made to the University, it is the University's standard policy to direct these receipts to the University of Colorado Foundation (CU Foundation) for deposit unless otherwise directly stated by the donor. On occasion, checks are routed to and deposited by the CU Foundation that actually belong to the University. In some cases, these checks represent contract and grant monies that belong to the University and should be deposited into University contract and grant accounts but were routed to the CU Foundation in error. In other cases, checks have been from donors who intend for their gifts to go directly to the University rather than to the Foundation. In these instances, the donations should be deposited into University accounts and the assets should be reflected in the University's books and records.

An additional example of the importance of properly differentiating between gifts to the University and gifts to the Foundation occurred during this year. Upon the termination of a donor's trust, the Foundation took receipt of financial assets that the donor had directed to be paid to the University without any notification to or approval of the University.

RECOMMENDATIONS AND UNIVERSITY OF COLORADO RESPONSES

A summary of the recommendations for the above comments is included in the Recommendation Locator on page 4. 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 Audit Findings and Recommendations section of our report.

Summary of Progress in Implementing Prior-Year Audit Recommendations

The audit report for the year ended June 30, 2001, included seven recommendations. The disposition of these audit recommendations as of September 20, 2002, is as follows:

Implemented	4
Partially Implemented	3
Not Implemented	0
Total	7

UNIVERSITY OF COLORADO
FINANCIAL AND COMPLIANCE AUDITS
RECOMMENDATION LOCATOR
FOR THE YEAR ENDED JUNE 30, 2002

Rec No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	7	The University of Colorado Health Sciences Center should strengthen controls over the student loan files reconciliation process. Specifically, (a) controls should be formalized into written policies and procedures and be clearly communicated to the campus Bursar's Office staff; (b) controls should be periodically reviewed to ensure that they are being followed consistently and appropriately; and (c) the campus Bursar Office should work to clear outstanding reconciling items between the student information system, the loan servicer, and the general ledger on a timely basis.	University of Colorado	Agree	December 31, 2002
2	9	The University of Colorado should strengthen its controls regarding the disposition of University gift and donation checks. Specifically, (a) departmental procedures should be enhanced to require a more thorough review and evaluation of the nature of the monies being received and whether they constitute gifts and donations or grant and contract monies to ensure appropriate routing per the respective University policy, and (b) the current process for handling gift and donation checks made payable to the University should be evaluated and modified as appropriate. The evaluation should focus on ensuring that the process suitably meets the essential objectives of stewarding the gift and properly recognizing the payee.	University of Colorado	Agree	June 30, 2003

DESCRIPTION OF THE UNIVERSITY OF COLORADO
FOR THE YEAR ENDED JUNE 30, 2002

The University of Colorado (the University) was established on November 7, 1861, by an Act of the Colorado 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 system administration and the following four campuses:

- Boulder
- Colorado Springs
- Denver
- Health Sciences Center

The four campuses consist of 16 schools and colleges, which offer more than 140 fields of study at the undergraduate level and 100 fields at the graduate level. Approximately 120 bachelors and masters degrees, along with 65 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 Board of Regents appoints the President and Chancellors of the University. 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 that each campus complies with the policies of the Board of Regents and the President.

Enrollment, tuition, faculty, and staff information are presented below. Information was obtained from the Budget Data Book for fiscal year 2001-2002, prepared for the Colorado Commission on Higher Education (CCHE).

Full-Time Equivalent (FTE) Student Enrollment

	Undergraduate		Graduate	
Fiscal Year	**Resident**	**Nonresident**	**Resident**	**Nonresident**
2001–2002	23,561	8,041	6,344	1,359
2000–2001	23,037	7,720	6,225	1,220
1999–2000	22,679	7,223	6,256	1,266

Full-Time Faculty and Staff

Fiscal Year	Faculty	Staff
2001–2002	2,821	3,243
2000–2001	2,807	3,252
1999–2000	2,766	3,267

In planning and performing our audit of the consolidated financial statements of the University of Colorado (University) for the year ended June 30, 2002 (on which we have issued our report dated September 20, 2002), we developed the following recommendations concerning certain matters related to the University's internal control and certain observations and recommendations on other accounting, administrative, and operating matters. Our recommendations are summarized below.

Student Loan Reconciliation Procedures Should Be Formalized and Strengthened at CU-Health Sciences Center

The University of Colorado Health Sciences Center (UCHSC) utilizes a loan servicer to invoice, collect amounts due, and maintain individual student loan balances. When student loans are disbursed from the Office of Financial Aid, initial loan balances are posted to the UCHSC's Student Information System (SIS) within the general ledger. On a weekly basis, the loan servicer receives a batch update from UCHSC that includes all new and updated student data included in the SIS, since the previous update. When the student goes into repayment status, upon graduation or leaving school, the loan servicer will then invoice the student and collect the loan payments. All monthly transactions managed by the loan servicer are provided back to the UCHSC and posted to the general ledger on a monthly basis. As of June 30, 2002, the loan servicer managed 4,368 loan accounts, approximating $12.2 million, from current and former students.

Each term, the UCHSC Bursar's Office reconciles the records of graduating students to ensure that the manual student loan file, the student loan activity included in SIS, and the loan servicer information are complete and accurate. Our review of seven student loan files revealed that two manual student loan files did not agree with the information in the SIS or the loan servicer's records. In one case, a student's loan balance maintained by the loan servicer was overstated by $2,813, or 25%. This resulted in the student being invoiced more than required by the loan agreement. In another case, the required signed promissory notes were not included in the manual student file maintained by the UCHSC.

In May 2001, the management of the UCHSC Bursar's Office changed. The new bursar identified many reconciling items and issues early in the management of his office. In addition, new student loans that were initiated during fiscal years 2000 and 2001 were fully reconciled in February 2002. During this reconciliation, corrections were made to the information sent to the loan servicer and to the general ledger. We reviewed the UCHSC's monthly reconciliations between the loan servicer's records and the general ledger and noted many items remaining on the reconciliations that were greater than six months old.

While informal controls have been established, they need to be strengthened and documented. Controls are more likely to be consistently and appropriately applied when they are formalized into written policies and procedures, clearly communicated to staff, and periodically reviewed to ensure that they are being followed. This will provide assurance that student loan information maintained at both the UCHSC and the loan servicer is complete and accurate.

Recommendation No. 1:

The University of Colorado Health Sciences Center should strengthen controls over the student loan reconciliation process. Specifically:

a. Controls should be formalized into written policies and procedures and should be clearly communicated to the UCHSC Bursar's Office staff.

b. Controls should be periodically reviewed to ensure that they are being followed consistently and appropriately.

c. The UCHSC Bursar's Office should work to clear outstanding reconciling items between the SIS, the loan servicer, and the general ledger on a timely basis.

University of Colorado Response:

Agree. The University of Colorado Health Sciences Center plans to continue to enhance the management of the student loan process. Specifically, the UCHSC Bursar's Office has begun a formal reconciliation between the SIS and the loan servicer on a monthly basis and will formalize written policies and procedures for the student loan reconciliation process by December 31, 2002. In addition, the UCHSC Bursar's Office will reconcile every loan balance on the loan servicer's system by December 31, 2002. It should also be noted that the loan balance for the one student with the 25% overstated loan balance has been adjusted to the correct balance. Based on our review to date, no student has ever overpaid his or her loan balance as a result of this problem.

Controls Should be Strengthened Regarding the Disposition of All Gift and Donation Checks Payable to the University of Colorado

When gifts and donations are made to the University, it is the University's standard policy to direct these receipts to the University of Colorado Foundation (CU Foundation) for deposit unless otherwise directly stated by the donor. As stated in the CU Foundation's Articles of Incorporation, "the Foundation was organized and is operated exclusively for charitable, scientific or educational purposes designed to promote the welfare of the University of Colorado." Additionally, the Foundation is "to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University of Colorado." For fiscal year 2002, the CU Foundation distributed gifts and income totaling $55 million and $58 million, respectively, to the University. Additionally, as of June 30, 2002, the CU Foundation held and managed $56 million of endowments legally owned by the University.

Gift checks often come to University departments and are routed directly from the department to the CU Foundation for deposit. In some cases the checks are made payable to the CU Foundation and in other cases they are made payable to the University. The CU Foundation routinely accepts and deposits, into Foundation bank accounts, checks made payable to the University. In 1986, this practice was determined to be acceptable by University legal counsel. At that time, University legal counsel wrote a letter addressing the appropriateness of the CU Foundation accepting checks or other instruments made payable to the University. The legal opinion stated that the existing Board of Regent resolutions were legally sufficient to authorize the CU Foundation to process checks made payable to the University and that it was not necessary for the Board of Regents to pass a specific resolution regarding this matter. However, in processing the checks, the CU Foundation does not differentiate these gifts as being made to the University, as opposed to the Foundation, and the University is unable to track these gifts or determine whether the University is meeting its stewardship responsibility with regard to these gifts.

On occasion, checks are routed to and deposited by the CU Foundation that actually belong to the University. In some cases, these checks represent contract and grant monies that belong to the University and should be deposited into University contract and grant accounts but were routed to the CU Foundation in error. In other cases, checks have been from donors who intend for their gifts to go directly to the University rather than to the Foundation. In these instances, the donations should be deposited into University accounts, and the assets should be reflected in the University's books and records.

An additional example of the importance of properly differentiating between gifts to the University and gifts to the Foundation occurred during this year. Upon the termination of a donor's trust, the Foundation took receipt of financial assets that the donor had directed to be paid to the University, without any notification to or approval of the University.

We identified the following opportunities for improvement:

Handling of Monies by University Departments

University policy distinguishes between gifts and donations and grant and contract monies. Per University policies, gifts and donations should be routed by University departments to the campus development office of the CU Foundation for deposit, and grant and contract revenues should be routed to the campus grant and contract oversight office for deposit. Despite these policies, departmental procedures do not always result in accurate and consistent evaluation of the nature of the monies being received and whether they constitute gifts and donations or grant and contract monies. The University should enhance procedures to ensure a thorough understanding of these two categories of monies, the respective handling policies, and adequate evaluation procedures.

Handling of Gift and Donation Checks Made Payable to the University Rather Than the Foundation

The issue of gift and donation checks intended to benefit the University being made payable to the University rather than the University's foundation is not unique to the University of Colorado; other universities have experienced similar issues and concerns. In some cases, universities have asked donors to sign a document acknowledging the relationship between the university and its foundation and directing them to make their checks payable to the foundation. The acknowledgment indicates that all checks will be directed to and deposited by the foundation unless the donor specifically directs otherwise. This procedure is most effective when the acknowledgment is presented to and signed by the donor at the same time all of the other initial donation documents are being signed. This prevents the university or foundation from having to go back to the donor when a check is inadvertently made payable to the university rather than the foundation. In the event that the donor communicates his or her desire that the gift remain at the university, then, as indicated above, the gift should be deposited into a university account and reflected in the university's financial records.

Recommendation No. 2:

The University of Colorado should strengthen its controls regarding the disposition of University gift and donation checks. Specifically:

a. Departmental procedures should be enhanced to require a more thorough review and evaluation of the nature of the monies being received and whether they constitute gifts and donations or grant and contract monies to ensure appropriate routing per the respective University policy.

b. The current process for handling gift and donation checks made payable to the University should be evaluated and modified as appropriate. The evaluation should focus on ensuring that the process suitably meets the essential objectives of stewarding the gift and properly recognizing the payee. As part of a donor education process, the University should consider the option that advises donors to make checks payable to the CU Foundation, unless the donor specifically prefers for the funds to go directly to the University.

University of Colorado Response:

Agree. The University will strengthen its process for handling checks made payable to the University, as follows:

a. The University Controller will lead the effort to revise the current Administrative Policy Statement to better distinguish between gifts and grants and contracts. The new policy will be adopted by January 31, 2003.

b. The University Treasurer will work with the CU Foundation and the campuses' Controllers to implement an interim process whereby all monies and payment instruments, such as checks, made payable to the University will be promptly deposited into University accounts. This will include all payment instruments made payable to the University of Colorado, whether received directly by the University or by the CU Foundation, including those delivered to a campus development office. The objectives of this interim process will be to ensure prompt deposit while recognizing the nature of the funds and the specified payee. An interim process will be implemented by January 31, 2003.

   As a result of the above two steps, the University will gather detailed information to further facilitate assessment of current policies and procedures as well as identify the type of education needed by the departments. The evaluation will be completed by June 30, 2003.

UNIVERSITY OF COLORADO
FINANCIAL AND COMPLIANCE AUDITS
DISPOSITION OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2002

The following are the audit recommendations made by other auditors for the year ended June 30, 2001, and the University's dispositions at September 20, 2002:

	Recommendation	Disposition
1.	The University should ensure that (a) security reviews are completed and appropriate action taken to ensure adequate segregation of duties (b) correction access is restricted and monitored (c) monthly financial transaction reports are consistently reviewed by someone independent of the payroll function and (d) reconciliations are performed in a timely manner and reconciling items cleared timely.	Partially Implemented. The Human Resource Operation Group is coordinating a comprehensive analysis of the human resources/payroll process, including segregation of duties and financial monitoring. The Payroll and Benefits Service Center modified correction access in July 2002. Comprehensive reconciliations have been in place since June 2001
2.	The University should design and document a process that ensures that modifications to information technology systems generating financial information are understood and approved by the Office of the University Controller. The University should also ensure that recommendations continue to be performed between BRS and the PeopleSoft financial system.	Partially Implemented. University Management Systems and the Office of the University Controller are reviewing and modifying change management processes to ensure involvement and approval by the Office of the University Controller. The projected completion date is March 2003.
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.	Implemented.
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.	Implemented.
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.	Implemented.
6.	Each campus should reiterate policies regarding equipment disposals and ensure that departments follow such procedures throughout the year.	Implemented.
7.	The University should begin to evaluate the GASB's proposed statement, *The Financial Reporting Entity-Affiliated Organizations, and amendment to GASB Statement No. 14* and its impact on the University's financial reporting.	Partially Implemented. The Office of the University Controller has been monitoring the issuance of this statement and will coordinate and lead an implementation team beginning in the fall of 2002.

Deloitte & Touche LLP
Suite 3600
555 Seventeenth Street
Denver, Colorado 80202-3942

Tel: (303) 292-5400
Fax: (303) 312-4000
www.us.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying basic 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, 2002. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The University Improvement Corporation, or University License Equity Holding, Inc. (a.k.a. University Technology Corporation), which represent total assets of $11,534,891 and $1,879,805 as of June 30, 2002, and total revenues of $7,453,907 and $2,789,652 for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those activities, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The other auditors' reports on their audits of the financial statements of The University Improvement Corporation, and University License Equity Holding, Inc. do not indicate that such financial statements were audited in accordance with G*overnment Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2002, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte
Touche
Tohmatsu

As described in Note 13 to the financial statements, in fiscal year 2002 the University adopted Governmental Accounting Standards Board ("GASB") BASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, GASB No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2002, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

September 20, 2002

Management is pleased to present this discussion and analysis of the University of Colorado (the University). It provides an overview of the University's financial position and results of operations as of and for the year ended June 30, 2002 (Fiscal Year 2002).

UNDERSTANDING THE FINANCIAL STATEMENTS

This management's discussion and analysis section is an essential part of the accompanying financial statements, which have the following five other parts. University management has prepared the financial statements. Thus, University management is responsible for the completeness and fairness of this information.

- ***Report of Independent Auditors*** presents an unqualified opinion prepared by our auditors (an independent certified public accountant, Deloitte Touche LLP) on the fairness (in all material respects) of our financial statements.
- ***Statement of Net Assets*** presents the assets, liabilities, and net assets of the University at a point in time (at the end of the fiscal year). Its purpose is to present a financial snapshot of the University.
- ***Statement of Revenues, Expenses and Changes in Net Assets*** presents the total revenues earned and expenses incurred by the University for operating, nonoperating, and other related activities during a period of time (the year ended June 30, 2002). Its purpose is to assess the University's operating results.
- ***Statement of Cash Flows*** presents cash receipts and payments of the University during a period of time (the year ended June 30, 2002). Its purpose is to assess the University's ability to generate future net cash flows and meet its obligations as they come due.
- ***Notes to the Financial Statements*** present additional information to support the financial statements and are commonly referred to as Note(s). Their purpose is to clarify and expand on the information in the financial statements. Details of the financial highlights can be found in the Notes as referenced in this discussion.

In Fiscal Year 2002, the University implemented new accounting standards as issued by the Governmental Accounting Standards Board (Note 13). These new standards changed the focus of our financial statements to a comprehensive one-look at the University as a whole (opposed to the traditional presentation of fund groups).

The new standards also required the recognition of depreciation expense on our property, plant, and equipment; a change in the accrual and deferral methodology used for summer session and certain contracts; the recognition of on-behalf salary payments; and the elimination of internal transactions. Major internal transactions include self-funded service units, such as telecommunications and cogeneration.

UNDERSTANDING THE FINANCIAL REPORTING ENTITY

The presented information relates to the financial activities of the reporting entity of the University. The University is comprised of the system offices, the following four campuses, and blended component units (Note 1).

- 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)

UNDERSTANDING THIS DISCUSSION AND ANALYSIS

Taken together, the financial statements provide detailed information about the University's finances and provide insights into the University's financial health. Financial highlights (by each statement) are presented below to help your assessment of the University's financial activities. This analysis will focus on the financial activities and known supporting events of the current fiscal year only (rather than a comparative analysis), since the financial statements present only the Fiscal Year 2002.

We suggest that you combine this financial analysis with relevant nonfinancial indicators, to assess the overall health of the University. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, building condition, and campus safety. Information about nonfinancial indicators is not included in this analysis.

HIGHLIGHTS—STATEMENT OF NET ASSETS

The statement of net assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

As shown in the following condensed statement of net assets, assets and liabilities are further classified as current or noncurrent. Current classification distinguishes those assets, that are highly liquid and available for immediate and unrestricted use by the University, and those liabilities likely to be settled in the next 12 months.

Condensed Statement of Net Assets (in thousands)

Assets		
Current Assets	$	192,012
Noncurrent, Noncapital Assets		560,728
Net Capital Assets		1,008,553
Total Assets	$	1,761,293
Liabilities		
Current Liabilities	$	189,113
Noncurrent Liabilities		440,068
Total Liabilities	$	629,181
Net Assets		
Invested in Capital Assets, Net of Related Debt	$	719,750
Restricted for Nonexpendable Purposes		27,209
Restricted for Expendable Purposes		139,317
Unrestricted		245,836
Total Net Assets	$	1,132,112

University of Colorado, June 30, 2002

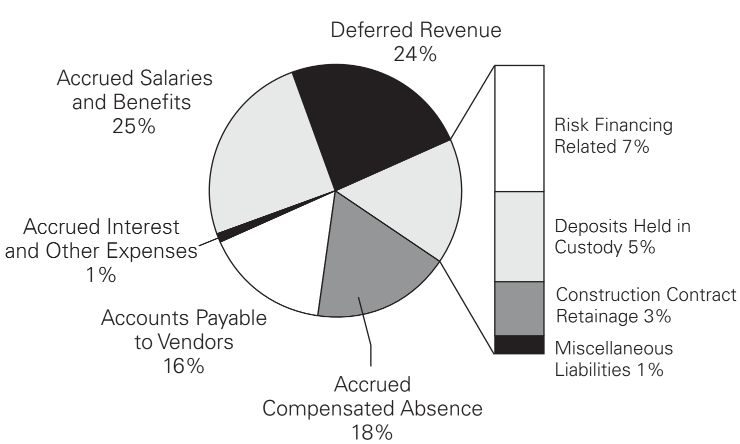
Overall, the University's financial position has remained stable. Net Assets have increased due to balanced operations and additions of property, plant, and equipment (also see Highlights-Statement of Revenues, Expenses and Changes in Net Assets).

The majority (approximately 82 percent) of the University's noncapital assets are investments, with a balance of $620,075,000. The University maximizes earnings through an internal pooling program and targeted rates of returns. Given current market conditions, the University has leveraged the investment portfolio and earning power, while ensuring safety and liquidity requirements are also met (also see Highlights - Statement of Cash Flows).

Changes in capital assets and related debt activity are discussed below (Highlights-Capital Asset and Debt Management).

Of the total liabilities shown above, there are $274,605,000 of non-debt related liabilities. These liabilities represent amounts due to vendors and others as displayed in the following graph.

Detail of Non-Debt Related Liabilities



University of Colorado, June 30, 2002

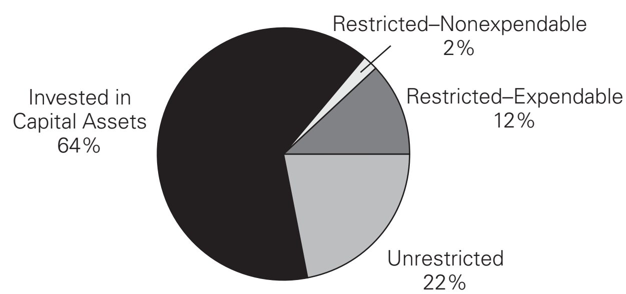
Deferred revenue represents amounts prepaid by students, auxiliary enterprise customers, grantors and contractors (or amounts received before the University met all of their requirements for earning the amounts). These amounts will be recognized as revenue in future periods after all conditions have been satisfied. The University recognized $58,596,000 of these prepayments as current or amounts to be realized in the next year.

Accrued compensated absences estimate the amount payable to employees in the future for their vested rights under the University's various leave programs. This estimate is based on personnel policies that define the amount of vacation and sick leave to which each employee is entitled. This liability increased by 25 percent from the prior year, because the University refined the amounts to be paid to faculty members upon termination.

Net assets—the difference between the University's assets and liabilities—may not be available to spend under University management's full discretion. Net assets may have restrictions imposed by external parties, such as donors, or by their nature are invested in capital assets (property, plant, and equipment). The University's net assets are categorized as displayed in the following graph.

As shown in the graph, net assets are globally restricted for either expendable or nonexpendable purposes, and typically have more specific programmatic or time restrictions. The programmatic category of restriction is shown on the statement of net assets. A nonexpendable restriction requires the original principal to be set aside for perpetual investment (as an endowment).

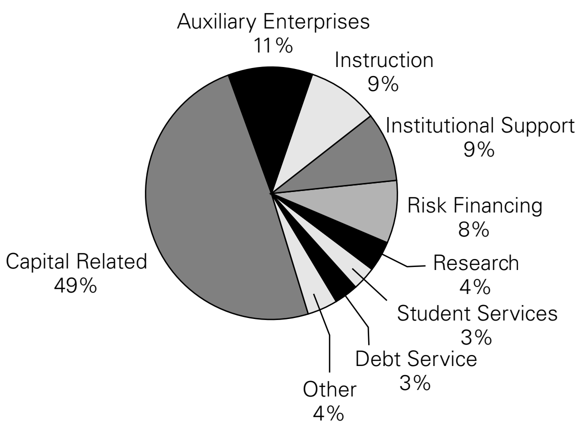
Net Assets by Category



University of Colorado, June 30, 2002

Unrestricted net assets are usually available for spending for any lawful purpose under the full discretion of management. However, the University has placed some limitations on future use by designating unrestricted net assets ($245,836,000) for certain purposes (Note 12). A significant portion of unrestricted net assets represents the unfunded compensated absence liability (discussed above). The following graph illustrates the other major designated purposes.

Designation Purposes



University of Colorado, June 30, 2002

HIGHLIGHTS—STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

As shown in the condensed Statement of Revenues, Expenses and Changes in Net Assets below, the University's net assets increased by approximately $78,582,000 or 7.5 percent during Fiscal Year 2002.

Condensed Statement of Revenues, Expenses and Changes in Net Assets (in thousands)

Operating Revenues	$ 1,144,416
Operating Expenses	1,388,322
Operating Loss	(243,906)
Nonoperating Revenues (net of expenses)	268,935
Income before Other Revenues, Expenses, Gains, or Losses	25,029
Other revenues, expenses, gains, or losses	53,553
Increase in Net Assets	78,582
Net Assets, Beginning of Year as Adjusted	1,053,530
Net Assets, End of Year	$ 1,132,112

University of Colorado, June 30, 2002

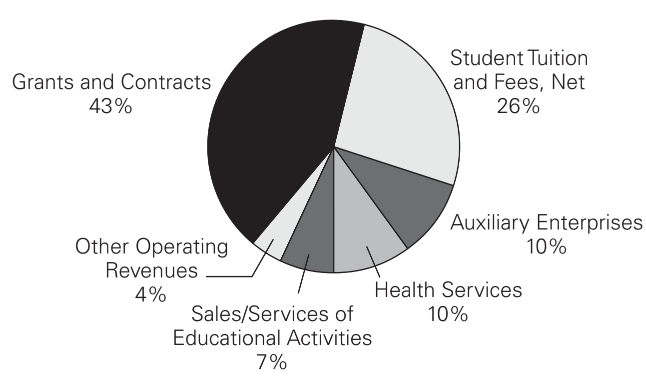
A key component of this statement is the differentiation of operating and nonoperating activities. Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are paid to acquire or produce goods and services provided in return for operating revenues, and to carry out the mission of the University. Nonoperating revenues are received when goods and services are not provided. Thus, state appropriations are nonoperating because they are provided by the state without the state directly receiving goods and services. For similar reasons, most gifts and investment income are also nonoperating revenues.

Although state appropriations represent only 15 percent of the University's total revenue, state appropriations combined with gift and investment revenues are necessary to maintain a balanced operation at the University. Since these revenues are not classified as operating, the University (like most public colleges and universities) experienced an operating loss; the University's loss totaled $243,906,000 in Fiscal Year 2002.

Thus, it is also important to consider the net income before other revenue, expenses, gains, or losses in determining the University's overall financial health. A net gain before other revenue, expenses, gains, or losses of $25,029,000 presents the complete picture of educational and research activities of the University. It provides a full match between the source of revenues and the related expenses.

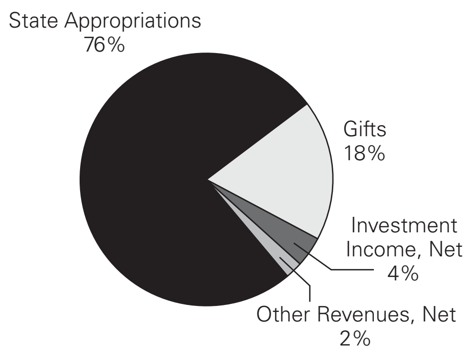
The following charts provide a graphic display of operating and nonoperating revenues by major source for Fiscal Year 2002.

Operating Revenues by Major Source



University of Colorado, June 30, 2002

Nonoperating Revenues by Major Source



University of Colorado, June 30, 2002

The general economy took a downturn in Fiscal Year 2002, which in turn created revenue shortfalls for the State of Colorado (the State). These revenue shortfalls were not offset by a reduction in demands for services. To offset the shortfalls, the State required a reduction in State appropriations to be achieved through cost-saving initiatives. As a result, the University's noncapital appropriations were reduced by 3.7 percent or $8,005,000. The Fiscal Year 2002 appropriations remained almost equal to the prior year amount.

Although the state and general economy suffered some shortfalls in Fiscal Year 2002, the University experienced increases in most operating revenue sources, specifically tuition and fees and grants and contracts.

Consistent with the University's goal to increase its focus and national role as a research institution, the University increased grants and contracts revenue by 15 percent to achieve a record amount of research funding. The University received $504,135,000 from governmental and private sources, the fourth highest among public research institutions in the nation.

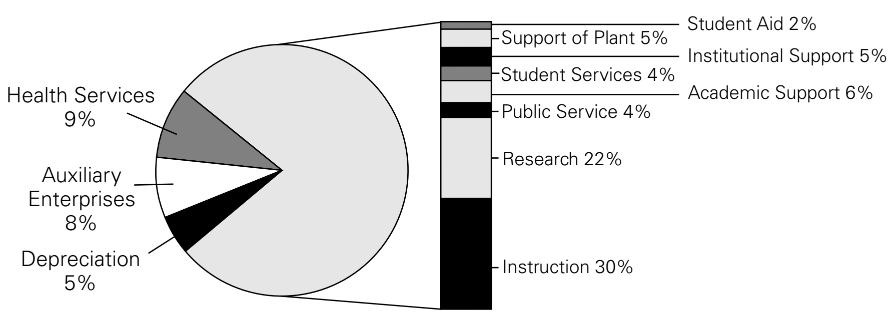
Consistent with its current objective of increasing private donations, the University also saw an increase of gift revenues of 15 percent. A greater emphasis on fundraising activities resulted in $50,691,000 of gift revenue (noncapital) in Fiscal Year 2002. Although overall gift revenue was favorable during the past fiscal year, the University did not receive the expected contributions of a significant pledge as made in the previous fiscal year (Note 21).

In addition to operating and nonoperating revenues, the University had capital appropriations and capital gifts and grants of approximately $12,344,000 and $41,542,000, respectively. Grants and gifts grew at rates consistent with their noncapital revenue counterparts. However, capital appropriations were lower than the prior fiscal year due to the revenue shortfalls experienced by the State. This revenue amount includes a reduction for return of prior year appropriations of $18,240,000 related to the Fitzsimons Trust Fund at CU-Health Sciences Center.

In addition, the University's health services revenues, and corresponding expenses, increased by approximately $98,609,000 as a direct result of implementing the new accounting standards (discussed above, Understanding the Financial Statements). This increase represents salary and benefits payments made to faculty at CU-Health Sciences Center for the clinical portion of their duties (funded through a service agreement with a related organization, University Physicians, Inc. [Note 22]).

The programmatic uses of expenses are displayed graphically in the following chart.

Operating Expenses by Program



University of Colorado, June 30, 2002

Educational and general expenses of the University increased as a result of the expansion of the University's research and academic programs. Research expenses increased as a direct result of increased research program funding as discussed above. Another contributing factor for the expense increase was salary raises, which averaged 4 percent in Fiscal Year 2002.

HIGHLIGHTS—STATEMENT OF CASH FLOWS

The Statement of Cash Flows has six parts, which provides detailed information about the University's cash activity. The first four parts (types of activities) are shown in the University's condensed statement of cash flows for Fiscal Year 2002 presented below.

Condensed Statement of Cash Flows (in thousands)

Cash flows from:		
Operating Activities	$	(132,378)
Noncapital Financing Activities		272,818
Capital and Related Financing Activities		24,390
Investing Activities		(166,377)
Net Decrease in Cash		(1,547)
Cash, Beginning of the Year		3,239
Cash, End of Year	$	**1,692**

University of Colorado, June 30, 2002

In addition to the sections included above, the fifth section reconciles net cash used by operating activities to the University's operating loss (on the Statement of Revenues, Expenses and Changes in Net Assets). The last section discloses the University's material noncash transactions.

Significant transactions related to Capital and Related Financing Activities are discussed in detail below (Highlights—Capital Asset and Debt Management). All capital appropriations, except for those related to the Fitzsimons Trust Fund at CU-Health Sciences Center, are noncash transactions as the vendors are paid directly by the State. These represent the majority of the $39,223,000 noncash transactions, with the difference representing donated equipment.

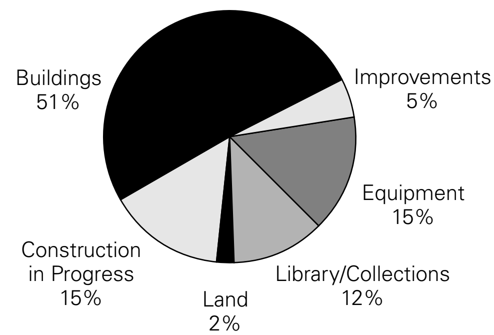
The net operating cash outflow is offset by the inflow from noncapital financing activities. This relationship exists because State appropriations for educational support are classified as noncapital financing activities (in the statement of cash flows). But, as discussed above (Highlights—Statement of Revenues, Expenses and Changes in Net Assets), a portion of payments to employees, vendors and others are funded by state appropriations. The overall increase in these two categories represents the increase in grants, contracts, and gifts received in Fiscal Year 2002.

The outflow for investing activities illustrates the results of the University's focus on converting our cash resources into investments.

HIGHLIGHTS—CAPITAL ASSET AND DEBT MANAGEMENT

At Fiscal Year-end, the University had $1,625,808,000 of plant, property, and equipment, with accumulated depreciation of $617,254,000, in the major categories displayed below. Related depreciation charges of $63,830,000 were recognized in the Fiscal Year 2002. More detailed financial activity related to the changes in Capital Assets is presented in Note 6.

Capital Asset Categories



University of Colorado, June 30, 2002

In Fiscal Year 2002, the University completed capital construction projects of $39,294,000. In addition, another $152,905,000 of construction activity was capitalized and in progress at Fiscal Year-end. Major projects include:

- CU-Boulder completed renovations to provide a new state-of-the-art BP Center for Visualization. Funding was a $2,400,000 gift from a private corporation. The center provides leading-edge technology to support research and development in the oil and gas industry.
- An extensive project at CU-Boulder will renovate its student housing centers for a total cost of $31,000,000 financed through bond proceeds. At Fiscal Year-end, there was $15,800,000 in progress.
- A current project at CU-Boulder will improve its student union (University Memorial Center) for a total cost of $27,000,000. This project increases space for the bookstore and dining facilities, and provides student offices and meeting space as well as conference facilities. This project is financed with bond proceeds (see below).
- The Nighthorse Campbell Native Health Building represents one of the first completed University-owned facilities at Fitzsimons at CU-Health Sciences Center (completed first quarter of Fiscal Year 2003). This project (complete cost of $12,089,000) is funded substantially with federal grants.

- The Fitzsimons expansion is continued with the (in-progress) addition of the Research Complex I at Fitzsimons (complete cost of $216,000,000). The complex will provide new, state-of-the-art biomedical research facilities with research laboratory modules, lab support space, research offices, and academic auditorium space for the CU-Health Sciences Center. This project is financed with bond proceeds (discussed below), federal awards, gift, and campus cash resources.
- The Barbara Davis Center for Childhood Diabetes at the CU-Health Sciences Center (in-progress) will also further the provision of clinical, research, and educational space at Fitzsimons. This project (first phase cost of $16,738,000) is funded with private donations and bond proceeds.
- The Student Center Renovation at CU-Colorado Springs was completed in Fiscal Year 2002. This project was funded with $5,415,000 of bond proceeds to be repaid with student fees.
- The Main/Cragmor Project at CU-Colorado Springs is a complete renovation project of buildings valued at $18,746,000, which provides student support and administrative space. This project was state funded and is currently suspended due to State budget shortfalls (see below, Economic Factors That Will Affect the Future). Management is currently evaluating alternative financing sources.

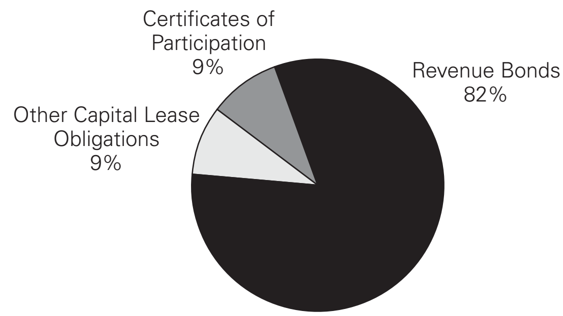
The University has plans to continue its investment in property, plant, and equipment with a Fiscal Year 2003 budget of $157,933,000. Of this amount, $99,795,000 is related to continuing projects. The most significant continuing project is the Research Complex I at Fitzsimons (described above). Currently $12,522,000 of capital appropriation is available for the continuing projects.

The remaining $58,138,000 of the Fiscal Year 2003 budget is for the following new projects funded primarily with the University's cash resources.

- CU-Boulder's Folsom Stadium improvements of $45,708,000 from bond proceeds (described below); this project will add to the east side of the stadium, the first floor concourse, and facilities management shop space, resulting in increased seating capacity
- Tennis Court replacements at CU-Boulder estimated at $1,015,000
- Several infrastructure projects related to building development at the Fitzsimons campus of CU-Health Sciences Center for $8,215,000
- CU-Health Sciences Center's Environmental Health and Safety Waste Processing Facility construction on the Fitzsimons campus of $3,200,000

At Fiscal Year-end 2002, the University had debt of $354,576,000 in the following categories. More detail about the University's debt is included in Note 10.

Categories of Debt



University of Colorado, June 30, 2002

The University issued four bonds during Fiscal Year 2002 in the amounts and with purposes as follows.

- $51,320,000 refinanced short-term Tax Exempt Commercial Paper Notes (Note 8) and provided funding for improvements to the existing student union (University Memorial Center) at CU-Boulder (discussed above).
- $101,875,000 financed the Research Complex 1 facility at CU-Health Sciences Center (discussed above).
- $40,055,000 financed the Folsom Stadium project at CU-Boulder (discussed above).
- $5,670,000 provided additional funding for the Folsom stadium project at CU-Boulder (discussed above).

In addition, repayments of long-term and short-term debt of $43,440,000 were made in Fiscal Year 2002.

The University's Board of Regents (the Regents) has adopted a debt management policy that includes limitations on the use of external debt. A component of this policy is debt capacity, which is the calculated ratio of our debt service requirement as compared to certain unrestricted operating and nonoperating revenues. The University was able to minimize our financing costs due to current market conditions and by maintaining our bond rating of AA- and Aa3 (Standard & Poors and Moody's, respectively). Although the University increased its outstanding debt by approximately 80 percent in Fiscal Year 2002, the debt capacity limits were maintained. This is consistent with our philosophy to leverage favorable bond interest rates, which are currently lower than potential investment earnings.

Economic Factors That Will Affect the Future

The University's financial statements are comprised of appropriated and nonappropriated funds (Note 2). Appropriated funds include both state appropriations and certain cash funds, including tuition. Thus, the ability of the Regents to increase tuition rates is limited by the State. However, increases in tuition revenue due to student growth are not normally restricted. The Fiscal Year 2003 tuition rates were approved with increases averaging 6.2 percent and 9 percent for residents and nonresidents, respectively.

As mentioned above (Highlights—Statement of Revenue, Expenses and Changes in Net Assets), the State experienced limited economic growth with no reduction in demand for services in Fiscal Year 2002. The current economic projections do not forecast a different trend for the near future.

Appropriations (noncapital) for Fiscal Year 2003 are currently set at $225,942,000, an increase of 4 percent from Fiscal Year 2002. In addition, the State governor has established a current spending restriction on these appropriations of 5.3 percent or $11,960,000 (which effectively eliminates the annual increase). Additional state revenue forecasts were released in September 2002 that could likely result in future restrictions.

In response to the revenue shortfalls, the State is reducing capital appropriations for higher education institutions. No capital appropriations were made for Fiscal Year 2003 and current discussions may result in the postponement of funding for some approved continuing projects. Further, capital appropriations for new projects are not expected before Fiscal Year 2006.

Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. The student enrollment for Fall 2002 (detailed in table) was higher than Fall 2001 (Fiscal Year 2002) with an average increase of 7 percent. Combined with the approved increases in tuition rates, the outlook for tuition and fees is favorable. In addition, grants, contracts, and gifts are projected to continue a positive pattern of growth.

Fall 2002 Estimated Enrollment Figures

CU-Boulder	28,650
CU-Health Sciences Center	2,170
CU-Denver	11,760
CU-Colorado Springs	7,410
Total CU	**49,990**

University of Colorado, Fall 2002

Thus, adverse impacts of the reduction in State funding are somewhat minimized (given that there are some corresponding increases in costs associated with tuition and grant revenue increases).

The University reviewed its budget and identified cost-savings measures equal to the appropriation restriction of 5.3 percent. Some of the cost-savings measures being considered include selective filling of vacant positions, operating and travel budget restrictions, and slowing technology replacement cycles.

In addition, the University has taken the following actions as alternative financing sources for capital construction.

- The University signed an operating agreement with the University of Colorado Foundation (CU Foundation) whereby the CU Foundation will construct and operate a student housing development at CU-Boulder. This project will ensure the residential needs of the students are met.
- CU-Colorado Springs signed an agreement to lease an office building adjacent to the campus from the CU Foundation. The CU Foundation recently purchased this building to provide additional space necessary to meet the demands of the campus' academic and research programs. The Beth-El College of Nursing and Health Sciences will be the primary tenant.

Management is investigating financing alternatives at the other campuses to ensure continued provision of space needed to carry out the University's mission. Identification of alternative capital financing alternatives is a priority focus, especially for the Fitzsimons campus development at CU-Health Sciences Center.

This page intentionally left blank

UNIVERSITY OF COLORADO
STATEMENT OF NET ASSETS

June 30, 2002
(*in thousands*)

Assets	
Current Assets	
Cash and Cash Equivalents	$ 1,692
Investments at fair value	96,064
Accounts and Loans Receivable, less allowance of $17,657	82,537
Inventories	8,125
Other Assets	3,594
Total Current Assets	**192,012**
Noncurrent Assets	
Investments at fair value	524,011
Accounts and Loans Receivable, less allowance of $3,142	32,885
Other Assets	3,832
Capital Assets, Net	1,008,553
Total Noncurrent Assets	**1,569,281**
Total Assets	**$ 1,761,293**
Liabilities	
Current Liabilities	
Accounts Payable	$ 43,744
Accrued Expenses	51,817
Accrued Compensated Absences	4,923
Deferred Revenue	58,596
Bonds, Notes, and Leases Payable	14,716
Other Liabilities	15,317
Total Current Liabilities	**189,113**
Noncurrent Liabilities	
Accrued Compensated Absences	65,688
Deferred Revenue	7,661
Bond, Notes and Leases Payable	339,860
Other Liabilities	26,859
Total Noncurrent Liabilities	**440,068**
Total Liabilities	**$ 629,181**
Net Assets	
Invested in Capital Assets, Net of Related Debt	$ 719,750
Restricted for Nonexpendable Purposes (Endowments):	
Academic Support	8,804
Scholarships and Fellowships	11,015
Capital	2,554
Other	4,836
Total Restricted for Nonexpendable Purposes	27,209
Restricted for Expendable Purposes	
Instruction	14,620
Research	7,653
Student Services	40,249
Institutional Support	5,107
Scholarships and Fellowships	8,058
Capital	46,384
Other	17,246
Total Restricted for Expendable Purposes	139,317
Unrestricted	245,836
Total Net Assets	**$ 1,132,112**

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF COLORADO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2002

(*in thousands*)

Operating Revenues	
Student tuition and fees (net of scholarship allowance of $40,494; pledged revenues of $3,700)	$ 294,560
Federal grants and contracts (pledged revenues of $86,242)	414,911
State and local grants and contracts	34,684
Nongovernmental grants and contracts (pledged revenues of $6,398)	54,540
Sales and services of educational departments (pledged revenues of $4,874)	78,154
Auxiliary enterprises (net of scholarship allowance of $2,266; pledged revenues of $19,038)	112,891
Health Services	108,860
Other operating revenues (pledged revenues of $371)	45,816
Total Operating Revenues	**1,144,416**
Operating Expenses	
Education and General:	
Instruction	419,390
Research	302,749
Public service	49,244
Academic support	86,538
Student services	60,343
Institutional support	74,654
Operation and maintenance of plant	70,999
Student aid	29,305
Total Education and General Expenses	1,093,222
Depreciation	63,830
Auxiliary enterprises	111,381
Health services	119,609
Other operating expenses	280
Total Operating Expenses	**1,388,322**
Operating loss	**(243,906)**
Nonoperating Revenues (Expenses)	
State appropriations	216,884
Gifts	50,691
Investment income (net of investment expense of $2,614; pledged revenues of $84)	10,866
Loss on disposal of fixed assets	(6,203)
Interest on capital asset-related debt	(8,818)
Other nonoperating revenues (net of expenses)	5,515
Net Nonoperating Revenues	**268,935**
Income before other revenues, expenses, gains, or losses	**25,029**
Capital appropriations	12,344
Capital grants and gifts	41,542
Deletions to permanent endowments	(333)
Total other revenues, expenses, gains, or losses	53,553
Increase in net assets	**78,582**
Net assets, beginning of year as adjusted	1,053,530
Net assets, end of year	**$ 1,132,112**

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF COLORADO

STATEMENT OF CASH FLOWS

Year Ended June 30, 2002

(*in thousands*)

Cash Flows Used by Operating Activities	
Tuition and fees	$ 286,432
Grants and contracts	524,154
Payments to suppliers	(337,640)
Payments for utilities	(13,571)
Payments to employees	(755,888)
Payments for benefits	(153,727)
Payments for scholarships and fellowships	(28,004)
Loans issued to students and employees	(7,199)
Collection of loans to students and employees	9,504
Auxiliary enterprise charges	110,369
Sales and service of educational departments	77,745
Payments from patients	110,251
Other receipts	45,196
Total Cash Flows Used by Operating Activities	**(132,378)**
Cash Flows from Noncapital Financing Activities	
State appropriations	216,907
Gifts and grants for other than capital purposes	55,194
Endowment disbursements	(333)
William D. Ford direct lending receipts	80,207
William D. Ford direct lending disbursements	(80,334)
PLUS loans receipts	18,386
PLUS loans disbursements	(18,386)
Agency transactions	1,177
Total Cash Flows from Noncapital Financing Activities	**272,818**
Cash Flows from Capital and Related Financing Activities	
Proceeds from capital debt	214,205
Capital grants and gifts received	35,863
Proceeds from sale of capital assets	7,987
Purchases of capital assets	(162,698)
Principal paid on capital debt and leases	(43,079)
Interest paid on capital debt and leases	(12,437)
Return of Fitzsimons capital trust fund to state	(15,451)
Total Cash Flows from Capital and Related Financing Activities	**24,390**
Cash Flows Used by Investing Activities	
Proceeds from sales and maturities of investments	1,683,679
Interest on investments	13,608
Investment management fees paid	(2,614)
Purchase of investments	(1,861,050)
Total Cash Flows Used by Investing Activities	**(166,377)**
Net decrease in cash	**(1,547)**
Cash, beginning of the year	3,239
Cash, end of year	**$ 1,692**

(continued)

UNIVERSITY OF COLORADO
STATEMENT OF CASH FLOWS, CONTINUED
Year Ended June 30, 2002
(*in thousands*)

Reconciliation of net operating loss to net cash used by operating activities:	
Operating loss	$ (243,906)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	63,830
Provision for doubtful receivables	5,457
Cancellation of student loans	598
Receipts of items classified as nonoperating revenues	6,613
Changes in assets and liabilities:	
Receivables	(12,060)
Inventories	(806)
Other assets	3,684
Accounts payable	6,958
Accrued expenses	2,076
Unearned revenue	16,667
Compensated absences	14,263
Other liabilities	3,569
Loans to students and employees	679
Net cash used by operating activities:	**$ (132,378)**

Noncash Transactions	
Donation or state funded acquisitions of capital assets	$ 39,223

The accompanying notes are an integral part of this financial statement.

NOTE 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. Qualified electors within each of the State's congressional districts elect six Regents, and three Regents are elected on an at-large basis. The University is comprised of the system office and the following four campuses.

- 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)

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 University's financial reporting entity includes the consolidated operations 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. The University is financially accountable for the following related entities.

University of Colorado Insurance Pool (UCIP), a public entity insurance pool operated for the benefit of the University and the University of Colorado Hospital Authority, insures 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. Effective September 30, 1996, the University discontinued utilizing UCIP for its insurance and began utilizing a protected self-insurance program. 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, CO 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, CO 80306.

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. Effective May 1, 2001, UTC was reorganized and began doing business as University License Equity Holding, Inc. (ULEHI). The reorganization resulted in a significant portion of the licensing and patenting activities and associated assets of UTC being transferred to the University's direct control and management. ULEHI will continue to exist to help further certain licensing activities. Detailed financial information may be obtained directly from UTC/ULEHI at 401 Discovery Drive, Suite 390B, Boulder, CO 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.

The University has association with the following organizations for which it is not financially accountable. Accordingly, these organizations have not been included in the accompanying financial statements; information regarding the nature of the relationship has been included in subsequent notes.

- The University of Colorado Foundation, Inc.
- Coleman Colorado Foundation
- University Physicians, Inc.
- University of Colorado Hospital Authority

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.

BASIS OF ACCOUNTING

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation is incurred.

The University applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, regardless of issue date, as well as the following pronouncements issued on or before November 30, 1989: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with, or contradict, GASB pronouncements.

ACCOUNTING POLICIES

Cash and Cash Equivalents are defined for the purposes of reporting cash flows as cash on hand and deposit accounts. Investments in mutual funds and deposited with the State's Treasurer are presented as investments.

Investments reported in the financial statements are at fair value, which is determined primarily based on quoted market prices as of June 30, 2002. Amortized costs (which approximate fair value) are used for money market investments.

The classification of investments as current or noncurrent is based on the underlying nature and restricted use of the asset. Current investments are those without restrictions imposed by third-parties and which can be used to pay current obligations of the University. Noncurrent investments include restricted investments and those to be used for long-term obligations.

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. The University of Colorado Foundation, Inc. (CU Foundation) manages certain of these endowment funds for the University. These endowment funds are invested in fixed income securities, equity securities, mutual funds, real estate, and alternative investments.

Accounts Receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also includes amounts due from the federal government, state and local governments or private sources in connection with reimbursement of allowable expenses made pursuant to the University's grants and contracts. Accounts receivable is recorded net of estimated uncollectible amounts.

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.

Capital Assets are stated at cost at the date of acquisition or fair value at the date of donation. For equipment, the University's capitalization policy includes all items with a value of $5,000 or more, and estimated useful life of greater than one year.

Renovations to buildings and other improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense. Major outlays for capital assets and improvements are capitalized as construction in progress throughout the building project. Interest incurred during the construction phase is included as part of the value of the construction in progress.

The University has capitalized all collections, such as works of art and historical artifacts. The nature of certain collections is such that the value and usefulness of the collections does not change over time. These collections have not been depreciated in the University's financial statements.

Depreciation is computed using the straight-line method and monthly convention over the estimated useful lives of the assets as displayed in Table A.

TABLE A. Asset Useful Lives

Asset Class	*Years*
Buildings	20-40*
Improvements	10-40
Equipment	3-20
Library and other collections	6-15

** Certain buildings are componentized and the components may have useful lives similar to Improvements or Equipment.*

Accrued Compensated Absences and related personnel expenses are recognized based on estimated balances due to employees upon termination. The limitations on such payments are defined by the rules associated with both personnel systems at the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service. Vacation accruals are paid in full upon separation whereas only a portion of sick leave is paid upon specific types of separation, such as retirement.

The recording of the liability for compensated absences may result in deficit net assets that are expected to be funded by state appropriations, federal funds, or other sources available in future years when the liability is paid.

Deferred Revenue consists of amounts received from the provision of educational, research, and auxiliary goods and services that have not yet been earned.

Scholarship Allowance is the difference between the stated charge for the goods and services provided by the University, and the amount that is paid by the students or by other third parties making payments on the students' behalf. Student tuition and fee revenues and certain other auxiliary enterprises revenue are reported net of scholarship discounts and allowances in the accompanying financial statements. Certain grants from external governmental and private programs are recorded as either operating or nonoperating revenues in the accompanying financial statements. To the extent that such program revenues are used to satisfy tuition and fees and other student charges, the University records scholarship allowance. Any excess program revenues are recorded as student aid operating expense.

Internal Transactions occur between University operating units, including formal self-funded internal service units and its blended component units. Examples of self-funded operating units are telecommunications, cogeneration, and storerooms. Transactions include the recognition of revenues, expenses, receivables, and payables in the appropriate accounts of the operating units. To accommodate external financial reporting, the internal revenues and receivables are netted against expenses and payables, respectively.

Classification of Revenues in the University's financial statements as either operating or nonoperating has been made according to the following criteria.

Operating Revenues are derived from activities associated with providing goods and services for instruction, research, public service, or related support to entities separate from the University and that are exchange transactions. Examples include student tuition and fees, sales and services of auxiliary enterprises, grants, contracts, and interest on student loans.

Nonoperating Revenues include all revenues that do not meet the definitions of operating revenues, capital revenues, or endowment additions. They are primarily derived from activities that are non-exchange transactions (e.g., gifts); from activities defined as such by GASB Statement No. 9 (e.g., investment income); and from sources defined as such by GASB Statement Nos. 33 and 34 (e.g., state appropriations).

Donor Restricted Endowment disbursements of the net appreciation (realized and unrealized) of investments of endowment gifts are permitted by State law, except where a donor has specified otherwise. The amount of earnings and net appreciation available for spending by the University is based on a spending rate set by the Regents on an annual basis. For the year ended June 30, 2002, the authorized spending rate was equal to the greater of 4 percent of the prior month's market value or 4.5 percent of the average market value of endowment investments at the end of the previous three years. Earnings in excess of the amount authorized for spending are available in future years and are included in the value of the related investment. Earnings authorized to be spent are recognized in the accompanying financial statements as investment or gift revenue for University or CU Foundation-owned endowments (Notes 4 and 20), respectively.

Net Assets are classified in the University's financial statements as follows:

Invested in capital assets, net of related debt represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted for expendable purposes represent net resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted for nonexpendable purposes consist of true endowments and similar instruments in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets represent net resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Regents to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

Application of Restricted and Unrestricted Resources is made on a case-by-case basis by management depending on overall program resources. Generally, University management applies unrestricted resources then restricted resources when both restricted and unrestricted resources are available to pay an expense.

NOTE 2–LEGISLATIVE APPROPRIATIONS

The accompanying financial statements contain revenues and expenses from both appropriated and nonappropriated funds.

Appropriated funds include an amount from the State's General Fund, as well as certain cash funds that were established by the Colorado State Legislature as spending authority for the University in its annual Long Appropriations Bill. Cash funds include tuition, certain fees, and certain other revenue sources, which are recognized in various revenue lines, as appropriate, in the accompanying financial statements.

All other revenues and expenses reported by the University represent nonappropriated funds and are excluded from the annual appropriations bill. Nonappropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the year ended June 30, 2002, appropriated expenses were within the authorized spending authority.

NOTE 3–CASH AND CASH EQUIVALENTS

As of June 30, 2002, the University's cash and cash equivalents approximated $1,692,000. These amounts consisted of cash on hand (petty cash and change funds), deposits with the State's treasurer, and deposits with U.S. and foreign financial institutions of approximately $251,000, $19,000, and $1,422,000, respectively.

Deposits with the State's treasurer represent amounts placed in the State's treasurer's cash management program, which acts as the bank for all State agencies, except the University.

TABLE B. Deposit Bank Balances *(in thousands)*

Category of credit risk		*Total*
Insured or collateralized with securities held by the University or its agent in the University's name	$	319
Collateralized with securities held by the pledging institution in the University's name		1,791
Uninsured or uncollateralized		575
Total Deposit Bank Balances	$	**2,685**

Deposits with U.S. and foreign financial institutions are made in accordance with University and State policy, including the Public Deposit Protection Act (PDPA). PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal insurance. Deposits collateralized under the PDPA are considered to be collateralized with securities held by the pledging institution in the University's name per Governmental Accounting Standards Board Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements* (GASB No. 3).

Table B provides information concerning the credit risk for the University's bank balances for the deposits with financial institutions as of June 30, 2002.

NOTE 4–INVESTMENTS

The University's investments generally include direct obligations of the U.S. government and its agencies, commercial paper, corporate bonds, asset-backed securities, mortgage-backed securities, money market funds, commingled and mutual funds, repurchase agreements, government insurance contracts, and equities. With respect to investments reported in the accompanying 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.

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 that are held by the University in the University's name.

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

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

Mutual funds and certain other investments, including trusts, are not categorized as to custodial risk because ownership is not evidenced by a security.

A summary of the fair value of the University's investments as of June 30, 2002, is shown in Table C.

To the extent permitted, the University pools cash balances of all University entities for investment purposes. An investment policy statement approved by the Regents directs the treasurer of the University to meet the following investment objectives:

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

For financial statement purposes, investment income is reported on a total return basis and is allocated among operational units based on average daily balances, using amortized costs, which approximated $398,523,000 for the year ended June 30, 2002. The total return on this pool was 1.42 percent for the year ended June 30, 2002.

The University recognizes unrealized gains and losses as a component of investment income in order to calculate the net change in the fair value of its investment. The recognition of realized gains and losses as a component of investment income is an independent calculation, which may include prior year's unrealized gains or losses. As of and during the year ended June 30, 2002, the University's investment balances and revenue include accumulated and current unrealized losses of approximately $23,172,000 and $9,926,000, respectively.

SECURITY LENDING

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 percent 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 that 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, 2002, 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 has defaulted.

ENDOWMENTS

The University owns endowment and similar gift instruments that are primarily recorded as investments in the accompanying financial statements. True endowment funds are subject to the restrictions of donor gift instruments requiring the principal be invested in perpetuity. 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. Quasi-endowment funds have been established by the Regents to function as true endowment funds until the restrictions are lifted by the Regents.

Table D details the University's investments related to endowments and similar gift instruments as of June 30, 2002.

TABLE C. Investments ***(in thousands)***

Investment Type	*Category of Risk No.1*	*Fair Value Total*
U.S. government and agency securities	$ 166,880	166,880
Corporate securities and commercial paper	56,067	56,067
Repurchase agreements	73,409	73,409
Subtotal	$ 296,356	296,356
Uncategorized		323,719
Total Investments		**$ 620,075**

TABLE D. Endowments ***(in thousands)***

Type of Endowment	*Managed by University*	*Managed by CU Foundation*	*Total Endowments*
True endowments	$ 1,133	23,664	24,797
Quasi-endowments	775	27,866	28,641
Life income funds	–	104	104
Total	**$ 1,908**	**51,634**	**53,542**

In addition, the University has gift instruments held as land, a capital asset (Note 6), with values as of June 30, 2002 approximating $4,135,000 of which $1,955,000 and $2,180,000 represent a true endowment and annuity fund, respectively.

The net assets associated with true endowments, life income funds, and annuity funds are reported as restricted for nonexpendable purposes, where as quasi-endowments are reported as net assets restricted for expendable purposes.

As of June 30, 2002, net appreciation available for spending from the University's endowments approximated $4,364,920, which is reported as net assets restricted for expendable purposes.

NOTE 5–ACCOUNTS AND LOANS RECEIVABLE

Table E segregrates the University's receivables as of June 30, 2002, by type.

NOTE 6–CAPITAL ASSETS

Table F presents changes in capital assets and accumulated depreciation for the year ended June 30, 2002.

The total interest expense related to capital assets incurred by the University during the year ended June 30, 2002 approximated $12,447,000. Of this amount approximately $3,629,000 was included as part of the value of construction in progress.

TABLE E. Accounts and Loans Receivable *(in thousands)*

Type of Receivable	*Gross Receivables*	*Allowances*	*Net Receivables*	*Net Current Portion*
Student accounts	$ 21,636	7,696	13,940	13,904
Federal government	19,493	–	19,493	19,493
Other governments	9,059	–	9,059	9,059
Patient accounts	12,678	9,092	3,586	3,586
Interest	3,321	–	3,321	3,321
Other	33,733	869	32,864	32,864
Total Accounts Receivable	99,920	17,657	82,263	82,227
Student loans	35,251	3,142	32,109	–
Other loans receivable	1,050	–	1,050	310
Total Loans Receivable	36,301	3,142	33,159	310
Total Accounts and Loans Receivable	**$ 136,221**	**20,799**	**115,422**	**82,537**

TABLE F. Capital Assets *(in thousands)*

Category	*Balance June 30, 2001*	*Additions*	*Retirements*	*Transfers*	*Balance June 30, 2002*
Nondepreciable Capital Assets:					
Land	$ 25,708	3,037	21	481	29,205
Construction in progress	136,070	152,905	–	(39,775)	249,200
Collections	4,454	1,733	–	–	6,187
Total Nondepreciable Capital Assets	166,232	157,675	21	(39,294)	284,592
Depreciable Capital Assets:					
Buildings	795,073	2,981	4,701	26,527	819,880
Improvements other than buildings	76,760	1,403	6,538	9,812	81,437
Equipment	259,960	31,487	43,265	2,955	251,137
Library and other collections	176,609	13,687	1,534	–	188,762
Total Depreciable Capital Assets	1,308,402	49,558	56,038	39,294	1,341,216
Less Accumulated Depreciation:					
Buildings	282,038	26,563	588	–	308,013
Improvements other than buildings	27,818	3,407	2,056	–	29,169
Equipment	172,620	24,265	27,728	–	169,157
Library and other collections	102,043	9,595	722	–	110,916
Total Accumulated Depreciation	584,519	63,830	31,094	–	617,255
Net Depreciable Capital Assets	723,883	(14,272)	24,944	39,294	723,961
Total Net Capital Assets	**$ 890,115**	**143,403**	**24,965**	**–**	**1,008,553**

NOTE 7–ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Table G details the University's accounts payable and accrued expenses as of June 30, 2002, by type.

OPERATING LEASE EXPENSE

The University leases various buildings and equipment under operating lease rental agreements. Operating leases do not give rise to property rights and, therefore, the related asset and liabilities are not recorded in the accompanying financial statements. Total rental expense under these agreements approximated $5,218,000 for the year ended June 30, 2002. Future minimum payments for these operating leases for the next five years are shown in Table H.

NOTE 8–OTHER SHORT-TERM LIABILITIES

The tax-exempt commercial paper (TECP) was issued to provide interim financing for the construction of capital facilities for the following enterprise projects: the University Center at CU-Colorado Springs; and housing renovation, University Memorial Center expansion and renovation, Student Recreation Center utility-related deferred maintenance, and telecommunications project at CU-Boulder.

Table I presents changes in short-term debt for the year ended June 30, 2002. This interim financing was refunded with bonds payable (Note 10).

NOTE 9–DEFERRED REVENUE

As of June 30, 2002, the University had the types and amounts of deferred revenue shown in Table J.

TABLE G. Accounts Payable and Accrued Expenses *(in thousands)*

Type	*Total*
Accounts payable vendors	$ 43,744
Salaries and benefits payable	48,732
Accrued interest payable	1,744
Other accrued expenses	1,341
Total Accounts Payables and Accrued Expenses	**$ 95,561**

TABLE H. Operating Leases *(in thousands)*

Years Ending June 30	*Minimum Lease Obligation*
2003	$ 4,998
2004	4,046
2005	3,261
2006	2,158
2007	1,306
2008-12	3,440
2013-17	109
Total Operating Lease Obligation	$ 19,318

TABLE I. Other Short-Term Liabilities *(in thousands)*

	Beginning Balance	*Additions*	*Repayments*	*Ending Balance*
TECP	$ 18,589	13,000	31,589	–

TABLE J. Deferred Revenue *(in thousands)*

Type	*Total*	*Current Portion*
Tuition and fees	$ 10,905	10,905
Auxiliary enterprises	19,454	11,793
Grants and contracts	32,022	32,022
Miscellaneous	3,876	3,876
Total Deferred Revenue	**$ 66,257**	**58,596**

NOTE 10–BONDS, NOTES, AND LEASES PAYABLE

As of June 30, 2002, the University has long-term debt approximating $354,576,000 in the categories detailed in Table K.

Table K also presents changes in long-term debt for the year ended June 30, 2002.

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 percent of the principal amount of the revenue bonds redeemed.

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2002, is detailed in Table L.

The RBRF revenue bonds (Note 19) are secured by a pledge of net revenues of the Research Building Support Services Enterprise, including: all rents and charges generated from buildings and facilities, net of applicable operating expenses; allocated investment earnings on balances in the RBRF; and to

TABLE K. Bonds, Notes, and Leases Payable (*in thousands*)

Type	*Interest Rates*	*Final Maturity*	*Balance as of June 30, 2002*
Revenue Bonds:			
Research Building Revolving Fund	4.45–6.00%	6/1/12	$ 5,270
Enterprise System (including premium of $3,230)	3.50–5.75%	6/1/28	285,385
Total Revenue Bonds			290,655
Certificates of Participation:			
Cogeneration Plant	4.63–6.00%	12/1/05	18,780
Master Lease Purchase	3.90–5.25%*	7/1/19	13,395
Total Certificates of Participation			32,175
Other Capital Lease Obligations	7.00–13.95%	Various	31,363
Notes Payable	5.00–6.00%	12/31/09	383
Total Long-term Debt			**$ 354,576**

** Interest on the Master Lease Purchase Certificates of Participation is set at an adjustable rate as discussed below under Certificates of Participation; the rates reflected in this table are as of June 30, 2002.*

Type	*June 30, 2001*	*Additions*	*Retirements*	*Balance June 30, 2002*	*Current Portion*
Revenue Bonds Payable	$ 94,945	198,920	6,440	287,425	9,165
Plus Unamortized Premiums	1,306	2,285	361	3,230	–
Net Revenue Bonds Payable	96,251	201,205	6,801	290,655	9,165
Certificates of Participation	36,510	–	4,335	32,175	4,575
Capital Leases Payable	31,135	899	671	31,363	930
Notes Payable	427	–	44	383	46
Total Long-term Debt	**$ 164,323**	**202,104**	**11,851**	**354,576**	**14,716**

the extent necessary, indirect cost recoveries received by the University on grants and contracts performed by the University. As of June 30, 2002, net pledged revenues for RBRF approximate $89,617,000.

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. As of June 30, 2002, total net pledged revenues, including the subordinate pledge, approximate $120,707,000.

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 to establish and maintain reasonable fees, rates, and other charges to ensure gross revenues are sufficient for debt service coverage. The University is also required to comply with various other covenants while the bonds are outstanding. These covenants, among other things, restrict the disposition of certain assets, require the Regents to maintain adequate insurance, and require the Regents to continue to operate the underlying programs. Management of the University believes the University has met all debt service coverage ratios and has complied with all bond covenants.

TABLE L. Revenue Bonds (*in thousands*)

Issuance Description	*Original Issuance Amount*	*Outstanding Balance June 30, 2002*
Research Building Revolving Fund (RBRF) Revenue Bonds–		
Refunding Series 1995–		
Used to refund a portion of the Series 1986 and all of Series 1990 (Note 19)	$ 11,055	5,270
Enterprise System Revenue Bonds:		
Refunding Series 1995A–		
Used to refund all of the Refunding Series 1986, 1989, 1990 and 1992B	32,940	25,700
Refunding and Improvement Series 1997–		
Used to refund all of the Series 1986 and fund capital improvements at CU-Boulder and CU-Colorado Springs	12,760	3,605
Refunding Series 1999A–		
Used to refund all of the Adjustable Tender Series 1996A	22,495	22,010
Refunding Series 2001A–		
Used to refund all of the Student Recreation Center and Refunding Series 1989, Auxiliary Facilities System Refunding Series 1992A, RBRF Series 1989 (Note 19), and RBRF Series 1992 (Note 19) and a portion of the Enterprise System Tax Exempt Commercial Paper	34,840	32,933
Refunding and Improvement Series 2001B–		
Used to refund all of the Tax Exempt Commercial Paper (Note 8) and fund capital improvements at CU-Boulder (includes premium)	51,320	52,339
Series 2002A–		
Used to fund capital improvements at CU-Health Sciences Center (includes premium)	101,875	102,886
Series 2002B–		
Used to fund capital improvements at CU-Boulder (includes premium)	40,055	40,114
Series 2002C–		
Used to fund capital improvements at CU-Boulder (includes premium)	5,670	5,798
Total Enterprise System Revenue Bonds	301,955	285,385
Total Revenue Bonds	$ 313,010	290,655
Less premium		(3,230)
Total Outstanding Revenue Bond Principal		**$ 287,425**

Future minimum payments for revenue bonds are detailed in Table M.

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 (1998 Series). The certificates are secured by the buildings or equipment acquired with the lease proceeds and any unexpended lease proceeds. The underlying capitalized assets have a gross cost of approximately $51,758,000 as of June 30, 2002. The certificates contain optional redemption provisions allowing the University to redeem, at various dates, portions of the outstanding certificates at prices varying from 100 percent to 102 percent of the principal amount of the certificates redeemed.

At any time, the certificates for the 1998 Series bear interest at adjustable rates equal to comparable rates for tax-exempt obligations (market rate). The interest is payable monthly and may be reset at the following four defined periods as elected by the University: daily, weekly, short term (more than weekly and less than semi-annually) or long term (more than semi-annually and less than the maturity period). The interest rate period during the year ended June 30, 2002 was annually. Effective July 1, 2002, the interest rate period was changed to weekly. Principal is payable annually or semiannually subject to annual appropriation by the Regents.

Future minimum payments for certificates of participation are detailed in Table N.

OTHER CAPITAL LEASES

The University has acquired certain equipment under various lease-purchase contracts and other lease agreements. Such contracts provide that any commitments beyond the current year are contingent upon funds being appropriated for such purposes by the Regents. It is reasonably assured that such leases will be renewed in the normal course of business and, therefore, are treated as noncancelable for financial reporting purposes. As of June 30, 2002 the University had an outstanding liability approximating $31,363,000 with underlying gross capitalized asset cost approximating $34,769,000.

Future minimum payments for capital lease obligations are detailed in Table O.

TABLE M. Revenue Bonds (*in thousands*)

Years Ending June 30	*Principal*	*Interest*	*Total*
2003	$ 9,165	14,176	23,341
2004	11,535	13,785	25,320
2005	11,735	13,252	24,987
2006	12,215	12,674	24,889
2007	12,910	12,089	24,999
2008–2012	57,535	51,375	108,910
2013–2017	50,850	38,188	89,038
2018–2022	57,360	25,066	82,426
2023–2027	60,970	9,700	70,670
2028	3,150	162	3,312
Total	**$ 287,425**	**190,467**	**477,892**

TABLE N. Certificates of Participation (*in thousands*)

Years Ending June 30	*Principal*	*Interest*	*Total*
2003	$ 4,575	1,245	5,820
2004	4,705	1,042	5,747
2005	4,905	827	5,732
2006	8,465	478	8,943
2007	1,000	226	1,226
2008–2012	4,280	743	5,023
2013–2017	2,880	341	3,221
2018–2019	1,365	19	1,384
Total	**$ 32,175**	**4,921**	**37,096**

TABLE O. Capital Leases (*in thousands*)

Years Ending June 30	*Total*
2003	$ 2,668
2004	2,631
2005	2,552
2006	2,496
2007	2,402
2008–2012	11,628
2013–2017	11,618
2018–2022	10,803
2023–2027	7,635
2028–2032	3,046
Total Minimum Lease Payments	57,479
Less: Amount Representing Interest Costs	26,116
Present Value of Minimum Lease Payments	**$ 31,363**

NOTES PAYABLE

As of June 30, 2002, the University had two notes payable issued for general purposes and with amounts outstanding as detailed in Table P. Future minimum payments of the notes payable are also detailed in Table P.

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 financial statements. The amount of debt in this category, covered by assets placed in trust to be used solely for future payments, amounted to approximately $15,945,000 as of June 30, 2002.

TABLE P. Notes Payable (*in thousands*)

Issued for the acquisition of land for the site of student housing known as Williams Village at CU-Boulder; payable from student housing revenue.	$ 289
Issued for the acquisition of a property known as the Bennett Property contiguous to the CU-Colorado Springs campus; payable by general campus resources.	94
Total Notes Payable	**$ 383**

Years Ending June 30	*Principal*	*Interest*	*Total*
2003	$ 46	20	66
2004	48	18	66
2005	51	15	66
2006	53	12	65
2007	56	10	66
2008–2009	129	10	139
Total	**$ 383**	**85**	**468**

TABLE Q. Accrued Compensated Absences (*in thousands*)

Balance June 30, 2001	*Additions*	*Reductions*	*Balance June 30, 2002*
$ 56,348	41,165	26,902	70,611

NOTE 11–OTHER LIABILITIES

ACCRUED COMPENSATED ABSENCES

Table Q presents changes in accrued compensated absences for the year ended June 30, 2002.

RISK FINANCING RELATED LIABILITIES

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; medical malpractice; employee occupational injuries; graduate medical students' health; and natural disasters. The University finances these risks through various self-insurance programs. The University finances costs and risks associated with employee health benefit programs through purchase of commercial insurance.

The University utilizes a protected self-insurance program for its property, liability, and workers' compensation risks. The University has established a separate self-insurance trust for the purpose of providing professional liability coverage for CU-Health Sciences Center and the University of Colorado Hospital Authority (Note 23). A separate self-insurance program has also been established to provide health insurance for graduate medical students at CU-Health Sciences Center.

All self-insurance programs assume losses up to certain limits and purchase a defined amount of excess insurance for losses over those limits. These limits range from $50,000 to $600,000.

Reserves for unpaid claims under these programs are actuarially reviewed and evaluated for adequacy each year. Settlements have not exceeded coverages for each of the past three fiscal years. There were no significant reductions or changes in insurance coverage from the prior year.

The amounts recorded as risk financing related liabilities represent reserves based upon the annual actuarial valuation and include reserves for incurred but not reported claims. Such 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 risk financing related liabilities for the years ended June 30, 2001 and 2002, are presented in Table R.

TABLE R. Risk Financing Related Liabilities *(in thousands)*

	Property, general liability, and workers' compensation	*CU-Health Sciences Center professional liability*	*Graduate medical students' health benefits*	*Total*
Balance June 30, 2000	$ 13,344	7,671	541	21,556
Fiscal Year 2001:				
Claims and changes in estimates	1,194	1,461	2,598	5,253
Claim Payments	3,152	1,256	2,588	6,996
Balance June 30, 2001	11,386	7,876	551	19,813
Fiscal Year 2002:				
Claims and changes in estimates	2,780	333	3,665	6,778
Claim Payments	3,279	502	3,547	7,328
Balance June 30, 2002	**$ 10,887**	**7,707**	**669**	**19,263**

DIRECT LENDING

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. The amount of direct loans during the year ended June 30, 2002, were approximately $98,720,000, with $75,137,000 and $23,583,000 at CU-Boulder and CU-Health Sciences Center, respectively.

NOTE 12–UNRESTRICTED NET ASSETS

In addition to external restrictions, the University has many activities that require a certain level of reserves to be maintained. Examples of this include working capital reserves for large auxiliary operations, equipment reserves for internal service centers, loss reserves for risk financing activities, state mandated reserves for continuing education activities, and capital reserves for planned construction efforts.

As of June 30, 2002, certain portions of the University's unrestricted net assets have been designated or reserved by management for the purposes and amounts detailed in Table S.

NOTE 13–CHANGES IN ACCOUNTING PRINCIPLES

In June 1999, GASB approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* This was followed by the approval of Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* In addition, GASB approved Statements No. 37, *Certain Financial Statement Note Disclosures* and No. 38, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus–An Amendment of GASB Statements No. 21 and No. 34*. As of July 1, 2001, the University adopted these GASB statements as required. The University has elected to follow the financial statement presentation guidelines for special-purpose governments engaged only in business-type activities as outlined in GASB No. 34. Those guidelines require the financial statements to be prepared using an entity-wide perspective. Therefore, the financial statements report the University's assets, liabilities, and net assets; revenues, expenses and changes in net assets; and cash flows for the University as a whole, rather than by fund, as previously required.

TABLE S. Designations of Unrestricted Net Assets *(in thousands)*

Designation Description	*Total*
Capital Related Activities	$ 157,239
Compensated Absences	(70,611)
Auxiliary Enterprises	34,089
Instruction	28,972
Institutional Support	27,995
Risk Financing Related Activities (Note 11)	24,451
Research	11,486
Student Services	11,020
Debt Service Reserves	8,029
Academic Support	5,677
Internal Service Units	4,210
Public Services	1,589
Operation of Plant	1,048
Scholarships and Fellowships	642
Total Designated Unrestricted Net Assets	**$ 245,836**

The University was required to make the following significant changes in accounting principles to conform to GASB Nos. 34, 35, 37, and 38:

- Financial aid awarded to students by the University that is used to pay University charges is recognized as a scholarship allowance rather than as financial aid expense, as previously required.
- The University is required to recognize summer school revenue and expense as earned or incurred rather than deferring summer school revenue and expense and reporting the entire term in one fiscal year, as previously required.
- The University was required to adjust the timing of recognizing certain contractual revenues to ensure only revenues that were fully earned during the fiscal year are recognized or shown as revenue.
- The University is required to record depreciation expense for capital assets. Previously depreciation expense was not recognized. In addition, accumulated depreciation was recognized for the retroactive adoption of this principle.
- Under the fund perspective, the University recognized an expenditure or fund deduction for the acquisition of capital assets and payment of debt principal. Under the entity-wide perspective, these items are not considered an expense against operations.

Net assets as of July 1, 2001 have been reduced to reflect changes in accounting due to the implementation of GASB Nos. 34, 35, 37, and 38 in the amounts detailed in Table T.

TABLE T. Effects of Changes in Accounting *(in thousands)*

Description	*Total*
Accrual of summer school activity	$ 7,226
Deferral of contract revenue	(35,202)
Accumulated depreciation	(576,652)
Total Restatement	(604,628)
Fund Balance as of June 30, 2001 as Originally Stated	1,658,158
Net Assets as of June 30, 2001 as Adjusted	**$1,053,530**

NOTE 14–SCHOLARSHIP ALLOWANCES

During the year ended June 30, 2002, scholarship allowances were provided by the following funding sources and in the amounts detailed in Table U.

NOTE 15–ON-BEHALF PAYMENTS

A general description of the nature and amounts of on-behalf payments for University faculty salaries and benefits during the year ended June 30, 2002, is shown in Table V.

TABLE U. Scholarship Allowances *(in thousands)*

Funding Source Description	*Tuition and Fees*	*Auxiliary Enterprise Revenues*	*Total*
University general resources	$ 8,016	502	8,518
University auxiliary resources	2,282	228	2,510
Colorado Commission on Higher Education financial aid program	6,419	363	6,782
Federal programs, including Pell grants	16,799	883	17,682
Other State of Colorado programs	2,314	8	2,322
Private programs	4,664	282	4,946
Total Scholarship Allowances	**$ 40,494**	**2,266**	**42,760**

TABLE V. On-Behalf Payments *(in thousands)*

Description	*Total*
Health services revenues—CU-Health Sciences Center:	
University Physicians (Note 22)	$ 96,443
University of Colorado Hospital (Note 23)	2,166
Total Health services revenue	98,609
Sales and services of educational departments revenue:	
CU-Boulder	150
CU-Health Sciences Center	1,786
Total Sales and services of educational departments revenue	1,936
Total On-Behalf Payments	**$ 100,545**

NOTE 16–RETIREMENT PLANS AND 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. 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 year ended June 30, 2002 approximated $790,007,000. The total payroll of employees covered by the PERA plan, the University's optional retirement plan, and the student retirement plan approximated $214,192,000, $372,140,000, and $11,836,000, respectively, for the year ended June 30, 2002. The remaining employees were not eligible for participation in any of the University's retirement plans.

PERA DEFINED BENEFIT PENSION PLAN

The PERA 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 employer's plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, CO 80203.

Plan members vest after five years of service and are eligible for retirement benefits at age fifty with thirty years of service, age sixty with twenty years of service, or at age sixty-five with five years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least fifty-five and have a minimum of five years of service credit, and their age plus years of service equals eighty 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 twelve consecutive months of service credit.

Members disabled, who have five or more years of service credit, six months of which have 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 eighteen (twenty-three 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.

Employees contribute 8 percent of their gross covered wages to an individual account in the plan. During the year ended June 30, 2002, the University contributed a total of 9.9 percent of the employee's gross covered wages to PERA in accordance with the allocations and amounts detailed in Table W. These contributions met the contribution requirement for the year.

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.

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 percent 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 50 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.

TABLE W. University Contributions to PERA (*in thousands*)

Program	*Basis*	*University*
Health Care Trust Fund	1.42 percent before January 1, 2002, and 1.64 percent after January 1, 2002	$ 3,278
Matchmaker Program (see Voluntary Tax Deferred established Retirement Plans below)	The amount needed to meet the match requirement by the PERA Board	3,572
Defined Benefit Plan	The balance remaining	14,355
	Total University Contribution	**$ 21,205**

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 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 the year ended June 30, 2002, the University's contribution to the defined contribution retirement plan was equal to 10 percent of covered payroll and the employee contribution was equal to 5 percent of covered payroll. The University's contribution under the optional retirement plan during the year ended June 30, 2002, approximated $37,214,000 and the employee's contribution under the optional retirement plan approximated $18,504,000.

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 percent of covered payroll to the plan.

HEALTH INSURANCE PROGRAMS

The University's contributions to the various health insurance programs approximated $27,165,000 during the year ended June 30, 2002.

NOTE 17–POST-EMPLOYMENT BENEFITS

UNIVERSITY POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE PLAN

In addition to providing pension benefits described in Note 16, 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 University's employees may become eligible for those benefits if they reach normal retirement age while working for the University. During the year ended June 30, 2002, approximately 3,600 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 approximated $2,893,000 during the year ended June 30, 2002.

PERA POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERACare (formerly know as 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 PERACare and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the year ended June 30, 2002, the premium subsidy was $115.00 for those with twenty years of service credit ($230.00 for members under age sixty-five), and it was reduced by 5 percent for each year of service fewer than twenty. 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, Note 16).

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, 2001, there were approximately 34,000 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 Anthem Life (formerly know as 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.

NOTE 18–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.

NOTE 19–SEGMENT INFORMATION

The University operates a Research Building Revolving Fund (RBRF), which has identifiable activities for which revenue bonds approximating $25,163,000 are outstanding as of June 30, 2002. The activities supported by this segment include research operations and related support.

Summary financial information as of and for the year ended June 30, 2002, is presented in Table X.

TABLE X. Segment Financial Information ***(in thousands)***

Condensed Statement of Net Assets	*RBRF*
Assets:	
Current Assets–Due from other operational units	$ 261
Investments, Noncurrent	23,153
Capital Assets, Net	53,857
Total Assets	**$ 77,271**
Liabilities:	
Current Liabilities	$ 3,523
Long-Term Liabilities	21,900
Total Liabilities	**$ 25,423**
Net Assets:	
Invested in Capital Assets, Net of Related Debt	$ 28,695
Unrestricted	23,153
Total Net Assets	**$ 51,848**

Condensed Statement of Revenues, Expenses and Changes in Net Assets	
Operating Revenues	$ 11,493
Depreciation Expense	(3,596)
Other Operating Expenses	(5,095)
Net Operating Income	**2,802**
Nonoperating Expenses:	
Investment Expense	(1,017)
Loss on Disposal of Fixed Assets	(11,167)
Interest expense on Capital Asset Related Debt	(1,255)
Total Nonoperating Expenses	(13,439)
Loss Before Other Revenues, Expenses, Gains, and Losses	**(10,637)**
Transfers in from Other University Funds	8,152
Decrease in Net Assets	**(2,485)**
Fund Balance, Beginning of Year as Originally Stated	96,207
Effects of Restatement (Note 13)	(41,874)
Net Assets, Beginning of Year as Adjusted	54,333
Net Assets, End of Year	**$ 51,848**

Condensed Statement of Cash Flows	
Net Cash Flows Provided by:	
Operating Activities	$ 4,727
Capital and Related Financing Activities	(3,472)
Investing Activities	(1,255)
Net Increase in Cash	**–**
Cash and Cash Equivalents, Beginning of Year	–
Cash and Cash Equivalents, End of Year	**$ –**

NOTE 20–THE UNIVERSITY OF COLORADO FOUNDATION, INC.

The University of Colorado Foundation, Inc. (CU Foundation), an unconsolidated affiliated corporation, was established in 1967 as a separate corporation to solicit, collect, and invest donations for the University and University of Colorado Hospital Authority (Note 23). The CU Foundation is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. A member of the Regents and the president of the University serve as ex-officio members of the CU Foundation's board of directors. The CU Foundation is not considered a component unit of the University because the University is not financially accountable for the CU Foundation. Detailed financial information may be obtained directly from the CU Foundation.

Under an operating agreement between the CU Foundation and the University, the CU Foundation provides development services to the University in exchange for operating support.

Distributions made by the CU Foundation to the University during the year ended June 30, 2002 were $55,087,000. This amount has been recorded as gift revenue in the accompanying financial statements, and does not include undistributed income on University endowments.

Summarized audited financial statements of the CU Foundation for the year ended June 30, 2002, are presented in Table Y.

University custodial funds represent endowments owned by the University and managed by the CU Foundation (Note 4).

TABLE Y. CU Foundation Financial Information
(in thousands)

Description	*Total*
Investments (at fair value)	$ 563,323
Other assets	116,132
Total Assets	$ 679,455
University custodial funds	$ 56,113
Bonds payable, net	69,252
Other liabilities	44,897
Total Liabilities	$ 170,262
Net assets:	
Unrestricted	$ 19,169
Temporarily restricted	324,596
Permanently restricted	165,428
Total Net Assets	$ 509,193
Contributions and other revenues	$ 69,429
Distributions, other expenses and adjustments	(91,894)
Change in Net Assets	**$ (22,465)**

The University is the ultimate beneficiary of substantially all restricted and trust funds held by the CU Foundation and is income beneficiary of a significant portion of endowment funds held by the CU Foundation.

WILLIAMS VILLAGE HOUSING PROJECT

During the year ended June 30, 2002, CU-Boulder and the CU Foundation entered into an operating agreement whereby the CU Foundation would construct and operate a student residence center on certain campus land, commonly referred to as Williams Village. The terms of the operating agreement provide the CU Foundation with the use of the University's land in exchange for net cash flow of the housing project as defined in the agreement. Accordingly, no related revenues were recognized by the University during the year ended June 30, 2002. The housing project is expected to be available for occupancy during August 2003.

To provide construction financing, the CU Foundation issued $69,090,000 of revenue bonds with a premium of approximately $162,000. These bonds have serial and term maturities annually beginning July 1, 2005, and ending July 1, 2032, at interest rates between 2.5 percent and 5.375 percent. These bonds are recorded in the CU Foundation's condensed financial statements above.

NOTE 21–COLEMAN COLORADO FOUNDATION

The Coleman Colorado Foundation (Coleman Foundation), an unconsolidated affiliated corporation, was established on August 21, 2001. The Coleman Foundation is a nonprofit entity under Section 501(c)(3) and 509(a)(3) of the Internal Revenue Code and was established to support the University's operational unit, the University of Colorado Coleman Institute for Cognitive Disabilities (the Institute), and related activities and professorships.

The Coleman Foundation will receive a January 2001 private donor pledge of $250,000,000 for the Institute. 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, currently scheduled over a period of ten years. The ultimate timing and value to be contributed to the Coleman Foundation can be altered by the donors. As of June 30, 2002, no amounts have been contributed to the Coleman Foundation. As a result, the pledge has not been recorded on the financial records of the University or Coleman Foundation.

The University did receive related contributions of approximately $2,335,000 during the year ended June 30, 2002, which flowed through the CU Foundation (Note 20) and has been recorded as gift revenue in the accompanying financial statements. In addition, the CU Foundation received a related contribution to an endowment fund. As of June 30, 2002, this related endowment was valued at $9,119,000.

NOTE 22–UNIVERSITY PHYSICIANS, 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. Detailed financial information may be obtained directly from 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 (Note 15) and related expenses for the year ended June 30, 2002, approximated $102,637,000, and amounts provided as gifts to the University approximated $9,490,000. In addition, for the year ended June 30, 2002, UPI reimbursed the University approximately $1,356,000, for professional liability insurance and other administrative costs.

Summarized audited financial statements for UPI for the year ended June 30, 2002, are presented in Table Z.

TABLE Z. UPI Financial Information ***(in thousands)***

Description	*Total*
Assets	$ 84,710
Liabilities	11,761
Unrestricted net assets	$ 72,949
Revenues, primarily patient revenues	$ 155,786
Expenses, primarily salaries and benefits	(154,627)
Change in net assets	$ 1,159

NOTE 23–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. 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 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 Hospital Authority to the CU-Health Sciences Center approximated $26,760,000 for year ended June 30, 2002, and total payments issued by the CU-Health Sciences Center to the Hospital Authority for the year ended June 30, 2002, approximated $11,065,000.

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 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.

NOTE 24–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 approximately $99,795,000 as of June 30, 2002. These additions will be funded or financed by donor contributions, appropriations from the State, issuance of revenue bonds, and other borrowings. As of June 30, 2002, the amount of capital construction appropriations authorized from the State for these projects approximated $12,522,000.

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.

NOTE 25–SUBSEQUENT EVENTS

Effective July 1, 2002, the Board of Regents exercised its statutory authority to transfer the assets and operations of Colorado Psychiatric Hospital, an operational unit of the CU-Health Sciences Center, to the Hospital Authority (Note 23). The transfer was initiated because Colorado Psychiatric Hospital could no longer bill as a Hospital Authority Medicare sub-provider as of July 1, 2002. In addition there were concerns about the continued financial feasibility of operating a small stand-alone psychiatric hospital.

The CU-Health Sciences Center is responsible for the costs of transitioning Colorado Psychiatric Hospital to the Hospital Authority, which were recognized during the year ended June 30, 2002. These costs include a final settlement for the Medicare/Medicaid audits from previous fiscal years, extinguishing accounts payables, funding the operating deficit from the current fiscal year and funding employment benefit liabilities for staff that worked at Colorado Psychiatric Hospital. In addition, CU-Health Sciences Center will maintain and collect any patient accounts receivable billed before June 30, 2002.

If the transfer to Hospital Authority occurred prior to July 1, 2002, the University's financial position for the year ended June 30, 2002 would have approximately $5,847,000 and $13,259,000 less health services revenue and expenses, respectively.

This page intentionally left blank

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Legislative Audit Committee:

We have audited the 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, 2002, and have issued our report thereon dated September 20, 2002. 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*. The financial statements of The University Improvement Corporation, and University License Equity Holdings, Inc. (a.k.a. University Technology Corporation) were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not extend to those entities.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the University in a separate letter dated September 20, 2002.

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.

Deloitte & Touche LLP

September 20, 2002

REQUIRED COMMUNICATION LETTER

September 20, 2002

Members of the Legislative Audit Committee:

We have audited the financial statements of the University of Colorado (the University), a component unit of the State of Colorado, for the year ended June 30, 2002, and have issued our report thereon dated September 20, 2002.

Our professional standards require that we communicate with you concerning certain matters that may be of interest to you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the University is responsible. We have prepared the following comments to assist you in fulfilling that obligation.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*, ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Our responsibility under auditing standards generally accepted in the United States of America (generally accepted auditing standards) and *Government Auditing Standards,* issued by the Comptroller General of the United States require, among other things, that we obtain an understanding of the University's internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. Our comments on the University's internal control can be found on page 6 through 9 of this document. This report is also dated September 20, 2002.

SIGNIFICANT ACCOUNTING POLICIES

The University's significant accounting policies are set forth in Notes 1 and 13 to the University's 2002 financial statements. During fiscal year 2002, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments;* GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities;* GASB No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus;* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the University's 2002 financial statements include the allowance for doubtful loans and accounts, market value of investments, compensated absences, self-insurance, and scholarship allowances.

During the year ended June 30, 2002, we were not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS

Our audit was designed to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. In addition, we are obligated by generally accepted auditing standards to inform you of any adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the University's financial reporting process. All proposed audit adjustments (whether recorded or uncorrected) were reviewed with management and were determined, individually or in the aggregate, not to have a significant effect on the financial reporting process.

In addition, we are obligated by generally accepted auditing standards to inform you about uncorrected misstatements (regardless of whether they have a significant effect on the financial reporting process) aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A schedule of the uncorrected misstatements has been attached to this letter as the Appendix.

OTHER INFORMATION IN THE ANNUAL REPORTS

We have read the management discussion and analysis in the University's Annual Report and have inquired as to the methods of measurement and presentation of such information. If we had noted a material inconsistency, or if we had obtained any knowledge of a material misstatement of fact in the information, we would have discussed this matter with University management and, if appropriate, with the Board of Regents and the Legislative Audit Committee.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the University's 2002 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during fiscal year 2002.

MANAGEMENT ADVISORY SERVICES

The University did not engage us to perform any management advisory services during fiscal year 2002.

* * * * *

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.

Deloitte & Touche LLP

APPENDIX

UNIVERSITY OF COLORADO
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(IN THOUSANDS)

	Assets	Liabilities	Net Assets	Increase in Net Assets
Balances as Reported at June 30, 2002	**$1,761,293**	**$ 629,181**	**$1,132,112**	**$78,582**
Known Misstatements:				
1. Reclassify current portion of bond premium amortization from noncurrent:				
DR: Noncurrent Liability		439		
CR: Current Liability		(439)		
2. Reclassify construction in progress assets from equipment and reverse current-year depreciation:				
DR: CIP	821			
CR: Equipment	(821)			
DR: Net effect of Depreciation	68			
CR: Depreciation Expense			68	(68)
3. Reclassify income from sales and services of educational activities to tuition and fees:				
DR: Sales & Services				448
CR: Tuition				(448)
4. Reclassify current portion of risk financing liabilities from noncurrent:				
DR: Noncurrent Other Liabilities		4,600		
CR: Current Other Liabilities		(4,600)		
Net Effect of Known Misstatements	**68**	**0**	**68**	**(68)**
Pro Forma Balances for the Year Ended June 30, 2002	**$1,761,361**	**$ 629,181**	**$ 1,132,180**	**$78,650**

The University of Colorado (the University) is governed by the University of Colorado Board of Regents. The University is a state-supported institution of higher education comprised of the system office and the following four campuses.

- 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)

Our financial and compliance examination of the various state-funded student financial assistance programs at the University for the year ended June 30, 2002, was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHE) Financial Aid Policy, adopted April 2000. The state-funded student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2002.

STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS

The University's various state-funded student financial assistance programs include the following:

- Colorado Need-based Grants awards, comprising:
  - Colorado Student Grant
  - Colorado Graduate Grant
  - Colorado Leveraging Educational Assistance Partnership (CLEAP) *(reported separately on the accompanying Statement of Appropriations, Expenditures, Transfers, and Reversions)*
  - Supplemental Leveraging Assistance Partnership (SLEAP) *(reported separately on the accompanying Statement of Appropriations, Expenditures, Transfers, and Reversions)*
- Colorado Merit Scholarships (or merit-based awards), comprising:
  - Colorado Undergraduate Merit scholarships
  - Colorado Graduate Fellowship
- Colorado Work-Study
- Governor's Opportunity Scholarships
- Colorado Nursing Grants (or scholarships)
- Loan Matching for the Perkins Loan and Health Professions Student Loan Programs

The total state-funded student financial assistance expenditures made by the University were $16,213,336 during the year ended June 30, 2002. Of this amount, state-funded matching funds of $99,795 were transferred to the Perkins Loan and Health Professions Student Loan Funds during the year ended June 30, 2002.

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 student financial aid programs. The campus controller's office at each campus is responsible for the programs' financial management, general ledger accounting, payments, and collections.

During the year ended June 30, 2002, the University obtained authorizations to award federal student financial aid funds of $13,879,650 in Pell Grant, $98,719,851 in Direct Loan, $1,529,813 in Supplemental Educational Opportunity Grant, $3,137,144 in College Work-Study, and $313,514 of new capital contributions in the Perkins Student Loan Program.

In addition, the University was authorized to award Colorado student financial aid funds during the year ended June 30, 2002, of $8,274,071 in Colorado Need-Based Grants, $387,047 in CLEAP, $202,370 in SLEAP, $3,691,160 in Colorado Merit Scholarships, $2,644,376 in Colorado Work-Study, $906,148 in Governor's Opportunity Scholarships, $111,866 in Colorado Nursing Grants, and $99,795 in the Loan Matching programs.

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, 2002. 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 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), 2002 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 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 net assets of the University at June 30, 2002, and the results of its operations and changes in cash flows for the year then ended 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, 2002, 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 September 20, 2002, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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.

Deloitte & Touche LLP

September 20, 2002

UNIVERSITY OF COLORADO
STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND REVERSIONS
Year Ended June 30, 2002

	Total Financial Aid	*Colorado Need-based Grants*	*CLEAP*	*SLEAP*	*Colorado Merit Scholarships*	*Colorado Work-Study*	*Governor's Opportunity Scholarship*	*Colorado Nursing Grants*	*Loan Matching*
CU-Boulder									
Appropriations:									
Original Official Allocation Notice	$ 8,034,396	3,984,137	247,591	75,000	2,036,519	1,482,782	197,954	-	10,413
Additional funds reallocated by CCHE	23,950	-	(50,129)	47,129	-	-	23,885	-	3,065
Funds released to CCHE	-	-	-	-	-	-	-	-	-
Total Appropriations	8,058,346	3,984,137	197,462	122,129	2,036,519	1,482,782	221,839	-	13,478
Total Expenditures	8,052,883	3,984,137	197,462	122,129	2,036,519	1,482,782	216,376	-	13,478
Reversions	**$ 5,463**	**-**	**-**	**-**	**-**	**-**	**5,463**	**-**	**-**
CU-Health Sciences Center									
Appropriations:									
Original Official Allocation Notice	$ 1,355,532	958,953	12,838	-	196,934	40,000	-	97,986	48,821
Additional funds reallocated by CCHE	-	-	-	-	-	-	-	-	-
Funds released to CCHE	(23,664)	-	-	-	-	(5,000)	-	(18,664)	-
Total Appropriations	1,331,868	958,953	12,838	-	196,934	35,000	-	79,322	48,821
Total Expenditures	1,331,868	958,953	12,838	-	196,934	35,000	-	79,322	48,821
Reversions	$ -	-	-	-	-	-	-	-	-

(Continued)

UNIVERSITY OF COLORADO
STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND REVERSIONS
Year Ended June 30, 2002

	Total Financial Aid	*Colorado Need-based Grants*	*CLEAP*	*SLEAP*	*Colorado Merit Scholarships*	*Colorado Work-Study*	*Governor's Opportunity Scholarship*	*Colorado Nursing Grants*	*Loan Matching*
CU-Denver									
Appropriations:									
Original Official Allocation Notice	$ 4,043,815	2,035,987	66,918	45,000	878,678	618,375	380,700	-	18,157
Additional funds reallocated by CCHE	12,316	-	-	12,316	-	-	-	-	-
Funds released to CCHE	(15,316)	-	(15,316)	-	-	-	-	-	-
Total Appropriations	4,040,815	2,035,987	51,602	57,316	878,678	618,375	380,700	-	18,157
Total Expenditures	4,040,815	2,035,987	51,602	57,316	878,678	618,375	380,700	-	18,157
Reversions	**$ -**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
CU-Colorado Springs									
Appropriations:									
Original Official Allocation Notice	$ 2,675,351	1,294,994	59,700	12,000	579,029	508,219	188,190	13,880	19,339
Additional funds reallocated by CCHE	112,419	-	(13,925)	10,925	-	-	115,419	-	-
Funds released to CCHE		-	-	-	-	-	-	-	-
Total Appropriations	2,787,770	1,294,994	45,775	22,925	579,029	508,219	303,609	13,880	19,339
Total Expenditures	2,787,770	1,294,994	45,775	22,925	579,029	508,219	303,609	13,880	19,339
Reversions	**$ -**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(Concluded)

1. BASIS OF PRESENTATION

The University is governed by the University of Colorado Board of Regents. The University comprised of the system office and the following four campuses:

- 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)

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 prescribed by the Colorado Commission on Higher Education (CCHE). 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 year ended June 30, 2002.

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 net assets of the University in conformity with generally accepted accounting principles.

2. BASIS OF ACCOUNTING

The University's accounting system is structured and administered in accordance with the fund accounting principles promulgated by the National Association of College and University Business Officers (NACUBO) in its revised publication, *Financial Accounting and Reporting Manual*. The accounts related to the state-funded student financial assistance programs 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.

The Perkins Student Loan Program matching requirement from general funds, as approved by the CCHE, is recorded as a transfer from the current restricted fund to the loan fund and not as a current restricted fund expense and loan fund revenue.

The Colorado Leveraging Educational Assistance Partnership (CLEAP) and Supplemental Leveraging Assistance Partnership (SLEAP) consist of state and federal funds. The amounts shown in the accompanying Statement are the combined totals.

INDEPENDENT ACCOUNTANTS' REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES

Members of Legislative Audit Committee:

We have performed the procedures enumerated below, which were agreed to by the University of Colorado (the University), solely to assist the University in complying with NCAA Bylaw 6.2.3.1 and its related Audit Guidelines. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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.

The procedures that we performed and our findings are as follows:

UNIVERSITY OF COLORADO AT BOULDER INTERCOLLEGIATE ATHLETICS DEPARTMENT STATEMENT OF REVENUE AND EXPENDITURES - AGREED-UPON SUBSTANTIVE PROCEDURES

a. We obtained the accompanying statement of revenues and expenditures for the University of Colorado at Boulder (CU-Boulder) Intercollegiate Athletics Department (the Statement) for the year ended June 30, 2002, as prepared by management. We recalculated the addition of the amounts on the Statement, agreed the amounts on the Statement to management's worksheets, and agreed the amounts on management's worksheets to the University's general ledger. We noted no differences between the amounts on the general ledger and the amounts on the worksheets.

b. We compared the 2002 operating revenues and expenditures applicable to CU-Boulder's Intercollegiate Athletics Department shown on the Statement to corresponding amounts shown in the prior-year statement of revenue and expenditures for the CU-Boulder Intercollegiate Athletics Department. We identified 38 instances where the variance between the 2002 balance and the 2001 balance was greater than the lesser of 20% of the prior-year balance or $220,000. We discussed these variances with management and obtained corroborating evidence for their explanations.

c. We made inquiries of management as to whether there were any individual intercollegiate athletics contributions greater than $510,000, which represents 10% of the total gift revenue. Management of CU-Boulder's Intercollegiate Athletics Department informed us that there were no individual contributions greater than $510,000. We read the listing of gifts and contributions for the year ended June 30, 2002, provided by the University, for additional individual intercollegiate athletics gifts and contributions greater than $510,000 and noted none. In addition, we obtained the supporting documentation for the five largest donations made directly from the University of Colorado Foundation, and agreed the donated amounts to the supporting documentation. We noted no differences between the gift amount and the supporting documentation.

d. We obtained the check advices and check explanations for the conference distributions dated January 28, 2002, and April 19, 2002. We agreed the amounts to bank deposits, noting that all information was in agreement. We also agreed the amounts into the Statement without exception.

e. We obtained the men's football and basketball ticket revenue reconciliations for the year ended June 30, 2002. We agreed the ticket sales for January 17, 2002, January 14, 2002, and March 17, 2002, into the reconciliation and agreed the total sales on the reconciliation to the Statement, noting no exceptions.

f. We obtained written management representations as to the completeness and accuracy of the Statement. In addition, we obtained certain written representations of management regarding its knowledge of institutional compliance with NCAA legislation and other laws and regulations applicable to CU-Boulder's Intercollegiate Athletics Department.

g. We read the footnotes to the Statement and noted no missing disclosures. We agreed amounts within the footnotes to supporting documentation, noting no exceptions.

INTERNAL CONTROL STRUCTURE: POLICIES AND PROCEDURES RELATED TO THE UNIVERSITY OF COLORADO AT BOULDER INTERCOLLEGIATE ATHLETICS DEPARTMENT - AGREED-UPON PROCEDURES

The management of the University is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

We have performed the procedures enumerated below, which were agreed to by management of the University, solely to assist you in evaluating management's assertion about the effectiveness of the University's internal accounting control related to the intercollegiate athletics program as of June 30, 2002. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the management of the University. 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.

a. We made certain inquiries of management regarding control consciousness, competence of personnel, extent of internal audit involvement, and protection of records and equipment. We noted that CU-Boulder's Intercollegiate Athletics Department is subject to the overall University policies, procedures, and control procedures. We considered these overall University policies, procedures, and internal control procedures in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements of the University as of June 30, 2002.

b. We obtained and read the documentation of the accounting systems and procedures related to the CU-Boulder's Intercollegiate Athletics Department. This documentation included the cash receipts process, ticket sales process, disbursements, and financial aid. In addition to reading the aforementioned documentation, we also performed the following procedures:

   - Made certain inquiries of the administration regarding control consciousness, competence of personnel, and protection of records and equipment.

   - Selected 10 purchase orders and (1) verified that each was approved by an authorized person and signed, (2) agreed with supporting documentation, and verified that the account distribution was recorded in the expenditures account in the University's general ledger. We noted no exceptions.

   - Selected 10 employees from CU-Boulder's Intercollegiate Athletics Department payroll register for the year ended June 30, 2002. We agreed the payroll information in the general ledger to the employees' file. We noted no exceptions.

   - Obtained a listing of all athletes who received financial aid. From that list we selected five student athletes and obtained their financial aid awards. We agreed the amounts of financial aid per the CU-Boulder's Intercollegiate Athletics Department to the student's file per the Student Information System online. We noted no exceptions.

   - Selected 25 days during the fiscal year ended June 30, 2002. For each date selected, we obtained the Daily Cash Receipt Log and selected one batch transaction. We agreed the batch information to the daily deposit slip and the general ledger. We noted no exceptions.

   The procedures described above would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements of the Intercollegiate Athletics Department of CU-Boulder 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 structure and its operation, as they pertain to CU-Boulder's Intercollegiate Athletics Department, that we consider to be material weaknesses as defined above.

We were not engaged to, and did not perform an audit or an examination, the objective of which would be the expression of an opinion on the specified elements, accounts, or items and on the effectiveness of the internal control over financial reporting, respectively. 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 NCAA and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 20, 2002

UNIVERSITY OF COLORADO
UNIVERSITY OF COLORADO AT BOULDER INTERCOLLEGIATE ATHLETICS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
Year Ended June 30, 2002

	Football	*Men's Basketball*	*Women's Basketball*	*Other Men's Sports*	*Other Women's Sports*	*Non-Program Specific*	*Total*
Operating Revenues:							
Ticket sales	$ 8,827,238	824,458	267,862	-	18,645	24,720	9,962,923
Bowl game proceeds	1,904,070	-	-	-	-	-	1,904,070
Big XII championship	150,000	-	-	-	-	-	150,000
Conference distribution	-	-	-	-	-	5,749,645	5,749,645
Programs	19,800	-	-	-	-	9,214	29,014
Novelties	77,018	479	460	-	-	24,040	101,997
Licensing	-	-	-	-	-	522,766	522,766
Credit card sponsorship	-	-	-	-	-	137,122	137,122
Radio and television	512,451	166,095	133,213	-	-	-	811,759
Signage	-	-	-	-	-	435,594	435,594
Buff vision	-	-	-	-	-	727,353	727,353
Corporate sponsor days	137,564	28,680	28,200	-	16,015	-	210,459
Nike contract	139,395	44,260	40,176	82,735	135,567	239,685	681,818
Concessions	121,273	63,006	28,259	-	3,247	44,715	260,500
Parking	78,353	-	-	-	-	7,094	85,447
Banquets	10,070	1,980	6,420	1,230	1,920	-	21,620
Student fees	-	-	-	-	1,378,274	-	1,378,274
Ski club	-	-	-	-	-	42,470	42,470
Facility rental	-	-	-	-	-	449,805	449,805
Miscellaneous income	-	-	-	-	5,550	186,860	192,410
Restricted gifts	787,510	2,000	63,903	193,049	69,499	4,013,360	5,129,321
Restricted investment income	-	-	-	-	-	9,049	9,049
Financial aid support:							
CCHE	81,124		5,130	47,232	40,514	-	174,000
Boulder campus	500,483	6,185	58,759	74,068	253,518	-	893,013
President's support	-	-	-	-	-	680,000	680,000
Chancellor's ECC support	-	-	-	-	-	122,210	122,210
Total Operating Revenues	**$ 13,346,349**	**1,137,143**	**632,382**	**398,314**	**1,922,749**	**13,425,702**	**30,862,639**

(Continued)

UNIVERSITY OF COLORADO
UNIVERSITY OF COLORADO AT BOULDER INTERCOLLEGIATE ATHLETICS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
Year Ended June 30, 2002

	Football	Men's Basketball	Women's Basketball	Other Men's Sports	Other Women's Sports	Non-Program Specific	Total
Operating Expenditures:							
Coaches salaries	$ 2,065,902	698,604	559,685	306,208	609,284	37,800	4,277,483
Other salaries	336,022	101,814	111,391	29,366	88,117	4,754,468	5,421,178
Compensated absences	-	-	-	-	-	151,462	151,462
Guarantees paid	400,000	204,600	26,600	-	6,000	-	637,200
Contractual services	773,414	264,561	216,528	2,923	40,686	272,542	1,570,654
Film, videotape, and photography	18,865	3,824	1,415	254	1,069	85,428	110,855
Travel							
Team/individual	1,088,473	179,669	228,574	216,631	424,515	102,468	2,240,330
Recruiting	166,346	94,343	94,919	19,444	95,395	-	470,447
Other							
Motor vehicle rental	32,835	1,471	7	23,878	25,400	10,200	93,791
Financial aid	2,159,879	304,808	380,856	554,711	1,268,721	15,176	4,684,151
Maintenance and general administrative	98,666	2,834	252	332	433	1,611,802	1,714,319
Equipment purchases	371,625	49,292	47,014	109,213	178,314	521,244	1,276,702
Publicity	158,577	69,029	66,539	463	10,967	387,515	693,090
Insurance	3,000	-	-	-	-	216,382	219,382
Telephone	63,218	32,273	21,169	11,715	23,440	202,963	354,778
Entertainment	484,050	74,052	77,754	14,216	34,334	192,751	877,157
Training table	148,393	18,780	16,592	182	13,597	43,956	241,500
Local food and lodging	329,626	26,731	18,098	3,630	23,744	2,498	404,327
Medical	214,878	12,884	31,956	19,728	104,277	60,980	444,703
Postage	46,772	9,122	13,096	1,625	6,085	92,530	169,230
Building and equipment rent	286,983	1,013	10,623	9,941	27,325	210,873	546,758
Gifts and awards	163,724	2,312	12,265	5,822	6,873	64,949	255,945
Fees, licensing and registration	27,399	525	65	-	3,344	265,414	296,747
Information technology costs	17,804	3,332	8,650	1,412	15,842	124,165	171,205
General administrative recharge	68,354	-	7,814	-	-	868,822	944,990
Band support	-	-	-	-	-	203,550	203,550
Foundation costs	-	-	-	-	-	1,086,717	1,086,717
Miscellaneous	149,835	23,391	17,059	5,276	31,758	299,289	526,608
Debt service	-	-	-	-	-	702,463	702,463
Capital fund	-	-	-	-	-	213,110	213,110
Total Operating Expenditures	**$ 9,674,640**	**2,179,264**	**1,968,921**	**1,336,970**	**3,039,520**	**12,801,517**	**31,000,832**
Excess (Deficiency) of Revenues Over Expenditures	**$ 3,671,709**	**(1,042,121)**	**(1,336,539)**	**(938,656)**	**(1,116,771)**	**624,185**	**(138,193)**

(Concluded)

1. BASIS OF PRESENTATION

The accompanying statement of revenues and expenditures presents the results of financial activity of the Intercollegiate Athletics Department of the University of Colorado at Boulder and is not intended to present the operations of the University as a whole.

The accompanying statement of revenues and expenditures has been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenditures are recorded when an obligation is incurred.

For reporting purposes, the major sports in which the University participates are combined by and reported by the following major categories: Football, Men's Basketball, Women's Basketball, Men's Other Sports, and Women's Other Sports. The first three categories represent individual activities, whereas the last two represent combinations. The administrative functions of the University of Colorado at Boulder Intercollegiate Athletics Department, which support all sports, have been combined and reported within the category Non-Program Specific. General administrative costs of the University have not been allocated to athletics operations and are not reported herein.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenues from operations have been allocated based on management's estimate of which sport generated the income. Gifts have been allocated as directed by the donor. Financial aid support has been allocated based on the actual payments made in support of each activity.

Revenues received during a given fiscal year but not expensed are carried forward for use by the University of Colorado at Boulder Intercollegiate Athletics Department in future fiscal years. The current fiscal year excess (deficiency) of revenues over expenditures reflects the revenues from the current fiscal year being carried forward to future fiscal years.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Members of Legislative Audit Committee:

We have performed the procedures enumerated below, which were agreed to by the University of Colorado (the University), solely to assist the University in complying with NCAA Bylaw 6.2.3.1 and its related Audit Guidelines. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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 outside organizations, we relied upon information supplied to us by the University of Colorado Foundation (Foundation). We did not confirm financial activities directly with the officers of the outside organizations, beside the Foundation.

The procedures that we performed and our findings are as follows:

a. Obtained a list of outside organizations not under the accounting control of the University from the Foundation. Management asserted that these organizations operate to support the activities disclosed in the statement of revenues and expenditures (the Statement) for the University of Colorado at Boulder (CU-Boulder) Intercollegiate Athletics Department.

b. Obtained a copy of the audited financial statement of the Foundation for the year ended June 30, 2002, which was audited by other auditors who expressed an unqualified opinion.

c. Agreed the amounts distributed to the University from the Foundation to Restricted Gift Revenue disclosed on the Statement. The reconciliation is presented below:

Total amount transferred to the CU-Boulder Intercollegiate Athletics Department	$ 6,067,452
Amounts paid directly to fund capital projects	(560,000)
Amount paid directly to employee in compliance with agreement	(154,589)
Gift-in-kind distributions	(223,542)
Total restricted gifts per the Statement	$ 5,129,321

We were not engaged to and did not conduct an audit or an examination, the objective of which would be the expression of an opinion on the specified elements, accounts, or items and on the effectiveness of the internal control over financial reporting, respectively. 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 NCAA and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 20, 2002

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

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

Please refer to the Report Control Number below when requesting this report.

Report Control Number 1423