State of Colorado
Auraria Higher Education Center

Financial and Compliance Audit

Fiscal Year Ended June 30, 2002

BKD LLP

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State of Colorado
Auraria Higher Education Center
June 30, 2002

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State of Colorado
Auraria Higher Education Center
Report Summary
Year Ended June 30, 2002

Purposes and Scope of Audit

The purposes and scope of this audit were:

- To express an opinion on the financial statements of Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2002, including a review of the related systems of internal controls as required by auditing standards generally accepted in the United States of America.
- To review the Center's compliance with rules and regulations governing the expenditure of federal and state funds for the year ended June 30, 2002.
- To evaluate progress in implementing the prior audit recommendations.
- To evaluate compliance with restrictive covenants of the Center's revenue bond funds.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

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

- The Auraria Book Center (the Book Center) requires certain documentation to process refunds and buy-backs for customers. In some cases, that documentation was not complete or accurate. The Book Center should require that documentation be complete and accurate.
- The Book Center's physical inventory count during the year did not agree to its inventory system records due to the miscoding of new textbooks as used textbooks. The Book Center should monitor the coding of inventory recorded to reduce coding errors, pricing errors and potential inventory reporting errors.
- The Center did not identify all specific capital assets associated with additions in prior years as part of the adoption of new governmental accounting standards. The Center should identify the specific assets associated with those additions.

State of Colorado
Auraria Higher Education Center
Report Summary (continued)
Year Ended June 30, 2002

Audit Opinions and Reports

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

Auditors' Communication to Legislative Audit Committee

The Auditors' Communication to the Legislative Audit Committee describes the auditors' responsibility under auditing standards generally accepted in the United States of America and significant management judgements and estimates. It also notes that not all proposed audit adjustments were recorded by the Center, and that management of the Center believes that those adjustments that were not recorded did not materially affect the financial statements as a whole.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2001 contained five recommendations. Three of those recommendations were fully implemented in the current fiscal year. Two recommendations were partially implemented in the current fiscal year, but we noted exceptions related to those recommendations in the current year (see Recommendation Nos. 1 and 2).

State of Colorado
Auraria Higher Education Center
Recommendation Locator
Year Ended June 30, 2002

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	5	Require all Book Center documentation to be complete and accurate.	Agree	
2	6	Monitor the coding of inventory received to ensure proper coding is used when pricing textbooks.	Agree	
3	7	Identify specific assets associated with capital additions in prior years.	Agree	

State of Colorado
Auraria Higher Education Center
Description of the Center
Year Ended June 30, 2002

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

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

Book Center Documentation

The Book Center is an auxiliary enterprise of the Center, located in the Tivoli student union, that serves the Center's constituent institutions by providing an on-campus source for course materials, education supplies and general merchandise. Total Book Center sales and refunds were approximately $17.5 million and $2.3 million, respectively, for the year ended June 30, 2002. Our audit of the Center included a review of controls in place at the Book Center. As in the prior year, we noted instances of incomplete or inaccurate documentation related to refunds and book buy-backs.

The Book Center requires customers to complete a refund slip in order to receive a refund. The Book Center requires the customer to print his name and student identification number and to sign the slip. An employee who is not a cashier must then authorize the slip. This requirement helps deter fraudulent refund claims. During our testing we noted that, of the 18 refund slips tested, 2 of the slips were not authorized (signed) by a bookstore employee, although they had the required customer information and the customer's signature.

The Center requires customers selling books to complete a book buy-back slip. The buy-back slip includes a "Declaration of Ownership" section that acknowledges the customer's right to sell the book. We noted that, of the 42 book buy-back slips tested, 1 of the slips did not include all of the required information (date of birth and student identification number).

Recommendation No. 1

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

Center Response

The Center agrees. The Book Center has put in place policies and procedures that, when followed, will assure good control on all refund and buy-back transactions. The performance of Book Center cashiers and customer service supervisors is monitored for compliance with these policies and additional training is provided as needed.

Additional security levels have been implemented at the Book Center's cash registers to prevent cashiers and supervisors from approving their own refund or buy-back transactions. Someone other than the employee initiating the transaction must now enter an approval code into the register to complete the transaction. All refunds and buy-back transactions require detailed customer information, the signature of the employee cashiering the transaction, and the signature of the employee that verified the transaction.

Buy-back documentation has been reviewed with all management and staff in the Book Center. There is a complete understanding as to why and how that documentation must be maintained. Formalized training is in place as new cashiers are hired and follow-up training is conducted prior to semester sales rushes and the height of the buy-back season.

The Book Center's accounting department conducts daily checks on all of the above procedures and initiates training discussions with employees when they note employee noncompliance with these standards. All employees have been presented with a formal reiteration of the Book Center's cash handling procedures and required transaction documentation. All employees have signed off on the newly updated employee handbook that emphasizes the expected standards and understand the ramifications of performance below those standards.

Internal review indicates improved compliance during Fall, 2002, and the Center believes that the remaining areas of weakness will be corrected by January, 2003.

Book Center Inventory Coding

The Book Center performs a physical inventory count during the fiscal year. Using the results of that interim physical inventory count and related estimated inventory losses, Book Center management estimates the amount of inventory at year end. We noted that, at the time the physical inventory count was performed, the used textbook amount in the Book Center's inventory system was a negative balance of $78,000. Thus, based on the physical count, the used text balance was increased and the new text balance was decreased. We noted the same issue related to inventory coding in our audit of the prior fiscal year. The Center's management believes that this discrepancy arises when new textbooks are erroneously miscoded as used textbooks. Thus, sales of texts marked as used exceed the actual inventory of used books. The effect of the errors does not cause a material misstatement of inventory or revenue; however, the miscoding creates other potential internal control issues. The miscoding could result in decreased sales revenue if new textbooks are sold at used textbook prices.

Recommendation No. 2

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

Center Response

The Center agrees. This recommendation has been implemented as follows.

The Book Center, with the cooperation of its inventory system software provider RATEX, initiated a programming correction to the merchandise receiving module to prevent textbooks from being coded incorrectly by defaulting to "used text" if no entry is made in the "new text" field. At the time of the issuance of this report, the correction appears to have eliminated the vast majority of negative inventory quantities in the text departments. Currently, neither the new text or used text department is showing a negative quantity of inventory. The Book Center is carefully monitoring the coding of all textbooks to assure the allocation of costs and revenue are correctly recorded. Checks and balances are in place in which the receiving department performs the initial quality control function, the accounts payable department monitors invoices as they are posted and management performs random checks on the selling floor. An interim physical inventory count will be conducted during the Fall semester and should help to verify that the processes are working as designed.

Detail of Capital Assets

As part of the implementation of Governmental Accounting Standards Board (GASB) Statement of Accounting Standards No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the Center's management identified the additions to each capital asset category in prior years in order to adjust the Center's beginning net assets for accumulated depreciation. Management was able to identify the total dollar amount of additions each year, but was not able to identify the specific assets associated with all land improvement and building and building improvement additions (approximately $22 million of net capital assets were not specifically identified). That identification will be important in the future when allocating costs to specific assets if the Center disposes of buildings and/or land improvements.

Recommendation No. 3

The Center should identify the specific assets associated with prior year land improvement and building and building improvement additions.

Center Response

The Center agrees. The Center has information from a variety of sources that it believes will form the basis for a reasonable allocation of costs to those individual buildings erected at substantially the same time early in the campus' history. The allocation will be completed by March 31, 2003.

State of Colorado
Auraria Higher Education Center
Disposition of Prior Year Audit Recommendations
Year Ended June 30, 2002

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2001 included five recommendations. The disposition of these recommendations as of September 17, 2002 was as follows:

	Recommendation	Disposition
1	Require all Book Center documentation to be complete and accurate.	Partially implemented – see current year Recommendation 1
2	Review and revise procedures related to Book Center ordering and merchandise returns.	Implemented
3	Review and revise policies and procedures related to Book Center purchases and return of merchandise.	Implemented
4	Monitor inventory coding.	Partially implemented – see current year Recommendation 2
5	Document review of Child Care Center monthly billing rates.	Implemented

Independent Accountants' Report on Financial Statements

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the Auraria Higher Education Center (the Center), a component unit of the State of Colorado, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Auraria Higher Education Center as of June 30, 2002, and its 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.

As discussed in Note 13, in 2002 the Center changed its method of financial statement presentation and disclosure by retroactively restating prior years' financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2002 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 17, 2002

State of Colorado
Auraria Higher Education Center
Management's Discussion and Analysis
Year Ended June 30, 2002

Overview of Financial Highlights

This section of the Auraria Higher Education Center's (the Center) financial statements presents discussion and analysis, prepared by the Center's management, of the Center's financial performance during the fiscal year ended June 30, 2002. The purpose of this section is to provide an objective and easily readable analysis of the Center's financial position based on currently known facts, decisions and opinions. It should be read in conjunction with the basic financial statements and their footnotes.

This is the first year for which financial statements of the Center are being prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement of Accounting Standards No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* These Statements bring about significant changes in the accounting for and presentation of the results of operations. As a result, the Center, as authorized by GASB Statement No. 34, has elected not to present comparative data from the preceding fiscal year.

The changes in accounting principles made in accordance with Statements No. 34 and 35 resulted in a restatement of beginning net assets downward by $83,496,656. Essentially all of this writedown was due to the recognition of accumulated depreciation in prior periods.

Basic Financial Statements

This report contains three basic financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows provide information on the Center as a whole. The statements report on all of the Center activities including services provided to its constituent institutions, parking operations and student fee bond operations.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the Center's net assets and how they have changed. You can think of the Center's net assets – the difference between assets and liabilities – as one way to measure the Center's financial health, or financial position. Over time, increases or decreases in the Center's net assets are one indicator of whether its financial health is improving or deteriorating. Non-financial factors are also important to consider, including student enrollment at the constituent institutions and the condition of campus buildings.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report financial position and financial activity using the accrual basis of accounting. This means that all revenues and expenses are reported in the year in which they are earned or incurred and not when the cash is received or paid.

State of Colorado
Auraria Higher Education Center
Management's Discussion and Analysis (continued)
Year Ended June 30, 2002

The Statement of Net Assets reports assets, liabilities and net assets (the difference between assets and liabilities) as of June 30, 2002.

Condensed Statement of Net Assets (in thousands)
Year Ended June 30, 2002

Current assets	$ 20,972
Capital assets	139,711
Other noncurrent assets	9,520
Total assets	170,203
Current liabilities	5,548
Noncurrent liabilities	57,245
Total liabilities	62,793
Net Assets	
Invested in capital assets, net of related debt	89,305
Restricted – expendable	555
Unrestricted	17,550
Total net assets	$ 107,410

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Year Ended June 30, 2002

Operating Revenues	
Auxiliary enterprises	$ 31,414
Operating transfers from constituent institutions	15,659
Student fees	5,703
Other	202
Total operating revenues	52,978
Operating Expenses	
Auxiliary enterprises	30,218
Operation and maintenance of plant	10,157
Institutional support	3,568
Academic support	553
Student services	445
Depreciation	7,730
Total operating expenses	52,671
Operating Income	307

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Auraria Higher Education Center
Management's Discussion and Analysis (continued)
Year Ended June 30, 2002

Condensed Statement of Revenues, Expenses and Changes in Net Assets (in thousands) (continued)
Year Ended June 30, 2002

Nonoperating Revenues and Expenses	
Investment income	720
Interest on capital asset-related debt	(2,896)
Loss on disposal of capital assets	(156)
Other nonoperating revenues	88
Total nonoperating revenues (expenses)	(2,244)
Capital Appropriations, Gifts and Grants	6,197
Increase in net assets	4,260
Net Assets	
Net assets, beginning of year – as previously reported	186,646
Cumulative effect of change in accounting principle	(83,496)
Net Assets, Beginning of Year – as Restated	103,150
Net Assets, End of Year	$ 107,410

The statement of cash flows reports relevant information about the Center's cash receipts and cash payments during the year. The statement also aids in the assessment of an entities ability to generate future net cash flows, ability to meet obligations as they come due and needs for external financing.

Condensed Statement of Cash Flows (in thousands)
Year Ended June 30, 2002

Cash Provided by (Used in)	
Operating activities	$ 9,326
Noncapital financing activities	88
Capital and related financing activities	(9,580)
Investing activities	(1,811)
Net decrease in cash	(1,977)
Cash and Cash Equivalents, Beginning of Year	22,535
Cash and Cash Equivalents, End of Year	$ 20,558

Center's Revenues and Financial Position

The Center's financial position is stronger than it was a year ago. Implementation of a new, higher student bond fee for a full year, acquisition of a tenant for the Tivoli student union theater space vacated in 1991, and increased Auraria Book Center sales combined to generate a $1.9 million (9%) increase in revenues to the Student Fee Bond fund, and a $2.7 million increase in its net assets. In addition to restoration of some programs, the higher revenue level provides funds for major maintenance to the historic Tivoli student union building as it becomes necessary.

Enrollment at the constituent institutions increased slightly; this contributed to additional parking revenues of 6% and an increase in net assets related to the Parking Facilities Bond Fund of $1.3 million. Although State budget reductions had some impact on the constituent institutions, they were able to increase their allocations to the Center to cover price level increases due to increased enrollment.

Capital Assets

At June 30, 2002 the Center had $139,711,306 invested in capital assets, net of accumulated depreciation of $86,885,285. Depreciation charges were $7,730,021 for the current year.

Capital Assets, Net (in thousands)
June 30, 2002

Land	$	9,620
Land improvements		6,511
Buildings and improvements		119,610
Construction in progress		1,370
Equipment		2,286
Film collection		314
Total	$	139,711

See Note 3 of the financial statements for additional information on capital assets activity during the fiscal year.

Although State funding was cut for several capital construction and controlled maintenance projects, several were completed. These included increasing the capacity of storm sewers, improving fire protection and upgrading classroom facilities with computer and communications capabilities.

The major ongoing capital construction project is the renovation of several parking lots using the proceeds of bonds issued during the 2001 fiscal year. During the 2002 fiscal year, approximately $450,000 in parking improvements were completed, and another $900,000 was added to construction in progress. In total, the project was approximately 65% complete at June 30, 2002 and will be placed into service during Fall 2002.

Bonds and Capital Leases

At June 30, 2002, the Center had $57,861,882 of bond and capital lease debt outstanding. The table below summarizes this debt by type.

Bond and Capital Lease Debt (in thousands)
June 30, 2002

Auxiliary enterprise revenue bonds	$	38,915
Capital lease obligations		18,947
Total	$	57,862

On November 1, 2001, the Center exercised its call option and retired $3,095,000 of outstanding Student Fee Refunding Revenue Bonds, Series 1991A.

Economic Outlook

The Center is fiscally healthy despite declines in State revenues and funding for higher education. These declines are expected to continue through the 2003 fiscal year, and State agencies, including institutions of higher education, are being required to reduce spending. The Center's constituent institutions can be expected to respond by reducing their allocations to the Center. However, the impact of appropriation reductions to the constituent institutions is mitigated because enrollment, and thus tuition revenue, tends to move counter to the economic cycle. In addition, the auxiliary enterprises that make up approximately two thirds of the Center's operations derive their revenues from student fees and from sales to students and others. Therefore, the Center believes that in the near term its operating revenues and expenditures should not change significantly from those of the year ended June 30, 2002.

The State is not funding construction projects in state higher education institutions during the 2003 fiscal year. This will not hurt the Center in the short run, but it will impact facilities if the situation continues for 3-5 years. Since most of the Center's facilities were built at approximately the same time (25 years ago), the restoration of controlled maintenance funding will be important as the condition of those facilities begins to decline. Facilities of the Center's auxiliary enterprises are funded by fees and sales. These revenue streams are and should continue to be sufficient to maintain adequate levels of maintenance for the Tivoli student union, the recreation center, the child care center and all parking facilities.

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Auraria Higher Education Center
Statement of Net Assets
June 30, 2002

Assets

Current Assets	
Cash and cash equivalents	$ 14,712,708
Short-term investments	3,024,078
Accounts receivable, net of allowance of $575,246	1,831,450
Inventories	1,245,768
Prepaid expenses	95,007
Deferred debt issue costs	63,391
Total current assets	20,972,402
Noncurrent Assets	
Restricted cash and cash equivalents	5,845,229
Restricted investments	2,163,414
Other long-term investments	623,014
Capital assets, net	139,711,306
Deferred bond issue costs	888,095
Total noncurrent assets	149,231,058
Total assets	$ 170,203,460

Liabilities

Current Liabilities	
Accounts payable and accrued liabilities	$ 3,096,897
Accrued compensated absences	97,039
Deferred revenue	523,019
Long-term debt – current portion	1,813,916
Other current liabilities	16,868
Total current liabilities	5,547,739
Noncurrent Liabilities	
Accrued compensated absences	1,195,608
Long-term debt	56,047,966
Other noncurrent liabilities	2,148
Total noncurrent liabilities	57,245,722
Total liabilities	62,793,461
Net Assets	
Invested in capital assets, net of related debt	89,304,960
Restricted – expendable	555,255
Unrestricted	17,549,784
Total net assets	$ 107,409,999

State of Colorado
Auraria Higher Education Center
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2002

Operating Revenues	
Auxiliary enterprises (including $6,853,281 pledged for bonds)	$ 31,413,735
Operating transfers from constituent institutions	15,659,521
Student fees	5,702,997
Gifts and grants	177,122
Other operating revenues	25,216
Total operating revenues	52,978,591
Operating Expenses	
Auxiliary enterprises	30,217,859
Operation and maintenance of plant	10,157,391
Institutional support	3,567,928
Academic support	552,597
Student services	445,477
Depreciation	7,730,021
Total operating expenses	52,671,273
Operating Income	307,318
Nonoperating Revenues (Expenses)	
Loss on disposal of capital assets	(156,287)
Investment income (net of investment expenses of $17,825)	720,110
Interest on capital asset-related debt	(2,895,626)
Other nonoperating revenues	87,486
Net nonoperating revenues (expenses)	(2,244,317)
Income Before Other Revenues, Expenses, Gains or Losses	(1,936,999)
State Capital Appropriations	5,472,081
Capital Grants and Gifts	725,362
Increase in Net Assets	4,260,444
Net Assets, Beginning of Year – as Previously Reported	186,646,211
Cumulative effect of change in accounting principle	(83,496,656)
Net Assets, Beginning of Year – as Restated	103,149,555
Net Assets, End of Year	$ 107,409,999

State of Colorado
Auraria Higher Education Center
Statement of Cash Flows
Year Ended June 30, 2002

Operating Activities	
Student fees	$ 5,793,548
Transfers from constituent institutions	15,676,852
Gifts and grants	177,122
Payments to suppliers	(23,731,673)
Payments to employees	(19,865,060)
Sales of services	14,743,873
Sales of products	16,503,543
Other receipts	27,951
Net cash provided by operating activities	9,326,156
Noncapital Financing Activities	
Other receipts	87,486
Net cash provided by noncapital financing activities	87,486
Capital and Related Financing Activities	
Capital grants and gifts received	665,482
Purchases of capital assets	(2,116,462)
Principal paid on capital debt and leases	(4,871,557)
Interest paid on capital debt and leases	(3,257,027)
Net cash used in capital and related financing activities	(9,579,564)
Investing Activities	
Proceeds from sales and maturities of investments	3,576,439
Purchases of investments	(6,426,426)
Investment income	1,039,370
Net cash used in investing activities	(1,810,617)
Decrease in Cash and Cash Equivalents	(1,976,539)
Cash and Cash Equivalents, Beginning of Year	22,534,476
Cash and Cash Equivalents, End of Year	$ 20,557,937

State of Colorado
Auraria Higher Education Center
Statement of Cash Flows (continued)
Year Ended June 30, 2002

Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents	$	14,712,708
Restricted cash and cash equivalents – noncurrent		5,845,229
Total cash and cash equivalents	$	20,557,937
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$	307,318
Depreciation		7,730,021
Bad debt expense		166,221
Changes in operating assets and liabilities		
Receivables		95,197
Inventories		65,405
Prepaid expenses		1,009
Accounts payable and accrued liabilities		686,921
Deferred revenue		151,086
Accrued compensated absences		112,071
Other liabilities		10,907
Net Cash Provided by Operating Activities	$	9,326,156
Supplemental Cash Flow Information		
Increase in accounts payable for capital asset purchases	$	197,068
On-behalf payments by the State for capital assets and related expenses	$	5,472,081

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Basis of Accounting and Presentation

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

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

Use of Estimates

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

Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2002, cash equivalents consisted primarily of money market funds, certificates of deposit and repurchase agreements.

Investments and Investment Income

Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit and repurchase agreements are carried at cost.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

At June 30, 2002, accounts receivable consists of:

At Central collections	$ 532,233
Book Center credit memos	510,977
Constituent institutions	442,484
Auxiliary exterprises	479,095
Interest	163,825
Auraria Foundation	68,898
Other	209,184
	$ 2,406,696

Accounts receivable is recorded net of the following related allowances for doubtful accounts at June 30, 2002:

Prior year parking fines	$ 396,683
Book Center bad checks	76,834
Child Care Center and other auxiliaries	53,094
Book Center credit memos	27,887
Tivoli building accounts	20,748
	$ 575,246

Deferred Debt Issue Costs

Debt issue costs incurred on the revenue bond issues and capital leases have been deferred and are being amortized over the life of the bonds using the straight-line method.

Inventories

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

Capital Assets

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

Land improvements	5 – 20 years
Buildings and improvements	27.5 – 40 years
Equipment	3 – 10 years
Film collections	23.5 years

The Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was:

Total interest expense incurred on borrowings for project	$	476,615
Interest income from investment of proceeds of borrowings for project		(375,246)
Net interest cost capitalized	$	101,369
Interest capitalized	$	476,615
Interest charged to expense		2,895,626
Total interest incurred	$	3,372,241

Compensated Absences

Center employees may accrue annual and sick leave based on length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested at June 30, 2002 is $1,292,647. Expenditures for the year ended June 30, 2002 include $112,071 representing the increase in the estimated compensated absence liability.

Deferred Revenue

Deferred revenue represents unearned fees and advance payments for which the Center has not earned the revenue. Deferred revenues include $80,392 of Regional Transportation District (RTD) bus pass fees; $320,957 of student fees for the Summer 2002 semester; $49,450 of advance rent payments for space in the Tivoli student union and $72,220 of advance payments for minor remodeling work for the constituent institutions.

Classification of Revenues

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

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

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

Functional Allocation of Expenses

The costs of supporting the various services and other activities of the Center have been summarized on a functional basis in the statement of revenues, expenses and changes in net assets. Costs for each category are directly tracked by cost center in the Center's accounting system.

Income Taxes

As a state institution of higher education, the income of the Center is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income.

Note 2: Deposits, Investments and Investment Return

Deposits

At June 30, 2002, the carrying value of the Center's deposits was $16,270,241. It consists of $4,317,343 on deposit with the State Treasurer, $11,906,531 in bank deposits and $46,367 of cash on hand. The Center's bank balance at June 30, 2002 was $11,797,795. The bank balance classified by custodial credit risk category includes $100,000 covered by federal depository insurance and $11,697,795 covered by collateral held by the pledging institutions' trust departments in the name of the public deposit pool as required by the Public Deposit Protection Act.

Investments

The Center has authority to invest in equity or nonequity investments as authorized by the Director of Administrative and Business Services. The Center's investments are categorized to give an indication of the level of custodial credit risk assumed by the Center. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by dealer bank's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer bank's trust department in other than the Center's name, by the broker/dealer, by the dealer bank or by another bank that is a subsidiary of the same holding company as the dealer bank.

Investments at June 30, 2002 total $10,098,202 and consist of $4,287,686 in a repurchase agreement, $3,024,078 held by the State Treasury, $2,084,428 in U.S. Treasury obligations and $702,000 in U.S. Agency securities. All investments are Category 2 investments and are carried at fair value.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statement of net assets at June 30, 2002 as follows:

Carrying value	
Deposits	$ 16,270,241
Investments	10,098,202
	$ 26,368,443
Included in the following statement of net assets captions	
Cash and cash equivalents	$ 14,712,708
Short-term investments	3,024,078
Restricted cash and cash equivalents – noncurrent	5,845,229
Restricted investments – noncurrent	2,163,414
Long-term investments	623,014
	$ 26,368,443

Investment Income

Investment income for the year ended June 30, 2002 consists of:

Interest and dividend income	$ 1,025,197
Net increase in fair value of investments	70,159
	1,095,356
Income capitalized	(375,246)
	$ 720,110

Note 3: Capital Assets

Capital assets activity for the year ended June 30, 2002 was as follows:

	Beginning Balance	Cumulative Effect of Change in Accounting Principle *(Note 13)*	Additions	Disposals	Transfers	Ending Balance
Land	$ 9,562,312	$ —	$ —	$ —	$ 58,125	$ 9,620,437
Land improvements	18,372,170	(3,914,288)	—	(964,744)	2,377,105	15,870,243
Buildings and improvements	184,361,558	60,873	324,584	—	9,553,671	194,300,686
Equipment	4,492,226	—	496,839	(120,880)	—	4,868,185
Film collection	566,989	—	—	—	—	566,989
Construction in progress	6,925,613	—	6,433,339	—	(11,988,901)	1,370,051
	224,280,868	(3,853,415)	7,254,762	(1,085,624)	0	226,596,591
Less accumulated depreciation						
Land improvements	$ —	$ 9,610,196	$ 572,678	$ (824,072)	$ —	$ 9,358,802
Buildings and improvements	—	67,989,924	6,700,632	—	—	74,690,556
Equipment	—	2,255,273	432,584	(105,265)	—	2,582,592
Film collection	—	229,208	24,127	—	—	253,335
	0	80,084,601	7,730,021	(929,337)	0	86,885,285
Net capital assets	$ 224,280,868	$(83,938,016)	$ (475,259)	$ (156,287)	$ 0	$ 139,711,306

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Note 4: Long-Term Liabilities

The following is a summary of long-term obligation transactions for the Center for the year ended June 30, 2002:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable					
Series 1991A	$ 3,062,921	$ 32,079	$ (3,095,000)	$ —	$ 0
Series 1993	16,895,000	—	(1,060,000)	15,835,000	1,100,810
Series 1996	16,472,670	14,928	(330,000)	16,157,598	320,070
Series 2000	6,918,010	4,190	—	6,922,200	0
Total revenue bonds payable	43,348,601	51,197	(4,485,000)	38,914,798	1,420,880
Capital lease obligations	19,323,395	10,246	(386,557)	18,947,084	393,036
Total bonds and capital leases	62,671,996	61,443	(4,871,557)	57,861,882	1,813,916
Other noncurrent liabilities					
Accrued compensated absences	1,180,576	112,071	—	1,292,647	97,039
Other long-term liabilities	—	2,148	—	2,148	0
Total other noncurrent liabilities	1,180,576	114,219	0	1,294,795	97,039
Total noncurrent liabilities	$ 63,852,572	$ 175,662	$ (4,871,557)	$ 59,156,677	$ 1,910,955

Revenue Bonds Payable

The Center had the following bonds outstanding at June 30, 2002:

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

On November 1, 2001, the Center called for redemption its outstanding Student Fee Revenue Refunding Bonds, Series 1991A. The outstanding balance of the bonds on that date was $3,095,000.

Series 1993 Bonds

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

The Series 1993 Bonds are due in semiannual installments with annual principal payments ranging from $1,105,000 to $3,660,000 and interest ranging from 4.80 percent to 5.30 percent. The final installment is due April 1, 2012. The Series 1993 Bonds are collateralized by revenues from parking facilities.

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

Series 1996 Bonds

On February 15, 1996, the Center issued $18,030,000 in Series 1996 Bonds for the purpose of refunding $10,480,000 of Student Fee Revenue Bonds, Series 1991B (Series 1991B Bonds), $1,850,000 of Student Fee Revenue Bonds, Series 1992 (Series 1992 Bonds) and $3,975,000 of Student Fee Revenue Bonds, Series 1989 (Series 1989 Bonds). The Center refunded and defeased in substance these bonds by placing the proceeds of the Series 1996 bonds in an irrevocable trust to provide for all future debt service payments on the Series 1991B, Series 1992 and Series 1989 Bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Center's financial statements. On May 1, 2000, the outstanding Series 1989 Bonds were called. At June 30, 2002, the following amounts of bonds outstanding are considered defeased:

Series 1991B Bonds	$ 8,545,000
Series 1992 Bonds	1,340,000
	$ 9,885,000

The Series 1996 Bonds are payable in semiannual installments with annual principal payments ranging from $335,000 to $1,560,000 and interest ranging from 4.50 percent to 5.30 percent. The final installment is due May 1, 2021. Bonds maturing on or after May 1, 2007 can be called for redemption at the option of the Center's Board of Directors, in whole at any time or in part on any interest payment date on or after May 1, 2006. A premium of one percent of principal will be paid on redemption's from May 1, 2006 through April 30, 2007. The bonds are redeemable at par thereafter. The Series 1996 Bonds are collateralized by revenues from student fees assessed for student facilities and from an agreement with the Department of Housing and Urban Development. The Bond Resolution requires that the collateral exceed 1.25 of the combined maximum annual debt service on the outstanding bonds during the fiscal year.

Series 2000 Bonds

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

Debt issue costs at June 30, 2002 are $241,276 for the Series 1993 Bonds, $227,294 for the Series 1996 Bonds and $189,142 for the Series 2000 Bonds. Total amortization for the year ended June 30, 2002, was $102,312.

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

	Total to be Paid	Principal	Interest
2003	$ 3,488,025	$ 1,440,000	$ 2,048,025
2004	3,499,911	1,520,000	1,979,911
2005	3,491,511	1,585,000	1,906,511
2006	3,493,385	1,665,000	1,828,385
2007	3,495,278	1,750,000	1,745,278
2008 – 2012	20,067,403	12,805,000	7,262,403
2013 – 2017	11,647,937	7,470,000	4,177,937
2018 – 2022	10,033,788	8,045,000	1,988,788
2023 – 2027	3,495,861	3,015,000	480,861
	62,713,099	39,295,000	23,418,099
Less unamortized discount	380,202	380,202	—
	$ 62,332,897	$ 38,914,798	$ 23,418,099

Capital Lease Obligations

The Center is obligated under leases accounted for as capital leases. Assets under capital leases are included in the statement of net assets at June 30, 2002 as follows:

	Cost	Accumulated Depreciation	Carrying Value
Buildings and improvements			
Energy improvements	$ 1,648,896	$ 269,819	$ 1,379,077
Administrative facility	15,660,416	1,423,674	14,236,742
Total buildings and improvements	17,309,312	1,693,493	15,615,819
Equipment	1,653,042	468,936	1,184,106
	$ 18,962,354	$ 2,162,429	$ 16,799,925

Energy Certificates

On October 15, 1996, the Center entered into an agreement with the Auraria Foundation to finance certain energy saving modifications to heating, ventilation and air conditioning and lighting equipment in Campus buildings. The Foundation acted as an intermediary in the issuance of Certificates of Participation (Energy Certificates) in the amount of $2,130,000 to fund the improvements. Under the terms of the Energy Certificates, the Center is directly liable for the repayment of the debt and has title to the equipment and improvements. Interest rates on the Energy Certificates range from 4.85 percent to 5.20 percent.

At June 30, 2002, the Certificates are shown net of a discount of $3,816 at June 30, 2002 and have related issue costs of $40,759.

Administrative Facility Certificates

On May 1, 1998, the Center entered into an agreement with the Auraria Foundation to finance the acquisition, construction and equipping of an Administrative Office Facility. The Foundation acted as an intermediary in the issuance of Certificates of Participation (Administrative Facility Certificates) in the amount of $16,905,000 to fund the project. The Administrative Facility Certificates and the interest thereon are payable solely from annually appropriated base rentals to be paid by the Center. Upon full payment of the base rentals or the purchase option price, the Foundation will transfer and convey the office facility to the Center. Interest rates on the Administrative Facility Certificates range from 4.50 percent to 5.125 percent.

Approximately 75 percent of the Administrative Office Facility is occupied by the Center's three constituent institutions. It is anticipated that the institutions will share in the costs of debt service and operations of the facility through their annual allocation of State appropriated funds to the Center. It is anticipated that this funding will aggregate to $1,392,000 in fiscal year 2002 with increases of approximately 2.8 percent annually through fiscal year 2028.

At June 30, 2002, the Administrative Facility Certificates are shown net of a discount of $459,896 and have related issue costs of $253,015.

Equipment Leases

The Center has also entered into lease-purchase contracts for telephone and printing equipment. Interest rates on these leases are 9.13 percent and 10.09 percent, respectively.

The following is a schedule by year of future minimum lease payments under all capital leases:

	Total to be Paid	Principal	Interest
2003	$ 1,430,879	$ 408,669	$ 1,022,210
2004	1,622,175	630,812	991,363
2005	1,783,131	833,236	949,895
2006	1,790,380	888,193	902,187
2007	1,963,934	1,120,417	843,517
2008 – 2012	6,115,831	2,385,000	3,730,831
2013 – 2017	6,117,906	3,050,000	3,067,906
2018 – 2022	6,109,006	3,905,000	2,204,006
2023 – 2027	6,109,956	5,015,000	1,094,956
2028 – 2032	1,224,706	1,165,000	59,706
	34,267,904	19,401,327	14,866,577
Less unamortized discount	454,243	454,243	—
	$ 33,813,661	$ 18,947,084	$ 14,866,577

Note 5: Reserve Requirements

Reserve balances and requirements for outstanding bond issues at June 30, 2002 are as follows:

	Reserve Balance	Reserve Required
Parking Facilities System Refunding Revenue Bonds, Series 1993 and Parking Facilities System Revenue Bonds, Series 2000:		
Debt Service Reserve	$ 2,787,190	$ 2,300,905
Arbitrage Rebate Reserve	$ 2,148	$ —
Renewals and Replacements Reserve	$ 568,073	$ 489,016
Student Fee Revenue Refunding Bonds, Series 1996:		
Renewals and Replacements Reserve	$ 300,000	$ 300,000

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

Note 6: Revenue Bond Fund Information

The following financial information represents identifiable activities for which one or more revenue bonds is outstanding. The accounts related to the Series 1993 and 2000 Parking Facilities Revenue Bonds meet the definition of a segment in GASB Statement No. 34, as amended, and are included below. The bond covenants of the Series 1996 Student Fee Revenue Bonds require reporting of the revenues and expenses of bond-related activities. Although this requirement does not qualify the Series 1996 Bonds as a segment, the Center is voluntarily disclosing all the data that it would be required to report if the bonds met the definition of a segment. See Note 4 for a description of the revenue bonds outstanding.

	Series 1996 Student Fee Revenue Bonds	Series 1993 and 2000 Parking Facilities Revenue Bonds
Condensed Statement of Net Assets		
Assets		
Current assets	$ 8,406,523	$ 9,167,377
Other assets	514,838	8,344,723
Capital assets	16,248,856	18,282,209
Total assets	25,170,217	35,794,309
Liabilities		
Current liabilities	2,040,385	2,030,849
Non-current liabilities	16,092,384	21,717,858
Total liabilities	18,132,769	23,748,707
Net assets		
Invested in capital assets, net of related debt	382,936	2,465,897
Restricted – expendable	—	383,255
Unrestricted	6,654,512	9,196,450
Total net assets	$ 7,037,448	$ 12,045,602

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	Series 1996 Student Fee Revenue Bonds	Series 1993 and 2000 Parking Facilities Revenue Bonds
Condensed Statement of Revenues, Expenses and Changes in Net Assets		
Operating revenues	$ 25,189,115	$ 6,853,281
Operating expenses	(20,659,072)	(4,338,860)
Depreciation	(1,111,286)	(781,898)
Operating income	3,418,757	1,732,523
Non-Operating Revenues (Expenses)		
Capital grants	168,440	—
Investment income	123,064	577,812
Loss on disposal of assets	(8,494)	(140,672)
Interest expenses on capital debt	(1,063,118)	(881,679)
Transfers	43,244	—
Total other revenues	(736,864)	(444,539)
Increase in net assets	2,681,893	1,287,984
Net Assets, Beginning of Year – as Previously Reported	15,797,264	22,244,889
Cumulative effect of change in accounting principle	(11,441,709)	(11,487,271)
Net Assets, Beginning of Year – as Restated	4,355,555	10,757,618
Net Assets, End of Year	$ 7,037,448	$ 12,045,602
Condensed Statement of Cash Flows		
Net cash flows provided by operating activities	$ 4,893,194	$ 2,287,133
Net cash flows provided by noncapital financing activities	—	—
Net cash flows used in capital and related financing activities	(4,416,218)	(2,769,797)
Net cash flows provided by (used in) investing activities	314,174	(2,520,390)
Net increase (decrease) in cash	791,150	(3,003,054)
Cash and Cash Equivalents, Beginning of Year	5,708,383	13,830,451
Cash and Cash Equivalents, End of Year	$ 6,499,533	$ 10,827,397

Note 7: State Appropriations and Allocations from Other State Agencies

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

For the year ended June 30, 2002, appropriated expenditures were within the authorized spending authority. The Center had a total current funds appropriation of $16,185,025. Expenditures that, for the purposes of State spending authority, are defined as expenditures and transfers for the retirement of long-term debt and the purchase of capital assets exclusive of changes in the compensated absence liability plus any increase or minus any decrease in fund balance, were $16,125,382.

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

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

Note 8: The Auraria Foundation

The Auraria Foundation (the Foundation) is an independent, non-profit corporation organized and incorporated in 1983 for the purpose of receiving gifts, legacies and grants of money and property and administering those exclusively for educational purposes entirely benefiting the Center and its constituent institutions. The Chairman of the Board of Directors of the Center and the Center's Executive Vice President of Administration serve on the Foundation's ten-person Board of Directors. The Foundation has a contract with the Center under which the Center provides staff for the management of the Foundation and use of a computerized scheduling system. Under that agreement, the Foundation paid the Center $152,386 during the year ended June 30, 2002. The Center also received capital gifts totaling $459,880 from the Foundation during the year. The Center made payments of $53,000 to the Foundation during the year for rent of meeting space and fees related to the financing of the administrative office facility.

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

Summary audited financial data for the Foundation as of June 30, 2002 is as follows:

Cash, investments, receivables and other assets	$ 13,889,369
Investment in direct financing leases	23,896,870
Property and equipment, net	7,068,394
Total assets	$ 44,854,633
Accrued liabilities, deferred income and other liabilities	$ 3,964,671
Bonds payable	39,068,407
Net assets	1,821,555
Total liabilities and net assets	$ 44,854,633
Change in net assets	$ (480,726)

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

Note 9: Pension Plan

Plan Description

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

Plan members vest after 5 years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one twelfth of the average of the highest salaries on which contributions were paid, associated with 3 periods of 12 consecutive months of service credit.

Disabled members that have 5 or more years of service credit, 6 months of which has been earned since the most recent period of membership, may receive retirement benefits if they are determined to be permanently disabled. If a member dies before retirement, his spouse or eligible children under the age of 18 (23 if a full time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy

Most employees contribute 8.0 percent of their gross covered wages to an individual account in the plan. During fiscal year 2002, the state contributed 9.9 percent of the employee's gross covered wages. Before January 1, 2002, 1.42 percent was allocated to the Health Care Trust Fund, and after January 1, 2002, 1.64 percent was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (see Note 10 below.) The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The Center's contributions to the three programs described above for the fiscal years ending June 30, 2002, 2001 and 2000 were $1,351,344, $1,297,832 and $1,427,817, respectively. These contributions met the contribution requirement for each year.

Note 10: Voluntary Tax-Deferred Retirement Plans

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2002 and 2001, 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 403(b) plan. Members who contribute to any of these plans also receive the state match.

Note 11: Postretirement Health Care and Life Insurance Benefits

Health Care Program

PERACare (formerly known 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 Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal year 2002, the premium subsidy was $115.00 for those with 20 years of service credit ($230.00 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 9.

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 34,325 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 known 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 12: Risk Management

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

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

Note 13: Change in Accounting Principle

In 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The changes in financial statement presentation provide a comprehensive look at the total governmental entity, require recording of depreciation on capital assets and include a narrative management's discussion and analysis (MD&A) of the government's financial activities. Prior to the adoption of GASB Nos. 34 and 35, the Center did not maintain a complete set of detailed historical cost records on its capital assets nor did it record depreciation on its capital assets. To comply with the requirements of these statements, the Center has prepared detail cost records on all of its capital assets and the related accumulated depreciation on those capital assets as of July 1, 2001.

The cumulative effect of adoption at July 1, 2001, is as follows:

Adjustment to reduce capital asset carrying amounts to agree to detailed cost records	$ (3,853,414)
Adjustment to record accumulated deprecation on capital assets	(80,084,601)
Adjustment to deferred revenue for summer tuition	441,359
Decrease to net assets at July 1, 2001	$ (83,496,656)

In addition to the changes described above, there was a significant change in the overall form and content of the Center's financial statements.

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2002 and have issued our report thereon dated September 17, 2002, which contained an explanatory paragraph regarding a change in accounting principle. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Auditors' Findings and Recommendations as Recommendation Nos. 1, 2 and 3.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

September 17, 2002

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2002, we wish to communicate the following to you.

Auditor's Responsibility under Generally Accepted Auditing Standards

An audit performed in accordance with generally accepted auditing standards (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.

Significant Accounting Policies

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

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgements. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

Allowance for doubtful accounts
Fair value of investments
Inventories
Useful lives of capital assets
Deferred revenue
Compensated absence liability

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

State of Colorado Auraria Higher Education Center
Members of the Legislative Audit Committee

Areas in which adjustments were proposed, including those in which management recorded, are:

- Inventory
- Capital assets
- Accumulated depreciation
- Accounts payable
- Deferred revenue
- Net assets
- Operating revenues and expenses

Attached is a summary of uncorrected misstatements we aggregated 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 as a whole.

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

September 17, 2002

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