AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audits

June 30, 2006 and 2005

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Members of the Legislative Audit Committee:

We have completed the financial statement audit of Auraria Higher Education Center as of and for the year ended June 30, 2006. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.

We were engaged to conduct our audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all state agencies. The reports that we have issued as a result of this engagement are set forth in the table of contents, which follows.

October 12, 2006

AURARIA HIGHER EDUCATION CENTER
FINANCIAL AND COMPLIANCE AUDITS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
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AURARIA HIGHER EDUCATION CENTER
AUDIT REPORT SUMMARY
YEAR ENDED JUNE 30, 2006

Authority, Purpose and Scope

The Office of the State Auditor, State of Colorado engaged Kundinger, Corder & Engle, P.C. to conduct certain financial and compliance audits of Auraria Higher Education Center (the Center) for the years ended June 30, 2006 and 2005. The audits were performed 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 May through October, 2006.

The purpose and scope of our audits were to:

- Express an opinion on the financial statements of the Center for the years ended June 30, 2006 and 2005. This included a review of internal control as required by U.S. generally accepted auditing standards 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 Center's compliance and internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards.*
- Evaluate the Center's progress in implementing prior audit findings and recommendations.
- Evaluate compliance with restrictive covenants of the Center's revenue bond funds.

Audit Opinions and Report

We expressed an unqualified opinion on the Center's financial statements for the years ended June 30, 2006 and 2005.

We issued a report on the Center's compliance and internal control over financial reporting based on an audit of the 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 noted certain areas where the Center could improve its internal control. These are described in the Findings and Recommendations section of this report.

We also issued certain required communications related to the conduct of an audit including our responsibility under generally accepted auditing standards, significant accounting policies, audit adjustments, and accounting estimates. No delays or disagreements with management are reported. We proposed and recorded one audit adjustment resulting in a decrease in net assets of $333,107. There were no unrecorded audit differences.

Summary of Key Findings and Recommendations

- In anticipation of the conversion to Banner and due to the significant time and resources committed to the implementation, improvements to the Center's current financial accounting system (FRS) have not been a priority of the Center's finance department. The Center should implement procedures to improve the current accounting system including re-designing the chart of accounts and preparing system generated reports for financial statement preparation and departmental review. Upon conversion, the Center should consider the use of subsidiary ledgers for tracking fixed assets and other functions currently tracked outside the accounting system.

- The Center has been using unrestricted parking reserves to bridge the gap between appropriated funding and general operating expenses of the Campus. Unrestricted parking reserves have decreased from $9,034,695 at June 30, 2003 to $888,522 at June 30, 2006. The Center should investigate alternative methods of funding general operating expenses, and rebuild unrestricted parking reserves to fund future parking lot repair and maintenance costs and various parking lot projects.

- The Center allocates a portion of general operating expenses (overhead) to the auxiliary enterprises. In 2006 and 2005, overhead costs charged to the auxiliaries were $3,287,000 each year. This is budgeted to increase to $3,581,951 in 2007. Currently, the allocation is based on an arbitrary method designed to balance general operating expenses with appropriated revenue. Generally Accepted Accounting Principles require that expenses be allocated on a systematic and rational method. The Center should perform a detailed analysis of overhead costs to determine the allocation to auxiliary enterprises, and develop an internal cost model that accurately reflects the auxiliaries share of general operating expenses. The Center should re-evaluate the amount of general funds requested during the budget process on the basis of the results of this analysis.

- The Center upgraded the level of skills in the accounting department by hiring a Chief Financial Officer (CFO) and Controller, both of whom are Certified Public Accountants. Significant improvements have been made in the areas of financial reporting to the Board of Directors, timeliness of preparing the financial statements and exhibits required by the State Controller's Office and the auditors, and the accuracy of the Center's financial information. However, the Center continues to make a significant number of correcting journal entries, indicating ongoing problems with daily accounting transactions by the accounting staff. As a result, the Controller and CFO are required to be involved in the daily accounting activities at a detailed level in order for staff to carry out their daily responsibilities. The Center should continue to evaluate and address the current level of skills in the accounting department and make the necessary changes to ensure that the accounting department is operating efficiently and effectively on a day-to-day basis.

A summary of the recommendations is included in the Recommendation Locator on page 4 of this report. A detailed description of the findings and recommendations begin on page 7 of this report. The Center has agreed to implement these recommendations.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2005 included three recommendations concerning matters related to the Center's internal control. Two of the recommendations were fully implemented during fiscal year 2006 and one was partially implemented. See Disposition of Prior Audit Findings on page 12.

AURARIA HIGHER EDUCATION CENTER
RECOMMENDATION LOCATOR
YEAR ENDED JUNE 30, 2006

Record No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	8	The Center should implement procedures to improve the current accounting system even though a conversion is likely. The Center should re-design the chart of accounts and report functions to facilitate the preparation of accessible, understandable reports that can be generated directly by the system. Upon conversion, the Center should investigate the use of subsidiary ledgers for tracking fixed assets and other functions currently tracked outside the accounting system. These procedures will improve the Center's accountability in the short term and contribute to a smooth conversion to a new accounting system in the future.	Agree. With the implementation date for Banner delayed from July 1, 2006 until July 1, 2007 we have redirected attention back to FRS. In late August, we hired a part-time accountant whose primary responsibility is to improve our current use of FRS by identifying and correcting feeds from FRS and COFRS at a detailed level versus at the summary level. We are also in the process of designing reports in FRS that will meet our needs versus the tedious spreadsheet method that we are currently using. Chart of account maintenance has also been assigned to higher level management to ensure consistency and cohesiveness.	April 1, 2007
2	9	The Center should investigate alternative methods of funding general operating expenses and rebuild unrestricted parking reserves in order to fund future parking lot repair and maintenance, and parking lot projects.	Agree. The 2007 budget was adopted with this issue in consideration. The parking reserve transfer to the general fund is being reduced by $1,000,000 in 2007 to help rebuild the parking reserves. Also, the parking reserves will not be available for non-parking projects during 2007 and 2008 as we strive to increase the reserves in order to meet future parking projects and maintenance needs. Discussions at various levels are taking place as to alternative funding solutions for the general fund.	July 1, 2006

Record No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
3	10	The Center should perform a detailed analysis of overhead costs to determine the allocation to each auxiliary enterprise, and develop an internal cost model that accurately reflects the auxiliaries' share of the general operating expenses. The Center should re-evaluate the amount of general funds requested during the budget process on the basis of the results of this analysis.	Agree. Auxiliary overhead costs are currently budgeted at a level to help offset the general fund budget shortage. This "chargeback" amount is then distributed among the auxiliaries based on revenue versus actual costs. The campus is currently in the middle of a master plan study that will include developing a general fund costing model. We are in the process of gathering information on actual square foot usage in addition to maintenance costs and operational costs per building. Using this data, a methodology will be developed to better identify costs by departments, programs and auxiliaries. This will enable a budget to be developed that identifies actual auxiliary expenses versus general fund contributions. The segment financial statement presentation has been moving in this direction by breaking out the auxiliary reserve transfers to the general fund as non operating expenses.	March 1, 2007
4	11	The Center should continue to evaluate and address the current level of skills in the accounting department and make the necessary changes to ensure that the accounting department is operating efficiently and effectively on a day-to-day basis.	We are in the process of restructuring the accounting department to ensure accountability at a lower level. The Controller position, currently at .60FTE, will be supplemented with a Director of Accounting position also at .60FTE. Under the current structure the majority of the accounting staff report directly or indirectly to the accounting supervisor. The restructure will increase the number of staff reporting directly to the Controller and the Director of Accounting. This enables management to increase expectations, accountability and ownership at every level. Performance plans and job duties are also being revised to assist in the evaluation and identification of skill set weaknesses, which will enable management to find methods to train and strengthen those areas.	February 1, 2007

DESCRIPTION OF AURARIA HIGHER EDUCATION CENTER
FOR THE YEAR ENDED JUNE 30, 2006

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 Auraria Early Learning 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 non-voting 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.

AURARIA HIGHER EDUCATION CENTER
AUDITOR'S FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2006

In planning and performing our audit of the financial statements of Auraria Higher Education Center for the year ended June 30, 2006 (on which we have issued our report dated October 12, 2006), we developed the following recommendations concerning certain matters related to the Center's internal control. Our recommendations are summarized below.

Accounting System

The Center has been involved in the Banner Implementation Project (the implementation of a new financial accounting system) in conjunction with the Community College System since January, 2005. The original implementation date was July 1, 2005. The date was extended to July 1, 2006, but was extended again to July 1, 2007. In anticipation of the conversion to Banner and due to the significant time and resources committed to implementation, improvements to the current financial accounting system (FRS) have not been a priority of the Center's finance department. Problems with the current financial system include:

1. The Center uses spreadsheets to prepare the annual financial statements, quarterly financial statements, and monthly departmental reports rather than using system-generated reports. The use of spreadsheets increases the possibility for errors and financial statement fraud. For example, we noted inconsistencies from year to year in the accounts used for the elimination of inter-company transactions. Standardized reports would ensure consistency from year to year. In addition, manually prepared financial statements can be easily manipulated to present a more favorable financial position.

2. The current chart of accounts on FRS lacks an organized approach to account coding, contributing to the use of spreadsheets to prepare financial information. The current chart requires manual manipulation to accumulate the information in a meaningful manner. This is currently done by preparing spreadsheets and sorting the trial balance into the appropriate categories for reporting. This process increases the risk of errors and irregularities.

3. Many of the reports created by the accounting system do not have account descriptions, making review of general ledger reports by accounting personnel and department managers inefficient and ineffective. In addition, some of the account descriptions do not accurately reflect the activity recorded in the accounts, further complicating the ability to review the detailed reports. Regular review of account detail is necessary in order for operational managers to verify the activity recorded and make operational decisions in order to achieve budgetary and financial goals.

4. Some of the daily accounting processes performed by Center personnel require double recording of the activity because it is tracked in software that does not interface with FRS. For example, the Center tracks all fixed asset activity in Peachtree and manually enters the activity in FRS by journal entry. During 2006, the Center tracked approximately $25,000,000 in construction in progress through Peachtree and the use of spreadsheets, including approximately $6,000,000 in current year expenditures. Using a subsidiary ledger that does not interface with the general ledger increases the risk of financial statement misstatement.

Accounting System, Continued

5. The Center lacks procedures to ensure that the financial information transferred from FRS to COFRS (the State financial reporting system) is correct at a detailed level. Reconciliations between FRS and COFRS are performed at a summary level on a regular basis; however, the information at the detailed level in COFRS required six adjusting entries at year-end to properly state the accounts and activities of the Center in the State's financial statements.

Recommendation No. 1

The Center should implement procedures to improve the current accounting system even though a conversion is likely. The Center should re-design the chart of accounts and report functions to facilitate the preparation of accessible, understandable reports that can be generated directly by the system. Upon conversion, the Center should investigate the use of subsidiary ledgers for tracking fixed assets and other functions currently tracked outside the accounting system. These procedures will improve the Center's accountability in the short term and contribute to a smooth conversion to a new accounting system in the future.

Center Response

Agree. With the implementation date for Banner delayed from July 1, 2006 until July 1, 2007 we have redirected attention back to FRS. In late August, we hired a part-time accountant whose primary responsibility is to improve our current use of FRS by identifying and correcting feeds from FRS and COFRS at a detailed level versus at the summary level. We are also in the process of designing reports in FRS that will meet our needs versus the tedious spreadsheet method that we are currently using. Chart of account maintenance has also been assigned to higher level management to ensure consistency and cohesiveness.

Implementation Date: March 2007

Reduction in Unrestricted Reserve Funds

The Center was created by the State of Colorado to plan, manage and operate the physical plant, facilities, buildings and grounds of the Auraria Campus for the three constituent institutions that occupy the Campus. The majority of the Center's funding is received through transfers from the institutions, and sales and services provided to the institutions. Cutbacks in State funding since 2003 have reduced by approximately $3,000,000 the transfers received from the institutions, while the costs of managing and operating the campus facilities have increased significantly due to the aging of the facilities, increased utility costs, and general inflationary increases. Because funding has been reduced while costs have increased, the Center has been using unrestricted reserve funds, primarily parking reserves, to bridge the gap between the funding received from the institutions and the general operating expenses of the campus.

Reduction in Unrestricted Reserve Funds, Continued

The unrestricted parking reserve funds represent parking revenues received in excess of bond fund requirements and operating expenses. Prior to 2004, these reserves were used primarily to cover the costs of maintaining and repairing the parking lots on the Auraria campus, and to fund other parking projects. At June 30, 2003, unrestricted parking reserves were $9,034,695 compared to $888,522 at June 30, 2006. During the past three years, the Center has used approximately $3,200,000 of parking reserve funds for campus projects, which included $2,000,000 from the 2003 reserves and an additional $1,200,000 of income earned in 2004, 2005 and 2006. Parking reserves totaling approximately $4,000,000 were spent on general operating expenses and approximately $3,000,000 was spent on parking projects. Parking lot projects scheduled to be completed in fiscal years 2007 through 2010 total $4,763,000 and are to be paid out of reserves. The unrestricted reserves, assuming revenues remain at current levels and expenses do not increase more than 2% per year, are projected to be in a deficit position by June 30, 2010. Continued use of parking reserve funds for general operating expenses will deplete the unrestricted reserve funds and the Center will need to seek funding for parking lot maintenance and repairs from other sources. The use of unrestricted parking reserve funds has no effect on the Center's compliance with parking bond reserve requirements.

Recommendation No. 2

The Center should investigate alternative methods of funding general operating expenses and rebuild unrestricted parking reserves in order to fund future parking lot repair and maintenance, and parking lot projects.

Response

Agree. The 2007 budget was adopted with this issue in consideration. The parking reserve transfer to the general fund is being reduced by $1,000,000 in 2007 to help rebuild the parking reserves. Also, the parking reserves will not be available for non-parking projects during 2007 and 2008 as we strive to increase the reserves in order to meet future parking projects and maintenance needs. Discussions at various levels are taking place as to alternative funding solutions for the general fund.

Implementation Date: July 2006

Allocation of Expenses

The Center has designated certain departments as auxiliary enterprises. These departments include parking, facility management and construction services, the book center, the copy center, the child care center, and various other small auxiliaries. Auxiliary enterprises are required to be self-supporting and must pay their share of general operating expenses. Accordingly, the Center charges the auxiliaries overhead for shared costs such as human resources, finance and administration, and facilities maintenance.

Allocation of Expenses, Continued

Generally Accepted Accounting Principles (GAAP) require that costs that relate to more than one program or supporting activity be allocated among the appropriate functions on a systematic and rational basis. The method of allocation relates to the type of service and is typically based on square footage or number of personnel. Currently, the allocation of overhead, or general operating costs to the auxiliaries is not based on a systematic method. Instead, general operating expenses that are not covered by appropriations and transfers are charged to the auxiliaries as overhead. These charges include administrative and human resource services, purchasing, and maintenance and custodial services, among others. These services benefit the auxiliaries as well as other functions on the Auraria campus. In 2006 and 2005, overhead costs charged to the auxiliaries were $3,287,000 each year. This is budgeted to increase to $3,581,951 in 2007.

The auxiliaries should be funding their share of general operating expenses; however, the allocation should be based on an internal cost model that accurately reflects the general operating costs which should be charged to each auxiliary. At June 30, 2006 it could not be determined whether the overhead costs charged to the auxiliaries in 2006 reflect actual overhead because an internal cost model has not been prepared. Since future budgeted requests are based on current general fund expenditures, current allocation of overhead costs to the auxiliaries may not reflect actual general fund expenditures or the auxiliaries' actual share of general operating costs, and could have a detrimental effect on the Center's future appropriations.

Recommendation No. 3

The Center should perform a detailed analysis of the overhead costs to determine the allocation to each auxiliary enterprise and develop an internal cost model that accurately reflects the auxiliaries' share of the general operating expenses. The Center should re-evaluate the amount of general funds requested during the budget process on the basis of the results of this analysis.

Center Response

Agree. Auxiliary overhead costs are currently budgeted at a level to help offset the general fund budget shortage. This "chargeback" amount is then distributed amongst the auxiliaries based on revenue versus actual costs. The campus is currently in the middle of a master plan study that will include developing a general fund costing model. We are in the process of gathering information on actual square foot usage in addition to maintenance costs and operational costs per building. Using this data, a methodology will be developed to better identify costs by departments, programs and auxiliaries. This will enable a budget to be developed that identifies actual auxiliary expenses versus general fund contributions. The segment financial statement presentation has been moving in this direction by breaking out the auxiliary reserve transfers to the general fund as non operating expenses.

Implementation Date: February 2007

Accounting Department

As part of the 2004 audit, we recommended that the Center upgrade the level of skills in the accounting department. As a result, the Center hired a full time Chief Financial Officer (CFO) in 2005 and a part-time Controller in 2006, both of which are Certified Public Accountants. Significant improvements have been made in the areas of financial reporting to the Center's Board of Directors, timeliness of preparing the financial statements and exhibits required by the State Controller's Office, and the accuracy of the Center's financial information. However, the Center continued to make a significant number of correcting journal entries throughout the fiscal year, indicating difficulties with the day-to-day accounting by the accounting staff. As a result, the Controller and CFO are required to be involved in the daily accounting activities at a detailed level in order for staff to carry out their daily responsibilities.

Recommendation No. 4

The Center should continue to evaluate and address the current level of skills in the accounting department and make the necessary changes to ensure that the accounting department is operating efficiently and effectively on a day-to-day basis.

Center Response

We are in the process of restructuring the accounting department to ensure accountability at a lower level. The Controller position currently at .60FTE will be supplemented with a Director of Accounting position also at .60FTE. Under the current structure the majority of the accounting staff report directly or indirectly to the accounting supervisor. The restructure will increase the number of staff reporting directly to the Controller and the Director of Accounting. This enables management to increase expectations, accountability and ownership at every level. Performance plans and job duties are also being revised to assist in the evaluation and identification of skill set weaknesses, which will enable management to find methods to train and strengthen those areas.

Implementation Date: January 2007

AURARIA HIGHER EDUCATION CENTER
DISPOSITION OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

The following is a summary of the prior year audit recommendations and their disposition as of June 30, 2006:

Prior Year Audit Recommendations	Disposition
No. 1 The Center should enforce the requirement that parking lot supervisors verify the range of sold and unsold tickets and sign off on the receipt of unsold parking lot tickets at the end of each attendant's shift.	No. 1 Implemented.
No. 2 The Center should adopt payroll policies and procedures to ensure that accurate timesheets are being prepared and approved before being submitted for payment.	No. 2 Implemented.
No. 3 The Center should continue to evaluate the current level of skills in the accounting department and make the necessary changes to ensure that the accounting department is operating efficiently and effectively on a day-to-day basis.	No. 3 Partially implemented. See current year comment No. 4.

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying statements of net assets of Auraria Higher Education Center (the Center), a blended component unit of the State of Colorado, and its discretely presented component unit, as of and for the years ended June 30, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows, where applicable, for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards.* 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 audits provide 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 and its discretely presented component unit as of June 30, 2006 and 2005, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the 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 supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have issued our report dated October 12, 2006, on our consideration of Auraria Higher Education Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 12, 2006

Auraria Higher Education Center
Management's Discussion and Analysis
Year Ended June 30, 2006

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, 2006. 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.

Understanding the Comparative Financial Report

The financial statements of the Center are 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.* Effective June 30, 2004, the Center adopted GASB 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the financial statements of the Auraria Foundation are attached to the Center's 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. 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 statements of revenues, expenses and changes in net assets report the Center's net assets and how they have changed using the accrual basis of accounting. This means that all revenues and expenses are reported in the year in which they are earned or incurred and not when the cash is received or paid.

Statement of Net Assets

The Center's net assets – the difference between assets and liabilities – is 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.

Total net assets have decreased $5,340,000 since June 30, 2004. As noted on page 16 this is because expenses have exceeded revenues. This is due primarily to the aging of the Center's facilities and the use of reserves to fund current operations. Since June 30, 2004, the Center has transferred parking and student bond reserves totaling $5,078,432 to the general fund to fund operating losses as a result of a decrease in funding from the constituent institutions. An additional $3,238,761 was transferred from parking reserves during this time to cover general classroom space additions, remodels and critical maintenance life/safety needs.

Condensed Statements of Net Assets (in thousands)

		June 30,		
		2006	**2005**	**2004**
Assets				
Current assets	$	17,534	16,662	15,794
Capital assets		168,261	170,382	149,855
Other non-current assets		14,370	20,307	45,241
Total assets	$	200,165	207,351	210,890
Liabilities				
Current liabilities	$	12,486	13,533	11,445
Non-current liabilities		86,825	89,496	93,251
Total liabilities	$	99,311	103,029	104,696
Net Assets				
Invested in capital assets, net of related debt	$	86,511	88,906	91,347
Restricted – expendable		3,481	4,147	5,285
Unrestricted		10,862	11,269	9,562
Total net assets	$	100,854	104,322	106,194

Statement of Revenues, Expenses and Changes in Net Assets

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

The Center's operating income has decreased $1,530,000 since the year ended June 30, 2004. The primary reasons for the decrease include escalating utility costs and increased controlled maintenance expense as the campus buildings age. Support from the three constituent institutions increased $831,000 in 2006 to $14,305,000. This is largely a result of additional funding of $575,715 to help cover a $770,650 increase in utility costs in 2006. Support from the three institutions continues to be below the 2003 level of $16,003,070.

The Center reported a change in net assets of $(3,468,000) in 2006 compared to $(1,872,000) in 2005 and $(1,336,000) in 2004. The increase in the loss in 2006 is due primarily to the treatment of interest expense. A portion of interest expense on capital asset-related debt was capitalized in both 2005 and 2004 because of on-going construction activities. These activities were essentially complete at June 30, 2005. The 2006 interest expense is the amount that will continue in future years.

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

		Years Ended June 30,		
		2006	2005	2004
Operating revenues				
Auxiliary enterprises	$	30,914	30,588	30,236
Operating transfers from constituent institutions		14,305	13,474	13,474
Student fees		4,560	4,642	4,785
Other		54	117	160
Total operating revenues	$	49,833	48,821	48,655
Operating Expenses				
Auxiliary enterprises	$	27,118	27,146	25,272
Operation and maintenance of plant		11,394	11,183	11,962
Institutional support		1,657	1,419	1,247
Academic support		1,439	1,003	1,052
Depreciation and amortization		8,730	8,304	8,097
Total operating expenses		50,338	49,055	47,630
Operating income (loss)	$	(505)	(234)	1,025
Non-operating revenues and expenses				
Investment income	$	936	794	292
Interest on capital asset-related debt		(4,352)	(2,664)	(2,843)
Loss on refinancing of debt		-	(281)	-
Total non-operating revenues (expenses)		(3,416)	(2,151)	(2,551)

(Continued)

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

Capital appropriations, gifts and grants		453	513	189
Change in net assets		(3,468)	(1,872)	(1,336)
Net assets, beginning of year		104,322	106,194	107,530
Net assets, end of year	$	100,854	104,322	106,194

Statement of Cash Flows

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 entity's ability to generate future net cash flows, meet obligations as they come due, and assess the need for external financing. The Center completed the bond funded parking structure project and is nearing completion on the Tivoli renovation bond project which is reflected in the decrease of cash flows used in capital financing activities.

Condensed Statements of Cash Flows
(in thousands)

		Years Ended June 30,		
		2006	**2005**	**2004**
Cash provided by (used in):				
Operating activities	$	7,630	6,418	9,081
Non-capital financing activities		-	-	1
Capital and related financing activities		(14,436)	(31,676)	(497)
Investing activities		7,137	26,153	(15,726)
Net increase (decrease) in cash		331	895	(7,141)
Cash and cash equivalents, beginning of year		14,785	13,890	21,031
Cash and cash equivalents, end of year	$	15,116	14,785	13,890

Center's Revenues and Financial Position

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions decreased slightly. Daily parking activity was down but special event and parking permit sales kept revenues steady. Revenue reductions and spending restrictions faced by the State of Colorado during recent years received a reprieve in November, 2005 when voters approved a five-year exemption from spending limits. As a result, appropriations for various State departments and institutions, including higher education institutions, are experiencing increases over prior years. However, the Center's support from the constituent institutions in 2006 was $1,698,000 lower than in 2003.

Capital Assets

At June 30, 2006 the Center had $168,261,181 invested in capital assets, net of accumulated depreciation of $118,029,155. For the year ended June 30, 2006, depreciation expense was $8,504,110.

Capital Assets, Net

(in thousands)

		June 30,		
		2006	**2005**	**2004**
Land	$	11,753	11,753	11,753
Land improvements		11,990	10,937	11,774
Buildings and improvements		141,770	126,646	119,181
Equipment		1,725	2,171	2,407
Construction in progress		1,023	18,875	4,475
Film collection		-	-	265
Total	$	168,261	170,382	149,855

In 2006 the State approved $3,617,992 in controlled maintenance appropriations for critical roofing, mechanical, and electrical life/safety repairs. The State also appropriated $2,429,100 in capital construction funding for the first phase of the science building renovation and addition project. Funding has been requested from the State for the next four years to complete the project currently estimated at $88,000,000. The Auraria Foundation has committed $3,000,000 to the science building project and another $500,000 for safety lighting and emergency telephone needs on campus. This funding from the State and the Foundation comes at a critical time as the Center's unrestricted auxiliary parking reserves have been drawn down to a level that cannot support the maintenance needs on campus.

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

Bonds and Capital Leases

At June 30, 2006 the Center had $89,504,213 of bond and capital lease debt outstanding. The table below summarizes this debt by type. In 2006, the Center refinanced three bonds for an upfront savings of $2,213,751 which will be used to fund controlled maintenance needs. Also, as a result of the parking bond refinancing, an additional $823,737 was moved from parking bond reserves to a restricted account for parking construction and maintenance needs

Bond and Capital Lease Debt
(in thousands)

		June 30,		
		2006	**2005**	**2004**
Auxiliary enterprise revenue bonds	$	72,094	74,555	77,206
Capital lease obligations		17,410	17,626	18,550
Total	$	89,504	92,181	95,756

Economic Outlook

Revenue limitations resulting from the Taxpayer's Bill of Rights amendment to the Colorado Constitution (TABOR) has resulted in serious funding reductions to the constituent institutions for operating revenue and to the Center for funding deferred maintenance needs of the campus facilities. As mentioned under the "Center's Revenues and Financial Position", Tabor revenue restrictions have been lifted for five years beginning in fiscal year 2006. For fiscal year 2007, this enabled the constituent institutions to increase their allocation to fund the Center's general operations by 7.8% from $13.7 million to $14.8 million. The Center continues to rely on its auxiliary enterprise operations to fund small projects and controlled maintenance needs; specifically the parking unrestricted reserves. This trend cannot continue as the auxiliary enterprises are restricted by bond covenants to maintain reserve levels and cash flows to secure the pledges of debt service coverage. The 2007 fiscal budget took this into consideration and was designed to start replenishing the parking unrestricted reserves.

The Center's auxiliary enterprise facilities are funded with student fees and user charges. These revenues are currently sufficient to maintain adequate levels of maintenance for the Tivoli Student Union, the recreation center, the child care center and all parking facilities. However, these fees and charges are <u>not</u> sufficient to cover the on-going maintenance needs of the general classroom facilities built approximately 30 years ago. Although State funding for controlled maintenance has started to trickle in, there is not enough funding to cover the backlog of needs at the Center. The Center and the constituent institutions are studying various options for funding the increasing maintenance needs of these aging facilities.

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF NET ASSETS
JUNE 30, 2006 and 2005

		2006	2005
Assets			
Current assets:			
Cash & cash equivalents	$	14,145,481	13,793,683
Accounts receivable (net of allowance of $653,862 and $783,419, respectively)		1,658,284	1,264,336
Inventories		1,493,068	1,428,656
Prepaid expense		127,940	81,337
Deferred debt issuance costs (notes 1 and 4)		109,542	94,103
Total current assets		17,534,315	16,662,115
Non-current assets:			
Restricted cash and cash equivalents		970,803	990,818
Bond proceeds restricted to investment in current capital projects		4,561,426	10,335,258
Restricted investments (note 2)		7,223,798	7,580,279
Capital assets (net of accumulated depreciation of $118,029,155 and $109,614,709, respectively) (note 3)		168,261,181	170,382,142
Deferred debt issuance costs (notes 1 and 4)		1,613,623	1,400,714
Total non-current assets		182,630,831	190,689,211
Total assets	$	200,165,146	207,351,326
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	5,615,368	7,943,097
Interest payable		2,114,367	1,466,036
Compensated absences (note 4)		68,911	90,148
Deferred revenue		245,365	79,589
Current portion of long-term debt (note 4)		3,778,222	3,788,215
Other current liabilities		664,194	165,438
Total current liabilities		12,486,427	13,532,523
Non-current liabilities:			
Compensated absences (note 4)		1,099,075	1,103,831
Long-term debt (note 4)		85,725,991	88,392,629
Total non-current liabilities		86,825,066	89,496,460
Total liabilities		99,311,493	103,028,983
Net assets:			
Invested in capital assets		86,511,332	88,905,898
Restricted for expendable purposes		3,480,657	4,147,169
Unrestricted		10,861,664	11,269,276
Total net assets	$	100,853,653	104,322,343

See accompanying notes to financial statements.

The Auraria Foundation

Statements of Financial Position

June 30, 2006 and 2005

		2006	2005
Assets:			
General Operations			
Cash and cash equivalents	$	7,948,491	192,908
Accounts receivable		76,086	–
Prepaid expenses		3,745	3,760
Housing project expenditures		–	646,359
Advance to Inn at Auraria		250,000	–
Property and equipment		972,439	1,015,351
Total assets, general operations		9,250,761	1,858,378
Dravo/Lawrence Properties			
Rental and interest receivable		–	738,094
Cash held by trustee		–	302,011
Investments held by trustee			
Escrowed for 1995 bonds		–	7,956,635
Bond and lease funds		–	299,793
Bond issuance costs		–	651,316
Investment in direct financing lease		–	23,005,020
Property and equipment		–	5,756,142
Total Dravo/Lawrence assets		–	38,709,011
Total Foundation assets		9,250,761	40,567,389
Inn at Auraria LLC			
Restricted Cash		269,098	–
Guaranteed investment contracts		8,486,083	–
Fixed Assets:			
Building		10,989,950	–
Furnishings		859,856	–
Construction in process		19,539,209	–
Bond issuance costs		767,866	–
Total Inn at Auraria LLC assets		40,912,062	–
Eliminations		(250,000)	–
Total assets	$	49,912,823	40,567,389

(continued)

The Auraria Foundation

Statements of Financial Position, Continued

June 30, 2006 and 2005

		2006	2005
Liabilities:			
General operations			
Accounts payable	$	30,403	21,227
Grants payable		3,500,000	–
Housing project loans		–	275,000
Interest payable		–	51,400
University of Colorado loan agreement		–	655,332
Total general operations liabilities		3,530,403	1,002,959
Dravo/Lawrence Properties			
Accrued interest		–	681,095
Deferred interest income		–	1,874,853
Amounts held in custody for others		–	576,412
Bonds payable			
1995 bonds (advance refunded)		–	7,707,848
1998 Bonds		–	19,289,441
2001 bonds		–	8,733,914
Total Dravo/Lawrence liabilities		–	38,863,563
Total Foundation liabilities		3,530,403	39,866,522
Inn at Auraria LLC			
Accounts payable		859,856	–
Accrued construction costs payable		1,403,806	–
Accrued interst payable		1,118,400	–
Due to Auraria Foundation		250,000	–
Bonds payable		37,280,000	–
Total Inn at Auraria LLC liabilities		40,912,062	–
Eliminations		(250,000)	–
Total liabilities		44,192,465	39,866,522
Net Assets:			
Unrestricted		5,720,358	685,867
Temporarily restricted		–	15,000
Total net assets		5,720,358	700,867
Commitments			
Total liabilities and net assets	$	49,912,823	40,567,389

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 and 2005

		2006	2005
Operating revenues:			
Auxiliary enterprises	$	30,913,573	30,587,542
Operating transfers from constituent institutions		14,305,316	13,473,602
Student fees		4,559,592	4,642,251
Gifts and grants		42,486	117,385
Other operating revenues		12,237	-
Total operating revenues		49,833,204	48,820,780
Operating expenses:			
Auxiliary enterprise expenditures		27,118,306	27,145,825
Operation and maintenance of plant		11,394,079	11,182,599
Institutional support		1,657,020	1,419,410
Academic support		1,438,754	1,003,485
Depreciation and amortization		8,730,042	8,303,562
Total operating expenses		50,338,201	49,054,881
Operating income		(504,997)	(234,101)
Non-operating revenues (expenses):			
Investment income (note 2)		936,219	794,202
Interest on capital asset related debt		(4,352,431)	(2,664,382)
Loss on disposal of assets		-	(280,941)
Net non-operating expenses		(3,416,212)	(2,151,121)
Loss before other revenues, expenses, gains or losses		(3,921,209)	(2,385,222)
State capital appropriations		170,788	-
Capital grants and gifts		281,731	512,985
Change in net assets		(3,468,690)	(1,872,237)
Net assets, beginning of year		104,322,343	106,194,580
Net assets, end of year	$	100,853,653	104,322,343

See accompanying notes to financial statements.

The Auraria Foundation
Statements of Activities
Years Ended June 30, 2006 and 2005

		2006	2005
General Operations			
Revenues and other support			
Contributions, Performing Arts Center	$	–	21,500
Rental income, St. Francis Center		38,625	38,625
Management fees		113,122	125,000
Investment income		22,070	6,557
Miscellaneous income		414	327
Net assets released from restriction		15,000	–
Total revenues and other support		189,231	192,009
Expenses			
St. Francis Center program expenses		73,419	45,997
Donations to AHEC and other Auraria instututions		34,343	38,906
General and administrative		84,913	77,809
Total operating expenses		192,675	162,712
Grant to Auraria Higher Education Center-Science Building		3,000,000	–
Grant to Auraria Higher Education Center-Night Lighting		500,000	–
Total grants expense		3,500,000	–
Increase (decrease) in unrestricted net assets-general operations		(3,503,444)	29,297
Dravo/Lawrence Operations			
Revenues			
Interest on direct financing lease		1,159,156	1,220,787
Rental income		333,733	345,077
Investment income		32,658	165,764
Total revenues		1,525,547	1,731,628
Expenses-Dravo/Lawrence operations		1,700,816	2,174,915
Decrease in unrestricted net assets-Dravo/Lawrence		(175,269)	(443,287)
Decrease in unrestricted net assets before the sale of properties		(3,678,713)	(413,990)
Activites related to sale of Dravo/Lawrence properties			
Net gain related to sale of Dravo/Lawrence properties		8,713,204	–
Total increase (decrease) in unrestricted net assets		5,034,491	(413,990)
Restricted contributions		–	15,000
Net assets released from restriction		(15,000)	–
Increase (decrease) in temporarily restricted net assets		(15,000)	15,000
Increase (decrease) in net assets		5,019,491	(398,990)
Net assets at beginning of year		700,867	1,099,857
Net assets at end of year	$	5,720,358	700,867

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received:		
Student fees	$ 4,681,594	4,640,626
Transfers from constituent institutions	14,282,317	13,450,112
Gifts and grants	42,486	117,385
Sales of services	14,480,566	15,333,898
Sales of products	16,274,132	14,864,994
Other receipts	510,993	172,381
Cash paid:		
Payments to or for employees	(14,802,448)	(15,495,088)
Payments to suppliers	(27,839,069)	(26,666,094)
Net cash provided by operating activities	7,630,571	6,418,214
Cash flows from capital and related financing activities:		
Capital grants and gifts received	281,731	765,645
State appropriations	170,788	-
Purchases of capital assets	(7,977,770)	(25,071,949)
Principal paid on capital debt and leases	(3,130,912)	(3,662,757)
Interest paid on capital debt and leases	(3,780,242)	(3,707,406)
Net cash used in capital and related financing activities	(14,436,405)	(31,676,467)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	6,130,313	25,093,822
Purchases of investments	-	(627,926)
Investment income	1,007,304	1,687,099
Net cash provided by investing activities	7,137,617	26,152,995
Net change in cash and cash equivalents	331,783	894,742
Cash and cash equivalents, beginning of year	14,784,501	13,889,759
Cash and cash equivalents, end of year	$ 15,116,284	14,784,501

(Continued)

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF CASH FLOWS, CONTINUED
YEARS ENDED JUNE 30, 2006 and 2005

		2006	2005
Reconciliation of cash and cash equivalents to the Statement of Net Assets:			
Cash and cash equivalents	$	14,145,481	13,793,683
Restricted cash and cash equivalents - noncurrent		970,803	990,818
	$	15,116,284	14,784,501
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income (loss)	$	(504,997)	(58,262)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization expense		8,730,042	8,303,562
Bad debt expense		192,256	183,493
(Increase) decrease in operating assets:			
Accounts receivable		(645,602)	(27,210)
Inventories		(64,412)	(249,300)
Prepaid expense		(46,603)	37,417
Increase (decrease) in operating liabilities			
Accounts payable and accrued liabilities		(668,653)	(1,585,994)
Deferred revenue		165,776	(259,539)
Accrued compensated absences		(25,992)	77,505
Other liabilities		498,756	(3,458)
Net cash provided by operating activities	$	7,630,571	6,418,214
Supplemental cash flow information:			
Accounts payable incurred for capital asset purchases	$	1,659,076	4,054,584

See accompanying notes to financial statements.

Note 1: 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 and Health Sciences Center's Downtown Denver Campus, 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. 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.

Effective June 30, 2004, the Center adopted GASB 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the financial statements of the Auraria Foundation are attached to the Center's financial statements. The Foundation is a private non-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Center's financial reporting entity for these differences. A complete copy of the Auraria Foundation financial statements can be obtained by contacting: Auraria Foundation, Box 173361 Campus Box A, Denver, Colorado 80217-3361.

Note 1: Summary of Significant Accounting Policies, Continued

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, 2006 and 2005, cash equivalents consisted primarily of U.S. Treasury money market funds and certificates of deposit.

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 are carried at cost.

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

Restricted Cash and Cash Equivalents and Investments
Restricted cash and cash equivalents and restricted investments consist of bond proceeds restricted for project construction and debt service reserves.

Accounts Receivable
Accounts receivable consists of the following at June 30:

	2006	2005
Constituent Institutions	$ 196,191	143,363
At State Central Collections	665,332	764,084
Book Center credit memos due from vendors	714,182	294,228
Auxiliary enterprises	584,216	630,689
Interest	39,693	99,091
Auraria Foundation	15,000	23,381
Other	97,532	92,919
	$ 2,312,146	2,047,755

Note 1: Summary of Significant Accounting Policies, Continued

Accounts Receivable, Continued

Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance is based on past experience and analysis of the collectibility of current accounts receivable. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Accounts receivable are considered to be past due based on contractual terms. Accounts receivable is recorded net of the following related allowances for doubtful accounts at June 30:

		2006	2005
Prior year parking fines	$	473,143	555,637
Book Center bad checks		50,626	103,690
Child Care Center and other auxiliaries		73,314	80,075
Tivoli Student Union building accounts		19,886	20,334
Book Center credit memos		36,893	23,683
	$	653,862	783,419

Inventories

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.

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.

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

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 during the years ended June 30, 2006 and 2005 was $64,455 and $879,774, respectively.

Note 1: Summary of Significant Accounting Policies, Continued

Accrued Salaries
State Senate Bill 03-197 required monthly and bi-weekly salaries for June that would normally be paid at the end of June to be paid in July. This resulted in an accrual of $1,448,433 and $1,472,020 that was included in accounts payable and accrued liabilities at June 30, 2006 and 2005, respectively.

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, 2006 and 2005 is $1,167,986 and $1,193,978, respectively. Operating income for the years ended June 30, 2006 and 2005 includes $(25,992) and $77,505 respectively, representing the increase (decrease) 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 revenue includes the following for the years ended June 30:

	2006	2005
Student fees for the summer semester	$ 184,055	60,133
Childcare tuition collected in advance	6,382	12,994
Advance rent for Tivoli Student Union space	54,928	6,462
	$ 245,365	79,589

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, (3) sales and services of auxiliary enterprises, and (4) grant reimbursements for services performed.

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.

Note 1: Summary of Significant Accounting Policies, Continued

Concentrations of Credit Risk
Operating revenues consist primarily of transfers from the constituent institutions for services and facilities provided by the Center. Decreases in funding from these institutions over the past three years has resulted in the need to draw on Center reserves to fund operations and critical maintenance needs. If funding from the institutions and/or the State of Colorado remains at current levels the Center may not be able to provide adequate services and facilities in the future.

Functional Allocation of Expenses
The costs of supporting the various services and other activities of the Center have been summarized on a functional basis in the statements of revenues, expenses and changes in net assets. Costs for each category are directly tracked by cost center in the Center's accounting system. Accordingly, certain costs have been allocated among the appropriate activities and supporting services benefited.

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. The Center did not have any unrelated business taxable income in fiscal years 2006 or 2005.

Reclassifications
Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on previously reported net assets.

Note 2: Deposits, Investments and Investment Return

Deposits and Cash Equivalents
At June 30, 2006, the carrying value of the Center's deposits was $19,677,710. It consists of $16,462,768 on deposit with the State Treasurer, $3,155,901 in bank deposits and $59,041 of cash on hand. The bank balance classified by custodial credit risk category includes $100,000 covered by federal depository insurance and $3,055,901 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.

Note 2: Deposits, Investments and Investment Return, Continued

Investments

The Auraria Higher Education Center deposits cash with the Colorado Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. Auraria Higher Education Center reports its share of the Treasurer's unrealized gains/losses based on its participation in the State Treasurer's pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2006. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized loss included in "Investment Income" reflects only the change in fair value during the current fiscal year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Custodial Credit Risk

The Center has authority to invest in equity or non-equity investments as authorized by the Director of Business Services. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in either the Center's or the state's name, and are held by either the counterparty to the investment purchase or are held by the counterparty's trust department or agent but not held in the Center's or the state's name. The Center has no investments that are subject to custodial risk.

Credit Quality Risk

Credit risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations to the Center. This risk is assessed by national rating agencies, which assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not reported. However, credit quality ratings are reported for obligations of U.S. Government agencies that are not explicitly guaranteed by the U.S. Government. Credit ratings for long-term debt securities range from Gilt Edge, which is the highest and most secure rating, to High Default Risk, which is the lowest rating and carries the most risk.

Interest Rate Risk

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In general, the Center manages interest rate risk using weighted average maturity. Weighted average maturity is a measure of the time to maturity in years that has been weighted to reflect the dollar size of individual investments within an investment type.

Note 2: Deposits, Investments and Investment Return, Continued

Interest Rate Risk, Continued

The following table lists the Center's investments by investment type. The fair value amount is shown along with the credit quality rating and weighted average maturity.

Investment Type	Fair Value Amount	Credit Rating	Weighted Average Maturity
U.S. Govt. Agencies – Explicitly Guaranteed	$ 2,970,577	Not rated	N/A
U.S. Govt. Agencies – No Explicit Guarantee	2,276,905	Gilt edge	.244 year(s)
Commercial Paper	1,976,316	Gilt edge	.260 year(s)
Total Investments	$ 7,223,798		

Investments at June 30, 2006 total $7,223,798 and consist of $5,247,482 in U.S. Government Securities and $1,976,316 in commercial paper. All investments are carried at fair value.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statements of net assets for the years ended June 30:

	2006	2005
Deposits	$ 15,116,284	14,784,501
Bond proceeds restricted cash	4,561,426	10,335,258
Investments	7,223,798	7,580,279
	$ 26,901,508	32,700,038

Deposits and investments are included in the following categories in the statements of net assets for the years ended June 30:

	2006	2005
Cash and cash equivalents	$ 14,145,481	13,793,683
Restricted cash and cash equivalents, non-current	5,532,229	11,326,076
Restricted investments, non-current	7,223,798	7,580,279
	$ 26,901,508	32,700,038

Note 2: Deposits, Investments and Investment Return, Continued

Investment Income

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

	2006	2005
Interest and dividend income	$ 1,059,596	1,642,476
Net increase in fair value of investment	(111,691)	33,913
	946,905	1,676,389
Capitalized interest income	(11,686)	(882,187)
	$ 936,219	794,202

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2006 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 11,752,961	-	-	-	11,752,961
Land improvements	22,450,580	-	-	1,996,112	24,446,692
Buildings and improvements	221,794,236	-	-	22,137,241	243,931,477
Equipment	5,123,871	12,075		-	5,135,946
Construction in progress	18,875,203	6,281,410	-	(24,133,353)	1,023,260
	279,996,851	6,293,485	-	-	286,290,336
Less accumulated depreciation:					
Land improvements	11,513,346	943,498	-	-	12,456,844
Buildings and improvements	95,148,248	7,012,935	-	-	102,161,183
Equipment	2,953,115	458,013	-	-	3,411,128
	109,614,709	8,414,446	-	-	118,029,155
Net capital assets	$ 170,382,142	(2,120,961)	-	-	168,261,181

Note 3: Capital Assets, Continued

Capital asset activity for the year ended June 30, 2005 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 11,752,961	-	-	-	11,752,961
Land improvements	22,450,580	-	-	-	22,450,580
Buildings and improvements	207,642,111	21,698	-	14,130,427	221,794,236
Equipment	5,306,939	360,227	(543,295)	-	5,123,871
Film collection	566,989	-	(566,989)	-	-
Construction in progress	4,475,163	28,530,467	-	(14,130,427)	18,875,203
	252,194,743	28,912,392	(1,110,284)	-	279,996,851
Less accumulated depreciation:					
Land improvements	10,676,921	836,425	-	-	11,513,346
Buildings and improvements	88,461,014	6,687,234	-	-	95,148,248
Equipment	2,900,035	556,705	(503,625)	-	2,953,115
Film collection	301,590	24,128	(325,718)	-	-
	102,339,560	8,104,492	(829,343)	-	109,614,709
Net capital assets	$ 149,855,183	20,807,900	(280,941)	-	170,382,142

Note 4: Long-term Liabilities

The following is a summary of long-term obligation transactions for the Center for the year ended June 30, 2006:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable:					
Series 1996 Student Fee	$ 15,132,385	-	(15,132,385)	-	-
Series 2000 Parking	6,934,772	-	(6,934,772)	-	-
Series 2003 Parking	11,315,204	72,114	(1,550,000)	9,837,318	1,590,000
Series 2003 Student Fee	21,702,903	4,855	(855,000)	20,852,758	875,000
Series 2004 Parking	19,470,135	4,086	-	19,474,221	-
Series 2006 Parking	-	7,066,200	-	7,066,200	-
Series 2006 Student Fee	-	14,863,159	-	14,863,159	-
Total revenue bonds payable	74,555,399	22,010,414	(24,472,157)	72,093,656	2,465,000
Capital lease obligations	17,625,445	16,449,681	(16,664,569)	17,410,557	1,313,222
Total bonds and capital leases	92,180,844	38,460,095	(41,136,726)	89,504,213	3,778,222
Other non-current liabilities:					
Compensated absences	1,193,979	-	(25,993)	1,167,986	68,911
Total non-current liabilities	$ 93,374,823	38,460,095	(41,162,719)	90,672,199	3,847,133

Note 4: Long-term Liabilities, Continued

The following is a summary of long-term obligation transactions for the Center for the year ended June 30, 2005:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable:					
Series 1996 Student Fee	$ 15,492,457	14,928	(375,000)	15,132,385	390,000
Series 2000 Parking	6,930,581	4,191	-	6,934,772	-
Series 2003 Parking	12,783,419	41,785	(1,510,000)	11,315,204	1,550,000
Series 2003 Student Fee	22,533,048	4,855	(835,000)	21,702,903	855,000
Series 2004 Parking	19,466,049	4,086	-	19,470,135	-
Total revenue bonds payable	77,205,554	69,845	(2,720,000)	74,555,399	2,795,000
Capital lease obligations	18,550,289	17,913	(942,757)	17,625,445	993,215
Total bonds and capital leases	95,755,843	87,758	(3,662,757	92,180,844	3,788,215
Other non-current liabilities:					
Compensated absences	1,116,474	77,505	-	1,193,979	90,148
Total non-current liabilities	$ 96,872,317	165,263	(3,662,757)	93,374,823	3,878,363

Revenue Bonds Payable

The Center had the following bonds outstanding at June 30, 2006:

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

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 future debt service payments.

On February 16, 2006, the Center issued $15,315,000 in Series 2006 Bonds for the purpose of refunding the Series 1996 Bonds. The Series 1996 Bonds were redeemed on May 1, 2006. (See 2006 Student Bond)

Note 4: Long-term Liabilities, Continued

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. On April 20, 2006, the Center issued $7,565,000 in Series 2006 Parking Bonds for the purpose of refunding the Series 2000 Bonds. (See Series 2006 Parking Bonds)

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

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $766,420, and was recorded as a loss on the refinancing of the bonds. The loss is reported in the accompanying financial statements as a deduction from long-term debt and is being charged to operations through the year 2012. The Center completed the advance refunding to reduce its total debt service payments by $4.77 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $4.14 million.

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

The Series 2003 Parking Bonds are due in semiannual installments with annual principal payments ranging from $1,475,000 to $1,855,000 and interest ranging from 2.50 percent to 3.625 percent. The final installment is due April 1, 2012. The Series 2003 Parking Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2006 and 2005, the Series 2003 Parking Bonds are shown net of unamortized premium of $57,912 and $67,565, respectively, unamortized deferred loss on refinancing of $490,595 and $572,361, respectively, and have related unamortized issue costs of $124,065 and $144,723, respectively.

Note 4: Long-term Liabilities, Continued

Series 2003 Student Fee Bonds

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

At June 30, 2006 and 2005, the Series 2003 Student Fee Bonds are shown net of a discount of $92,242 and $97,097 respectively, and have related unamortized issue costs of $279,498 and $294,208, respectively.

Series 2004 Parking Bonds

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

Interest on the Series 2004A bonds is payable in semiannual installments commencing on April 1, 2004. The principal amount of $6,550,000 is due on April 1, 2029. The series 2004B bonds accrete in value from the date of issuance, compounding semiannually, beginning April 1, 2004. Principal payments begin on April 1, 2012 and range from $518,455 to $4,330,000. Interest payments also begin on April 1, 2012 and range from 3.63% to 5.18%. The final installment is due April 1, 2028.

The Series 2004A and 2004B Parking Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2006 and 2005, the Series 2004 Parking Bonds are shown net of a discount of $88,180 and $92,266 respectively, and have related unamortized issue costs of $456,112 and $453,258, respectively.

Note 4: Long-term Liabilities, Continued

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

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

The Series 2006 Bonds are payable in semiannual installments with annual principal payments ranging from $55,000 to $1,335,000 and interest ranging from 4.0 percent to 4.5 percent. The final installment is due April 1, 2026. The Series 2006 Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2006, the Series 2006 Bonds are shown net of a premium of $8,597 and have related unamortized issue costs of $229,889.

Series 2006 Student Bonds
On February 16, 2006, the Center issued $15,315,000 in Series 2006 Bonds for the purpose of refunding $18,030,000 of Student Fee 1996 Refunding Bonds. These bonds were redeemed on May 1, 2006. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $435,873, and was recorded as a loss on the refinancing of the bonds. The loss is reported in the accompanying financial statements as a deduction from long-term debt and is being charged to operations through the year 2021. Bonds maturing on or after May 1, 2017 can be called for redemption at the option of the Center's Board of Directors on or after May 1, 2016 as a whole or in part on any interest payment date, at a redemption price equal to the principal amount of the bonds redeemed plus accrued interest to the redemption date

Note 4: Long-term Liabilities, Continued

Series 2006 Student Bonds, Continued

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

The Series 2006 Bonds are payable in semiannual installments with annual principal payments ranging from $180,000 to $1,575,000 and interest ranging from 3.5 percent to 4.125 percent. The final installment is due April 1, 2021. The Series 2006 Student Fee are collateralized by revenues from student fees assessed for student facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities. At June 30, 2006, the Series 2006 Bonds are shown net of a discount of $25,548 and have related unamortized issue costs of $283,113.

Bond Maturity Schedule
Debt service to maturity for all bonds as of June 30, 2006 is as follows:

Years Ending June 30,	Total to be Paid	Principal	Interest
2007	$ 4,994,081	2,465,000	2,529,081
2008	5,060,621	2,705,000	2,355,621
2009	5,263,571	2,990,000	2,273,571
2010	5,478,484	3,310,000	2,168,484
2011	5,477,809	3,430,000	2,047,809
2012-2016	31,519,807	17,748,436	13,771,371
2017-2021	31,103,044	16,956,878	14,146,166
2022-2026	30,046,274	16,774,438	13,271,836
2027-2031	11,329,271	7,277,649	4,051,622
	130,272,962	73,657,401	56,615,561
Less unamortized discount/premium and deferred loss on refinancing	1,563,745	1,563,745	-
	$ 128,709,217	72,093,656	56,615,561

Note 4: Long-term Liabilities, Continued

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, 2006 as follows:

	Cost	Accumulated Depreciation	Carrying Value
Administrative facility	$ 15,518,172	3,667,038	11,851,134
Equipment	2,282,655	1,378,148	904,507
	$ 17,800,827	5,045,186	12,755,641

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, 2006 and 2005, the Energy Certificates are shown net of a discount of $712 and $1,488 respectively, and have related unamortized issue costs of $7,600 and $15,890, respectively.

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. Approximately 75 percent of the Administrative Office Facility is occupied by the Center's three constituent institutions. The institutions share in the costs of debt service and operations of the facility through their annual allocation of State appropriated funds to the Center.

On September 29, 2005, the Center issued Series 2005 Certificates of Participation (Administrative Office Facility Refunding Project) in the amount of $17,520,000 for the purpose of refunding the 1998 Administrative Facility Certificates. The proceeds of the 2005 Certificates of Participation are being held in escrow to redeem the certificates on May 1, 2008. As a result, the Series 1998 Certificates of Participations are considered defeased and the liability for those bonds has been removed from the Center's statements of net assets.

Note 4: Long-term Liabilities, Continued

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,422,087 and was recorded as a loss on the refinancing of the certificates. The loss is reported in the accompanying financial statements as a deduction from long-term debt and is being charged to operations through the year 2028. The Center completed the advance refunding to reduce its total debt service payments by $722,936 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $704,397.

The Series 2005 Certificates are payable in semiannual installments with annual principal payments ranging from $145,000 to $1,170,000, mature on May 1, 2028, and have interest rates ranging from 3.25 percent to 4.5 percent.

At June 30, 2006, the Administrative Facility Certificates are shown net of unamortized discount of $29,343, unamortized deferred loss on refinancing of $1,374,859 and unamortized issue costs of $342,887.

Equipment Leases
The Center has also entered into lease-purchase contracts for telephone and copier equipment. The interest rate on those leases is 10.25 percent and 10.02 percent in fiscal years 2006 and 2005, respectively.

Future Minimum Lease Payments
The following is a schedule of future minimum lease payments under all capital leases for the year ended June 30, 2006:

	Total to be Paid	Principal	Interest
2007	$ 2,078,092	1,313,221	764,871
2008	1,342,083	637,227	704,856
2009	1,349,533	672,674	676,859
2010	1,336,772	688,836	647,936
2011	1,232,403	610,406	621,997
2012-2016	6,108,352	3,330,000	2,778,352
2017-2021	6,099,313	4,030,000	2,069,313
2022-2026	6,094,038	4,915,000	1,179,038
2027-2031	2,440,475	2,285,000	155,475
	28,081,061	18,482,364	9,598,697
Less unamortized discount	30,055	30,055	-
	$ 28,051,006	18,452,309	9,598,697

Note 5: Reserve Balances

Reserve balances and requirements for outstanding bond issues at June 30, 2006 are as follows:

		Reserve Balance	Reserve Required
Series 2003, Series 2004 and Series 2006 Parking Bonds:			
Debt Service Reserve	$	4,225,663	4,193,240
Repair and Replacement Reserve	$	601,263	572,946
Series 2003 and 2006 Student Fee Bonds:			
Repair and Replacement Reserve	$	300,000	300,000

The Center has purchased a surety bond as insurance to satisfy the combined debt service reserve requirement of the Series 2006 and 2003 Student Fee Bonds.

Note 6: Revenue Bond Fund Information

The following financial information represents identifiable activities for which one or more revenue bonds are outstanding. The accounts related to the Series 2006, 2004 and 2003 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 2006 and 2003 Student Fee Revenue Bonds require reporting of the revenues and expenses of bond-related activities. Although this requirement does not qualify the Series 2006 Student Fee and Series 2003 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.

Note 6: Revenue Bond Fund Information, Continued

	Series 2006 and 2003 Student Fee Revenue Bonds		Series 2006, 2004, and 2003 Parking Facilities Revenue Bonds	
	2006	2005	2006	2005
Condensed Statements of Net Assets				
Assets				
Current assets	$ 9,515,792	8,521,239	2,948,426	4,616,603
Other assets	4,137,870	7,019,863	8,629,226	11,642,543
Capital assets	38,470,224	37,614,866	43,404,099	42,294,074
Total assets	52,123,886	53,155,968	54,981,751	58,553,220
Liabilities				
Current liabilities	4,385,798	5,061,427	4,391,737	5,574,692
Non-current liabilities	35,412,953	36,234,368	34,846,353	36,240,741
Total liabilities	39,798,751	41,295,795	39,238,090	41,815,433
Net assets				
Invested in capital assets net of related debt	4,145,466	4,954,290	12,419,699	10,893,411
Restricted – expendable	633,156	822,574	2,435,440	2,111,811
Unrestricted	7,546,513	6,083,309	888,522	3,732,565
Total net assets	$ 12,325,135	11,860,173	15,743,661	16,737,787
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 25,506,786	25,121,727	7,635,173	7,611,428
Operating expenses	(21,427,705)	(20,016,253)	(4,442,594)	(4,353,327)
Depreciation and amortization	(1,796,052)	(1,802,461)	(1,434,304)	(964,147)
Operating income	$ 2,283,029	3,303,013	1,758,275	2,293,954
Non-Operating Revenues (Expenses)				
Capital Grants	$ 168,440	168,440	-	-
Investment income	543,681	175,871	376,031	375,962
Transfers for campus support	(541,524)	(541,524)	(1,570,776)	(1,570,784)
Interest expense on capital debt	(1,988,664)	(999,535)	(1,557,656)	(776,035)
Total other expenses	(1,818,067)	(1,196,748)	(2,752,401)	(1,970,857)
Change in net assets	464,962	2,106,265	(994,126)	323,097
Net assets, beginning of year	11,860,173	9,753,908	16,737,787	16,414,690
Net assets, end of year	$ 12,325,135	11,860,173	15,743,661	16,737,787

Note 6: Revenue Bond Fund Information, Continued

		Series 2006 and 2003 Student Fee Revenue Bonds		Series 2006, 2004, and 2003 Parking Facilities Revenue Bonds	
		2006	2005	2006	2005
Condensed Statements of Cash Flows					
Net cash flows provided by operating activities	$	3,427,233	5,445,644	3,035,531	3,692,621
Net cash flows used in non capital financing		(541,524)	(541,524)	(1,570,776)	(1,570,784)
Net cash flows provided by capital and related financing activities		(5,871,738)	(14,342,614)	(6,574,114)	(17,621,605)
Net cash flows provided by investing activities		3,363,027	12,128,442	3,414,003	13,899,351
Net increase (decrease) in cash and cash equivalents		376,998	2,689,948	(1,695,356)	(1,600,417)
Cash and cash equivalents, beginning of year		7,074,628	4,384,680	4,312,134	5,912,551
Cash and cash equivalents, end of year	$	7,451,626	7,074,628	2,616,778	4,312,134

Note 7: State Appropriations and Allocations from Other State Agencies

The Colorado State General Assembly establishes spending authority for the Center in its annual Long Appropriations Bill. Long Bill 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. The State appropriated $14,322,136 of authorized spending to be provided by transfers from the constituent institutions. The Center received $14,305,316 from the institutions, including $575,000 for increased utility costs. In addition, the Center received spending authority of $2,650,000 to record revenue resulting from sales and services to the institutions from the Center's non-exempt auxiliary enterprises. The Center recorded actual revenues from these sales and services of $2,264,486 in fiscal year 2006.

All other revenues, expenditures and transfers reported by the Center represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain revenues of auxiliary, self-funding activities and miscellaneous revenues.

Note 8: The Auraria Foundation

The Auraria Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Auraria Higher Education Center. The Foundation was organized and incorporated in 1983 for the purpose of receiving gifts, legacies and grants of money and property and administering those exclusively for educational purposes entirely benefiting the Center and its constituent institutions. Although the Center does not control the timing or amount of receipts from the Foundation, the majority of resources that the Foundation holds and invests are restricted to the activities of the Center. Therefore, the Foundation is considered a component unit of the Center and is discretely presented in the Center's financial statements. The Vice Chairman of the Board of Directors of the Center and the Center's Executive Vice President of Administration serve on the Foundation's ten-person Board of Directors.

The financial statements of the Foundation include the accounts of the Foundation and the Inn at Auraria LLC (the Inn), a separate not-for-profit organization established to provide housing for the students of the Auraria institutions by issuing debt to purchase, remodel and operate a housing facility near the Auraria campus.

On July 22, 2005 the Inn received a $37,280,000 loan from the Colorado Educational and Cultural Facilities Authority (CECFA) through the issuance of long-term serial bonds (Series 2005A and 2005B) and purchased the top fourteen floors of the former Executive Tower Inn building for student housing. The facility opened to student residents on August 19, 2006.

The Foundation, in conjunction with the Colorado Postsecondary Educational Facilities Authority and CECFA, issued tax-exempt bonds for the purchase of buildings that were leased to one of the Center's constituent institutions, the University of Colorado at Denver Health Sciences Center (UCDHSC). In June, 2006 the Foundation sold their buildings at 1380 Lawrence and Dravo to UCDHSC and pledged $3,000,000 from the proceeds to the Center to be used toward the costs of the Science Building Addition/Renovation Project and $500,000 to the Center for the Night Lighting and Emergency Phones Project. These amounts are not recorded as receivables the Center's financial statements. Both of these projects are scheduled to begin in fiscal year 2007.

The Foundation has a contract with the Center under which the Center provides staff for the management of the Foundation. Under that agreement, the Foundation paid the Center $15,000 during each of the years ended June 30, 2006 and 2005.

During fiscal year 2006, the Foundation devoted a significant amount of time to the construction activities of the Inn at Auraria. At June 30, 2006 the Foundation has recorded a $30,000 liability to the Center as payment of these services.

Note 8: The Auraria Foundation, Continued

The Foundation leases the Saint Francis Center building to the Center to provide office space for campus activities and for conferences. The lease requires the Center to pay an annual lease payment and the operating costs of the building. The Center paid the Foundation $38,625 for the use of the St. Francis Center during each of the years ended June 30, 2006 and 2005. In addition, the Center paid the Foundation $25,000 for rent of meeting space, building repairs and fees related to the financing of the administrative office facility during each of the years ended June 30, 2006 and 2005.

Note 9: Pension Plan

Plan Description

Most of the Center's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements at December 31, 2005, presented the state and school portions of the trust as a single division.

Employees hired by the state after January 1, 2006, are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed another 60 days to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan. PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Note 9: Pension Plan, Continued

Defined benefit plan members vest after five years of service, and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive plan members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at 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. State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

Funding Policy

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

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2005, to December 31, 2005, the state contributed 10.15 percent (12.85 percent for state troopers and 13.66 percent for the Judicial Branch) of the employee's salary. From January 1, 2006, through June 30, 2006, the state contributed these same percentage amounts plus an additional .5 percent for the Amortization Equalization Disbursement discussed below. During all of Fiscal Year 2005-06, 1.02 percent of the employees total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the State and School Division of PERA was under funded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

Note 9: Pension Plan, Continued

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

In the 2006 legislative session, along with other significant provisions affecting the plan, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage point through 2013 resulting in a cumulative increase of three percentage points. The SAED will be terminated when each division's trust fund reaches 100 percent funding. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries and used by the employer to pay the SAED.

The Center's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2006, 2005, and 2004 were $1,282,677, $1,212,451 and $1,201,917, respectively. These contributions met the contribution requirement for each year.

Note 10: Voluntary Tax-Deferred Retirement Plans

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 403b or 401(a) plans.

Note 11: Post Retirement Health Care and Life Insurance Benefits

<u>Health Care Program</u>

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; the program was converted to a trust fund in 1999. 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 2006, the premium subsidy was $115.00 for those with 20 years of service credit ($230.00 for members under age 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

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

Note 11: Post Retirement Health Care and Life Insurance Benefits, Continued

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2005, there were 41,080 enrollees in the plan.

Life Insurance Program

During fiscal year 2006, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,180 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 13,375 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

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: Litigation

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Legislative Audit Committee:

We have audited the financial statements of Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 12, 2006. 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.

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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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

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

October 12, 2006

REQUIRED COMMUNICATION LETTER

October 12, 2006

Members of the Legislative Audit Committee:

We have audited the basic financial statements of Auraria Higher Education Center (the Center), a blended component unit of the State of Colorado, for the year ended June 30, 2006 and have issued our report thereon dated October 12, 2006.

Our professional standards require that we provide you with information about significant matters related to our audit in order to assist you with your oversight responsibilities of the financial reporting process, and to comply with our professional responsibilities to the Members of the Legislative Audit Committee. We have prepared the following comments:

Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*, Issued by the Comptroller General of the United States.

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally Accepted Accounting Principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

In planning our audit, we considered the internal control of the Center for the purpose of determining our audit procedures and not to provide any assurance concerning internal control. Our comment on the Center's internal control can be found beginning on page 7 of this document.

Significant Accounting Policies

The Center's significant accounting policies are discussed in Note 1 to the Center's 2006 financial statements. During fiscal year 2004, the Center adopted GASB 39, *Determining Whether Certain Organizations are Component Units.* Accordingly, the financial statements of the Auraria Foundation are attached to the Center's financial statements.

Management Judgments and Accounting Estimates
Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's use of estimates is disclosed in the notes to the basic financial statements, and include estimates for items such as allowances for doubtful accounts, useful lives of capital assets, and compensated absences. We have performed analytical procedures and made inquiries related to significant 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 Center's reporting process. All audit differences (whether recorded or uncorrected) were reviewed with management. We posted one audit adjustment to properly state interest expense and the loss on the refinance of the Administrative Certificates of Participation which were current refunded in 2006.

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. There were no significant uncorrected misstatements pertaining to the most recent period presented in the basic financial.

Disagreements with Management
There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the Center's basic financial statements or our report on those financial statements.

Consultations with Other Accountants
We are not aware of any consultations management may have had with other accountants on the application of U.S. generally accepted accounting principles and U.S. generally accepted auditing standards.

Major Issues Discussed with Management Prior to Retention
There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Difficulties Encountered in Performing the Audit

Difficulties were related to the Center's current accounting system, FRS, because of the lack of user-friendly system generated reports which resulted in the use of spreadsheets for analysis and financial statement preparation.

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This report is intended solely 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 that these specified parties. However, this report is a matter of public record upon release by the Legislative Audit Committee.

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.

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