



AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Report Summary

Year ended June 30, 2013

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Auraria Higher Education Center (the Center) for the year ended June 30, 2013. KPMG performed this 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. We conducted the related fieldwork from May 2013 to October 2013.

The purpose and scope of our audit was to:

- Express opinions on the financial statements of the Center as of and for the years ended June 30, 2013 and 2012. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate the Center's compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior audit findings and recommendations.

Audit Opinion and Reports

We expressed an unqualified opinion on the Center's financial statements as of and for the years ended June 30, 2013 and 2012.

We issued a report on the Center's 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*. 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 deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We noted no instances involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Summary of Key Findings

There were no reported findings and recommendations resulting from the audits for fiscal years 2013 and 2012.

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Financial and Compliance Audit

Description of Auraria Higher Education Center

Year ended June 30, 2013

Organization

The Board of Directors of the Center is a corporate body 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 Metropolitan State College of Denver (MSU Denver), the University of Colorado Denver (CU Denver), and the Community College of Denver (CCD) (the constituent institutions). The Center operates shared facilities on the Auraria 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 various parking facilities. The Center provides a number of shared student and administrative services to the constituent institutions.

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

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Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2013

We have audited the financial statements of the Center as of and for the years ended June 30, 2013 and 2012 and have issued our report thereon, dated November 15, 2013. In planning and performing our audit of the financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion of the Center's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated November 15, 2013 on our consideration of the Center's internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since November 15, 2013. We did not audit the financial statements of the Auraria Higher Education Center Foundation (the Foundation) discussed in note 1 to the financial statements. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards*, and included an explanatory paragraph about the Inn at Auraria's (a discretely presented component unit of the Foundation) ability to continue as a going concern.

The maintenance of adequate internal control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Additionally, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

There were no findings and recommendations resulting from the audits for fiscal years 2013 and 2012.



KPMG LLP
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Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Auraria Higher Education Center (the Center), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits and the reports of other auditors. We did not audit the financial statements of the Auraria Foundation (the Foundation), a discretely presented component unit discussed in note 1 to the financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the report of other auditors. 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Auraria Higher Education Center as of June 30, 2013 and 2012, and the



respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

The financial statements of the discretely presented component unit were prepared assuming that the Inn at Auraria, LLC will continue as a going concern. As discussed in note 4 to the financial statements of the discretely presented component unit, the Inn at Auraria, LLC has a net asset deficiency and is in default under the Series 2005 Revenue Bond agreements as of June 30, 2013 and 2012, and has had decreases in unrestricted net assets for the years ended June 30, 2013 and 2012, all which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are discussed in note 4 of the discretely presented component unit. The financial statements on the discretely presented component unit do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. Also, as discussed in note 4 to the discretely presented component unit, the June 30, 2012 financial statements of the Inn at Auraria, LLC have been restated to correct a misstatement. Our opinion is not modified with respect to these matters.

As discussed in note 1, the financial statements of the Auraria Higher Education Center, an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of the Auraria Higher Education Center. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, in fiscal year 2013, the Center adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 7 to 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013 on our consideration of the 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 control over financial reporting and compliance and the



results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado
November 15, 2013

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

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 years ended June 30, 2013 and 2012 with comparative information for 2011. The purpose of this section is to provide an objective and easily readable analysis of the Center's financial position and results of operations based on currently known facts, decisions, and opinions. It should be read in conjunction with the financial statements and the related notes.

Understanding the Comparative Financial Report

The financial statements of the Center are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Effective June 30, 2013, the Center adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. Accordingly, the financial statements of the Auraria Foundation are included with the Center's financial statements and discussed in more detail in note 7 to the financial statements.

This report contains three financial statements: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. The statements report on all of the Center's activities including services provided to the Community College of Denver, Metropolitan State University of Denver, and the University of Colorado Denver (the constituent institutions), parking operations, and student fee operations. This management's discussion and analysis focuses on the financial activities of the Center and not the discretely presented component unit, the Auraria Foundation.

The statements of net position and the statements of revenues, expenses, and changes in net position report the Center's net position 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.

As of June 30, 2013, the Center implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was effective for financial statements for periods beginning after December 15, 2011. The statement provides financial reporting guidance for deferred outflows and deferred inflows of resources, and renames the residual of all financial statement elements as net position. The Center's net position, based on the renaming and definitions provided in the statement, comprises the following components:

- *Net investment in capital assets* – consists of the Center's investment in capital assets (e.g., land, buildings, and equipment), net of accumulated depreciation, and deferred outflows of resources, reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvements of those assets. The Center uses these capital assets to provide services to the three constituent institutions and the public; consequently, these assets are not available for future spending.
- *Restricted for expendable purposes* – represents resources that are subject to external restrictions on how they may be used, and consists of restricted assets reduced by restricted liabilities where that restricted liability will generally be liquidated with the restricted assets reported.

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- *Unrestricted* – represents resources that may be used to meet the Center's ongoing obligations to the constituent institutions and creditors, and is not included in the determination of net investment in capital assets or restricted for nonexpendable purposes components of net position.

In conjunction with the adoption of GASB No. 63, the Center also early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012 with early application encouraged. The statement establishes accounting and financial reporting standards to reclassify, as deferred outflows or inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. Accounting changes adopted to conform to the provisions of the statement were applied retroactively by restating financial statements for all prior periods presented.

This statement impacted the Center's financial statements by reclassifying the entire deferred loss on debt refunding from noncurrent bonds payable to deferred outflows of resources, and restating beginning net position for the portion of bond issuance costs that should have been expensed when incurred in the amount of \$767,562. The remaining portion of prepaid bond costs, bond insurance premiums, relates to the unamortized prepaid insurance costs and is amortized over the duration of the related debt. The statement also changed the naming and presentation of some financial statement elements, including removing the word "deferred" from other restricted noncurrent liabilities and providing for reclassifications of certain prior year balances to conform to the current year presentation.

Statements of Net Position

The Center's net position, the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, are one way to measure the Center's financial health (or financial position). Over time, increases or decreases in the Center's net position are one indicator of whether its financial health is improving or deteriorating. Nonfinancial factors are also important to consider, including student enrollment at the constituent institutions and the condition of campus buildings.

As of June 30, 2013 and 2012, total assets and deferred outflows of resources of the Center exceeded total liabilities by \$167.5 million and \$176.4 million, respectively. The largest portion of this excess, 83.3% in 2013 and 85.7% in 2012, was net investment in capital assets. Since these are capital assets that provide the facilities and infrastructure necessary for the three constituent institutions to provide educational services, these assets are not available for future spending. The amount of unrestricted net position as of June 30, 2013 was \$19.9 million compared to \$19.0 million in 2012, which represents 11.9% of net position in 2013 and 10.8% of net position in 2012. Restricted net position totaled \$8.1 million as of June 30, 2013 compared to \$6.2 million in 2012, which represents 4.8% of net position in 2013 and 3.5% of net position in 2012.

During fiscal year 2013, total net position decreased approximately \$8.8 million from fiscal year 2012. Total assets and deferred outflows of resources increased \$4.9 million primarily due to the receipt of \$16 million in bond proceeds for the construction of a new parking garage at the corner of 5th Street and Walnut Street, which broke ground in July 2013, the elimination of the receivable from the State of Colorado (the State) for the Science Building Project, which was closed out in September 2012, and from current year depreciation on capital assets. Total liabilities increased \$13.8 million, primarily due to an increase in long-term debt of \$14.6 million resulting from the issuance of \$15.7 million in Series 2013A Parking Revenue Bonds to finance the construction

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of the new parking garage, and offset by a \$1.2 million decreases in accounts payable and accrued liabilities. During fiscal year 2012, total net position decreased approximately \$6.9 million from fiscal year 2011. Total assets and deferred outflows of resources decreased \$9.6 million primarily due to the use of construction funds due and receivable from the State for the Science Building Project and from depreciation on capital assets. Total liabilities decreased \$2.7 million primarily due to a decrease in long-term debt of \$6.2 million offset by increases in accounts payable and accrued liabilities, deposit held for others and unearned revenue.

Condensed Statements of Net Position

| | June 30 | | |
|---|-------------------|-----------------------|----------------------|
| | 2013 | 2012 | 2011 |
| | | (as restated) | (as restated) |
| | | (In thousands) | |
| Assets: | | | |
| Current assets | \$ 29,529 | 34,481 | 26,266 |
| Capital assets, net | 226,274 | 233,387 | 239,664 |
| Other noncurrent assets | 44,031 | 27,116 | 38,444 |
| Total assets | <u>299,834</u> | <u>294,984</u> | <u>304,374</u> |
| Deferred outflows of resources | <u>1,436</u> | <u>1,368</u> | <u>1,551</u> |
| Total assets and deferred outflows of resources | <u>\$ 301,270</u> | <u>296,352</u> | <u>305,925</u> |
| Liabilities: | | | |
| Current liabilities | \$ 17,943 | 19,005 | 16,632 |
| Noncurrent liabilities | 115,794 | 100,969 | 105,996 |
| Total liabilities | <u>\$ 133,737</u> | <u>119,974</u> | <u>122,628</u> |
| Net position: | | | |
| Net investment in capital assets | \$ 139,567 | 151,158 | 155,951 |
| Restricted for expendable purposes | 8,097 | 6,203 | 8,587 |
| Unrestricted | 19,869 | 19,017 | 18,759 |
| Total net position | <u>\$ 167,533</u> | <u>176,378</u> | <u>183,297</u> |

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position report operating and nonoperating revenues and expenses during the year, and the resulting increase or decrease in net position at the end of the year.

For fiscal year 2013, the operating and nonoperating activities of the Center resulted in a decrease in net position of \$8.8 million as compared to a decrease of \$6.9 million for fiscal year 2012. Operating revenues totaled \$60.4 million while operating expenses totaled \$62.3 million, resulting in an operating loss of \$1.9 million. For fiscal year 2012, the operating and nonoperating activities of the Center resulted in a decrease in net position of \$6.9 million as compared to a decrease of \$7.4 million for fiscal year 2011. Operating revenues totaled

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\$63.9 million while operating expenses totaled \$67.3 million, resulting in an operating loss of \$3.4 million. The decrease in operating loss from fiscal year 2012 to 2013 of \$1.5 million was primarily the result of decreases in Auxiliary Enterprises revenues of \$4.0 million and expenses of \$6.3 million, respectively, resulting from declining textbook sales at the campus bookstore and the completion of fewer auxiliary construction projects on behalf of the constituent institutions. Support from the three constituent institutions increased approximately \$0.8 million from 2012 to 2013, primarily from additional funding of \$0.6 million to support the Center's general operations. In 2013, approximately \$2.9 million of auxiliary revenue and auxiliary reserves were used to support general operating costs. For 2013 and 2012, the State provided \$2.5 million and \$0.9 million, respectively, in capital contributions primarily for the Science Building and the Fire Sprinkler project. For 2013, this was offset by a \$4.1 million adjustment (reduction) to state capital contributions to account for the return of funds receivable from the State of Colorado for the Science Building Project that were not needed to complete the project.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

| | Year ended June 30 | | |
|---------------------------------------|---------------------------|-----------------------|----------------------|
| | 2013 | 2012 | 2011 |
| | | (as restated) | (as restated) |
| | | (In thousands) | |
| Operating revenues: | | | |
| Auxiliary enterprises | \$ 33,321 | 37,327 | 36,636 |
| Revenue from constituent institutions | 21,016 | 20,218 | 18,025 |
| Student fees | 5,588 | 5,839 | 5,805 |
| Other operating revenues | 458 | 505 | 302 |
| Total operating revenues | <u>60,383</u> | <u>63,889</u> | <u>60,768</u> |
| Operating expenses: | | | |
| Auxiliary enterprises | 29,032 | 35,338 | 32,856 |
| Operation and maintenance of plant | 16,002 | 15,097 | 12,739 |
| Institutional support | 3,486 | 3,313 | 3,111 |
| Academic support | 1,255 | 1,250 | 1,273 |
| Public service | 29 | 32 | 126 |
| Depreciation | 12,465 | 12,234 | 11,673 |
| Total operating expenses | <u>62,269</u> | <u>67,264</u> | <u>61,778</u> |
| Operating loss | <u>(1,886)</u> | <u>(3,375)</u> | <u>(1,010)</u> |

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Management's Discussion and Analysis

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(Unaudited)

| | Year ended June 30 | | |
|---|---------------------------|-------------------------------|-------------------------------|
| | 2013 | 2012 (as restated) | 2011 (as restated) |
| | | (In thousands) | |
| Nonoperating revenues (expenses): | | | |
| Investment income | \$ 239 | 452 | 478 |
| Interest expense on capital debt | (5,704) | (5,376) | (6,316) |
| Gain (loss) on disposal of capital assets | 25 | (322) | 38 |
| Total nonoperating expenses, net | (5,440) | (5,246) | (5,800) |
| Capital contributions, grants, and gifts | (1,519) | 1,702 | (592) |
| Decrease in net position | (8,845) | (6,919) | (7,402) |
| Net position, beginning of year | 176,378 | 183,297 | 190,699 |
| Net position, end of year | \$ 167,533 | 176,378 | 183,297 |

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions showed an average decrease between Fall of 2011 and Fall of 2012 of 3.8% due to a 10.4% decrease for Community College of Denver, a 2.6% decrease for University of Colorado Denver and a 2.1% decrease for Metropolitan State University of Denver. Estimates for Fall of 2013 predict no enrollment change for Metropolitan State University of Denver and University of Colorado Denver, but an 8% to 10% decline in enrollment for the Community College of Denver.

Capital Assets

At June 30, 2013, the Center had approximately \$226.3 million invested in capital assets, net of accumulated depreciation of approximately \$186.7 million. At June 30, 2012, the Center had approximately \$233.4 million invested in capital assets, net of accumulated depreciation of approximately \$175.4 million. For the years ended June 30, 2013 and 2012, depreciation expense was approximately \$12.5 million and \$12.2 million, respectively.

A summary of capital assets is provided below:

| | June 30 | | |
|----------------------------|----------------|----------------|-------------|
| | 2013 | 2012 | 2011 |
| | | (In thousands) | |
| Land | \$ 27,896 | 27,896 | 26,737 |
| Land improvements | 6,161 | 6,835 | 8,296 |
| Buildings and improvements | 186,444 | 195,708 | 200,918 |
| Equipment | 3,044 | 2,414 | 2,121 |
| Construction in progress | 2,729 | 534 | 1,592 |
| Total capital assets, net | \$ 226,274 | 233,387 | 239,664 |

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Construction in progress increased approximately \$2.2 million during fiscal year 2013 due to start of the 5th Street Garage project and continued work on the Infrastructure and Fire Sprinkler System projects. The Science Building renovation and expansion project, which added approximately 196,000 additional gross square feet of academic space, was occupied and opened for classes in January 2011. This resulted in \$92.0 million of accumulated construction in progress being placed into service for the fiscal year 2011. As of July 1, 2012, there were some pending construction in progress project tasks that needed to be performed and all costs were incurred and the project was closed out in September 2012.

In December 2008, the Center purchased a parcel of land adjacent to campus, increasing the acreage of the campus by 13.54 acres. The cost of the new parcel was approximately \$16.5 million, and as part of the campus master plan, the Center's Board of Directors, at their December 2010 meeting, approved the property as the location for the relocated tennis courts and MSU Denver's athletic fields (soccer field, baseball field, and softball field). Construction began in February 2013.

On October 7, 2010, the Regional Transportation District (RTD) filed a Petition in Condemnation to acquire 1.04 acres of the aforementioned 13.54 acres of land. On December 8, 2010, the Court granted immediate possession of the property to RTD, including any and all claims, rights, title, interests, easements, liens, encumbrances, reversionary interests, and rights of entry, upon payment of just compensation in the amount of \$1,515,700.

Net proceeds from the land condemnation in the amount of \$1,491,120 are currently being held by Wells Fargo Bank, as trustee, until these funds are needed to pay the final debt service obligations on the Series 2008 Land Acquisition Certificates, with final maturity on May 1, 2028.

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

Bonds and Capital Leases

At June 30, 2013, the Center had approximately \$120.1 million of bond and capital lease obligations outstanding as compared to \$105.4 million in 2012. The table below summarizes this debt by type. The outstanding revenue bonds as of June 30, 2013 are comprised of Parking Revenue Bonds totaling \$46.6 million and Student Fee Revenue Bonds totaling \$29.4 million. The Center issued \$16.5 million in new Parking Revenue Bonds to finance the construction of a new 4-level, 925 space parking garage. In addition, the Center issued \$18.4 million in new Student Fee Refunding Bonds to current refund \$15.9 million in Student Fee bond obligations originally issued in 2003. These debt service requirements are met by pledged revenues from the Center's parking operations and from student fees.

The capital lease obligations as of June 30, 2013 comprise three Certificates of Participation totaling \$44.1 million. The constituent institutions share in the cost of debt service of the three Certificates of Participation. During fiscal year 2013, the constituent institutions provided funding of \$2.3 million in excess of their annual allocation of state-appropriated funds to help fund these capital lease obligations.

During fiscal year 2013, long-term debt increased \$14.6 million as the result of the Center issuing \$16.5 million in new Parking Revenue Bonds to finance the construction of the new parking garage.

See note 5 to the financial statements for additional information on bond and capital lease activity during the fiscal year.

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Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

Long-Term Debt

| | | June 30 | |
|------------------------------------|-------------|----------------------|----------------------|
| | 2013 | 2012 | 2011 |
| | | (as restated) | (as restated) |
| | | (In thousands) | |
| Auxiliary enterprise revenue bonds | \$ 75,976 | 59,328 | 63,612 |
| Capital lease obligations | 44,092 | 46,111 | 48,041 |
| Total long-term debt | \$ 120,068 | 105,439 | 111,653 |

Economic Outlook

During fiscal year 2013, the constituent institutions' allocation to fund the Center's general operations was \$16.9 million, as compared to \$16.3 million for fiscal year 2012. In addition, the constituent institutions provided an additional \$1.9 million in funding to be used exclusively for deferred maintenance projects across the aging campus. The Center's budget for fiscal year 2014 does reflect a 4.6% increase to the base allocation of the constituent institutions to fund salary and benefit increases and two additional police positions.

During the past 5 to 10 years, enrollment growth has made classroom space a premium on the Auraria campus. The campus added a total of 38 modular units to help address the classroom shortage issue, but additional space was still needed. An extensive master plan study for the entire campus has been completed and provides direction on how to develop the campus over the next 20 years. The master plan identified areas of the Auraria Campus for each of the three constituent institutions to create their own neighborhoods, and for new facilities to be developed within those neighborhoods, primarily utilizing existing parking lots. As a result, during the last several years, the constituent institutions have been working earnestly to formulate plans to fund and build institution-specific buildings, as described in the campus master plan. On March 19, 2012, the first institution-specific building was opened to students, faculty, and staff by MSU Denver. The new Student Success Building adds an estimated 145,000 square feet of space on campus for classrooms and faculty offices, specifically for MSU Denver students and professors, and will provide students with a central location for a wide range of MSU Denver support services. Several months later, on August 1, 2012, MSU Denver opened its second building, the new Spring Hill Suites Hotel and Hospitality Learning Center, which includes a 150-room hotel and conference center as well as an additional 28,000 square feet of space, including classrooms, specialty learning labs, and faculty offices, to provide hands on training opportunities for students in MSU Denver's Hospitality, Tourism and Events Department. The operations of the Marriott chained hotel, are being managed by a hotel management company. On May 2, 2013, the Community College of Denver (CCD) opened its new building, Confluence, which adds an estimated 87,000 square feet of space on campus for classrooms, administrative offices, and a wide range of CCD support services. Finally, the University of Colorado Denver broke ground on January 31, 2013 on its new 120,000-square foot academic building that will be home to the College of Liberal Arts and Sciences as well as provide a consolidated location for student services. The new building is expected to be completed by July 2014.

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

In addition to adding new buildings on the Auraria Campus, MSU Denver began construction in February 2013 of a new 12.5-acre athletic complex that will be built in phases. Eight tennis courts and a fitness trail encircling the site were completed in August 2013, with the future addition of fields for soccer, baseball, and softball coming as funding becomes available. The complex will serve varsity athletics, intramural sports, and academic programs as well as provide health, sports, and recreation opportunities to the surrounding underserved Denver communities and to downtown Denver businesses and residents. The site was financed and purchased by the Center in December 2008.

In November 2010, the Center prepared a comprehensive Parking Strategic Plan to provide a long-range strategy that will allow the Center's parking enterprise to meet future financial obligations and address future capital needs in the midst of shrinking parking availability. The plan was presented to the Auraria Board of Directors and on February 23, 2011, a five-year price structure was approved, which included a price increase of approximately 15% for the 2011 – 12 fiscal year, the first increase since 2008, and a price increase of approximately 11% for the 2013 – 14 fiscal year. The plan provides for the annual transfer of \$1.5 million to a parking capital reserve fund to accumulate funds towards the future construction of an additional parking structure, which will alleviate the future loss of parking spaces as the institutions continue to construct new buildings in their campus neighborhoods. The plan also provides for capital expenditures of almost \$4.0 million over the next five years to upgrade the parking infrastructure.

From the Fall of 2010 to the Fall of 2012, parking capacity declined over 1,100 spaces, from 6,858 to 5,733 as a result of the ongoing construction by the three constituent institutions. As a result, the Board approved the construction of a new \$20 million parking structure at their December 2012 meeting. The new parking garage broke ground in July 2013 and is expected to be completed by July 2014. The structure is being funded with \$16 million in bond proceeds and \$4 million in cash accumulated in the parking capital reserve fund.

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 childcare center, and all parking facilities. However, these fees and charges are not sufficient to cover the ongoing maintenance needs of the general classroom facilities built approximately 34 years ago. The campus has one of the highest classroom utilization rates in the nation. State funding for maintenance projects has been limited and inadequate to meet the ever-increasing needs of the Center's aging campus infrastructure. Therefore, recognizing that reliance on the State is unrealistic given the current economic conditions, the Center prepared an 8-year deferred maintenance plan, totaling over \$28.8 million, for the review and consideration of the constituent institutions. For year one, the 2012 fiscal year, the three institutions committed and funded an additional appropriation of \$1.7 million to be exclusively used on deferred maintenance projects. For year two, the 2013 fiscal year, the three institutions committed and funded an additional appropriation of \$1.9 million for deferred maintenance. As part of the Center's fiscal year 2013 – 14 budget, the three institutions committed and funded an additional appropriation, over and above the \$17.7 million for general campus operations, of \$1.9 million, which was earmarked exclusively for deferred maintenance projects. To date, the deferred maintenance plan has focused on maintenance projects primarily tied to life safety and critical campus operations. During future budget discussions, the Center will work closely with the constituent institutions to continue to secure funding for the deferred maintenance plan.

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller's Office at the Auraria Higher Education Center at P.O. Box 173361, Campus Box B, Denver, Colorado 80217.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Net Position

June 30, 2013 and 2012

| Assets and Deferred Outflows of Resources | 2013 | 2012 (as restated) |
|--|-----------------------|-------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 20,831,844 | 22,407,989 |
| Accounts receivable, net | 5,490,228 | 3,891,268 |
| Notes receivable – current | 736,505 | 5,422,515 |
| Inventories | 2,351,922 | 2,656,768 |
| Prepaid expenses | 118,282 | 102,120 |
| Total current assets | <u>29,528,781</u> | <u>34,480,660</u> |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 7,446,925 | 5,904,089 |
| Bond proceeds restricted for capital projects | 16,000,000 | — |
| Restricted investments | 4,732,346 | 4,603,994 |
| Notes receivable | 15,379,810 | 16,116,315 |
| Prepaid bond costs | 472,752 | 492,233 |
| Capital assets, net | 226,273,760 | 233,387,002 |
| Total noncurrent assets | <u>270,305,593</u> | <u>260,503,633</u> |
| Total assets | <u>299,834,374</u> | <u>294,984,293</u> |
| Deferred outflows of resources: | | |
| Deferred amount on refunding | 1,435,501 | 1,367,941 |
| Total assets and deferred outflows of resources | <u>\$ 301,269,875</u> | <u>296,352,234</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 5,576,478 | 6,799,185 |
| Interest payable | 683,602 | 591,094 |
| Deposits held for others | 4,378,140 | 4,459,203 |
| Unearned revenue | 1,628,484 | 1,303,749 |
| Long-term debt, current | 5,564,044 | 5,758,483 |
| Compensated absences liability, current | 112,002 | 93,243 |
| Total current liabilities | <u>17,942,750</u> | <u>19,004,957</u> |
| Noncurrent liabilities: | | |
| Long-term debt | 114,503,705 | 99,680,905 |
| Compensated absences liability | 1,290,401 | 1,288,138 |
| Total noncurrent liabilities | <u>115,794,106</u> | <u>100,969,043</u> |
| Total liabilities | <u>\$ 133,736,856</u> | <u>119,974,000</u> |
| Net Position | | |
| Net position: | | |
| Net investment in capital assets | \$ 139,566,697 | 151,157,932 |
| Restricted for expendable purposes | 8,096,820 | 6,203,461 |
| Unrestricted | 19,869,502 | 19,016,841 |
| Total net position | <u>\$ 167,533,019</u> | <u>176,378,234</u> |

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER

Discretely Presented Component Unit

Statements of Financial Position

June 30, 2013 and 2012

| Assets | 2013 | | | 2012 | | |
|--|------------------------|---------------------------|-------------------|--------------------------------------|---------------------------|-------------------|
| | Inn at Auraria, LLC | The Auraria Foundation | Total | Inn at Auraria, LLC (as restated) | The Auraria Foundation | Total |
| Cash and cash equivalents | \$ 709,435 | 90,527 | 799,962 | 300,611 | 86,459 | 387,070 |
| Investments | — | 3,072,214 | 3,072,214 | — | 3,219,261 | 3,219,261 |
| Accounts receivable, net of allowance for doubtful accounts of \$8,377 and \$0, respectively | 44,095 | — | 44,095 | 28,357 | 3,592 | 31,949 |
| Restricted cash | 278,257 | — | 278,257 | 568,178 | — | 568,178 |
| Prepaid expenses and other | 5,881 | 3,019 | 8,900 | 5,787 | 3,866 | 9,653 |
| Advance to Inn at Auraria LLC | — | 588,540 | 588,540 | — | 588,540 | 588,540 |
| Property and equipment, net | 28,774,143 | 197 | 28,774,340 | 28,070,254 | 590 | 28,070,844 |
| Bond issuance costs, net | 618,407 | — | 618,407 | 639,731 | — | 639,731 |
| Elimination of intercompany balances | — | — | (588,540) | — | — | (588,540) |
| Total assets | \$ 30,430,218 | 3,754,497 | 33,596,175 | 29,612,918 | 3,902,308 | 32,926,686 |
| Liabilities and Net Assets (Deficit) | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable and accrued expenses | \$ 128,957 | — | 128,957 | 254,151 | — | 254,151 |
| Deferred rental income | 227,073 | — | 227,073 | 109,771 | — | 109,771 |
| Interest payable | 5,656,130 | — | 5,656,130 | 3,441,994 | — | 3,441,994 |
| Grants payable | — | 2,250 | 2,250 | — | — | — |
| Deferred rent payable | 3,333 | — | 3,333 | — | — | — |
| Due to the Auraria Foundation | 588,540 | — | 588,540 | 588,540 | — | 588,540 |
| Bonds payable in default | 37,280,000 | — | 37,280,000 | 37,280,000 | — | 37,280,000 |
| Elimination of intercompany balances | — | — | (588,540) | — | — | (588,540) |
| Total liabilities | 43,884,033 | 2,250 | 43,297,743 | 41,674,456 | — | 41,085,916 |
| Net assets (deficiency) unrestricted | (13,453,815) | 3,752,247 | (9,701,568) | (12,061,538) | 3,902,308 | (8,159,230) |
| Total liabilities and net assets | \$ 30,430,218 | 3,754,497 | 33,596,175 | 29,612,918 | 3,902,308 | 32,926,686 |

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

| | 2013 | 2012 (as restated) |
|---|----------------|-------------------------------|
| Operating revenues: | | |
| Auxiliary enterprises | \$ 33,320,625 | 37,326,819 |
| Revenue from constituent institutions | 21,015,882 | 20,218,607 |
| Student fees | 5,588,157 | 5,838,832 |
| Other operating revenues | 457,636 | 504,807 |
| Total operating revenues | 60,382,300 | 63,889,065 |
| Operating expenses: | | |
| Auxiliary enterprises | 29,032,217 | 35,337,806 |
| Operation and maintenance of plant | 16,001,836 | 15,097,069 |
| Institutional support | 3,485,763 | 3,313,420 |
| Academic support | 1,255,329 | 1,250,084 |
| Public service | 29,156 | 31,712 |
| Depreciation | 12,464,603 | 12,234,011 |
| Total operating expenses | 62,268,904 | 67,264,102 |
| Operating loss | (1,886,604) | (3,375,037) |
| Nonoperating revenues (expenses): | | |
| Investment income | 239,320 | 452,036 |
| Interest expense on capital debt | (5,704,245) | (5,375,860) |
| Gain (loss) on disposal of capital assets | 25,292 | (321,526) |
| Nonoperating expenses, net | (5,439,633) | (5,245,350) |
| Loss before other revenues, expenses, gains, or losses | (7,326,237) | (8,620,387) |
| Other revenues, expenses, gains, or losses: | | |
| State capital contributions (note 15) | (1,518,978) | 870,112 |
| Capital grants and gifts | — | 831,552 |
| Decrease in net position | (8,845,215) | (6,918,723) |
| Net position, beginning of year, as restated (note 1(s)) | 176,378,572 | 183,297,295 |
| Net position, end of year | \$ 167,533,357 | 176,378,572 |

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER

Discretely Presented Component Unit

Statements of Activities

Years ended June 30, 2013 and 2012

| | 2013 | | | 2012 | | |
|---|-------------------------------|-----------------------------------|--------------------|-------------------------------|-----------------------------------|--------------------|
| | <u>Inn at Auraria LLC</u> | <u>The Auraria Foundation</u> | <u>Total</u> | <u>Inn at Auraria LLC</u> | <u>The Auraria Foundation</u> | <u>Total</u> |
| Revenues and other support: | | | | | | |
| Rental income | \$ 3,079,112 | — | 3,079,112 | 2,056,448 | 25,145 | 2,081,593 |
| Investment income | 84 | 302,975 | 303,059 | 45 | 65,307 | 65,352 |
| Miscellaneous income | 428,858 | 49,998 | 478,856 | 288,338 | 50,000 | 338,338 |
| Total revenues and other support | <u>3,508,054</u> | <u>352,973</u> | <u>3,861,027</u> | <u>2,344,831</u> | <u>140,452</u> | <u>2,485,283</u> |
| Expenses: | | | | | | |
| Inn at Auraria LLC operations | 4,462,035 | — | 4,462,035 | 4,194,460 | — | 4,194,460 |
| St. Francis program expense | — | — | — | — | 40,026 | 40,026 |
| Donations to AHEC | — | 448,262 | 448,262 | — | 1,053,039 | 1,053,039 |
| General and administrative | 438,296 | 54,772 | 493,068 | 373,036 | 61,363 | 434,399 |
| Total operating expenses | <u>4,900,331</u> | <u>503,034</u> | <u>5,403,365</u> | <u>4,567,496</u> | <u>1,154,428</u> | <u>5,721,924</u> |
| Change in net assets | (1,392,277) | (150,061) | (1,542,338) | (2,222,665) | (1,013,976) | (3,236,641) |
| Unrestricted net assets (deficit), beginning of year | <u>(12,061,538)</u> | <u>3,902,308</u> | <u>(8,159,230)</u> | <u>(9,838,873)</u> | <u>4,916,284</u> | <u>(4,922,589)</u> |
| Unrestricted net assets (deficit), end of year | <u>\$ (13,453,815)</u> | <u>3,752,247</u> | <u>(9,701,568)</u> | <u>(12,061,538)</u> | <u>3,902,308</u> | <u>(8,159,230)</u> |

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---------------|--------------|
| Cash flows from operating activities: | | |
| Cash received: | | |
| Student fees | \$ 5,286,003 | 6,010,113 |
| Revenue from constituent institutions | 20,495,985 | 19,950,616 |
| Sales of products and services | 33,144,690 | 37,872,183 |
| Cash payments: | | |
| Payments for employees | (21,403,572) | (20,387,967) |
| Payments to suppliers | (29,467,863) | (32,469,007) |
| Net cash provided by operating activities | 8,055,243 | 10,975,938 |
| Cash flows from capital and related financing activities: | | |
| Proceeds from capital debt | 34,864,872 | — |
| Acquisition and construction of capital assets | (1,865,092) | (839,296) |
| Principal received on notes receivable | 703,028 | 664,768 |
| Principal paid on debt refunding | (15,300,000) | — |
| Principal paid on long-term debt | (5,758,483) | (7,023,080) |
| Interest paid on long-term debt | (4,843,846) | (4,378,889) |
| Net cash provided by (used in) capital and related financing activities | 7,800,479 | (11,576,497) |
| Cash flows from investing activities: | | |
| Sales of investments | 83,404 | 1,495,287 |
| Investment income | 27,565 | 404,035 |
| Net cash provided by investing activities | 110,969 | 1,899,322 |
| Net increase in cash and cash equivalents | 15,966,691 | 1,298,763 |
| Cash and cash equivalents, beginning of year | 28,312,078 | 27,013,315 |
| Cash and cash equivalents, end of year | \$ 44,278,769 | 28,312,078 |

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|-------------------|
| Reconciliation of operating loss to net cash provided by | | |
| Operating activities: | | |
| Operating loss | \$ (1,886,604) | (3,375,375) |
| Adjustments to reconcile operating loss to net cash | | |
| provided by operating activities: | | |
| Depreciation | 12,464,603 | 12,234,011 |
| Bad debt expense | 77,740 | 93,978 |
| Supplies and materials purchased with state funds | — | 387,330 |
| Decrease (increase) in assets: | | |
| Accounts receivable | (1,646,584) | (1,608,850) |
| Inventories | 304,846 | (100,634) |
| Prepaid expenses | (16,162) | (1,812) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued liabilities | (1,507,290) | 2,055,509 |
| Unearned revenues | 324,735 | 475,863 |
| Compensated absences liability | 21,022 | (83,929) |
| Deposits held for others | (81,063) | 899,847 |
| Net cash provided by operating activities | \$ <u>8,055,243</u> | <u>10,975,938</u> |
| Noncash operating and capital activities: | | |
| Acquisitions under capital lease arrangements: | | |
| Capital assets: | | |
| Notes receivable | \$ 662,167 | 3,870,394 |
| Acquisitions and construction of capital assets funded by | | |
| State capital contributions received | 2,470,050 | 870,112 |
| State capital contributions returned | (4,057,438) | — |
| Acquisition and construction of capital assets funded by | | |
| State note receivable | (662,167) | (3,870,394) |
| Donation of land from AHEC Foundation | — | (831,552) |
| Reduction in capital assets for disposal of the tennis courts | — | 425,102 |
| Reduction in capital assets for disposal of copier equipment | (36,817) | — |
| Supplemental cash flow information: | | |
| Accounts payable related to capital asset purchases | \$ 399,930 | 254,141 |

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

(a) *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 revenue from its constituent institutions, student fees, auxiliary sales and services, and fees for services. The Center is responsible for planning and managing the physical plant assets, auxiliary enterprises, and other support services of the Auraria Campus in Denver, Colorado (the Campus). Educational services at the Campus are provided by constituent institutions including the University of Colorado at Denver, Metropolitan State College of Denver, and the Community College of Denver (the constituent institutions).

The financial statements of the Center, which is an institution of higher education of the State, are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of the Center. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Financial results for the State are presented in separate state-wide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in these state-wide financial statements.

The Board of Directors of the Center is a corporate body created by the State. The authority under which the Center operates is Article 70 of Title 23, Colorado Revised Statutes (C.R.S.). The Center's Board of Directors consists of nine voting members and two nonvoting members. Three of the voting members are appointed by the Governor of the State. In addition, the governing boards of each of the three constituent institutions appoint a voting member, and the president or chief executive officer of each of the constituent institutions also serves as a voting member. The nonvoting members are appointed by the students and faculties of the constituent institutions.

(b) *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, 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 or other revenues and expenses. The Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The operations of the Center are accounted for as an enterprise fund business-type activity. Enterprise funds are used to account for those operations for which the pricing policies of the entity

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2013 and 2012

establish fees and charges designed to recover its costs, including capital costs such as depreciation and debt service. In 2013, the Center implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement had no impact on the Center's accounting policies.

Effective June 30, 2013, the Center adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. Accordingly, the financial statements of the Auraria Foundation (the Foundation) are included with the Center's financial statements. The Foundation is the sole member of the Inn at Auraria, LLC (the Inn) that is a limited liability corporation that is legally, financially, and operationally independent of the Foundation. For financial reporting purposes, the Inn is consolidated into the Foundation's reporting entity. The Foundation is a private, nonprofit organization that reports under Financial Accounting Standards Board 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 Foundation's financial statements can be obtained by contacting: Auraria Foundation, Box 173361 Campus Box A, Denver, Colorado 80217-3361.

(c) 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 position during the reporting period. Actual results could differ significantly from those estimates.

(d) Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash and cash equivalents and restricted cash and cash equivalents consisted primarily of U.S. Treasury money market funds, certificates of deposit, cash on hand, and amounts on deposit with the Colorado State Treasurer (the Treasurer).

(e) Investments and Investment Income

Investments in debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in commercial paper are carried at cost, which approximates market.

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

(f) Restricted Cash and Cash Equivalents and Restricted Investments

Restricted cash and cash equivalents and restricted investments consist of deposits held for others and required bond reserves.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2013 and 2012

(g) Accounts Receivable, Net

Accounts receivables, net consist of the following at June 30:

| | 2013 | 2012 |
|---|--------------|-------------|
| Constituent institutions | \$ 3,491,142 | 2,512,519 |
| State of Colorado central collections | 768,104 | 704,315 |
| Book Center credit memos due from vendors | 310,207 | 258,385 |
| Auxiliary enterprises | 584,618 | 611,941 |
| Auraria Foundation | 441,927 | 295,256 |
| Other | 747,145 | 284,028 |
| | 6,343,143 | 4,666,444 |
| Less allowance for doubtful accounts | (852,915) | (775,176) |
| Accounts receivable, net | \$ 5,490,228 | 3,891,268 |

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.

(h) Notes Receivable

In 2009, the Center entered into capital lease arrangements with the constituent institutions to lease space in the Science Building. The proceeds of these capital lease arrangements will be used by the Center to fund the \$20,133,417 due to the State as required under the State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 (the Certification) (refer to note 5 for more details).

Notes receivable consist of the following at June 30:

| | 2013 | 2012 |
|--|---------------|-------------|
| Science building – receivable from constituent institutions, current | \$ 736,505 | 703,027 |
| Science building – receivable from Treasurer, current | — | 4,719,488 |
| Total current | 736,505 | 5,422,515 |
| Science building – receivable from constituent institutions, long term | 15,379,810 | 16,116,315 |
| Total notes receivable | \$ 16,116,315 | 21,538,830 |

The notes receivable balances are considered to be fully collectible as of June 30, 2013 and 2012. The note receivable from the Treasurer as of June 30, 2012 represents cash obtained under the Certificates and held by the Treasurer to be utilized by the Center for the construction and

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2013 and 2012

completion of the Science Building. The Science Building Project was closed out in September 2012 and there is no notes receivable balance due from the State Treasury as of June 30, 2013. See note 15 for discussion of unspent construction proceeds.

(i) Inventories

The Campus provides an academic bookstore utilized by the three constituent institutions, consisting of new and used textbooks, insignia items, apparel, and other supplies. The Center is responsible for managing and maintaining the bookstore and carries the inventory at the lower of retail or cost method. Provisions are made for obsolete inventory on a periodic basis. Provisions recorded for the years ended June 30, 2013 and 2012 totaled \$188,096 and \$172,604, respectively.

(j) Capital Assets, Net

Capital assets, net, 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 | 20 years |
| Buildings and improvements | 20–40 years |
| Equipment | 3–22 years |

The following is the capitalization threshold used by the Center:

| | | |
|--------------------------------|----|--------|
| Furniture and equipment | \$ | 5,000 |
| Purchased software | | 5,000 |
| Land and building improvements | | 50,000 |

Capital leases consist of lease-purchase contracts. Such contracts provide that commitments beyond the current year are contingent upon funds being appropriated for such purposes. For the year ended June 30, 2013 the Center has completed its obligation in lease-purchase contracts, and has no future obligations to pay on these agreements. Refer to note 5 for further discussion on capital lease obligations. In addition, the Center is the lessor in direct financing leases with the constituent institutions in relation to the Science Building.

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. As of June 30, 2013 and 2012, capitalized interest amounted to \$305,454 and \$0, respectively.

(k) Prepaid Bond Costs and Premiums and Discounts

Prepaid bond costs, which consist of bond insurance premiums, as well as bond premiums and discounts are deferred and amortized over the life of the related bonds as a component of interest expense.

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(l) *Deferred Outflows of Resources*

Deferred outflows of resources represent a consumption of net assets that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. The deferral balances are from losses on refundings of debt that are amortized as a component of interest expense using the straight-line method over the remaining life of the old bonds (refunded) debt or the life of the new debt, whichever is shorter. See note 1(s) for further discussion of these classifications.

(m) *Accrued Salaries*

State Senate Bill 03-197 requires salaries that would normally be paid at the end of June to be paid in July. In FY 2013, State House Bill 12-1246 was implemented which excluded bi-weekly payroll amounts from this requirement. This resulted in an accrual of \$1,395,199 and \$1,629,278 that were included in accounts payable and accrued liabilities at June 30, 2013 and 2012, respectively.

(n) *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, 2013 and 2012 is \$1,402,403 and \$1,381,381, respectively. Operating expenses for the years ended June 30, 2013 and 2012 include \$21,022 and \$83,929, respectively, representing the increase/decrease in the estimated compensated absences liability.

(o) *Unearned Revenue*

Unearned revenue represents unearned fees and advance payments for which the Center has not earned the revenue. Unearned revenue includes the following for the years ended June 30:

| | 2013 | 2012 |
|---|--------------|-------------|
| Student fees for the summer semester | \$ 368,400 | 174,570 |
| Childcare tuition collected in advance | 6,137 | 7,545 |
| Foundation Grant – Campus Signage Project | 123,870 | — |
| Early Learning Center grants | 50,000 | 48,844 |
| Facilities Services administration | — | 3,000 |
| Deferred maintenance | 643,014 | 536,374 |
| Parking | 2,981 | 4,450 |
| Tivoli prepaid rents | 1,565 | 15,971 |
| Facilities Services Project Services Aux | 45,083 | 67,668 |
| Lot I build-out fee | 387,434 | 445,327 |
| | \$ 1,628,484 | 1,303,749 |

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(p) *Classification of Revenues and Expenses*

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

Operating revenues and expenses – Operating revenues include activities that have the characteristics of exchange transactions such as (1) revenue from constituent institutions for use of facilities and services, (2) student fees, (3) sales and services of auxiliary enterprises, and (4) reimbursements for services performed.

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

(q) *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 position. Accordingly, certain costs have been allocated among the appropriate activities and supporting services benefited.

(r) *Income Taxes*

As a state agency, the income of the Center is excluded from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, income not earned in exercise of the Center's essential government function would be subject to income tax. All income in fiscal years 2013 and 2012 was earned in the exercise of the Center's essential government functions.

(s) *Implementation of Accounting Standards*

As of June 30, 2013, the Center implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was effective for financial statements for periods beginning after December 15, 2011, and the Center early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012. These standards provide financial reporting guidance for deferred outflows and deferred inflows of resources; renames the residual of all financial statement elements as net position; and establishes accounting standards to reclassify, as deferred outflows or inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. Accounting changes adopted to conform to the provisions of these statements were applied retroactively by restating the June 30, 2012 financial statements. The Center's July 1, 2011 net position, based on the required naming, definitions, and accounting adjustments, was restated (reduced) by \$767,562, from \$184,064,857 to \$183,297,295 for the portion of bond issuance costs that should have been expensed when incurred.

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In addition, the June 30, 2012 statement of net position was restated to reclassify \$1,367,941 from bonds payable to deferred outflows of resources.

(t) ***Reclassifications***

Certain 2012 amounts have been reclassified to conform to the 2013 financial statement presentation.

(2) **Deposits, Investments, and Investment Return**

(a) ***Deposits and Cash Equivalents***

At June 30, 2013 and 2012, the carrying value of the Center's deposits was \$44,278,769 and \$28,312,078 respectively. Balances consist of deposits with the Treasurer, as described below, \$2,763,366 and \$4,792,250 in bank deposits, and \$70,446 and \$68,611 of cash on hand, respectively. The bank balances classified by custodial credit risk category are covered 100% by federal depository insurance and by collateral held by the pledging institutions' trust departments in the name of the state public deposit pool as required by the Public Deposit Protection Act.

(b) ***Investments***

The Center deposits its cash with the Treasurer as required by C.R.S. The Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited with the Treasury are invested until the cash is needed. Earnings are allocated in proportion to the average daily cash balance for all participants in the pool. As of June 30, 2013 and 2012, the Center had cash on deposit, including restricted cash and cash equivalents, with the Treasurer of \$39,900,806 and \$23,451,217, respectively, which represented approximately 0.55% of the total \$7,260.8 million and 0.36% of the total \$6,541.7 million, respectively, in deposits in the Treasurer's Pool (Pool).

For financial reporting purposes, all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of the Center's participation in the Pool, the Center reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains (losses) included in investment income reflect only the change in fair value for the fiscal year.

For the Center's deposits with the Treasurer, the net unrealized gains for fiscal year 2013 and 2012 were \$65,667 and \$318,713, respectively. These unrealized gains are included in cash and cash equivalents on the statements of net position.

(c) ***Custodial Credit Risk***

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 the counterparty's trust department or agency but not held in the Center's or the State's name. As of June 30, 2013 and 2012, the Center has no investments that are subject to custodial risk.

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(d) Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that 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. The State requires two ratings with the rating level set by the investment portfolio and investment type. Based on these parameters, as of June 30, 2013 and 2012, approximately 88.5% and 89%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for \$41,074,270 and \$12,085,710 in 2013 and 2012, respectively, of corporate bonds rated lower-medium, these investments are rated from upper-medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

(e) 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 addition to statutory limitations on the types of investments, the Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. The weighted average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in terms of years, weighted to reflect the dollar size of individual investments within an investment type. The overall portfolio WAM is derived by dollar weighting the WAM for each investment type. The State has selected WAM as the primary method for reporting interest rate risk. As of June 30, 2013, the WAM of investments in the Pool is 0.037 years for commercial paper (1.0% of the Pool), 1.321 years for U.S. government securities (63.9% of the Pool), 3.371 years for asset-backed securities (16.0% of the Pool), and 3.100 years for corporate bonds (19.1% of the Pool). As of June 30, 2012, the WAM of investments in the Pool is 0.090 years for commercial paper (2.1% of the Pool), 0.803 years for U.S. government securities (75.2% of the Pool), 2.379 years for asset-backed securities (6.6% of the Pool), and 3.252 years for corporate bonds (16.1% of the Pool).

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2013 or 2012.

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The following table lists the Center's investments, by investment type, as of June 30, 2013 and 2012 for those investments not part of the Pool. The fair value amount is shown along with the credit quality rating and WAM:

| <u>Investment type</u> | <u>Fair value amount</u> | <u>Credit rating</u> | <u>Weighted average maturity</u> |
|--|--------------------------|----------------------|----------------------------------|
| June 30, 2013: | | | |
| U.S. government agencies – explicitly guaranteed | \$ 2,730,570 | Not rated | Not applicable |
| Commercial paper | <u>2,001,776</u> | Highest | 0.4972 |
| Total investments | <u>\$ 4,732,346</u> | | |
| June 30, 2012: | | | |
| U.S. government agencies – explicitly guaranteed | \$ 2,602,738 | Not rated | Not applicable |
| Commercial paper | <u>2,001,256</u> | Highest | 0.4972 |
| Total investments | <u>\$ 4,603,994</u> | | |

(f) Investment Income

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

| | <u>2013</u> | <u>2012</u> |
|---|-------------------|-----------------|
| Interest and dividend income | \$ 451,076 | 500,037 |
| Net decrease in fair value of investments | <u>(211,756)</u> | <u>(48,001)</u> |
| | <u>\$ 239,320</u> | <u>452,036</u> |

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(3) Capital Assets

Capital asset activity for the year ended June 30, 2013 is as follows:

| | Beginning balance | Additions | Disposals | Transfers | Ending balance |
|--------------------------------|------------------------------|--------------------|--------------------|------------------|---------------------------|
| Land | \$ 27,895,650 | — | — | — | 27,895,650 |
| Land improvements | 24,162,884 | — | — | — | 24,162,884 |
| Buildings and improvements | 348,423,485 | — | — | 1,942,711 | 350,366,196 |
| Equipment | 7,806,628 | 281,071 | (1,260,838) | 989,453 | 7,816,314 |
| Construction in progress, net | 534,855 | 5,139,405 | (13,463) | (2,932,164) | 2,728,633 |
| Total capital assets | <u>408,823,502</u> | <u>5,420,476</u> | <u>(1,274,301)</u> | <u>—</u> | <u>412,969,677</u> |
| Less accumulated depreciation: | | | | | |
| Land improvements | 17,328,265 | 673,274 | — | — | 18,001,539 |
| Buildings and improvements | 152,715,737 | 11,206,800 | — | — | 163,922,537 |
| Equipment | 5,392,498 | 584,529 | (1,205,186) | — | 4,771,841 |
| Total accumulated depreciation | <u>175,436,500</u> | <u>12,464,603</u> | <u>(1,205,186)</u> | <u>—</u> | <u>186,695,917</u> |
| Total capital assets, net | <u>\$ 233,387,002</u> | <u>(7,044,127)</u> | <u>(69,115)</u> | <u>—</u> | <u>226,273,760</u> |

As of June 30, 2013, the construction in progress primarily consists of the Fire Sprinkler System, 5th Street Parking Garage, Infrastructure project and the 9th Street Roofing project. As of June 30, 2012, the construction in progress primarily consists of the Infrastructure project and the Arts Building, respectively.

Capital asset activity for the year ended June 30, 2012 is as follows:

| | Beginning balance | Additions | Disposals | Transfers | Ending balance |
|--------------------------------|------------------------------|--------------------|------------------|------------------|---------------------------|
| Land | \$ 26,736,497 | 831,553 | — | 327,600 | 27,895,650 |
| Land improvements | 25,126,692 | — | (636,207) | (327,600) | 24,162,885 |
| Buildings and improvements | 342,670,353 | — | — | 5,753,132 | 348,423,485 |
| Equipment | 7,136,621 | 854,291 | (184,285) | — | 7,806,627 |
| Construction in progress, net | 1,592,090 | 4,698,441 | (2,544) | (5,753,132) | 534,855 |
| Total capital assets | <u>403,262,253</u> | <u>6,384,285</u> | <u>(823,036)</u> | <u>—</u> | <u>408,823,502</u> |
| Less accumulated depreciation: | | | | | |
| Land improvements | 16,830,251 | 709,119 | (211,105) | — | 17,328,265 |
| Buildings and improvements | 141,752,063 | 10,963,674 | — | — | 152,715,737 |
| Equipment | 5,015,565 | 561,218 | (184,285) | — | 5,392,498 |
| Total accumulated depreciation | <u>163,597,879</u> | <u>12,234,011</u> | <u>(395,390)</u> | <u>—</u> | <u>175,436,500</u> |
| Total capital assets, net | <u>\$ 239,664,374</u> | <u>(5,849,726)</u> | <u>(427,646)</u> | <u>—</u> | <u>233,387,002</u> |

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(4) Deferred Outflows of Resources

The deferred outflows of resources represent the remaining unamortized deferral balances from losses on refundings of debt. The balances of \$1,435,501 and \$1,367,941 as of June 30, 2013 and 2012, respectively, are included within the net investment in capital assets component of net position.

A summary of deferred outflows of resources as of June 30, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|--|--------------|-------------|
| Deferred refunding – Series 2005 Admin COP | \$ 714,010 | 760,830 |
| Deferred refunding – Series 2006 Student Fee Bonds | 225,121 | 253,860 |
| Deferred refunding – Series 2006 Parking Bonds | 327,560 | 353,251 |
| Deferred refunding – Series 2013 Student Fee Bonds | 168,810 | — |
| | \$ 1,435,501 | 1,367,941 |

(5) Long-Term Debt

The following is a summary of long-term debt for the Center for the year ended June 30, 2013:

| | Beginning balance | Additions | Deductions | Ending balance | Current portion |
|--|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Revenue bonds payable: | | | | | |
| Series 2003 student fee | \$ 15,851,887 | — | (15,851,887) | — | — |
| Series 2004 parking | 23,815,082 | 790,600 | (1,605,000) | 23,000,682 | 1,605,000 |
| Series 2006 parking | 7,515,985 | — | (365,435) | 7,150,550 | 380,000 |
| Series 2006 student fee | 12,144,786 | 1,723 | (1,150,000) | 10,996,509 | 1,195,000 |
| Series 2013 student fee | — | 18,385,743 | (36,869) | 18,348,874 | 345,000 |
| Series 2013A parking | — | 16,479,129 | — | 16,479,129 | — |
| | 59,327,740 | 35,657,195 | (19,009,191) | 75,975,744 | 3,525,000 |
| Total revenue bonds payable | | | | | |
| Capital lease obligations: | | | | | |
| Administration facility, Series 2005 | 13,918,721 | 1,344 | (640,000) | 13,280,065 | 665,000 |
| Equipment | 78,018 | — | (78,018) | — | — |
| Land acquisition, Series 2008 | 14,495,061 | 2,496 | (565,000) | 13,932,557 | 600,000 |
| State capital construction financing, Series 2008 | 17,619,848 | — | (740,465) | 16,879,383 | 774,044 |
| | 46,111,648 | 3,840 | (2,023,483) | 44,092,005 | 2,039,044 |
| Total capital lease obligations | | | | | |
| Total long-term debt | \$ 105,439,388 | 35,661,035 | (21,032,674) | 120,067,749 | 5,564,044 |

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June 30, 2013 and 2012

The following is a summary of long-term debt for the Center for the year ended June 30, 2012:

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending balance</u> | <u>Current portion</u> |
|--|------------------------------|------------------|--------------------|---------------------------|----------------------------|
| Revenue bonds payable: | | | | | |
| Series 2003 parking | \$ 1,864,652 | — | (1,864,652) | — | — |
| Series 2003 student fee | 16,437,032 | 4,855 | (590,000) | 15,851,887 | 615,000 |
| Series 2004 parking | 24,485,476 | 809,606 | (1,480,000) | 23,815,082 | 1,605,000 |
| Series 2006 parking | 7,571,421 | — | (55,436) | 7,515,985 | 365,000 |
| Series 2006 student fee | 13,253,064 | 1,722 | (1,110,000) | 12,144,786 | 1,150,000 |
| | <u>63,611,645</u> | <u>816,183</u> | <u>(5,100,088)</u> | <u>59,327,740</u> | <u>3,735,000</u> |
| Total revenue bonds payable | | | | | |
| Capital lease obligations: | | | | | |
| Administration facility, Series 2005 | 14,537,377 | 1,344 | (620,000) | 13,918,721 | 640,000 |
| Equipment | 150,083 | — | (72,065) | 78,018 | 78,018 |
| Land acquisition, Series 2008 | 15,027,565 | 2,496 | (535,000) | 14,495,061 | 565,000 |
| State capital construction financing, Series 2008 | 18,325,863 | — | (706,015) | 17,619,848 | 740,465 |
| | <u>48,040,888</u> | <u>3,840</u> | <u>(1,933,080)</u> | <u>46,111,648</u> | <u>2,023,483</u> |
| Total capital lease obligations | | | | | |
| Total long-term debt | <u>\$ 111,652,533</u> | <u>820,023</u> | <u>(7,033,168)</u> | <u>105,439,388</u> | <u>5,758,483</u> |

(a) Revenue Bonds Payable

The Center had the following bonds outstanding at June 30, 2013:

- Parking Enterprise Revenue Refunding 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)
- Student Fee Revenue Refunding Bonds, Series 2013 (Series 2013 Student Fee Bonds)
- Parking Enterprise Revenue Bonds, Series 2013A (Series 2013A Parking Bonds)

(b) 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 advance 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 position.

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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 refunding of the bonds. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources 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 were due in semiannual installments with annual principal payments ranging from \$1,475,000 to \$1,855,000 and interest ranging from 2.50% to 3.60%. The final installment was paid on April 1, 2012. The Series 2003 Parking Bonds were 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. The bonds were paid off on April 1, 2012.

(c) 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% to 4.5%. 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 Bonds revenue is pledged to the bond from student fees assessed for student facilities, revenues including 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. The bonds were paid off on May 1, 2013 with the proceeds of the Series 2013 Student Fee Refunding Bonds.

At June 30, 2013 and 2012, the Series 2003 Student Fee Bonds are shown net of a discount of \$0 and \$63,113, respectively, and have related prepaid bond costs of \$0 and \$122,341 respectively.

(d) 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 payable in two annual installments of \$2,220,000 and \$4,330,000 due on April 1, 2028 and 2029, respectively. 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 \$75,000 to \$2,295,000. Interest payments also begin on April 1, 2012 and range from 3.6% to 5.2%. The final installment is due April 1, 2028.

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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, 2013 and 2012, the Series 2004 Parking Bonds accreted interest of \$786,515 and \$805,520, respectively. The Bonds are shown net of a discount of \$59,581 and \$63,667, respectively, and have related prepaid bond costs \$135,222 and \$143,853, respectively.

(e) 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 advance 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. The Series 2000 Parking Bonds were redeemed on April 1, 2010. 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 position.

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 refunding of the bonds. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources 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 beginning on April 1, 2012 ranging from \$55,000 to \$1,335,000 and interest ranging from 4.0% to 4.5%. 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, 2013 and 2012, the Series 2006 Bonds are shown net of a premium of \$5,550 and \$5,985, respectively, an unamortized deferred loss on refunding of \$327,560 and \$353,251, respectively, and have related prepaid bond costs of \$48,905 and \$52,740, respectively.

(f) Series 2006 Student Fee Bonds

On February 16, 2006, the Center issued \$15,315,000 in Series 2006 Bonds for the purpose of advance 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 refunding of the bonds. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources and is being charged to operations through the year 2021.

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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.

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% to 4.1%. The final installment is due April 1, 2021. The Series 2006 Student Bonds 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, 2013 and 2012, the Series 2006 Bonds are shown net of a discount of \$13,491 and \$15,214, respectively, an unamortized deferred loss on refunding of \$225,121 and \$253,860, respectively, and have related prepaid bond costs of \$64,607 and \$72,855, respectively.

(g) *Series 2013 Student Fee Bonds*

On March 7, 2013, the Center issued \$17,040,000 in Series 2013 Bonds for the purpose of current refunding \$15,851,887 of Series 2003 Student Fee Revenue Bonds. These bonds were redeemed on May 1, 2013. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$173,565, and was recorded as a loss on the refunding of the bonds. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources and is being charged to operations through the year 2025. Bonds maturing on or after May 1, 2024 can be called for redemption at the option of the Center's Board of Directors on or after May 1, 2023 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 current refunding to reduce its total debt service payments by \$1,618,461 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,583,423.

The Series 2013 Bonds are payable in semiannual installments with annual principal payments ranging from \$345,000 to \$4,550,000 and interest ranging from 2.5% to 4.0%. The final installment is due May 1, 2025. The Series 2013 Student Bonds 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, 2013 and 2012, the Series 2013 Bonds are shown net of a premium of \$1,308,874 and \$0, respectively, an unamortized deferred loss on refunding of \$168,810 and \$0, respectively.

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(h) Series 2013A Parking Bonds

On June 5, 2013, the Center issued \$15,680,000 in Series 2013A Parking System Revenue Bonds for the purpose of financing the construction and equipping of a four story parking garage located at 5th Street and Walnut Street on the Auraria campus. The Series 2013A Parking Revenue Bonds are payable in semiannual installments with annual principal payments ranging from \$55,000 to \$3,150,000 and interest ranging from 2.0% to 5.0%. The final installment is due April 1, 2034. Bonds maturing on or after April 1, 2024 can be called for redemption at par at the option of the Center's Board of Directors, in whole or in part at any time on or after April 1, 2023. The Series 2013A Bonds are collateralized by revenues from the operation of the parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2013, the Series 2013A Parking Revenue Bonds are shown net of a premium of \$799,129 and have related prepaid bond costs of \$129,919.

(i) Bond Maturity Schedule

Debt service to maturity for all bonds as of June 30, 2013 is as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|----------------------|-------------------|--------------------|
| Year(s) ending June 30: | | | |
| 2014 | \$ 3,525,000 | 2,243,535 | 5,768,535 |
| 2015 | 3,790,000 | 2,202,626 | 5,992,626 |
| 2016 | 3,870,000 | 2,120,388 | 5,990,388 |
| 2017 | 4,105,000 | 2,035,939 | 6,140,939 |
| 2018 | 4,205,000 | 1,943,889 | 6,148,889 |
| 2019–2023 | 22,640,000 | 8,127,371 | 30,767,371 |
| 2024–2028 | 19,560,000 | 5,256,175 | 24,816,175 |
| 2029–2033 | 15,780,000 | 2,714,070 | 18,494,070 |
| 2034 | 3,150,000 | 157,500 | 3,307,500 |
| | <u>80,625,000</u> | <u>26,801,493</u> | <u>107,426,493</u> |
| Add premiums, net of discounts | 2,040,481 | — | 2,040,481 |
| Less unaccreted principal on Series 2004 Parking Bonds | <u>(6,689,737)</u> | <u>—</u> | <u>(6,689,737)</u> |
| | <u>\$ 75,975,744</u> | <u>26,801,493</u> | <u>102,777,237</u> |

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Notes to Financial Statements

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Reserve balances and requirements for outstanding bond issues at June 30, 2013 are as follows:

| | Reserve balance | Required reserve |
|--|----------------------------|-----------------------------|
| Series 2004, Series 2006 and Series 2013 Parking Bonds: | | |
| Debt service reserve | \$ 2,721,457 | 2,712,740 |
| Repair and replacement reserve | 836,618 | 836,618 |
| Series 2006 and 2013 Student Fee Bonds: | | |
| Debt service reserve | \$ 1,838,574 | 1,838,574 |
| Repair, replacement, and operation and maintenance reserve | 350,000 | 350,000 |

As of June 30, 2013 and 2012, the Center was in compliance with all bond covenants and related reserve requirements.

Student bond fees and parking revenues were pledged as follows:

| | 2013 | 2012 |
|---|---------------|-------------|
| Revenue source: | | |
| Student fees pledged for bond payments | \$ 5,588,157 | 5,838,832 |
| Interest earned on student fees pledged for bond payments | 23,010 | 36,001 |
| Parking revenue | 9,391,976 | 9,317,879 |
| Interest earned on parking revenue | 264,674 | 264,898 |
| Total pledged revenue | \$ 15,267,817 | 15,457,610 |

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(j) Capitalized Leases

The Center is obligated under leases accounted for as capital leases. Assets under capital leases are included in the statements of net position at June 30, 2013 and 2012 as follows:

| | <u>Cost</u> | <u>Accumulated depreciation</u> | <u>Carrying value</u> |
|----------------------------|-----------------------|---------------------------------|-----------------------|
| June 30, 2013: | | | |
| Administrative building | \$ 15,518,172 | 7,675,135 | 7,843,037 |
| Land | 14,983,536 | — | 14,983,536 |
| Science building | 97,807,826 | 10,867,982 | 86,939,844 |
| Science building equipment | 1,050,330 | 357,127 | 693,203 |
| Total capitalized leases | <u>\$ 129,359,864</u> | <u>18,900,244</u> | <u>110,459,620</u> |
| June 30, 2012: | | | |
| Administrative building | \$ 15,518,172 | 7,063,698 | 8,454,474 |
| Equipment | 334,800 | 234,360 | 100,440 |
| Land | 14,983,536 | — | 14,983,536 |
| Science building | 95,865,115 | 6,503,706 | 89,361,409 |
| Science building equipment | 1,050,330 | 235,965 | 814,365 |
| Total capitalized leases | <u>\$ 127,751,953</u> | <u>14,037,729</u> | <u>113,714,224</u> |

(k) Administrative Facility Series 2005

On May 1, 1998, the Center entered into an agreement with the 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% 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 advance refunding the 1998 Administrative Facility Certificates. The 1998 Administrative Facility Certificates were fully redeemed on May 1, 2008.

The advance refunding of the 1998 Administrative Facility Certificates 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 refunding of the certificates. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources and is being charged to operations through the year 2028. The Center completed the advance refunding to reduce

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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, maturing on May 1, 2028, and have interest rates ranging from 3.3% to 4.5%.

At June 30, 2013 and 2012, the Administrative Facility Certificates are shown net of an unamortized discount of \$19,935 and \$21,279, respectively, an unamortized deferred loss on refunding of \$714,010 and \$760,830, respectively, and related prepaid bond costs of \$94,099 and \$100,443, respectively.

(l) Land Acquisition Series 2008

On December 30, 2008, the Center entered into an agreement to finance the acquisition of approximately 13.54 acres of land located south of West Colfax Avenue and west of Rio Court near the Campus. Issuance of Certificates of Participation (Series 2008 Land Acquisition Certificates) in the amount of \$16,500,000 was used to fund the project. The Center has entered into a leased property agreement with the three constituent institutions in order to finance the property acquisition. The institutions share 50% of the costs of debt service through their lease payments to the Center.

Effective November 1, 2013, based on the provisions of a Memorandum of Understanding entered into August 24, 2011 by the three constituent institutions and the Center, which amends and supplements the original leased property agreement, MSU Denver will assume responsibility for the entire 50% institutional share of the costs of the land debt service, while the Center will continue to fund the other 50% of debt service costs. MSU Denver assumed CU Denver and CCD's obligation under the original lease property agreement in exchange for paying for their respective shares of an estimated \$3 million electrical infrastructure upgrade that was critical to the ongoing campus-wide building expansion defined in the Campus Master Plan.

The Series 2008 Land Acquisition Certificates are payable in semiannual installments with annual principal payments ranging from \$450,000 to \$1,355,000, maturing on May 1, 2028, and have an interest rate of 6.0%.

At June 30, 2013 and 2012, the Series 2008 Land Acquisition Certificates are shown net of an unamortized discount of \$37,442 and \$39,938, respectively.

(m) State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008

On November 6, 2008, the Treasurer completed a lease purchase agreement under which a Trustee (Wells Fargo Bank, National Association) issued \$230,845,000 of State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 (the Certificates). The Certificates were issued at a net premium of \$180,940 and were a combination of serial and term maturities with the final maturity in November 2027. The Certificates carry coupon rates ranging from 3.00% to 5.50% with a total interest cost of 5.40%. The Certificate proceeds will be used to fund renovations, additions, and new construction at 12 state institutions of

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higher education and are collateralized with existing properties at 11 of the 12 institutions. C.R.S. § 23-1-106.3 enacted in the 2008 session of the Colorado State General Assembly authorized the lease purchase and limited the lease payments to average \$16.2 million for the first 10 years and \$16.8 million for the second 10 years. The legislation envisions annual appropriations of Federal Mineral Lease Program (FML) revenues to fund the semiannual lease payments required. Annual lease payments are made by the State and are subject to annual appropriations by the Legislature. As a result, the portion of the liability related to the Center of \$63,619,181 is recognized by the State and not included in the Center's financial statements.

On November 6, 2008, certificate proceeds were allocated to the Science Building renovation and addition project on the Campus in the amount of \$83,752,598 with \$63,619,181 funded through state appropriations and \$20,133,417 to be paid by the Center to the State. The Center pledged the Library/Media Center building and the King Center building as collateral for the project.

The Certificates are payable in semiannual installments with annual principal payments ranging from \$493,645 to \$1,590,823, with final payment maturing on November 1, 2027, and have an interest rate of 5.2%.

(n) Equipment Lease

The Center also entered into a lease-purchase contract for copier equipment for the year ended June 30, 2009. The interest rate on the lease was 8% in fiscal years 2013 and 2012. The lease expired on June 30, 2013.

(o) Future Minimum Lease Payments

The following is a schedule of future minimum lease payments under all capital leases for the year ended June 30, 2013:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|----------------------|-------------------|-------------------|
| Year(s) ending June 30: | | | |
| 2014 | \$ 2,039,043 | 2,269,744 | 4,308,787 |
| 2015 | 2,136,547 | 2,170,141 | 4,306,688 |
| 2016 | 2,239,922 | 2,066,691 | 4,306,613 |
| 2017 | 2,350,913 | 1,955,224 | 4,306,137 |
| 2018 | 2,471,266 | 1,836,547 | 4,307,813 |
| 2019–2023 | 14,348,454 | 7,171,733 | 21,520,187 |
| 2024–2028 | 18,563,238 | 2,969,162 | 21,532,400 |
| | <u>44,149,383</u> | <u>20,439,242</u> | <u>64,588,625</u> |
| Less unamortized discount | <u>(57,378)</u> | <u>—</u> | <u>(57,378)</u> |
| | <u>\$ 44,092,005</u> | <u>20,439,242</u> | <u>64,531,247</u> |

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(p) ***Ground Leases***

On November 13, 2009, the Center entered into an interagency ground lease with MSU Denver to lease land occupied by their new Student Success Building. The new building added an estimated 145,000 square feet of space on campus for classrooms and faculty offices, specifically for MSU Denver students and professors, and will provide students with a central location for a wide range of MSU Denver support services. The groundbreaking for the building was held on December 3, 2010, with an opening date of March 2012.

The term of this lease shall be fifty (50) years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, MSU Denver paid \$10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. MSU Denver shall be solely responsible for any and all operating expenses of the premises and improvements.

On October 28, 2010, the Center entered into an interagency ground lease with MSU Denver to lease land occupied by their new Hotel and Hospitality Learning Center. The new structure includes a 150-room hotel and conference center as well as an additional 28,000 square feet of space, including classrooms, specialty learning labs, and faculty offices, to provide hands on training opportunities for students in MSU Denver's Hospitality, Tourism & Events Department. The groundbreaking for the building was held on March 31, 2011, with an opening date of August 2012.

The term of this lease shall be fifty (50) years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, MSU Denver paid \$15,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. MSU Denver shall be solely responsible for any and all operating expenses of the premises and improvements.

On December 22, 2011, the Center entered into an interagency ground lease with CCD to lease land occupied their new building, Confluence. The new building added an estimated 87,000 square feet of space on campus for classrooms, administrative offices, and a wide range of CCD support services. The groundbreaking for the building was held on January 12, 2012, with an opening date of May 2013.

The term of this lease shall be fifty (50) years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, CCD paid \$10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. CCD shall be solely responsible for any and all operating expenses of the premises and improvements.

On February 1, 2012, the Auraria Foundation donated 0.57 acres of land located at 1030 St. Francis Way on the Auraria Campus with an estimated market value of \$831,552 to the Center. The property is the site location of the St. Francis Center, a building formerly owned by the Auraria Foundation. Upon receipt of the donated land, the Center subsequently entered into an interagency ground lease with CCD to lease the donated land so that CCD could purchase the St. Francis Center building from the Auraria Foundation.

The term of this lease shall be fifty (50) years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, CCD paid \$10,000 to

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reimburse reasonable out-of-pocket legal expenses incurred by the Center. CCD shall be solely responsible for any and all operating expenses of the premises and improvements.

On November 14, 2012, the Center entered into an interagency ground lease with CU Denver to lease land on which their new Academic Building is being constructed. The new building will add an estimated 120,000 square feet of space on campus for their College of Liberal Arts and Sciences, as well as a wide range of CU Denver support services. The groundbreaking for the building was held on January 31, 2013, with a scheduled opening date of July 2014.

The term of this lease shall be fifty (50) years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, CU Denver paid \$10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. CU Denver shall be solely responsible for any and all operating expenses of the premises and improvements.

(6) State Contributions 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). Long Bill appropriated funds may include an amount from the State's General Fund as well as certain cash funds. The source of nearly all appropriated funds for the Center is cash, primarily in the form of appropriated funds transferred from the constituent institutions. Other sources of appropriated cash funds are the sale of goods and services and certain other revenues.

For the year ended June 30, 2013, appropriated current fund expenditures were within the authorized spending authority. The Center had total current funds appropriations of \$16,904,618 for which the constituent institutions funded \$16,904,618. The constituent institutions also provided additional nonappropriated funding of \$718,641 to fund a portion of the debt service payments on the additional 13 acres of land purchased in December 2008 as well as an additional \$1,605,413 provided by MSU Denver and CU Denver in lease payments related to the financed portion of the Science Building Project. The constituent institutions also provided nonappropriated funding of \$1,900,000 for various deferred maintenance projects.

For the year ended June 30, 2012, appropriated current fund expenditures were within the authorized spending authority. The Center had total current funds appropriations of \$16,344,333 for which the constituent institutions funded \$16,344,333. The constituent institutions also provided additional nonappropriated funding of \$719,425 to fund a portion of the debt service payments on the additional 13 acres of land purchased in December 2008 as well as an additional \$1,573,729 provided by MSU Denver and CU Denver in lease payments related to the financed portion of the Science Building Project. Finally, following the execution of a Memorandum of Agreement between the four campus entities dated August 24, 2011, MSU Denver agreed to fund the electrical infrastructure project, which had accumulated costs of \$389,227 recognized as a receivable at June 30, 2012.

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

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(7) The Auraria Foundation and Inn at Auraria LLC

(a) *The Auraria Foundation*

The Foundation is a legally separate, tax-exempt component unit of the 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 10-person Board of Directors.

Transactions between the Center and the Foundation are considered to be related-party transactions. Amounts reported may differ from the Foundation's notes to the financial statements based on various timing differences, all of which have been substantially reconciled to the Foundation's balances.

The Foundation, in conjunction with the Colorado Postsecondary Educational Facilities Authority and the Colorado Educational and Cultural Facilities Authority, issued tax-exempt bonds for the purchase of buildings that were leased to one of the Center's constituent institutions, CU Denver. In June 2006, the Foundation sold certain buildings to CU Denver and pledged \$3,000,000 from the proceeds to the Center to be used toward the costs of the Science Building addition/renovation project.

In June 2013, the Center billed the Foundation \$441,927 for four campus projects the Foundation agreed to fund: Monument Signs (\$314,677); Campus Signage Development (\$25,000); Larimer Banner Project (\$100,000); and 9th Street Park Signage (\$2,250). As of June 30, 2013, the Center expended \$318,057 of those funds. The Foundation paid the Center in July 2013.

The Foundation has a contract with the Center under which the Center provides services for the Foundation. Under that agreement, the Foundation paid the Center \$2,000 and \$2,000, respectively, for the years ended June 30, 2013 and 2012. In addition, the Foundation paid the Center \$0 and \$8,750 during fiscal years 2013 and 2012, respectively, for room rentals and reimbursements.

The Foundation owned the St. Francis Center and leased it 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. During the years ended June 30, 2013 and 2012, the Center paid the Foundation \$0 and \$25,145, respectively, for the use of the St. Francis Center. During fiscal year 2012, the land for the St. Francis Center was donated to the Center and the building transferred to CCD. See note 5(p) for further information.

(b) *Inn at Auraria LLC*

The Inn is a limited liability corporation that is legally, financially, and operationally independent of the Foundation and the Center. The Foundation is the sole member of the Inn. The Inn was created to provide housing for the students of the Auraria institutions. In July 2005, the Inn received a

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\$37,280,000 loan from the Colorado Educational and Cultural Facilities Authority through the issuance of long-term serial bonds and purchased the top 14 floors (floors 17 through 30) of the former Executive Tower Inn building to create 125-apartment-style units to provide housing for 439 students. The Executive Tower Inn was built in 1972 and is located in downtown Denver, Colorado, a few blocks from the Campus. The facility opened to student residents on August 19, 2006. The Executive Tower Inn building is condominiumized between the Inn and the remainder of the building. A condominium association provides common building services, such as elevator maintenance and exterior street-level maintenance, to the Inn's portion of the building as well as making a portion of the building's underground parking and athletic facilities available to students on a monthly rental basis. The Inn has engaged American Campus Communities to provide administrative and residential management services under an agreement expiring in August 2016. For the fiscal years ended June 30, 2013 and 2012, the Inn reported net losses of \$1,392,277 and \$2,222,665. In the planning for this project, it was anticipated that the Inn's first years of operation would be difficult because the Inn represented the addition of student housing to a campus, which has historically been a nonresidential "commuter" campus.

The Inn is required to maintain rental rates sufficient to provide income to cover the debt service payments and has failed to meet this requirement for the years ending June 30, 2013 and 2012.

As of June 30, 2013 and 2012, the Inn was in default on its bonds payable. The Inn has been in default since July 1, 2008, and has received multiple default notifications. As of June 30, 2013, the past due principal and interest balances total \$1,520,000 and \$5,656,130, respectively. As of June 30, 2012, the past due principal and interest balances were \$1,045,000 and \$3,441,994, respectively.

In July 2011, the majority of the outstanding bonds were sold to a new investor. Concurrently, the bond trustee, at the direction of the majority bondholders, agreed to forbear from exercising its rights to appoint a receiver with respect to the Inn or to pursue any remedies available to it as a result of the default until December 31, 2012. The Inn subsequently entered into two successive six month extensions through December 31, 2013. The forbearance agreement included certain financial and operating requirements and restrictions. Additionally, the agreement requires the Inn to maintain a net operating income of not less than \$150,000 for each designated two-month period. As of June 30, 2013 and 2012, management has determined that the Inn is in compliance with its minimum net operating income requirement. Upon the occurrence of a Forbearance Default, as defined in the forbearance agreement, the forbearance agreement will terminate immediately without any notice to the Inn, and the bondholders will have all remedies available to them under applicable agreements, including without limitation acceleration of the bonds or foreclosure of the property.

As of June 30, 2013 and 2012, the Inn was in default on its bonds payable and had an equity deficiency of \$13,453,815 and \$12,061,538, respectively. The Inn has failed to make all required debt service payments on its bonds since July 1, 2008, and has received multiple default notifications.

The bond holders may, at their option and upon giving notice to the Inn, demand immediate payment in full of the total bonds payable outstanding as of the date of notice. As a result, the total bonds payable balance is \$37,280,000 classified as current in the accompanying statements of financial position as of June 30, 2013 and 2012, respectively.

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The equity deficiency and the bonds payable default described above raises substantial doubt about the Inn's ability to continue as a going concern. The Inn is currently working with its lender to obtain the necessary waivers after the expiration of its extension through December 31, 2013. Management is also taking considerable measures to increase the Inn's cash inflows in order to rectify the bond default issue. Management believes with the Inn at full capacity and with the amenities added this past year and those to be added during this next year, the financial performance will improve significantly during the next few years. As of June 30, 2013 and 2012, the occupancy percentages were 85% and 72%, respectively.

The accompanying financial statements of the Inn have been prepared in conformity with U.S. GAAP, which contemplates that the Inn will continue as a going concern; however, the above conditions raise substantial doubt about the Inn's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Inn be unable to continue as a going concern.

(8) Pension Plan

(a) 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 an actuarial assessment and 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 <http://www.copera.org>.

Nonhigher education 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 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 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case, they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan within 60 days, unless they had been a PERA member within the prior 12 months. In that case, they are required to remain in the PERA plan in which they participated previously.

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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. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members (except state troopers) vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011 age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than 5 years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as 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 and limited to a 15.0% increase between

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periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2.0% or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2.0% or the actual increase in the national Consumer Price Index, limited to a 10.0% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1.0% point of salaries contributed by employers for employees hired on or after January 1, 2007).
- The upper limits of benefits increase by 0.25% point each year when the funded ratio of PERA equals or exceeds 103.0% and declines by 0.25% point when the funded ratio drops below 90% after having exceeded 103.0%. The funded ratio increase does not apply for three years when a negative return on investment occurs.

Members who are 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, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

(b) 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% of their salary, as defined in C.R.S. 24-51-101(42), to an individual account in the plan. Effective July 1, 2012, the temporary contribution rate increase of 2.5% for members in the State and Judicial Divisions to replace the 2.5% reduction in employer contributions effective for fiscal years 2010-11 and 2011-12 expired.

From July 1, 2012, to December 31, 2012, the State contributed 15.65% of the employee's salary. From January 1, 2013, through June 30, 2013, the State contributed 16.55%. During all of fiscal year 2012-13, 1.02% 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, 2012, the division of PERA in which the State participates has a funded ratio of 59.2% and a 53-year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 60.2%.

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In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5% of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4% of salary through 2017, to a maximum of 5.0%.

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional 0.5% point of total salaries, for calendar years 2008 through 2017, to a maximum of 5.0%. The SAED will be deducted from the amount otherwise available to increase state employees' salaries.

At a 103% funding ratio, both the AED and SAD will be reduced by 0.5% point, and for subsequent declines to below 90% funded both the AED and SAED will be increased by 0.5%.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The Center's contributions to the PERA and/or the State's defined contribution plan for the fiscal years ended June 30, 2013, 2012, and 2011 were \$2,137,455, \$1,655,210, and \$1,546,516, respectively. These contributions met the contribution requirement for each year.

(9) Other Retirement Plans

(a) *Defined Contribution Plan*

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50% to 100% evenly over 5 years. Participants in the plan are required to contribute 8% of their salary. The temporary contribution rate increase to 10.5% effective in fiscal years 2010-11 and 2011-12 expired on July 1, 2012. At December 31, 2012, the plan had 4,362 participants.

(b) *Deferred Compensation Plan*

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2012, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8.0% PERA contribution) to a maximum of \$17,000. The reduction for the 8.00% PERA contribution reflects the expiration of the temporary contribution rate increase to 10.5% effective in fiscal years 2010-11 and 2011-12. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2012, for total contributions of \$22,500. Contributions and earnings are tax deferred. At December 31, 2012, the plan had 17,469 participants.

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PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan. The Center offers a tax-sheltered 403(b) plan, which covers substantially all employees. The Center did not contribute to the 403(b) plan and, as such, does not incur any expense with regards to the plan.

(10) Other Postemployment Benefits and Life Insurance

(a) *Healthcare Plan*

The PERA Health Care Program (the 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. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for healthcare coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, 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 <http://www.copera.org>.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the healthcare plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in note 8. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The Center contributed \$131,734, \$128,389, and \$106,946 as required by statute in fiscal years 2013, 2012, and 2011, respectively. In each year, the amount contributed was 100% of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully insured plans offered through healthcare organizations and self-insured plans administered for PERA by third-party vendors. As of December 31, 2012, there were 51,666 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2012, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.43 billion, a funded ratio of 16.5%, and a 66-year amortization period.

(b) *Other Programs*

Nonclassified administrative staffs are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multi-employer insurance

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purchasing pool, which allows for postemployment health coverage until the retiree is eligible for Medicare. For fiscal years 2013 and 2012, the Center has no retiree participants under CHEIBA.

CHEIBA financial statements are prepared under accounting principles generally accepted in the United States of America using the accrual basis of accounting following governmental accounting standards for a business-type activity. The financial statements can be obtained by contacting the Center at 303-556-2232. Contributions are recognized in the period due. Benefits and refunds are recognized and paid when due according to the participating plans. The fair value of the CHEIBA's investments is based on quoted market prices from national securities exchanges.

There are no long-term contracts for contributions to the plan. Participating institutions can withdraw their participation in the plan with at least one-year notice to the CHEIBA board.

(11) Land Condemnation

On December 30, 2008, Certificates of Participation (Series 2008 Land Acquisition Certificates) in the amount of \$16,500,000 were issued pursuant to a Mortgage and Indenture of Trust, dated as of December 1, 2008, as amended and supplemented, by and between Wells Fargo Bank, National Association, as grantor, and Wells Fargo Bank, National Association, as trustee, to finance the acquisition of approximately 13.54 acres of land, located south of West Colfax Avenue and west of Rio Court near the Campus, to be used for recreational and athletic field purposes by the Constituent Institutions.

On October 7, 2010, the Regional Transportation District (RTD) filed a Petition in Condemnation to acquire 1.04 acres of the aforementioned 13.54 acres of land. On December 8, 2010, the Court granted immediate possession of the property to RTD, including any and all claims, rights, title, interests, easements, liens, encumbrances, reversionary interests, and rights of entry, upon payment of just compensation in the amount of \$1,515,700. The 1.04 acres of land that was condemned by RTD was purchased on December 30, 2008 at a cost of \$1,516,464, resulting in a net loss on the condemnation of this property of \$25,344.

Net proceeds from the land condemnation in the amount of \$1,491,120 are currently being held by Wells Fargo Bank, as trustee, until these funds are needed to pay the final debt service obligations on the Series 2008 Land Acquisition Certificates, with final maturity on May 1, 2028. These proceeds are included in restricted cash and cash equivalents at June 30, 2013 and 2012.

(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 Bill. Therefore, the Center is not required to obtain additional 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. As of June 7, 2010, HB-10-1181 was signed into law increasing the property loss claim deductible from \$1,000 to \$5,000 per incident.

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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 claims by the Doctrine of Sovereign Immunity except under certain circumstances in which immunity is waived.

(13) Concentrations of Credit Risk

Operating revenues consist of revenue from the constituent institutions for services and facilities provided by the Center. These revenues currently do cover the costs of operating the Campus. In prior years, the Center has had to draw on reserves to fund operations and critical maintenance needs.

(14) 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.

(15) Unspent Construction Proceeds – Science Building

State of Colorado House Bill 1357, concerning the use of unspent moneys after completion of capital construction projects at state-supported institutions of higher education authorized by a 2008 Federal Mineral Lease Revenues Lease Purchase Agreement, was signed into law on May 24, 2012. This legislation allowed the Center and its three constituent institutions to keep a pro rata share, up to \$1 million, of any unspent proceeds upon completion of the Science Building. The project was closed out in September 2012 with \$4,057,438 of unspent State of Colorado project funds remaining, which were returned to the State. The return of funds to the State is reflected as a decrease to state capital contributions on the statement of revenues, expenses, and changes in net position for the year ended June 30, 2013. Based on this amount of unspent proceeds, the maximum share of \$1 million was then returned by the State to the Center in November 2012. The funds were subsequently distributed as follows: MSU Denver-\$404,281; CU Denver-\$462,141; CCD-\$94,212; and the Center-\$39,366.

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Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2013 and 2012

(1) Nature of Operations – The Auraria Foundation and Inn at Auraria LLC

(a) *The Auraria Foundation*

The Auraria Foundation (the Foundation) is a not-for-profit corporation formed in June 1983 to receive, hold, invest and administer property and to make donations, gifts and expenditures for the direct benefit of the Auraria Higher Education Center (AHEC). The Inn at Auraria, LLC (the Inn) is a limited liability company. The Foundation is the sole member of the Inn. The Foundation and the Inn (collectively, the Entities) are operationally independent. There is no recourse against the Foundation for the Inn's debts incurred. Additionally, the Board of Directors of the Foundation do not intend to fund the future operations of the Inn.

AHEC is an agency of the State of Colorado and is responsible for the operation and maintenance of the physical facilities of the Auraria Campus in downtown Denver, Colorado. Instructional services at the Auraria Campus are provided by the University of Colorado Denver, Metropolitan State University of Denver and the Community College of Denver (CCD).

During the year ended June 30, 2012, the Foundation collected rental income from the St. Francis Center, a building owned by the Foundation and located on the Auraria Campus, which has been used for various purposes since 1983. On February 1, 2012, the Foundation transferred title to the St. Francis Center building and land to CCD and AHEC, respectively.

(b) *Inn at Auraria LLC*

The Inn was created to provide housing for the students of the Auraria Campus institutions. In July 2005, the Inn received a \$37,280,000 loan through the Colorado Educational and Cultural Facilities Authority from the issuance of long-term serial bonds and purchased the top 14 floors (floors 17 through 30) of the Executive Tower Inn building to create 125 apartment-style units to house 439 students. The Executive Tower Inn was built in 1972 and is located in downtown Denver, Colorado, a few blocks from the Auraria Campus. The Inn opened to student residents on August 19, 2006.

The Executive Tower Inn building is condominiumized between the Inn and the remainder of the building which is not affiliated with the Entities. A condominium association provides common building services, such as elevator maintenance and exterior street level maintenance, to the Inn's portion of the building as well as making a portion of the building's underground parking and athletic facilities available to students on a monthly rental basis.

(2) Summary of Significant Accounting Policies

(a) *Basis of Consolidation*

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the U. S. GAAP. The consolidated financial statements include the accounts of the Foundation and the Inn. All material intercompany transactions have been eliminated in consolidation.

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Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2013 and 2012

(b) Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. GAAP. Consistent with the Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor – imposed restrictions. Accordingly, the net assets of the Entities and changes therein are classified and reported as follows:

- Unrestricted net assets are those net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets are net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation or the Inn, and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
- Permanently restricted net assets result from contributions and related earnings for which use is limited by donor-imposed restrictions that cannot be fulfilled or removed by the Foundation or the Inn and do not expire over time.

Neither of the entities has any temporarily or permanently restricted net position at June 30, 2013.

(c) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect various amounts reported in the financial statements and accompanying notes at the date of the consolidated financial statements. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

The Foundation and the Inn consider all highly liquid investments with an original maturity of three months or less at the time of investment to be cash and cash equivalents.

(e) Accounts receivable

Accounts receivable consist primarily of rent and other revenues earned but not received. Management determines the adequacy of the allowance for doubtful accounts based upon reviews of individual accounts, recent loss experience, current economic conditions and other pertinent factors. As of June 30, 2013, the Inn had an allowance for doubtful account of \$8,377.

(f) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statement of financial position. Net realized and unrealized gains and losses are included in the consolidated statement of activities.

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Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2013 and 2012

(g) Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is recorded using the straight-line method at rates based on the following useful lives:

| | |
|-----------------------------------|------------------------|
| Building | 40 years |
| Building improvements | Estimated useful lives |
| Furniture, fixtures and equipment | 3 – 7 years |

Expenditures that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Depreciation expense for the year ended June 30, 2013 totaled \$393 for the Foundation and \$1,031,990 for the Inn.

Upon retirement, sale, or other disposition of property and equipment, the cost and related accumulated depreciation are removed from the related accounts and the resulting gains or losses are included in operations.

The Entities evaluate their investments in long-lived assets to assess whether impairment indicators are present that would impact the recovery of the investments' carrying value. An impairment is deemed to exist if the carrying value of the long-lived assets exceeds the sum of undiscounted cash flows. If such a situation occurs, the Entities will reduce the carrying value of the affected assets to the estimated fair value determined through an independent appraisal or other means and record an impairment loss in earnings. No indicators of impairment were noted for the year ended June 30, 2013 and 2012.

(h) Bond Issuance Costs

Bond issuance costs consist of amounts paid to secure the bonds payable. The costs are amortized on a straight-line basis over the contractual term of the bonds. Accumulated amortization on bond issuance costs as of June 30, 2013 and 2012 totaled \$170,593 and \$149,269, respectively. Amortization expense for each year ended June 30, 2013 and 2012 totaled \$21,325.

(i) Deferred rental income

Rent amounts received in advance of revenue recognition are recorded as deferred rental income on the consolidated statements of financial position.

(j) Deferred rent payable

In accordance with ASC Topic 840, *Leases*, the Inn is required to recognize rent expense on a straight – line basis over the life of the lease. During the year ended June 30, 2013, the rent recognized by the Inn on a straight-line basis is more than the rent that would have accrued in accordance with the lease terms by \$3,333. At June 30, 2013, the payable which results from recognizing rent on a straight-line basis totaled \$3,333.

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Notes to Financial Statements – Discretely Presented Component Unit

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(k) Revenue recognition

The Inn leases apartment units to students generally with annual lease commencement dates beginning in either May or August. Rent amounts are due in 12 equal monthly installments and income is recognized ratably over the life of the lease.

Prior to the transfer of St. Francis Center, the Foundation leased the building to AHEC for use as a conference center and office space for campus activities. This arrangement was terminated by the transfer of the St. Francis Center Property.

(l) Contributed Property and Services

Contributed property and equipment are recorded at fair value on the date received. If donors stipulate the duration of the assets' use, the contributions are initially recorded as restricted support. In the absence of such restrictions, contributions of property and equipment are recorded as unrestricted support.

The Foundation benefits from the services of many individuals who volunteer their time and perform a variety of tasks that assist the Foundation with specific programs. No amounts have been reflected in the consolidated financial statements for these donated services because they do not meet the criteria for recognition under authoritative guidance.

(m) Advertising and marketing

The Inn's policy is to expense advertising and marketing costs as incurred.

(n) Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code (the Code). The Internal Revenue Service has determined that the Foundation is not a private foundation under section 509(a) of the Code. However, income from activities not directly related to the Foundation's tax-exempt purpose may be subject to taxation as unrelated business income. The Foundation is the only owner of the Inn and therefore provides tax-exempt status to the Inn.

The Entities' information returns are subject to review and examination by federal and state authorities. Information returns for years ended after June 30, 2009 are open to examination by those authorities. In certain circumstances the statute of limitations may remain open indefinitely.

(3) Concentrations of Credit Risk

Financial instruments that potentially subject the Entities to concentration of credit risk consist principally of cash deposited into three financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000. Effective December 31, 2010 through December 31, 2012, the FDIC will provide unlimited insurance protection to certain noninterest bearing accounts. The management of the Foundation and the management of the Inn continue to monitor these balances to mitigate the exposure of risk due to concentration and has not experienced any losses from such concentration.

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(4) Inn at Auraria LLC Accounts

(a) *Going concern consideration*

As of June 30, 2013 and 2012, the Inn was in default on its bonds payable and had an equity deficiency of \$13,453,815 and \$12,061,538, respectively, which raises substantial doubt about its ability to continue as a going concern. The Inn has failed to make all required debt service payments on its bonds since July 1, 2008, and has received multiple default notification.

The bond holders may, at their option and upon giving notice to the Inn, demand immediate payment in full of the total bonds payable outstanding as of the date of notice. As a result, the total bonds payable balance is classified as current in the accompanying consolidated balance sheets as of June 30, 2013 and 2012, respectively.

The equity deficiency and the bonds payable default described above raises substantial doubt about the Inn's ability to continue as a going concern. The Inn is currently working with its lender to obtain the necessary waivers after the expiration of its extension through December 31, 2013. Management is also taking considerable measures to increase the Inn's cash inflows in order to rectify the bond default issue. Management believes with the Inn at full capacity and with the amenities added this past year and those to be added during this next year, the financial performance will improve significantly during the next few years. As of June 30, 2013 and 2012, the occupancy percentages were 85% and 72%, respectively.

The accompanying consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplates that the Inn will continue as a going concern; however, the above conditions raise substantial doubt about the Inn's ability to do so. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Inn be unable to continue as a going concern.

(b) *Restatement as of June 30, 2012*

In connection with the preparation of the June 30, 2012 consolidated financial statements, the Inn classified its bonds payable balance as current and long-term in the amounts of \$1,520,000 and \$35,760,000, respectively. Management subsequently determined that the entire bonds payable balance should have been classified as a current liability as of June 30, 2012 because the bond holders may, at their option and upon giving notice to the Inn, demand immediate payment in full of the total bonds payable outstanding as of the date of notice. The accompanying consolidated balance sheet as of June 30, 2012 has been restated to reflect this re-classification.

(c) *Construction in progress*

The Inn has entered into a construction contract, including approved change orders, in the amount of \$437,246 to refurbish the lobby area and certain student housing units. The construction was completed in 2013 and all costs have been paid in full. As of June 30, 2012, the Inn incurred construction costs totaling \$414,023 and owed \$1,726 under the contract.

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In accordance with the first renewal to the forbearance agreement, the Inn commenced additional construction improvements in 2013. Construction costs are shared with the adjacent owner of the Executive Tower Inn building based on a predetermined percentage. The Inn's share of construction costs total \$2,069,642. As of June 30, 2013, the Inn has incurred and paid construction costs totaling \$1,566,185. Construction was expected to be completed by June 30, 2013; however, the improvements were still in progress as of year-end.

As of June 30, 2013 and 2012, construction in progress totaled \$1,587,834 and \$649,503, respectively.

(d) Bonds Payable

In July 2005, the Inn received a loan through the Colorado Educational and Cultural Facilities Authority pursuant to the issuance of Series 2005A tax exempt bonds in the amount of \$37,180,000 and Series 2005B taxable bonds in the amount of \$100,000. Interest on the Series 2005A bonds is payable semiannually at increasing rates ranging from 5.375% to 6%. Principal on the Series 2005A bonds is payable annually from July 1, 2008 through July 1, 2042 at increasing amounts. Interest on the Series 2005B bonds is payable semiannually at 6.5%. Principal on the Series 2005B bonds was due in full on July 1, 2009. The loan is collateralized by a mortgage on the property, the Inn's revenues from the facility and restricted cash and investment accounts. Under the terms of the bond agreement, the Colorado Educational and Cultural Facilities Authority and The Auraria Foundation have no obligation for payment of bond principal or interest.

The Inn is required to maintain rental rates sufficient to provide income to cover the debt service payments and has failed to meet this requirement for the years ending June 30, 2013 and 2012.

As of June 30, 2013 and 2012, the Inn was in default on its bonds payable. The Inn has been in default since July 1, 2008, and has received multiple default notifications. As of June 30, 2013, the past due principal and interest balances total \$1,520,000 and \$5,656,130, respectively. As of June 30, 2012, the past due principal and interest balances total \$1,045,000 and \$3,441,994, respectively.

In July 2011, the majority of the outstanding bonds were sold to a new investor. Concurrently, the bond trustee, at the direction of the majority bondholders, agreed to forbear from exercising its rights to appoint a receiver with respect to the Inn or to pursue any remedies available to it as a result of the default until December 31, 2012. The Inn subsequently entered into two successive six month extensions through December 31, 2013. The forbearance agreements include certain financial and operating requirements and restrictions. Additionally, the agreements require the Inn to maintain a net operating income of not less than \$150,000 for each designated two-month period. As of June 30, 2013 and 2012, management has determined the Inn is in compliance with its minimum net operating income requirement. Upon the occurrence of a Forbearance Default, as defined in the forbearance agreements, the forbearance will terminate immediately without any notice to the Inn, and the bondholders will have all remedies available to them under applicable agreements, including without limitation acceleration of the bonds or foreclosure of the property. As a result of the default, the bonds payable balance as of June 30, 2013 and 2012, totaling \$37,280,000, is classified as current in the accompanying consolidated statements of financial position.

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As a condition of the June 30, 2013 forbearance agreement, the majority bondholders approved certain construction improvements to enhance the marketability of the units. The agreement also required the Inn to execute a lease to occupy the improvement space upon the terms and conditions set forth in the lease agreement.

(e) ***Additional nonrecourse senior debt***

In the event funds are not sufficient to pay for certain construction costs of the Inn, the Inn may borrow up to \$1,500,000 from the majority bondholders, subject to their approval. The nonrecourse debt is senior to the Series 2005 bonds, and is secured by a deed of trust on the property and a pledge of the trustee's priority rights as to reimbursement. The debt matures on such date as approved by the majority bondholders. Interest shall accrue at the highest interest rate applicable on the Series 2005 bonds. As of June 30, 2013 and 2012, no funds have been drawn on the additional senior debt.

(f) ***Restricted cash***

Under terms of the bond indenture and related agreements, the Inn was required to establish and maintain various accounts with an independent trustee. The specific purposes, restrictions, and requirements are defined in the bond indenture. The general purpose and use of these accounts are described below.

Debt Service Reserve Fund

The amount to remain on deposit in this fund is dedicated to cover the Debt Service Reserve Requirement, as defined in the bond offering statement. The cash is to fund interest and principal payments should a shortfall in the Bond Fund exist. As of June 30, 2013 and 2012, no amounts were on deposit in the debt service revenue fund.

Revenue Fund

Gross revenues are to be deposited into this fund. The trustee is authorized to withdraw amounts to satisfy the Operating Expense Fund. Any amounts remaining in the fund are used to satisfy the Bond Fund as well as other indenture requirements on a monthly basis. As of June 30, 2013 and 2012, no amounts were on deposit in the Revenue Fund.

Operating Expense Fund

Amounts on deposit in the Revenue Fund are transferred to this fund up to the amount specified in the annual budget. The trustee is authorized to withdraw amounts in this fund to pay to the manager the operating expenses for the corresponding month in the fiscal year in the amount set forth in the annual budget.

Bond Fund

Amounts are to be deposited into this fund in amounts sufficient to satisfy the principal of bonds as they mature or become due upon redemption and the interest on bonds as it becomes payable.

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June 30, 2013 and 2012

Repair and Replacement Fund

The trustee is to make deposits into this fund from the Revenue Fund, if available, in order to meet the Repair and Replacement Fund Requirement. Approved repair and replacement expenditures are to be made from this fund. As of June 30, 2013 and 2012, no amounts were on deposit in the Repair and Replacement Fund.

Operating Reserve Fund

Funds used to pay any operating expenses in excess of those budgeted unless sufficient amounts are not on deposit in the Bond Fund to make a required payment of principal and interest on the bonds. As of June 30, 2013 and 2012, no amounts were on deposit in the Operating Reserve Fund.

Guaranteed Investment Contract

The guaranteed investment contract for the debt service reserve pays interest of 4.532%. Amounts held under this contract are available for expenditure for restricted purposes. As of June 30, 2013, no amounts were held in guaranteed investment contracts. As of June 30, 2013 and 2012, no amounts were held in the guaranteed investment contract.

Project Reserve Fund

Pursuant to the forbearance agreement, the trustee established a project account to maintain excessive operating funds, if applicable. The funds are to be used to pay for approved construction and development costs that will enhance the marketability of the units.

The following amounts were on deposit in these trustee-held cash accounts at June 30:

| | 2013 | 2012 |
|------------------------|-------------|-------------|
| Project reserve fund | \$ 73,281 | 363,223 |
| Bond Fund – interest: | | |
| A bonds | 204,324 | 204,303 |
| B bonds | 601 | 601 |
| Bond Fund – principal: | | |
| A bonds | 46 | 46 |
| Operating expense fund | 5 | 5 |
| Total | \$ 278,257 | 568,178 |

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2013 and 2012

(g) Operating lease

On June 1, 2013, the Inn entered into a ten year noncancelable operating lease for space as required by the first forbearance extension agreement. The future minimum rental payments required under the operating lease are as follows for the years ending June 30:

| | | |
|------------|----|-----------------------|
| 2014 | \$ | 15,117 |
| 2015 | | 15,117 |
| 2016 | | 15,117 |
| 2017 | | 15,117 |
| 2018 | | 20,117 |
| Thereafter | | <u>470,582</u> |
| | \$ | <u><u>551,167</u></u> |

Rent expense for the years ended June 30, 2013 and 2012 totaled \$4,593 and \$0, respectively.

(5) The Auraria Foundation Accounts

(a) Fair Value of investments

The Foundation measures its investments at fair value and groups them into three levels, based on the markets in which the investments are traded, if any, and the observability of the assumptions to determine fair value. These levels are:

Level 1 – Valuations using unadjusted quoted prices for assets traded in active markets, such as stocks listed on the New York Stock Exchange. Active markets are defined as having the following characteristics for the measured asset or liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information regarding the issuer is publicly available.

The Foundation currently reports some or all of its managed investments concentrated in short-term investments, U.S. Treasury and corporate obligations, and fixed income and equity securities using Level 1 inputs.

Level 2 – Valuations for assets and liabilities traded in less active, dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities. Level 2 inputs for fair value measurements are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets;
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active (that is, markets in which there are few transactions for the asset or liability, the prices are not current, price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly);

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2013 and 2012

- c. Inputs other than quoted prices that are observable within the market for the asset or liability (for example, interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates that are observable at commonly quoted intervals); and
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (for example, market-corroborated inputs).

The Foundation currently reports certain U.S. Treasury and corporate obligation investments using Level 2 inputs.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and also incorporate significant professional judgment in determining the fair value assigned to such assets or liabilities. The Foundation currently has no assets valued using Level 3 inputs.

The following is a summary of the categories and inputs used by the Foundation to measure at fair value on a recurring basis the Foundation’s investments at June 30, 2013 and 2012:

| | | June 30, 2013 | | |
|---|----|----------------------|----------------|------------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
| Short-term investments | \$ | 153,126 | — | 153,126 |
| U.S. Treasury and corporate obligations | | 746,511 | 50,252 | 796,763 |
| Equity securities | | 2,122,325 | — | 2,122,325 |
| Totals | \$ | <u>3,021,962</u> | <u>50,252</u> | <u>3,072,214</u> |
| | | | | |
| | | June 30, 2012 | | |
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
| Short-term investments | \$ | 141,509 | — | 141,509 |
| U.S. Treasury and corporate obligations | | 714,259 | 106,471 | 820,730 |
| Fixed income securities | | 206,587 | — | 206,587 |
| Equity securities | | 2,050,435 | — | 2,050,435 |
| Totals | \$ | <u>3,112,790</u> | <u>106,471</u> | <u>3,219,261</u> |

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2013 and 2012

(b) Financial Assets – Cash and Cash Equivalents, Investments

The Foundation’s financial assets are, for the most part, designated by the Board of Directors for the payment of the grants or as an endowment to fund future grants and projects. The balance in these accounts at June 30, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|--------------|-------------|
| Assets designated for future grants and projects: | | |
| Investments | \$ 3,072,214 | 3,219,261 |
| Operating cash: | | |
| Checking account | 29,069 | 25,008 |
| Money market account | 61,458 | 61,451 |
| Totals | \$ 3,162,741 | 3,305,720 |

The following is a reconciliation of the ending balance of the Foundation’s investments measured at fair value on a recurring basis using Level 1 and Level 2 inputs for the year ended June 30, 2013:

| | | |
|--|--------------|--|
| Beginning balance, July 1, 2011 | \$ 3,453,979 | |
| Withdrawal for provision of grants | (300,000) | |
| Realized and unrealized gains on investments | 65,282 | |
| Balance, June 30, 2012 | 3,219,261 | |
| Withdrawal for provision of grants | (450,000) | |
| Realized and unrealized gains on investments | 302,953 | |
| Ending balance, June 30, 2013 | \$ 3,072,214 | |

The Foundation’s investments in marketable securities are managed and monitored by reputable investment advisors in accordance with the Foundation’s investment policy which requires diversification of investments.

(6) Related-Party Transactions

In July 2005, after the Inn obtained the bond funding, the Foundation loaned the Inn \$250,000 to enable the Inn to make the required borrower contribution. The Foundation has made additional loans to the Inn through the payment of utility bills, property taxes and other expenses, which the Inn was unable to pay. The Foundation’s payments of these expenses on behalf of the Inn totaled \$588,540 as of June 30, 2013 and 2012. These amounts have been eliminated in these consolidated financial statements.

The Inn paid the Foundation \$49,998 and \$50,000 in management fees during the year ended June 30, 2013 and 2012. The management fee has been eliminated in these consolidated financial statements.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2013 and 2012

In 2006, the Foundation agreed to provide funding for two major campus projects. The Foundation agreed to reimburse AHEC up to \$3,000,000 for costs of the Science Building Addition/Renovation project and up to \$500,000 for the Night Lighting and Emergency Phones project. The Foundation authorized a \$250,000 grant to AHEC in 2008 and an additional \$250,000 in 2009 for the construction of a roof over the foundry/kiln area of the Arts Building. During the year ended June 30, 2013 and 2012, the Foundation authorized grants to AHEC for studies related to campus infrastructure, which had final costs of \$295,256 and \$257,300, respectively. As of June 30, 2012, all grant amounts outstanding have been paid.

During the year ended June 30, 2013, the Foundation authorized grants to AHEC for projects related to campus signage in the amount of \$441,927. The grants were considered to be unconditional, and therefore, the expenses were recorded in the year granted. As of June 30, 2013, a total of \$2,250 in grant monies had not been disbursed.

In 2013 and 2012, the Foundation contracted with AHEC for the use of certain office facilities and services at an annual cost of \$2,000.

During the years ended June 30, 2013 and 2012, the Foundation contributed \$6,335 and \$3,943, respectively, to various activities of AHEC.

AHEC paid the Foundation \$25,145 in 2012 to lease the St. Francis Center. The Foundation paid AHEC \$8,750 in 2012 for cleaning services in the building.

In the early 1970s, the State of Colorado (the State) purchased land through an urban renewal program and began construction of the Auraria Campus. The land included the site of St. Elizabeth's Church (the Church), which was not purchased by the State. In the mid-1970s, the St. Francis Center was built on a portion of the Church property as a religious outreach facility available to campus students.

In 1983, the religious order that owns the St. Francis Center offered the property to the campus. Under the State policies at that time, the State entities on the campus could not accept the offer despite their desire to bring this property under campus control. The Auraria Foundation was created at that time to provide an entity which could accept the property on behalf of the campus.

Over the years, the St. Francis Center has been used for various campus purposes. The building is within the area designated in the campus master plan.

On February 1, 2012, the Foundation donated title to the St. Francis Center building and land to CCD and AHEC, respectively. The St. Francis Center property was transferred at a net book value of \$753,840.

(7) Subsequent Events

The Entities have evaluated subsequent events through November 15, 2013, which is the date these consolidated financial statements were available for issuance.



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' 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, in accordance with the 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, the financial statements of the business-type activities and the discretely presented component unit of the Auraria Higher Education Center (the Center), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated November 15, 2013. Our report includes a reference to other auditors who audited the financial statements of the Auraria Foundation, a discretely presented component unit, as described in our report on the Center's financial statements. Those financial statements included an explanatory paragraph about the discretely presented component unit's ability to continue as a going concern. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Center's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

KPMG LLP

Denver, Colorado
November 15, 2013



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

November 15, 2013

Members of the Legislative Audit Committee
Auraria Higher Education Center
Denver, Colorado

Ladies and Gentlemen:

We have audited the financial statements of the business-type activities and the discretely presented component units of the Auraria Higher Education Center (the Center), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated of November 15, 2013. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Auraria Foundation (the Foundation) discretely presented component unit and the Foundation's financial statements were not audited in accordance with *Government Auditing Standards*. Under our professional standards, we are providing you with the accompanying information related to the conduct of our 2013 audit.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of the Center's Board of Directors, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the Board of Directors of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.



Members of the Legislative Audit Committee
Auraria Higher Education Center
November 15, 2013

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Board of Directors in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Center's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the Center's report, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Accounting Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the Center are described in note 1 to the financial statements. As described in note 1, in order to comply with the requirements of U.S. generally accepted accounting principles, the Center implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in 2013.

Unusual Transactions

We are not aware of any transactions entered into by the Center during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance.

Qualitative Aspects of Accounting Practices

We have discussed with the Board of Directors and management our judgments about the quality, not just the acceptability, of the Center's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the Center's accounting policies and their application, and the understandability and completeness of the Center's financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the Center to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.



Members of the Legislative Audit Committee
Auraria Higher Education Center
November 15, 2013

Management's estimates include the allowance for uncollectible receivables, the period to depreciate capital assets owned by the Center, and accrued compensated absences. We evaluated the key factors and assumptions used to develop these estimates, including possible management bias in developing the estimates, in determining that the estimates are reasonable in relation to the financial statements as a whole.

Uncorrected and Corrected Misstatements

In connection with our audit of the Center's financial statements, no audit adjustments were proposed or made to the financial statements.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' report on the Center's financial statements.

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2013.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management prior to Retention

We generally discuss a variety of matters with the Board of Directors and management each year prior to our retention by you as the Center's auditors. However, these matters occurred in the normal course of our professional relationship and responses were not a condition to our retention.

Material Written Communications

Management has been provided copies of the following material written communications between management and us:

1. Engagement letter
2. Management representation letter

Significant Difficulties Encountered during the Audit

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

Independence

Confirmation of Audit Independence

We hereby confirm that as of November 15, 2013, we are independent accountants with respect to the University under relevant professional and regulatory standards.

* * * * *



Members of the Legislative Audit Committee
Auraria Higher Education Center
November 15, 2013

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

Very truly yours,

KPMG LLP

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 the report.

Report Control Number 1315F