AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audits

June 30, 2007 and 2006

LEGISLATIVE AUDIT COMMITTEE
2007 MEMBERS

Senator Stephanie Takis
Chairman
Representative James Kerr
Vice Chair
Senator Jim Isgar
Representative Rosemary Marshall
Representative Victor Mitchell
Representative Dianne Primavera
Senator Nancy Spence
Senator Jack Taylor

Office of the State Auditor Staff

Sally Symanski
State Auditor

Dianne Ray
Deputy State Auditor

Adam Ochs
Legislative Auditor

Contract Auditor
Kundinger, Corder & Engle, P.C.

Members of the Legislative Audit Committee:

We have completed the financial statement audit of Auraria Higher Education Center as of and for the year ended June 30, 2007. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.

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

October 24, 2007

AURARIA HIGHER EDUCATION CENTER
FINANCIAL AND COMPLIANCE AUDITS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
TABLE OF CONTENTS

AURARIA HIGHER EDUCATION CENTER
AUDIT REPORT SUMMARY
YEAR ENDED JUNE 30, 2007

Authority, Purpose and Scope

The Office of the State Auditor, State of Colorado, engaged Kundinger, Corder & Engle, P.C. to conduct certain financial and compliance audits of Auraria Higher Education Center (the "Center") for the years ended June 30, 2007 and 2006. In addition, the Office of the State Auditor engaged Holtzman, Moellenberg, Panozzo & Perkins to audit the Auraria Foundation, a discretely presented component unit of the Center, for the year ended June 30, 2007. The audits were performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The related fieldwork was conducted from May through October, 2007.

The purpose and scope of our audits were to:

- Express an opinion on the financial statements of the Center for the years ended June 30, 2007 and 2006. This included a review of internal control as required by U.S. generally accepted auditing standards and *Government Auditing Standards.*
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Express an opinion on the Center's compliance and internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards.*
- Evaluate the Center's progress in implementing prior audit findings and recommendations.
- Evaluate compliance with restrictive covenants of the Center's revenue bond funds.

Audit Opinions and Report

We expressed an unqualified opinion on the Center's financial statements for the years ended June 30, 2007 and 2006. Our opinion, insofar as it relates to the amounts included for the Auraria Foundation, is based solely on the report of the other auditors. We did not audit the financial statements of the Auraria Foundation, a discretely presented component unit of the Center. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Auraria Foundation, is based solely on the report of the other auditors.

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

We also issued certain required communications related to the conduct of an audit including our responsibility under generally accepted auditing standards, significant accounting policies, audit adjustments, and accounting estimates. No delays or disagreements with management are reported. There were no audit adjustments or unrecorded audit differences.

Summary of Key Findings and Recommendations

- The Center routinely uses wire transfers to make debt service payments and to transfer funds between Center accounts. To prevent unauthorized wire transfers from occurring, the Center has implemented a policy that requires one individual to set up the wire transfer and another to approve it. Both the Controller and the Chief Financial Officer have the authority to approve wire transfers while a third individual initiates them. As the officially designated banking administrator, the CFO has the ability to override the policy and both initiate and approve transfers. To improve controls over wire transfers, the Center should instruct its banking institutions to verify all changes in wire transfer instructions with the Vice President of Operations. Changes include personnel authorized to initiate and approve transfers and the accounts to which transfers can be made.

- The Center's administrative and business services department receives payments from the constituent institutions (Metropolitan State College, University of Colorado at Denver, and Community College of Denver) and other entities and individuals for services provided throughout the year. The payments are received either through the mail or hand delivered to the business services department. Payments received in the mail are opened by the Center's administrative services receptionist and entered into a receipts log. Currently, there is no process in place to compare the receipts in the log to deposits in a Center bank account. Payments that are hand delivered to the Center are received directly by the accounts receivable clerk who prepares the deposit slip and the journal entry to record the receipt, resulting in a lack of segregation of incompatible accounting functions. To improve controls over cash receipts, the Center should require that all receipts go to the administrative services receptionist to be entered into the receipts log, and that the log be compared to validated deposit slips by someone independent of the accounts receivable function.

A summary of the recommendations is included in the Recommendation Locator on page 3 of this report. A detailed description of the findings and recommendations begin on page 5 of this report. The Center has agreed to implement these recommendations.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2006 included four recommendations concerning matters related to the Center's internal control or other operating matters. Two of the recommendations were fully implemented during fiscal year 2007 and two were partially implemented. See Disposition of Prior Audit Findings on page 7.

AURARIA HIGHER EDUCATION CENTER
RECOMMENDATION LOCATOR
YEAR ENDED JUNE 30, 2007

Record No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	5	The Center should instruct its banking institutions to verify all changes in wire transfer instructions with the Vice President of Operations. Changes include personnel authorized to initiate and approve transfers and the accounts to which transfers can be made.	Agree. Effective 7/31/07 the CFO had the bank remove the ability for any user to both initiate and approve a transfer. To further strengthen internal controls the Vice President of Operations will receive a call from the banking institution whenever a change is made in personnel authority level's or wire transfer instructions.	November, 2007
2	6	The Center should require that all receipts be routed to the administrative services receptionist to be copied and logged into the receipts log before being given to the accounts receivable clerk. The Center personnel (other than the accounts receivable clerk) should verify that all funds received by the administrative services receptionist have been properly deposited in a Center bank account by comparing the validated deposit slip to the receipts log by someone independent of the accounts receivable function.	Agree. AHEC will review cash receipts procedures to ensure all mail receipts are received and logged into a cash receipts log by an individual who has no access to the accounts receivable subsidiary ledger. We will also ensure the cash receipts log is traced to deposit slips by someone independent of the accounts receivable function. A log will be kept by the receptionist for checks received in the mail. However, because there are security concerns presented by performing cash counts at the reception desk, we will review job responsibilities of other staff to determine who can assume the duty of handling cash receipts. This individual will continue the current practice of counting the cash and preparing a deposit slip that is verified by the department delivering the payment.	November, 2007

AURARIA HIGHER EDUCATION CENTER
FINANCIAL AND COMPLIANCE AUDITS
DESCRIPTION OF AURARIA HIGHER EDUCATION CENTER
FOR THE YEAR ENDED JUNE 30, 2007

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

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

In planning and performing our audit of the financial statements of Auraria Higher Education Center as of and for the year ended June 30, 2007, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of United States, we considered the Center's internal control structure as a basis for designing our auditing procedures 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. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following to be control deficiencies:

<u>Wire Transfers</u>
The Center routinely uses wire transfers to make debt service payments and to transfer funds between Center accounts. At June 30, 2007, the Center had approximately $90 million in outstanding bond obligations, and bond principal and interest payments made by wire transfer totaled approximately $7 million for the year then ended. Transfers between Center accounts and the State Treasury are primarily related to parking and book center receipts which are deposited in Center accounts and wire transferred to the State Treasury. These transfers fluctuate throughout the year and are highest at the beginning of each term. The wire transfer instructions for all these transfers are on file with the Center's banking institutions.

To prevent unauthorized wire transfers from occurring, the Center has implemented a policy that requires one individual to set up the wire transfer and another to approve it. Both the Controller and the Chief Financial Officer (CFO) have the authority to approve wire transfers while a third individual initiates them. Although this policy improves the segregation of duties between initiation and authorization of wire transfers, it may not prevent unauthorized transfers from occurring. As the officially designated banking administrator, the CFO has the ability to override the policy and both initiate and approve transfers. This lack of segregation of duties could result in an unauthorized transfer which would not be detected until the reconciliation of the bank account the following month.

<u>Recommendation No. 1</u>
The Center should instruct its banking institutions to verify all changes in wire transfer instructions with the Vice President of Operations. Changes include personnel authorized to initiate and approve transfers and the accounts to which transfers can be made.

Center Response
Agree. Effective 7/31/07 the CFO had the bank remove the ability for any user to both initiate and approve a transfer. To further strengthen internal controls the Vice President of Operations will receive a call from the banking institution whenever a change is made in personnel authority levels or wire transfer instructions.

Implementation Date: November, 2007

Cash Receipts
The Center's administrative and business services department receives payments from the constituent institutions and other entities and individuals for services provided throughout the year. The payments are received either through the mail or hand delivered to the business services department and include quarterly appropriation payments from the campus colleges; payments for services provided by facilities management, printing, and telecommunications; and payments on third party billings.

Payments received in the mail are opened by the Center's administrative services receptionist and entered into a receipts log. The log, copies of the checks, and the checks are given to the accounts receivable clerk for entry into the accounting system and deposit with the State treasury. The accounting clerk signs the receipts log to verify that all items in the log have been received for deposit. There is no process in place to compare the receipts log to deposits in a Center bank account. As a result, the misappropriation of assets could occur and not be detected by Center personnel in a timely manner.

Payments that are hand delivered to the Center are received directly by the accounts receivable clerk and a receipt is provided to the individual delivering the payment. The accounts receivable clerk prepares the deposit slip and the journal entry to record the receipt. This lack of segregation of duties could result in the misappropriation of assets that may not be detected by Center personnel in a timely manner.

Recommendation No. 2
The Center should require that all receipts be routed to the administrative services receptionist to be copied and logged into the receipts log before being given to the accounts receivable clerk. The Center personnel independent of the accounts receivable function should verify that all funds received by the administrative services receptionist have been properly deposited in a Center bank account by comparing the validated deposit slip to the receipts log.

Response
Agree. AHEC will review cash receipts procedures to ensure all receipts are received and logged into a cash receipts log by an individual who has no access to the accounts receivable subsidiary ledger. We will also ensure the cash receipts log is traced to deposit slips by someone independent of the accounts receivable function.

Response, Continued

A log will be kept by the receptionist for checks received in the mail. However, because there are security concerns presented by performing cash counts at the reception desk, we will review job responsibilities of other staff to determine who can assume the duty of handling cash receipts. This individual, who will have no access to the A/R ledger, will continue the current practice of counting the cash and preparing a deposit slip that is verified by the department delivering the payment and entered into a log for comparison to the deposit.

Implementation Date: November, 2007

AURARIA HIGHER EDUCATION CENTER
DISPOSITION OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

The following is a summary of the prior year audit recommendations and their disposition as of June 30, 2007:

Prior Year Audit Recommendations	Disposition
No. 1 The Center should implement procedures to improve the current accounting system even though a conversion is likely. The Center should re-design the chart of accounts and report functions to facilitate the preparation of accessible, understandable reports that can be generated directly by the system. Upon conversion, the Center should investigate the use of subsidiary ledgers for tracking fixed assets and other functions currently tracked outside the accounting system.	No. 1 Partially implemented. The Center has re-designed the chart of accounts and report functions to facilitate the preparation of reports generated by the system. The Center is in the process of a system conversion which will result in the use of subsidiary ledgers for tracking fixed assets and other functions currently tracked outside the accounting system. The system will be fully operational in 2008.
No. 2 The Center should investigate alternative methods of funding general operating expenses and rebuild unrestricted parking reserves in order to fund future parking lot repair and maintenance, and parking lot projects.	No. 2 Ongoing. In 2007, the Center reduced the amount of reserves used to fund general operating expenses from $1,540,000 to $540,000, and discontinued the use of parking reserves to fund general fund projects. The Center will continue to investigate alternative funding options.
No. 3 The Center should perform a detailed analysis of the overhead costs to determine the allocation to each auxiliary enterprise and develop an internal cost model that accurately reflects the auxiliaries' share of the general operating expenses.	No. 3 Implemented
No. 4 The Center should continue to evaluate and address the current level of skills in the accounting department and make the necessary changes to ensure that the accounting department is operating efficiently and effectively on a day-to-day basis.	No. 4 Implemented

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying statements of net assets of Auraria Higher Education Center (the Center), a blended component unit of the State of Colorado, as of and for the years ended June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Auraria Foundation, a discretely presented component unit of Auraria Higher Education Center, which statements reflect total assets of $46,120,664 as of June 30, 2007, and total support and revenues of $2,476,623 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Auraria Foundation, is based solely on the report of the other auditors.

We conducted our audits of the Center in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Auraria Higher Education Center and its discretely presented component unit as of June 30, 2007 and 2006, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Independent Auditor's Report, Continued

In accordance with *Government Auditing Standards,* we have issued our report dated October 24, 2007, on our consideration of Auraria Higher Education Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 24, 2007

Auraria Higher Education Center
Management's Discussion and Analysis
Year Ended June 30, 2007

This section of the Auraria Higher Education Center's (the "Center") financial statements presents discussion and analysis, prepared by the Center's management, of the Center's financial performance during the fiscal year ended June 30, 2007. The purpose of this section is to provide an objective and easily readable analysis of the Center's financial position based on currently known facts, decisions and opinions. It should be read in conjunction with the basic financial statements and their footnotes.

Understanding the Comparative Financial Report

The financial statements of the Center are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement of Accounting Standards No. 34, *Basic Financial Statements – and Management's Discussion and Analysis –for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* Effective June 30, 2004, the Center adopted GASB 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the financial statements of the Auraria Foundation are attached to the Center's financial statements and discussed in more detail in note 8.

This report contains three basic financial statements: the statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows. The statements report on all of the Center activities including services provided to its constituent institutions, parking operations and student fee bond operations.

The statement of net assets and the statements of revenues, expenses and changes in net assets report the Center's net assets and how they have changed using the accrual basis of accounting. This means that all revenues and expenses are reported in the year in which they are earned or incurred and not when the cash is received or paid.

Statement of Net Assets

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

Total net assets have decreased $5,053,000 since June 30, 2005. This is due primarily to the aging of the Center's facilities and the use of reserves to fund controlled maintenance needs and current operations. Since June 30, 2005 the Center has transferred parking and student bond reserves totaling $6,336,924 to support the general fund operating requirements, including the $540,000 transferred in 2007. An additional $3,238,761 was transferred from parking reserves during 2005 and 2006 to cover general fund projects such as classroom space additions, remodels and critical maintenance life/safety needs. In an attempt to rebuild parking reserves, a decision has been made to no longer use parking reserves to support general fund projects.

Condensed Statements of Net Assets (in thousands)

	June 30,		
	2007	**2006**	**2005**
Assets			
Current assets	$ 17,776	17,534	16,662
Capital assets	166,104	168,261	170,382
Other non-current assets	10,929	14,370	20,307
Total assets	$ 194,809	200,165	207,351
Liabilities			
Current liabilities	$ 9,754	11,081	13,533
Non-current liabilities	85,786	88,230	89,496
Total liabilities	$ 95,540	99,311	103,029
Net Assets			
Invested in capital assets, net of related debt	$ 79,747	82,113	88,906
Restricted – expendable	7,978	9,512	4,147
Unrestricted	11,544	9,229	11,269
Total net assets	$ 99,269	100,854	104,322

Statement of Revenues, Expenses and Changes in Net Assets

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

The Center's operating income has decreased $1,875,000 since the year ended June 30, 2005. The primary reasons for the decrease include escalating employee benefit costs and increased controlled maintenance expense as the campus buildings age. Support from the three constituent institutions increased $1,318,000 from 2006 to 2007 to $15,623,320, which included one-time funding of $825,125 for an additional police vehicle, financial software and equipment upgrades, final debt payment on the 1996 energy bond, and a campus-wide master plan study. Support from the three institutions is close to the 2003 funding amount of $16,003,070; however, utility expenses alone have increased approximately $1.2 million since 2003.

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

		Years Ended June 30,		
		2007	2006	2005
Operating revenues				
Auxiliary enterprises	$	32,112	30,914	30,588
Operating transfers from constituent institutions		15,623	14,305	13,474
Student fees		4,680	4,560	4,642
Gifts and grants		56	42	-
Other		320	12	117
Total operating revenues	$	52,791	49,833	48,821
Operating Expenses				
Auxiliary enterprises	$	30,461	27,076	27,146
Operation and maintenance of plant		11,901	11,394	11,183
Institutional support		1,846	1,657	1,419
Academic support		1,365	1,439	1,003
Public support		56	42	-
Depreciation and amortization		9,271	8,730	8,304
Total operating expenses		54,900	50,338	49,055
Operating income	$	(2,109)	(505)	(234)
Non-operating revenues and expenses				
Investment income	$	953	936	794
Interest on capital asset-related debt		(3,819)	(4,352)	(2,664)
Other non-operating income		1	-	-
Loss on refinancing of debt		-	-	(281)
Total non-operating revenues (expenses)		(2,865)	(3,416)	(2,151)
Capital appropriations, gifts and grants		3,389	453	513
Change in net assets		(1,585)	(3,468)	(1,872)
Net assets, beginning of year		100,854	104,322	106,194
Net assets, end of year	$	99,269	100,854	104,322

Center's Revenues and Financial Position

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions increased slightly and is projected to continue to increase. The student population trend is changing from the part-time older student to include the more traditional full-time younger student population during the day. Student auxiliary revenue increased $254,264 due to increased bookstore sales and tenant leases. Parking revenue was down $171,800 due to a new mass transit system coming on line in November 2006 and the availability of student housing within close proximity to campus.

Revenue reductions and spending restrictions faced by the State of Colorado during 2003 thru 2005 received a reprieve in November, 2005 when voters approved a five-year exemption from spending limits. As a result, appropriations for various State departments and institutions, including higher education institutions, are experiencing increases over prior years. The Center's appropriations from the constituent institutions in 2007 are close to the 2003 level. Student and parking auxiliary revenue and reserves are covering the fiscal year $2.1 million general fund operating deficit.

Capital Assets

At June 30, 2007 the Center had $166,103,981 invested in capital assets, net of accumulated depreciation of $126,855,767. For the year ended June 30, 2007, depreciation expense was $8,975,540.

Capital Assets, Net
(in thousands)

	June 30, 2007	June 30, 2006	June 30, 2005
Land	$ 11,753	11,753	11,753
Land improvements	11,176	11,990	10,937
Buildings and improvements	136,634	141,770	126,646
Equipment	1,589	1,725	2,171
Construction in progress	4,952	1,023	18,875
Total	$ 166,104	168,261	170,382

Capital Assets, Continued

In 2007 the State approved $1,735,968 in controlled maintenance appropriations for campus wide elevator and emergency generator replacement and repairs. The State also appropriated $29,887,876 in capital construction funding for the second phase of the science building renovation and addition project. The Center received $2,429,100 from the State for phase 1 and the Auraria Foundation committed $3,000,000 for the science building project. Funding has been requested from the State for the next three years to complete the project currently estimated at $108,000,000. This funding from the State and the Foundation comes at a critical time as the Center's unrestricted auxiliary parking reserves have been drawn down to a level that cannot support the maintenance needs on campus.

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

Bonds and Capital Leases

At June 30, 2007 the Center had $87,970,924 of bond and capital lease debt outstanding. The table below summarizes this debt by type. In 2007, the Center's telecomm lease expired and a new system was purchased instead of entering into a new lease agreement. The retirement of the 1996 Energy Certificate of Deposits also accounts for the reduction in capital lease obligations.

Bond and Capital Lease Debt
(in thousands)

		June 30,		
		2007	**2006**	**2005**
Auxiliary enterprise revenue bonds	$	71,825	73,499	74,555
Capital lease obligations		16,146	17,410	17,626
Total	$	87,971	90,909	92,181

Economic Outlook

Revenue limitations resulting from the Taxpayer's Bill of Rights amendment to the Colorado Constitution (TABOR) has resulted in serious funding reductions to the constituent institutions for operating revenue and to the Center for funding deferred maintenance needs of the campus facilities. As mentioned under the "Center's Revenues and Financial Position" TABOR revenue restrictions have been lifted for five years. For fiscal year 2008, this enabled the constituent institutions to increase their allocation to fund the Center's general operations by 5.0% from $14.8 million to $15.5 million. As mentioned above, the Institutions also contributed another $825,125 for one-time funding needs in 2007. Due to the decrease in parking revenue and reserves, the Center can no longer rely on unrestricted parking reserves to fund small projects and controlled maintenance needs. The constituent institutions are working together with the Center to assess critical needs as they arise and to find funding solutions. The 2008 fiscal budget continues the trend started in 2007 to allocate more of the student auxiliary fund reserves versus the parking reserves to support the general 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 child care center and all parking facilities. However, these fees and charges are <u>not</u> sufficient to cover the on-going maintenance needs of the general classroom facilities built approximately 30 years ago. Although State funding for controlled maintenance has started to trickle in, there is not enough funding to cover the backlog of needs at the Center. The Center and the constituent institutions are studying various options for funding the increasing maintenance needs of these aging facilities. An extensive master plan study for the entire campus has been completed which provides direction on how to develop the campus over the next 20 years. Included in the study was an analysis on how public/private partnerships might assist in funding academic and administrative buildings to ease the campus's critical space shortage.

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF NET ASSETS
JUNE 30, 2007 and 2006

		2007	2006
Assets			
Current assets:			
Cash & cash equivalents	$	11,969,702	14,145,481
Accounts receivable (net of allowance of $413,574 and $653,862, respectively)		3,310,217	1,658,284
Short-term investments (note 2)		645,327	-
Inventories		1,609,578	1,493,068
Prepaid expense		139,012	127,940
Deferred debt issuance costs (notes 1 and 4)		101,942	109,542
Total current assets		17,775,778	17,534,315
Non-current assets:			
Restricted cash and cash equivalents		1,454,529	970,803
Bond proceeds restricted to investment in current capital projects		1,128,528	4,561,426
Restricted investments (note 2)		6,834,981	7,223,798
Capital assets (net of accumulated depreciation of $126,855,767 and $118,029,155, respectively) (note 3)		166,103,981	168,261,181
Deferred debt issuance costs (notes 1 and 4)		1,511,682	1,613,623
Total non-current assets		177,033,701	182,630,831
Total assets	$	194,809,479	200,165,146
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	4,648,818	5,615,368
Interest payable		579,441	709,298
Compensated absences (note 4)		71,282	68,911
Deferred revenue		226,627	245,365
Current portion of long-term debt (note 4)		3,342,226	3,778,222
Cash held for others		885,691	664,194
Total current liabilities		9,754,085	11,081,358
Non-current liabilities:			
Compensated absences (note 4)		1,157,370	1,099,075
Long-term debt (note 4)		84,628,698	87,131,060
Total non-current liabilities		85,786,068	88,230,135
Total liabilities		95,540,153	99,311,493
Net assets:			
Invested in capital assets		79,746,681	82,112,485
Restricted for expendable purposes		7,977,996	9,511,855
Unrestricted		11,544,649	9,229,313
Total net assets	$	99,269,326	100,853,653

See accompanying notes to financial statements.

The Auraria Foundation

Consolidated Statements of Financial Position

June 30, 2007 and 2006

	2007			2006		
	Inn at Auraria LLC	**Auraria Foundation**	**Total**	**Inn at Auraria LLC**	**Auraria Foundation**	**Total**
Assets:						
Cash and cash equivalents	17,269	3,381,582	3,398,851	-	7,948,491	7,948,491
Investments	-	4,940,115	4,940,115	-	-	-
Accounts receivable, net of allowance for doubtful accounts of $82,000 and $0, respectively	77,140	-	77,140	-	76,086	76,086
Trustee held cash limited as to use	1,017,314	-	1,017,314	269,098	-	269,098
Trustee held guaranteed investment contracts limited as to use	2,924,104	-	2,924,104	8,486,083	-	8,486,083
Prepaid expenses and other	36,149	7,576	43,725	-	3,745	3,745
Advance to Inn at Auraria LLC	-	250,000	250,000	-	250,000	250,000
Property and equipment, net	32,037,883	935,124	32,973,007	31,389,015	972,439	32,361,454
Bond issuance costs, net	746,408	-	746,408	767,866	-	767,866
Eliminations of intercompany balances	-	-	(250,000)	-	-	(250,000)
Total assets	36,856,267	9,514,397	46,120,664	40,912,062	9,250,761	49,912,823

(Continued)

The Auraria Foundation

Consolidated Statements of Financial Position, Continued

June 30, 2007 and 2006

	2007			2006		
	Inn at Auraria LLC	**Auraria Foundation**	**Total**	**Inn at Auraria LLC**	**Auraria Foundation**	**Total**
Liabilities						
Accounts payable	20,478	38,539	59,017	859,856	30,403	890,259
Accrued construction costs	-	-	-	1,403,806	-	1,403,806
Accrued expenses and other	278,847	-	278,847	-	-	-
Deferred revenue	71,094	-	71,094	-	-	-
Interest payable	1,107,534	-	1,107,534	1,118,400	-	1,118,400
Grants payable	-	3,306,630	3,306,630	-	3,500,000	3,500,000
Due to The Auraria Foundation	250,000	-	250,000	250,000	-	250,000
Bonds payable	37,280,000	-	37,280,000	37,280,000	-	37,280,000
Eliminations of intercompany balances	-	-	(250,000)	-	-	(250,000)
	39,007,953	3,345,169	42,103,122	40,912,062	3,530,403	44,192,465
Net assets unrestricted	(2,151,686)	6,169,228	4,017,542	-	5,720,358	5,720,358
Total liabilities and net assets	$ 36,856,267	9,514,397	46,120,664	40,912,062	9,250,761	49,912,823

See accompanying notes to financial statements

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 and 2006

		2007	2006
Operating revenues:			
Auxiliary enterprises	$	32,112,093	30,913,573
Operating transfers from constituent institutions		15,623,320	14,305,316
Student fees		4,680,225	4,559,592
Gifts and grants		55,864	42,486
Other operating revenues		319,999	12,237
Total operating revenues		52,791,501	49,833,204
Operating expenses:			
Auxiliary enterprise expenditures		30,460,690	27,075,820
Operation and maintenance of plant		11,900,899	11,394,079
Institutional support		1,846,543	1,657,020
Academic support		1,365,546	1,438,754
Public service		55,864	42,486
Depreciation and amortization		9,270,729	8,730,042
Total operating expenses		54,900,271	50,338,201
Operating loss		(2,108,770)	(504,997)
Non-operating revenues (expenses):			
Investment income (note 2)		952,527	936,219
Interest on capital asset related debt		(3,818,742)	(4,352,431)
Other non-operating revenue		2,000	-
Loss on disposal of assets		(930)	-
Net non-operating expenses		(2,865,145)	(3,416,212)
Loss before other revenues, expenses, gains or losses		(4,973,915)	(3,921,209)
State capital appropriations		2,777,778	170,788
Capital grants and gifts		611,810	281,731
Change in net assets		(1,584,327)	(3,468,690)
Net assets, beginning of year		100,853,653	104,322,343
Net assets, end of year	$	99,269,326	100,853,653

See accompanying notes to financial statements.

The Auraria Foundation

Consolidated Statements of Activities
June 30, 2007 and 2006

		2007			2006		
		Inn at Auraria LLC	Auraria Foundation	Total	Inn at Auraria LLC	Auraria Foundation	Total
Revenues and other support							
Contributions	$	-	16,838	16,838	-	-	-
Rental income		1,626,751	38,625	1,665,376	-	38,625	38,625
Management fees		-	25,000	25,000	-	113,122	113,122
Investment income		179,236	529,989	709,225	-	22,070	22,070
Miscellaneous income		60,184	-	60,184	-	414	414
Dravo/Lawrence operations		-	-	-	-	1,525,547	1,525,547
Net assets released from restriction		-	-	-	-	15,000	15,000
Total revenues and other support	$	1,866,171	610,452	2,476,623	-	1,714,778	1,714,778
Expenses							
Inn at Auraria LLC operations	$	3,778,603	-	3,778,603	-	-	-
St. Francis program expense		-	93,730	93,730	-	73,419	73,419
Donations to AHEC and other Auraria institutions		-	31,791	31,791	-	34,343	34,343
General and administrative		224,860	43,936	268,796	-	84,913	84,913
Dravo/Lawrence operations		-	-	-	-	1,700,816	1,700,816
Total operating expenses		4,003,463	169,457	4,172,920	-	1,893,491	1,893,491
Non-operating expenses		14,394	-	14,394	-	-	-

(Continued)

The Auraria Foundation

Consolidated Statements of Activities, Continued

June 30, 2007 and 2006

		2007			**2006**		
		Inn at Auraria LLC	**Auraria Foundation**	**Total**	**Inn at Auraria LLC**	**Auraria Foundation**	**Total**
Grants to AHEC	$						
Science Building		-	-	-	-	3,000,000	3,000,000
Night Lighting		-	-	-	-	500,000	500,000
Total grant expenses		-	-	-	-	3,500,000	3,500,000
Total expenses		4,017,857	169,457	4,187,314	-	5,393,491	5,393,491
Increase (decrease) in net assets		(2,151,686)	440,995	(1,710,691)	-	(3,678,713)	(3,678,713)
Net gain related to sale of Dravo/Lawrence properties		-	7,875	7,875	-	8,713,204	8,713,204
Total increase (decrease) in unrestricted net assets		-	7,875	7,875	-	8,713,204	8,713,204
Restricted net assets released from restriction		-	-	-	-	(15,000)	(15,000)
Increase (decrease) in net assets		(2,151,686)	448,870	(1,702,816)	-	5,019,491	5,019,491
Net assets, beginning of year		-	5,720,358	5,720,358	-	700,867	700,867
Net assets, end of year	$	(2,151,686)	6,169,228	4,017,542	-	5,720,358	5,720,358

See accompanying notes to financial statements

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received:		
Student fees	$ 4,564,213	4,681,594
Transfers from constituent institutions	14,693,561	14,282,317
Gifts and grants	55,864	42,486
Sales of services	14,185,176	14,480,566
Sales of products	17,117,933	16,274,132
Other receipts	541,496	510,993
Cash paid:		
Payments to or for employees	(18,606,228)	(14,802,448)
Payments to suppliers	(26,302,357)	(27,839,069)
Net cash provided by operating activities	6,249,658	7,630,571
Cash flows from capital and related financing activities:		
Capital grants and gifts received	611,810	281,731
State appropriations	2,777,778	170,788
Purchases of capital assets	(8,427,303)	(7,977,770)
Principal paid on capital debt and leases	(3,778,221)	(3,130,912)
Interest paid on capital debt and leases	(3,294,382)	(3,780,242)
Net cash used in capital and related financing activities	(12,110,318)	(14,436,405)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	3,184,023	6,130,313
Investment income	984,584	1,007,304
Net cash provided by investing activities	4,168,607	7,137,617
Net change in cash and cash equivalents	(1,692,053)	331,783
Cash and cash equivalents, beginning of year	15,116,284	14,784,501
Cash and cash equivalents, end of year	$ 13,424,231	15,116,284

(Continued)

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF CASH FLOWS, CONTINUED
YEARS ENDED JUNE 30, 2007 and 2006

		2007	2006
Reconciliation of cash and cash equivalents to the Statement of Net Assets:			
Cash and cash equivalents	$	11,969,702	14,145,481
Restricted cash and cash equivalents - noncurrent		1,454,529	970,803
	$	13,424,231	15,116,284
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(2,108,770)	(504,997)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization expense		9,270,729	8,730,042
Bad debt expense		231,506	192,256
(Increase) decrease in operating assets:			
Accounts receivable		(1,923,134)	(645,602)
Inventories		(116,510)	(64,412)
Prepaid expense		(11,072)	(46,603)
Increase (decrease) in operating liabilities			
Accounts payable and accrued liabilities		643,484	(668,653)
Deferred revenue		(18,738)	165,776
Accrued compensated absences		60,666	(25,992)
Other liabilities		221,497	498,756
Net cash provided by operating activities	$	6,249,658	7,630,571
Supplemental cash flow information:			
Accounts payable related to capital asset purchases	$	785,474	2,359,508

See accompanying notes to financial statements.

Note 1: Summary of Significant Accounting Policies

Nature of Operations

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

Basis of Accounting and Presentation

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

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

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

Note 1: Summary of Significant Accounting Policies, Continued

Use of Estimates

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

Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2007 and 2006, cash equivalents consisted primarily of U.S. Treasury money market funds and certificates of deposit.

Investments and Investment Income

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

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

Restricted Cash and Cash Equivalents and Investments

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

Accounts Receivable

Accounts receivable consists of the following at June 30:

	2007	2006
Constituent Institutions	$ 1,266,472	196,191
State of Colorado Central Collections	375,322	665,332
Book Center credit memos due from vendors	831,602	714,182
Auxiliary enterprises	913,421	584,216
Interest	-	39,693
Auraria Foundation	37,970	15,000
Other	299,004	97,532
	$ 3,723,791	2,312,146

Note 1: Summary of Significant Accounting Policies, Continued

Accounts Receivable, Continued

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

	2007	2006
Prior year parking fines	$ 287,715	473,143
Book Center bad checks	44,386	50,626
Child Care Center and other auxiliaries	42,859	73,314
Tivoli Student Union building accounts	8,313	19,886
Book Center credit memos	30,301	36,893
	$ 413,574	653,862

Inventories

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

Deferred Debt Issue Costs

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

Capital Assets

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

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

The Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized during the years ended June 30, 2007 and 2006 was $0 and $64,455, respectively.

Note 1: Summary of Significant Accounting Policies, Continued

Accrued Salaries

State Senate Bill 03-197 requires monthly and bi-weekly salaries for June that would normally be paid at the end of June to be paid in July. This resulted in an accrual of $1,545,047 and $1,448,433 that was included in accounts payable and accrued liabilities at June 30, 2007 and 2006, respectively.

Compensated Absences

Center employees may accrue annual and sick leave based on length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested at June 30, 2007 and 2006 is $1,228,652 and $1,167,986, respectively. Operating income for the years ended June 30, 2007 and 2006 includes $60,666 and $(25,992) respectively, representing the increase (decrease) in the estimated compensated absence liability.

Deferred Revenue

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

	2007	2006
Student fees for the summer semester	$ 111,034	184,055
Childcare tuition collected in advance	6,093	6,382
Early Learning Center grants	52,166	-
Telecomm auxiliary services	6,000	-
Advance rent for Tivoli Student Union space	51,334	54,928
	$ 226,627	245,365

Classification of Revenues

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

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

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

Note 1: Summary of Significant Accounting Policies, Continued

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

Functional Allocation of Expenses
The costs of supporting the various services and other activities of the Center have been summarized on a functional basis in the statements of revenues, expenses and changes in net assets. Accordingly, certain costs have been allocated among the appropriate activities and supporting services benefited.

Income Taxes
As a state institution of higher education, the income of the Center is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income. The Center did not have any unrelated business taxable income in fiscal years 2007 or 2006.

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

Note 2: Deposits, Investments and Investment Return

Deposits and Cash Equivalents
At June 30, 2007 the carrying value of the Center's deposits was $14,552,759. It consists of $12,791,954 on deposit with the State Treasurer, $1,703,107 in bank deposits and $57,698 of cash on hand. The bank balance classified by custodial credit risk category includes $100,000 covered by federal depository insurance and $1,603,107 covered by collateral held by the pledging institutions' trust departments in the name of the public deposit pool as required by the Public Deposit Protection Act.

Note 2: Deposits, Investments and Investment Return, Continued

Investments

The Auraria Higher Education Center deposits cash with the Colorado Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. Auraria Higher Education Center reports its share of the Treasurer's unrealized gains/losses based on its participation in the State Treasurer's pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2007. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized gain included in "Investment Income" reflects only the change in fair value during the current fiscal year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Custodial Credit Risk

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

Credit Quality Risk

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

Interest Rate Risk

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

Note 2: Deposits, Investments and Investment Return, Continued

Interest Rate Risk, Continued

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

Investment Type	Fair Value Amount	Credit Rating	Weighted Average Maturity
U.S. Govt. Agencies – Explicitly Guaranteed	$ 3,275,411	Not rated	N/A
Commercial Paper	4,204,897	Gilt edge	.252 year(s)
Total Investments	$ 7,480,308		

Summary of Carrying Values

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

	2007	2006
Deposits	$ 13,424,231	15,116,284
Bond proceeds restricted cash	1,128,528	4,561,426
Investments	7,480,308	7,223,798
	$ 22,033,067	26,901,508

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

	2007	2006
Cash and cash equivalents	$ 11,969,702	14,145,481
Short term investments	645,327	-
Restricted cash and cash equivalents, non-current	2,583,057	5,532,229
Restricted investments, non-current	6,834,981	7,223,798
	$ 22,033,067	26,901,508

Note 2: Deposits, Investments and Investment Return, Continued

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

	2007	2006
Interest and dividend income	$ 944,892	1,059,596
Net increase in fair value of investment	7,635	(111,691)
	952,527	946,905
Capitalized interest income	-	(11,686)
	$ 952,527	936,219

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2007 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 11,752,961	-	-	-	11,752,961
Land improvements	24,446,692	-	-	155,194	24,601,886
Buildings and Improvements	243,931,477	-	-	2,291,594	246,223,071
Equipment	5,135,946	444,295	(149,857)	-	5,430,384
Construction in progress	1,023,260	6,374,974	-	(2,446,788)	4,951,446
	286,290,336	6,819,269	(149,857)	-	292,959,748
Less accumulated depreciation:					
Land improvements	12,456,844	968,771	-	-	13,425,615
Buildings and improvements	102,161,183	7,427,589	-	-	109,588,772
Equipment	3,411,128	579,179	(149,857)	-	3,841,380
	118,029,155	8,975,539	(148,927)	-	126,855,767
Net capital assets	$ 168,261,181	(2,156,270)	(930)	-	166,103,981

Note 3: Capital Assets, Continued

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

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

Note 4: Long-term Liabilities

The following is a summary of long-term obligation transactions for the Center for the year ended June 30, 2007:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable:					
Series 2003 Parking	$ 9,837,318	72,114	(1,590,000)	8,319,432	1,630,000
Series 2003 Student Fee	20,852,758	4,855	(875,000)	19,982,613	895,000
Series 2004 Parking	20,879,290	658,303	-	21,537,593	-
Series 2006 Parking	7,066,200	25,256	-	7,091,456	-
Series 2006 Student Fee	14,863,159	30,461	-	14,893,620	180,000
Total revenue bonds payable	73,498,725	790,989	(2,465,000)	71,824,714	2,705,000
Capital lease obligations	17,410,555	48,876	(1,313,221)	16,146,210	637,226
Total bonds and capital leases	90,909,280	839,865	(3,778,221)	87,970,924	3,342,226
Other non-current liabilities:					
Compensated absences	1,167,986	60,666	-	1,228,652	71,282
Total non-current liabilities	$ 92,077,266	900,531	(3,778,221)	89,199,576	3,413,508

Note 4: Long-term Liabilities, Continued

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

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable:					
Series 1996 Student Fee	$ 15,132,385	-	(15,132,385)	-	-
Series 2000 Parking	6,934,772	-	(6,934,772)	-	-
Series 2003 Parking	11,315,204	72,114	(1,550,000)	9,837,318	1,590,000
Series 2003 Student Fee	21,702,903	4,855	(855,000)	20,852,758	875,000
Series 2004 Parking	20,249,703	629,587	-	20,879,290	-
Series 2006 Parking	-	7,066,200	-	7,066,200	-
Series 2006 Student Fee	-	14,863,159	-	14,863,159	-
Total revenue bonds payable	75,334,967	22,635,915	(24,472,157)	73,498,725	2,465,000
Capital lease obligations	17,625,445	16,449,681	(16,664,569)	17,410,555	1,313,222
Total bonds and capital leases	92,960,412	39,085,596	(41,136,726)	90,909,280	3,778,222
Other non-current liabilities:					
Compensated absences	1,193,979	-	(25,993)	1,167,986	68,911
Total non-current liabilities	$ 94,154,391	39,085,596	(41,162,719)	92,077,266	3,847,133

Revenue Bonds Payable

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

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

Series 1996 Bonds

On February 15, 1996, the Center issued $18,030,000 in Series 1996 Bonds for the purpose of refunding $10,480,000 of Student Fee Revenue Bonds, Series 1991B (Series 1991B Bonds), $1,850,000 of Student Fee Revenue Bonds, Series 1992 (Series 1992 Bonds) and $3,975,000 of Student Fee Revenue Bonds, Series 1989 (Series 1989 Bonds). The Center refunded and defeased in substance these bonds by placing the proceeds of the Series 1996 Bonds in an irrevocable trust to provide for future debt service payments.

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

Note 4: Long-term Liabilities, Continued

Series 2000 Bonds
On December 7, 2000, the Center issued $7,020,000 in Series 2000 Bonds for the purpose of financing the costs of improving the Center's parking facilities. On April 20, 2006, the Center issued $7,565,000 in Series 2006 Parking Bonds for the purpose of refunding the Series 2000 Bonds. (See Series 2006 Parking Bonds)

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

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

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

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

At June 30, 2007 and 2006, the Series 2003 Parking Bonds are shown net of unamortized premium of $48,260 and $57,912, respectively, unamortized deferred loss on refinancing of $408,829 and $490,595, respectively, and have related unamortized issue costs of $103,388 and $124,067, respectively.

Note 4: Long-term Liabilities, Continued

Series 2003 Student Fee Bonds

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

At June 30, 2007 and 2006, the Series 2003 Student Fee Bonds are shown net of a discount of $87,387 and $92,242 respectively, and have related unamortized issue costs of $264,788 and $279,498, respectively.

Series 2004 Parking Bonds

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

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

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

At June 30, 2007 and 2006, the Series 2004 Parking Bonds are shown net of a discount of $84,094 and $88,180 respectively, and have related unamortized issue costs of $435,989 and $456,112, respectively.

Note 4: Long-term Liabilities, Continued

Series 2006 Parking Bonds

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

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

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

At June 30, 2007 and 2006, the Series 2006 Bonds are shown net of a premium of $8,162 and $8,597, respectively, and have related unamortized issue costs of $218,249 and $229,889, respectively.

Series 2006 Student Bonds

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

Note 4: Long-term Liabilities, Continued

Series 2006 Student Bonds, Continued
The Center completed the advance refunding to reduce its total debt service payments by $1,152,780 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,061,093.

The Series 2006 Bonds are payable in semiannual installments with annual principal payments ranging from $180,000 to $1,575,000 and interest ranging from 3.5 percent to 4.125 percent. The final installment is due April 1, 2021. The Series 2006 Student 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, 2007 and 2006, the Series 2006 Bonds are shown net of a discount of $23,826 and $25,548, respectively, and have related unamortized issue costs of $264,027 and $283,113, respectively.

Bond Maturity Schedule
Debt service to maturity for all bonds as of June 30, 2007 is as follows:

Years Ending June 30,	Total to be Paid	Principal	Interest
2008	$ 5,060,621	2,705,000	2,355,621
2009	5,263,571	2,990,000	2,273,571
2010	5,478,484	3,310,000	2,168,484
2011	5,477,809	3,430,000	2,047,809
2012	7,013,859	5,090,000	1,923,859
2013-2017	27,328,048	19,245,000	8,083,048
2018-2022	27,133,394	21,475,000	5,658,394
2023-2027	22,146,775	19,595,000	2,551,775
2028-2032	7,201,400	6,625,000	576,400
	112,103,961	84,465,000	27,638,961
Less unamortized discount/premium and deferred loss on refinancing	1,426,973	1,426,973	-
	$ 110,676,988	83,038,027	27,638,961

Note 4: Long-term Liabilities, Continued

Capital Lease Obligations

The Center is obligated under leases accounted for as capital leases. Assets under capital leases are included in the statement of net assets at June 30, 2006 as follows:

	Cost	Accumulated Depreciation	Carrying Value
Administrative facility	$ 15,518,172	4,233,149	11,285,023
Equipment	703,848	492,694	211,154
	$ 16,222,020	4,725,843	11,496,177

Energy Certificates

On October 15, 1996, the Center entered into an agreement with the Auraria Foundation to finance certain energy saving modifications to heating, ventilation and air conditioning and lighting equipment in Campus buildings. The Foundation acted as an intermediary in the issuance of Certificates of Participation (Energy Certificates) in the amount of $2,130,000 to fund the improvements. Under the terms of the Energy Certificates, the Center is directly liable for the repayment of the debt and has title to the equipment and improvements. Interest rates on the Energy Certificates range from 4.85 percent to 5.20 percent. At June 30, 2006, the Energy Certificates are shown net of a discount of $712 and had related unamortized issue costs of $7,600. The Certificates were paid in full at June 30, 2007.

Administrative Facility Certificates

On May 1, 1998, the Center entered into an agreement with the Auraria Foundation to finance the acquisition, construction and equipping of an Administrative Office Facility. The Foundation acted as an intermediary in the issuance of Certificates of Participation (Administrative Facility Certificates) in the amount of $16,905,000 to fund the project. The Administrative Facility Certificates and the interest thereon are payable solely from annually appropriated base rentals to be paid by the Center. Upon full payment of the base rentals or the purchase option price, the Foundation will transfer and convey the office facility to the Center. Approximately 75 percent of the Administrative Office Facility is occupied by the Center's three constituent institutions. The institutions share in the costs of debt service and operations of the facility through their annual allocation of State appropriated funds to the Center.

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

Note 4: Long-term Liabilities, Continued

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

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

At June 30, 2007 and 2006, the Administrative Facility Certificates are shown net of unamortized discount of $27,999 and $29,343, respectively, unamortized deferred loss on refinancing of $994,932 and $1,374,859, respectively, and unamortized issue costs of $327,183 and $342,887, respectively.

Equipment Leases
The Center also entered into lease-purchase contracts for telephone and copier equipment. The interest rate on those leases was 10.25 percent in fiscal years 2007 and 2006. The telephone equipment lease was paid in full in 2007.

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

	Total to be Paid	Principal	Interest
2008	$ 1,342,083	637,227	704,856
2009	1,349,533	672,672	676,861
2010	1,336,772	688,836	647,936
2011	1,232,139	610,406	621,733
2012	1,222,142	620,000	602,142
2013-2017	6,107,113	3,455,000	2,652,113
2018-2022	6,098,113	4,190,000	1,908,113
2023-2027	6,092,200	5,125,000	967,200
2028-2029	1,222,650	1,170,000	52,650
	26,002,745	17,169,141	8,833,604
Less unamortized discount	1,022,931	1,022,931	-
	$ 24,979,814	16,146,210	8,833,604

Note 5: Reserve Balances

Reserve balances and requirements for outstanding bond issues at June 30, 2007 are as follows:

		Reserve Balance	Reserve Required
Series 2003, Series 2004 and Series 2006 Parking Bonds:			
Debt Service Reserve	$	4,288,436	4,193,240
Repair and Replacement Reserve	$	600,085	577,182
Series 2003 and 2006 Student Fee Bonds:			
Repair and Replacement Reserve	$	300,000	300,000

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

Note 6: Revenue Bond Fund Information

The following financial information represents identifiable activities for which one or more revenue bonds are outstanding. The accounts related to the Series 2006, 2004 and 2003 Parking Facilities Revenue Bonds meet the definition of a segment in GASB Statement No. 34, as amended, and are included below. The bond covenants of the Series 2006 and 2003 Student Fee Revenue Bonds require reporting of the revenues and expenses of bond-related activities. Although this requirement does not qualify the Series 2006 Student Fee and Series 2003 Bonds as a segment, the Center is voluntarily disclosing all the data that it would be required to report if the bonds met the definition of a segment. See Note 4 for a description of the revenue bonds outstanding.

Note 6: Revenue Bond Fund Information, Continued

	Series 2006 and 2003 Student Fee Revenue Bonds		Series 2006, 2004, and 2003 Parking Facilities Revenue Bonds	
	2007	2006	2007	2006
Condensed Statements of Net Assets				
Assets				
Current assets	$ 9,556,206	9,515,792	3,081,590	2,948,426
Other assets	1,832,855	4,137,870	7,805,046	8,629,226
Capital assets	37,860,767	38,470,224	41,889,496	43,404,099
Total assets	49,249,828	52,123,886	52,776,132	54,981,751
Liabilities				
Current liabilities	3,843,654	4,385,798	2,115,091	4,391,737
Non-current liabilities	34,296,069	35,412,953	35,387,752	34,846,353
Total liabilities	38,139,723	39,798,751	37,502,844	39,238,090
Net assets				
Invested in capital assets net of related debt	3,189,207	4,145,466	5,698,642	8,228,296
Restricted – expendable	742,092	1,873,639	7,099,861	7,018,712
Unrestricted	7,178,806	6,306,030	2,474,785	496,653
Total net assets	$ 11,110,105	12,325,135	15,273,288	15,743,661
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 25,761,051	25,506,786	7,463,374	7,635,173
Operating expenses	(22,305,482)	(21,427,705)	(4,245,134)	(4,442,594)
Depreciation and amortization	(2,250,855)	(1,796,052)	(1,975,285)	(1,434,304)
Operating income	$ 1,204,714	2,283,029	1,242,955	1,758,275
Non-Operating Revenues (Expenses)				
Capital Grants	$ 168,440	168,440	-	-
Investment income	475,643	543,680	433,533	376,031
Transfers for campus support	(1,522,303)	(1,988,664)	(1,576,077)	(1,557,656)
Interest expense on capital debt	(1,541,524)	(541,524)	(570,784)	(1,570,776)
Total other expenses	(2,419,744)	(1,818,067)	(1,713,328)	(2,752,401)
Change in net assets	(1,215,030)	464,962	(470,373)	(994,124)
Net assets, beginning of year	12,325,135	11,860,173	15,743,661	16,737,787
Net assets, end of year	$ 11,110,105	12,325,135	15,273,288	15,743,661

Note 6: Revenue Bond Fund Information, Continued

		Series 2006 and 2003 Student Fee Revenue Bonds		Series 2006, 2004, and 2003 Parking Facilities Revenue Bonds	
		2007	2006	2007	2006
Condensed Statements of Cash Flows					
Net cash flows provided by operating activities	$	3,265,398	3,427,233	3,322,983	3,035,531
Net cash flows used in non capital financing		(1,541,524)	(541,524)	(570,784)	(1,570,776)
Net cash flows used in capital and related financing activities		(4,769,422)	(5,871,738)	(3,807,249)	(6,574,114)
Net cash flows provided by investing activities		2,865,829	3,363,027	1,292,561	3,414,003
Net increase (decrease) in cash and cash equivalents		(179,719)	376,998	(237,511)	(1,695,356)
Cash and cash equivalents, beginning of year		7,451,626	7,074,628	2,616,778	4,312,134
Cash and cash equivalents, end of year	$	7,271,907	7,451,626	2,854,289	2,616,778

Note 7: State Appropriations and Allocations from Other State Agencies

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

For the year ended June 30, 2007, appropriated current fund expenditures were within the authorized spending authority. The Center had a total current funds appropriation of $14,798,194. The institutions also contributed $825,125 in one time current funding. The additional funding included $22,000 for an additional police vehicle, $218,000 toward new financial software and equipment, $212,525 to cover the final debt service payment on the 1996 Energy Certificates of Participation, and $372,600 toward the campus-wide master plan study. The one-time funding did not result in an over-expenditure. In addition, the Center received spending authority of $2,440,000 to record revenue resulting from sales and services to the institutions from the Center's non-exempt auxiliary enterprises such as media services, space rental to outside entities, long distance phone charges, postage reimbursement and space renovation projects for campus enterprises. An increase in enterprise space renovation projects in addition to other revenue increases resulted in an over-expenditure on this line item of $825,051. All other revenues, expenditures and transfers reported by the Center represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain revenues of auxiliary, self-funding activities and miscellaneous revenues.

Note 8: The Auraria Foundation

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

The Foundation, in conjunction with the Colorado Postsecondary Educational Facilities Authority and CECFA, issued tax-exempt bonds for the purchase of buildings that were leased to one of the Center's constituent institutions, the University of Colorado at Denver Health Sciences Center (UCDHSC). In June, 2006 the Foundation sold their buildings at 1380 Lawrence and Dravo to UCDHSC and pledged $3,000,000 from the proceeds to the Center to be used toward the costs of the Science Building Addition/Renovation Project and $500,000 to the Center for the Night Lighting and Emergency Phones Project. At June 30, 2007 the Center had incurred expenses of $193,370 on the Safe Night Project of which $37,970 is included in receivables at year end.

The Foundation has a contract with the Center under which the Center provides staff for the management of the Foundation. Under that agreement, the Foundation paid the Center $25,000 and $30,000 for the years ended June 30, 2007 and 2006, respectively. In addition, the Foundation paid the Center $4,777 during fiscal year 2007 for room rentals and reimbursements.

The Foundation owns the St. Francis building and leases 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, 2007 and 2006, the Center paid the Foundation $38,625 for the use of the St. Francis Center. In addition, the Foundation paid the Center $47,311 to replace the boiler in the Saint Francis building during fiscal year 2007.

The financial statements of the Foundation include the accounts of the Foundation and the Inn at Auraria LLC (the Inn), which is legally, financially and operationally independent of the Foundation. 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 $37,280,000 loan from the Colorado Educational and Cultural Facilities Authority (CECFA) through the issuance of long-term serial bonds (Series 2005A and Series 2005B) and purchased the top fourteen floors of the former Executive Tower Inn building to create 125 apartment-style units to provide housing for 439 students . The facility opened to student residents on August 19, 2006.

Note 8: The Auraria Foundation, Continued

The Executive Tower 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.

The Inn is reporting a net loss of $2,151,686 for the fiscal year ended June 30, 2007. In the planning for this project, it was anticipated that the Inn's first year of operation would be difficult because the Inn represented the addition of student housing to a campus which has historically been a non-residential "commuter" campus. An unanticipated problem was that the Inn opened for student occupancy at a time when the Inn's neighbors were under construction, creating a less than desirable external environment. Because start up problems were anticipated, the bond issue provided monies necessary to pay bond interest during the start up phase of the Inn project; this subsidy amounted to $1,318,000 in the year ended June 30, 2007. In addition, the Inn's reported operating expenses include depreciation of $873,000 which is a non-cash expense. These, and other smaller items, enabled the Inn to generate enough cash to pay expenses and debt service in a timely manner.

Preliminary data for the 2007-2008 fiscal year indicates that student occupancy is not meeting expectations. As of mid-October 2007, occupancy is at 73%. While this is a substantial improvement over the 49% occupancy as of mid-October 2006, this level of occupancy is below the level needed to satisfy the debt service.
Management is taking various actions to address this problem and has identified a knowledgeable independent consultant to provide recommendations with respect to the Inn's operations. Management cannot predict the outcome of these actions.

Interest on the 2005A bonds is payable semiannually at increasing rates ranging from 5.375% to 6%. Principal is payable annually from July 1, 2009 through July 1, 2042 at increasing amounts. Interest on the Series 2005B bonds is payable semiannually at 6.5%. Principal is payable in equal amounts on July 1, 2008 and 2009. The loan is collateralized by a mortgage on the Inn facility, Inns' revenues from the facility and restricted cash and investment accounts. Under the terms of the bond agreement, neither the Auraria Foundation nor the Center have any obligation for payment of bond principal or interest.

Note 8: The Auraria Foundation, Continued

Principal and interest payments on the bonds for the years ended June 30 are as follows:

	Total to be Paid	Principal	Interest
2008	$ 2,215,069	-	2,215,069
2009	2,263,444	50,000	2,213,444
2010	2,338,044	130,000	2,208,044
2011	2,403,759	205,000	2,198,759
2012	2,470,591	285,000	2,185,591
Thereafter	80,265,984	36,610,000	43,655,984
	91,956,891	37,280,000	54,676,891

Note 9: Pension Plan

Plan Description

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

Prior to 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. Based on the 2006 legislation, higher education employees hired on or after January 1, 2008, have the additional option of participating in the state's defined contribution plan or PERA's defined contribution plan, which are discussed below, as well as the plans available to other employees in their institution.

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.

Note 9: Pension Plan, Continued

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 5 years of service.
- Hired on or after January 1, 2007 – 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.

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 on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent 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 percent increase between 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 based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5 percent, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3 percent or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lesser of 3 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent 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 percent of the employer contributions for this population.)

Note 9: Pension Plan, Continued

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

Funding Policy

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

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2006, to December 31, 2006, the state contributed 10.65 percent (13.35 percent for state troopers and 14.16 percent for the Judicial Branch) of the employee's salary. From January 1, 2007, through June 30, 2007, the state contributed 11.15 percent (13.85 percent for state troopers and 14.66 percent for the Judicial Branch). During all of Fiscal Year 2006-07, 1.02 percent of the employees total salary was allocated to the Health Care Trust Fund.

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

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

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

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.

Note 9: Pension Plan, Continued

The Center's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2007, 2006, and 2005 were $1,385,597, $1,282,677 and $1,212,451, respectively. These contributions met the contribution requirement for each year.

Note 10: Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer 403b or 401(a) plans.

Note 11: Post Retirement Health Care and Life Insurance Benefits

<u>Health Care Program</u>

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. 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 percent for each year less than 20 years.

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

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical benefit plans, and another carrier for prescription benefits, and with several health maintenance organizations providing services within Colorado. As of December 31, 2006, there were 42,433 enrollees in the plan.

<u>Life Insurance Program</u>
During fiscal year 2006, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,101 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 12,790 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

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

Other Programs

Colorado Higher Education Insurance Benefits Alliance (CHEIBA)

Non-classified administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for post employment health coverage until the retiree is eligible for Medicare. As of June 30, 2007 there were 41 participants in post retirement coverage from the eight member higher education institutions. For fiscal year 2007, the Center has no participants under CHEIBA.

CHEIBA financial statements are prepared under accounting principals generally accepted in the United States 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 Trust's investments is based on quoted market prices from national securities exchanges.

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

Note 12: Risk Management

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

Note 12: Risk Management, Continued

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

Note 13: Litigation

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

Note 14. Commitments

The Center has begun a $108,000,000 capital construction project to expand and renovate the Auraria Campus Science Building. The Center has received appropriated funding from the State Legislature totaling $35,217,000. A request for 2008 has been submitted at $50,170,000 with the balance to be requested for appropriation in fiscal year 2009. The Auraria Foundation has committed $3,000,000 to the project. The 360,000 square foot expansion project will consolidate and add new biology and chemistry offices, as well as teaching and research laboratories for the three constituent institutions on campus. Completion of the new structure is anticipated for the summer of 2009, and renovations to the existing science building should be completed for the fall 2010 semester contingent upon the amount and timing of appropriated State funding. Expenditures at June 30, 2007, primarily planning, architect and engineering fees, total approximately $2,006,000.

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

Members of the Legislative Audit Committee:

We have audited the financial statements of Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Auraria Foundation, as described in our report on the Center's financial statements. The financial statements of the Auraria Foundation were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting 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 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.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Center in a separate letter dated October 24, 2007.

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

October 24, 2007

REQUIRED COMMUNICATION LETTER

October 24, 2007

Members of the Legislative Audit Committee:

We have audited the basic financial statements of Auraria Higher Education Center (the Center), a blended component unit of the State of Colorado, for the year ended June 30, 2007 and have issued our report thereon dated October 24, 2007.

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

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

In planning our audit, we considered the internal control of the Center for the purpose of determining our audit procedures and not to provide any assurance concerning internal control. Our comment on the Center's internal control can be found beginning on page 5 of this document.

Significant Accounting Policies
The Center's significant accounting policies are discussed in Note 1 to the Center's 2007 financial statements. During fiscal year 2004, the Center adopted GASB 39, *Determining Whether Certain Organizations are Component Units.* Accordingly, the financial statements of the Auraria Foundation are attached to the Center's financial statements.

Management Judgments and Accounting Estimates
Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's use of estimates is disclosed in the notes to the basic financial statements, and include estimates for items such as allowances for doubtful accounts, useful lives of capital assets, overhead allocations, and compensated absences. We have performed analytical procedures and made inquiries related to significant estimates.

Audit Adjustments
Our audit was designed to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. In addition, we are obligated by generally accepted auditing standards to inform you of any adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the Center's reporting process. There were no audit adjustments to the Center's 2007 financial statements.

In addition, we are obligated by generally accepted auditing standards to inform you about uncorrected misstatements (regardless of whether they have a significant effect on the financial reporting process) aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no significant uncorrected misstatements pertaining to the most recent period presented in the basic financial.

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

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

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

Difficulties Encountered in Performing the Audit
There were no difficulties encountered during the audit.

* * * * *

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

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

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

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

Report Control Number 1884