

**AURARIA HIGHER
EDUCATION CENTER**

Financial and Compliance Audits

June 30, 2008 and 2007

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**AURARIA HIGHER EDUCATION CENTER
FINANCIAL AND COMPLIANCE AUDITS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
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Members of the Legislative Audit Committee:

We have completed the financial statement audit of Auraria Higher Education Center as of and for the year ended June 30, 2008. 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.

Kundinger, Corder & Engle, P.C.

October 23, 2008

**AURARIA HIGHER EDUCATION CENTER
AUDIT REPORT SUMMARY
YEAR ENDED JUNE 30, 2008**

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, 2008 and 2007. In addition, the Office of the State Auditor approved the engagement of Holtzman, Moellenberg, Panozzo & Perkins to audit the Auraria Foundation, a discretely presented component unit of the Center, for the years ended June 30, 2008 and 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, 2008.

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, 2008 and 2007. 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, 2008 and 2007. 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.

**AURARIA HIGHER EDUCATION CENTER
REPORT SUMMARY, CONTINUED**

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

- State Fiscal Rules require institutions that maintain independent financial systems to reconcile their systems to the Colorado Financial Reporting System (COFRS) on a monthly basis. The Center has monthly closing procedures that require this reconciliation to be completed. We found, however, that the Center did not perform these procedures in fiscal year 2008. As a result of the lack of timely reconciliations, it was necessary for the Center to record a significant number of year-end and post-closing entries to bring COFRS into balance with the Center's financial reporting system (Fundware). The Center should ensure that reconciliations between COFRS and Fundware are performed timely, accurately, and at the account level.
- The Center tracks capital assets in a subsidiary ledger and activity is manually entered into Fundware by journal entry. To ensure that all activity and ending balances have been properly recorded in Fundware, reconciliations between the two systems are necessary. The Center did not perform these reconciliations on a regular basis throughout the year. As a result, it was necessary to record an audit adjustment in the amount of \$467,783 to correctly state the \$175,240,197 net capital asset balance at year end. The Center should establish policies requiring monthly reconciliations of subsidiary ledgers to the general ledger.
- The operating cash account was only partially reconciled to the bank statements on a monthly basis. The reconciliation accounts for all items reported on the bank statement, but does not reconcile the ending book balance to the ending bank balance. As a result, the reconciliation does not provide information regarding items that have not posted to the bank statement, such as the amount of checks outstanding at month end. Errors could occur and not be detected by Center personnel in a timely manner. The Center should expand the current operating cash account reconciliation to include reconciling the ending book balance to the ending bank balance.
- To facilitate preparation of the Statewide Financial Statements, the Center was required to submit accurate financial information to the State Controller's Office by specific deadlines, August 13 and August 29, 2008. The Center was unable to meet the deadlines, primarily as a result of difficulties related to a financial accounting system conversion, such as the inability to generate accurate reconciliation reports, feed information accurately to COFRS, and complete timely account reconciliations. The conversion difficulties also resulted in the need to push responsibilities down to lower level staff, and prepare the financial information in a condensed timeframe. As a result, many of the exhibits were prepared incorrectly and needed revision. Errors in the exhibits were discovered during the audit, indicating that the exhibits had not been adequately reviewed prior to submission. The Center needs to ensure that the financial information transferred from Fundware to COFRS is accurate, reliable, and easily accessible.

**AURARIA HIGHER EDUCATION CENTER
REPORT SUMMARY, CONTINUED**

A summary of the recommendations is included in the Recommendation Locator on page 4 of this report. A detailed description of the findings and recommendations begin on page 6 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, 2007 included two recommendations concerning matters related to the Center's internal control. Both of the recommendations were fully implemented during fiscal year 2008. See Disposition of Prior Audit Findings on page 10.

**AURARIA HIGHER EDUCATION CENTER
RECOMMENDATION LOCATOR
YEAR ENDED JUNE 30, 2008**

Record No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	6	The Center should ensure that reconciliations between COFRS and Fundware are performed timely, accurately, and at the account level.	Agree. The Center agrees these reconciliations are critical, and is in the process of developing tools within the new accounting system to assist in the reconciliation process. The Center is in the process of reviewing responsibilities and delegating assignments to the proper staff levels to ensure that the monthly reconciliation process is appropriately performed.	January, 2009
2	7	The Center should perform monthly reconciliations of subsidiary ledgers to the general ledger, and should expand the current operating cash account reconciliation to include reconciling the ending book balance to the ending bank balance.	Agree. The Center agrees and has already expanded the monthly operating cash reconciliation to include a reconciliation of the ending bank balance to the ending book balance. The Center also agrees that regular reconciliations of subsidiary ledgers are needed and will ensure these reconciliations are being performed as required	September, 2008

**AURARIA HIGHER EDUCATION CENTER
RECOMMENDATION LOCATOR
YEAR ENDED JUNE 30, 2008**

Record No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
3	8	<p>The Center needs to ensure that the financial information transferred from Fundware to COFRS is accurate, reliable, and easily accessible, by:</p> <ul style="list-style-type: none"> ▪ Improving the structure and reporting modules of the accounting system to facilitate reconciliation reports; ▪ Reconciling COFRS to Fundware on a monthly basis; ▪ Establishing supervisory review procedures to ensure that the work of all staff members is accurate and reliable. 	<p>Agree. The Center in the process of finalizing procedures/reconciliation tools to assure financial data is accurately transferred to COFRS, and there is a detailed reconciliation performed between the two systems on a monthly basis. The Center is in the process of assessing staff structure, responsibilities, and assignments within the department to ensure adequate coverage to complete the system implementation effectively and to maintain daily operations including the monthly reconciliation process.</p>	January, 2009.

**AURARIA HIGHER EDUCATION CENTER
FINANCIAL AND COMPLIANCE AUDITS
DESCRIPTION OF AURARIA HIGHER EDUCATION CENTER
FOR THE YEAR ENDED JUNE 30, 2008**

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 and Health Sciences Center, 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.

**AURARIA HIGHER EDUCATION CENTER
AUDITOR'S FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2008**

In planning and performing our audit of the financial statements of Auraria Higher Education Center as of and for the year ended June 30, 2008, 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 significant control deficiencies:

Colorado Financial Reporting System Reconciliation

State Fiscal Rules require institutions that maintain independent financial systems to reconcile their systems to the Colorado Financial Reporting System (COFRS) on a monthly basis. The Center has monthly closing procedures that require this reconciliation to be completed. We found, however, that the Center did not perform these procedures in fiscal year 2008. As a result of the lack of timely reconciliations, it was necessary for the Center to record a significant number of year-end and post-closing entries to bring COFRS into balance with the Center's financial reporting system (Fundware). Significant entries include the following:

- A year-end entry of over \$642,000 to correct student fee revenue in COFRS.
- A post-closing entry of \$620,378 to correct cash balances in COFRS.
- A post-closing entry of \$10,884,518 to correct a TABOR variance in fund balance in COFRS.
- A post-closing entry of \$4,980,089 to properly classify revenue for TABOR purposes.

These entries indicate that the information in COFRS was not accurate or reliable throughout the fiscal year. The entries noted above balanced COFRS to Fundware at the financial statement line item level; the two systems have not yet been reconciled at the account level. As a result, COFRS does not agree to Fundware at the detailed account level.

Recommendation No. 1

The Center should ensure that reconciliations between COFRS and Fundware are performed timely, accurately, and at the account level.

**AURARIA HIGHER EDUCATION CENTER
AUDITORS' FINDINGS AND RECOMMENDATIONS, CONTINUED**

Center Response

Agree. The Center agrees these reconciliations are critical, and is in the process of developing tools with the new accounting system (Fundware) to assist in the reconciliation process. Historically the Center has performed a monthly reconciliation between the Center's internal system and COFRS, and is in the process of reviewing responsibilities and delegating assignments to the proper staff levels to ensure that the monthly reconciliation process is appropriately performed.

Implementation Date: January, 2009.

Other Reconciliations

The Center tracks capital asset activity in a subsidiary ledger. The activity is recorded in the subsidiary ledger and manually entered into Fundware by journal entry. To ensure that all activity and ending balances have been properly recorded in Fundware, reconciliations between the two systems are necessary. The Center did not perform these reconciliations on a regular basis throughout the year. As a result, it was necessary to record an audit adjustment in the amount of \$467,783 to correctly state the \$175,240,197 net capital asset balance at year end.

The operating cash account was only partially reconciled to the bank statements on a monthly basis. The reconciliation accounts for all items reported on the bank statement, but does not reconcile the ending book balance to the ending bank balance. As a result, the reconciliation does not provide information regarding items that have not posted to the bank statement, such as the amount of checks outstanding at month end. Errors could occur and not be detected by Center personnel in a timely manner. The Center has compensating controls in place over the operating account, including positive pay and limited access to the account. All other cash and investment reconciliations properly reconcile the ending book balance to the ending bank balance.

Recommendation No. 2

The Center should establish policies requiring monthly reconciliations of subsidiary ledgers to the general ledger, and should expand the current operating cash account reconciliation to include reconciling the ending book balance to the ending bank balance.

Center Response

Agree. The Center agrees and has already expanded the monthly operating cash reconciliation to include a reconciliation of the ending bank balance to the ending book balance.

The Center also agrees that regular reconciliations of subsidiary ledgers are needed and will ensure these reconciliations are being performed as required. The Center is in the process of implementing the fixed assets module of the new financial system, which will help to ensure accuracy of fixed asset balances. Policies have been developed to encompass the reconciliation requirements.

Implementation Date: September, 2008

**AURARIA HIGHER EDUCATION CENTER
AUDITORS' FINDINGS AND RECOMMENDATIONS, CONTINUED**

Financial Statements and Exhibits

To facilitate preparation of the Statewide Financial Statements, the Center was required to submit accurate financial information to the State Controller's Office by specific deadlines, August 13 and August 29, 2008. The Center was unable to meet the deadlines, primarily as a result of difficulties related to a financial accounting system conversion, such as the inability to generate accurate reconciliation reports, feed information accurately to COFRS, and complete timely account reconciliations. The Center completed the submission of final, corrected financial information to the State Controller's Office on October 7, 2008, approximately seven to nine weeks after the two deadlines. The conversion difficulties noted above resulted in the need to push responsibilities down to lower level staff, and prepare the financial information in a condensed timeframe. As a result, many of the exhibits were prepared incorrectly and needed revision. Errors in the exhibits were discovered during the audit, indicating that the exhibits had not been adequately reviewed prior to submission.

Recommendation No. 3

The Center needs to ensure that the financial information transferred from Fundware to COFRS is accurate, reliable, and easily accessible, by:

- Improving the structure and reporting modules of the accounting system to facilitate reconciliation reports;
- Reconciling COFRS to Fundware on a monthly basis;
- Establishing supervisory review procedures to ensure that the work of all staff members is accurate and reliable.

Center Response

Agree. The Center is in the process of finalizing procedures/ reconciliation tools to assure financial data is accurately transferred to COFRS, and there is a detailed reconciliation performed between the two systems on a monthly basis. Included in this process is the completion of a matrix and review of the chart of accounts to ensure that the data being sent to COFRS is going to the proper accounts. These procedures will facilitate the reconciliation process. Additionally, the elements of the reconciliation process are being reviewed and will be assigned to proper staff at various levels to ensure accuracy and completeness.

The Center is in the process of assessing-staff structure, responsibilities, and assignments within the department to ensure adequate coverage to complete the system implementation effectively and to maintain daily operations including the monthly reconciliation process. A training and review process will also be implemented at the supervisory level to ensure their accountability, and that the work of all staff members is reviewed, accurate and reliable for daily activities, as well as year-end activities.

Implementation Date: January, 2009.

**AURARIA HIGHER EDUCATION CENTER
DISPOSITION OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008**

The following is a summary of the prior year audit recommendations and their disposition as of June 30, 2008:

Prior Year Audit Recommendations

Disposition

No. 1

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.

No. 1

Implemented

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.

No.2

Implemented

Continuing Comment

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.

Continuing Comment

Ongoing. In 2008, transfers from parking reserves to fund general operations remained at the prior year level of \$540,000. The Center will continue to investigate alternative funding options. There are no transfers from parking reserves budgeted for fiscal year 2009.

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, 2008 and 2007, 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 \$44,105,370 as of June 30, 2008, and total support and revenues of \$2,682,463 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, 2008 and 2007, 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 23, 2008, 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.

Kundinger, Corder & Engle, P.C.

October 23, 2008

**Auraria Higher Education Center
Management's Discussion and Analysis
Year Ended June 30, 2008**

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, 2008. 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.

**Auraria Higher Education Center
Management's Discussion and Analysis, Continued**

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 increased \$9,509,129 since June 30, 2006. After decreasing for several years due to the use of parking and student bond reserves to fund general operations, the increase is the result of capitalizing \$16,655,387 of state capital appropriations, gifts, and grants related to the Science Building project. These funds increase net assets when received; net assets will be reduced over the useful life of the building as depreciation expense is recorded.

Since June 30, 2006 the Center has transferred parking and student bond reserves totaling \$7,806,818 to support the general fund operating requirements, including \$3,513,397 transferred in 2008. 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. The 2009 budget is the first budget since 2005 to show a reduction in reserve transfers to the general fund.

Condensed Statements of Net Assets (in thousands)

	<u>June 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Current assets	\$ 19,467	17,776	17,534
Capital assets	175,240	166,104	168,261
Other non-current assets	<u>10,801</u>	<u>10,929</u>	<u>14,370</u>
Total assets	\$ <u>205,508</u>	<u>194,809</u>	<u>200,165</u>
Liabilities			
Current liabilities	\$ 12,041	9,754	11,081
Non-current liabilities	<u>83,104</u>	<u>85,786</u>	<u>88,230</u>
Total liabilities	\$ <u>95,145</u>	<u>95,540</u>	<u>99,311</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 89,216	79,747	82,113
Restricted – expendable	8,089	7,978	9,512
Unrestricted	<u>13,058</u>	<u>11,544</u>	<u>9,229</u>
Total net assets	\$ <u>110,363</u>	<u>99,269</u>	<u>100,854</u>

Auraria Higher Education Center Management's Discussion and Analysis, Continued

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 loss has increased \$2,316,658 since the year ended June 30, 2006. 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 \$739,910 from 2007 to 2008 to \$16,050,021, which includes one-time funding for library carpet replacement. Support from the three institutions has increased 23% since 2005. However, rising personnel and energy costs have more than offset the increase in funding. In 2008, \$3,513,397 of auxiliary revenue and reserves was spent to support general fund operating costs.

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

	<u>Years Ended June 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues			
Auxiliary enterprises	\$ 34,728	32,112	30,914
Operating transfers from constituent institutions	16,051	15,623	14,305
Student fees	4,747	4,680	4,560
Gifts and grants	71	56	42
Other	20	320	12
Total operating revenues	\$ <u>55,617</u>	<u>52,791</u>	<u>49,833</u>
Operating Expenses			
Auxiliary enterprises	\$ 32,530	30,461	27,076
Operation and maintenance of plant	12,253	11,901	11,394
Institutional support	3,347	1,846	1,657
Academic support	1,297	1,365	1,439
Public support	68	56	42
Depreciation and amortization	8,943	9,271	8,730
Total operating expenses	<u>58,438</u>	<u>54,900</u>	<u>50,338</u>
Operating income	\$ <u>(2,821)</u>	<u>(2,109)</u>	<u>(505)</u>
Non-operating revenues and expenses			
Investment income	\$ 891	953	936
Interest on capital asset-related debt	(3,666)	(3,819)	(4,352)
Other non-operating income	-	1	-
Loss on refinancing of debt	35	-	-
Total non-operating revenues (expenses)	<u>(2,740)</u>	<u>(2,865)</u>	<u>(3,416)</u>
Capital appropriations, gifts and grants	<u>16,655</u>	<u>3,389</u>	<u>453</u>
Change in net assets	11,094	(1,585)	(3,468)
Net assets, beginning of year	<u>99,269</u>	<u>100,854</u>	<u>104,322</u>
Net assets, end of year	\$ <u>110,363</u>	<u>99,269</u>	<u>100,854</u>

**Auraria Higher Education Center
Management's Discussion and Analysis, Continued**

Center's Revenues and Financial Position

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions continues to increase slightly and is projected to increase at 1 to 3% annually. The student population trend is changing from the part-time older student to include the more traditional full-time younger student population. Student auxiliary revenue increased \$1,895,833 due to increased bookstore sales and tenant leases. Parking revenue increased \$95,701 due to special event revenue and increased permit sales.

Capital Assets

At June 30, 2008 the Center had \$175,240,197 invested in capital assets, net of accumulated depreciation of \$135,421,980. For the year ended June 30, 2008, depreciation expense was \$8,656,557.

**Capital Assets, Net
(in thousands)**

	June 30,		
	2008	2007	2006
Land	\$ 11,753	11,753	11,753
Land improvements	10,697	11,176	11,990
Buildings and improvements	132,452	136,634	141,770
Equipment	1,264	1,589	1,725
Construction in progress	19,074	4,952	1,023
Total	\$ 175,240	166,104	168,261

In 2008 the State approved \$949,467 in controlled maintenance appropriations for the Art Building including window and HVAC system repair and replacement. The State also approved funding \$63,619,180 from state issued COP's for the final phase of the science building renovation and addition project, though this funding is subject to the issuance of the COP's at rates that are favorable to the State. The Center in prior years received \$32,316,976 from the State for phases 1 and 2. The Auraria Foundation committed \$3,000,000 for the science building project and the constituent institutions are providing over \$21,352,000. The 360,000 square foot expansion project currently estimated at \$121,163,682 is scheduled to be completed by Fall 2010. This funding from the State, the constituent institutions, 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.

**Auraria Higher Education Center
Management's Discussion and Analysis, Continued**

Bonds and Capital Leases

At June 30, 2008 the Center had \$85,497,869 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 Participation also accounts for the reduction in capital lease obligations.

**Bond and Capital Lease Debt
(in thousands)**

	June 30,		
	2008	2007	2006
Auxiliary enterprise revenue bonds	\$ 69,941	71,825	73,499
Capital lease obligations	<u>15,557</u>	<u>16,146</u>	<u>17,410</u>
Total	\$ <u>85,498</u>	<u>87,971</u>	<u>90,909</u>

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 ending with the fiscal year 2010 budget. For fiscal year 2009, this enabled the constituent institutions to increase their allocation to fund the Center's general operations by 7.0% from \$15.5 million to \$16.6 million. Since 2005 the constituent institutions have increased the allocation by 23%. 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 2009 fiscal budget continues the trend started in 2007 to reduce the amount of parking reserves used to support the general fund. The 2009 budget was also the first year since 2005 to show a reduction in total reserves used 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 not sufficient to cover the on-going maintenance needs of the general classroom facilities built approximately 31 years ago. The Auraria campus has one of the highest classroom utilization rates in the nation. Although State funding for controlled maintenance has increased the past few years, the economic outlook does not look favorable and there is not enough funding to cover the backlog of needs at the Center. The Center and the constituent institutions are studying various options for funding the increasing maintenance needs of these aging facilities.

Auraria Higher Education Center Management's Discussion and Analysis, Continued

Economic Outlook, Continued

An extensive master plan study for the entire campus has been completed and provides direction on how to develop the campus over the next 20 years. 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. The Institutions are also formulating plans to fund and build Institution specific buildings versus relying on State funding. Twelve modular units were set up on campus during the last academic year to address the classroom shortage issue and there are plans to add another 3 to 5 units before the Fall 2009 semester. This is not a cost effective way to address the classroom shortage nor does it offer an optimal learning environment. However, the alternative is to cap student enrollment, which is not in the best interest of the Institutions nor consistent with Auraria's mission.

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF NET ASSETS
JUNE 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets:		
Cash & cash equivalents	\$ 12,676,930	11,969,702
Accounts receivable (net of allowance of \$469,953 and \$413,574, respectively)	3,158,227	3,310,217
Short-term investments (note 2)	665,503	645,327
Inventories	2,877,826	1,609,578
Prepaid expense	88,127	139,012
Total current assets	<u>19,466,613</u>	<u>17,673,836</u>
Non-current assets:		
Restricted cash and cash equivalents	1,554,035	1,454,529
Bond proceeds restricted to investment in current capital projects	985,884	1,128,528
Restricted investments (note 2)	6,750,019	6,834,981
Capital assets (net of accumulated depreciation of \$135,421,980 and \$126,855,767, respectively) (note 3)	175,240,197	166,103,981
Deferred debt issuance costs (notes 1 and 4)	1,511,682	1,613,624
Total non-current assets	<u>186,041,817</u>	<u>177,135,643</u>
Total assets	<u>\$ 205,508,430</u>	<u>194,809,479</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,057,020	4,648,818
Interest payable	529,885	579,441
Compensated absences (note 4)	77,414	71,282
Deferred revenue	258,180	226,627
Current portion of long-term debt (note 4)	3,662,674	3,342,226
Cash held for others	455,722	885,691
Total current liabilities	<u>12,040,895</u>	<u>9,754,085</u>
Non-current liabilities:		
Compensated absences (note 4)	1,269,557	1,157,370
Long-term debt (note 4)	81,835,194	84,628,698
Total non-current liabilities	<u>83,104,751</u>	<u>85,786,068</u>
Total liabilities	<u>95,145,646</u>	<u>95,540,153</u>
Net assets:		
Invested in capital assets	91,254,009	79,746,681
Restricted for expendable purposes	8,088,873	7,977,996
Unrestricted	11,019,902	11,544,649
Total net assets	<u>\$ 110,362,784</u>	<u>99,269,326</u>

See accompanying notes to financial statements.

The Auraria Foundation
Consolidated Statements of Financial Position
June 30, 2008 and 2007

	2008			2007		
	Inn at Auraria		Total	Inn at Auraria		Total
	LLC	Auraria Foundation		LLC	Auraria Foundation	
Assets:						
Cash and cash equivalents	19,480	3,619,559	3,639,039	17,269	3,381,582	3,398,851
Investments	-	4,327,634	4,327,634	-	4,940,115	4,940,115
Accounts receivable, net of allowance for doubtful accounts of \$166,000 and \$82,000, respectively	128,461	-	128,461	77,140	-	77,140
Trustee held cash limited as to use	1,157,563	-	1,157,563	1,017,314	-	1,017,314
Trustee held guaranteed investment contracts limited as to use	2,048,643	-	2,048,643	2,924,104	-	2,924,104
Prepaid expenses and other	41,066	9,230	50,296	36,149	7,576	43,725
Advance to Inn at Auraria LLC	-	444,173	444,173	-	250,000	250,000
Property and equipment, net	31,134,995	893,655	32,028,650	32,037,883	935,124	32,973,007
Bond issuance costs, net	725,084	-	725,084	746,408	-	746,408
Eliminations of intercompany balances	-	(444,173)	(444,173)	-	(250,000)	(250,000)
Total assets	35,255,292	8,850,078	44,105,370	36,856,267	9,264,397	46,120,664

(Continued)

The Auraria Foundation
Consolidated Statements of Financial Position, Continued
June 30, 2008 and 2007

	2008		2007		
	Inn at Auraria	Auraria	Inn at Auraria	Auraria	Total
	LLC	Foundation		LLC	
Liabilities					
Accounts payable	203,561	316,999	20,478	38,539	59,017
Accrued expenses and other	174,041	-	278,847	-	278,847
Deferred revenue	83,519	-	71,094	-	71,094
Interest payable	1,107,534	-	1,107,534	-	1,107,534
Grants payable	-	3,250,000	-	3,306,630	3,306,630
Due to The Auraria Foundation	444,173	-	250,000	-	250,000
Bonds payable	37,280,000	-	37,280,000	-	37,280,000
Eliminations of intercompany balances	(444,173)	-	(250,000)	-	(250,000)
Net assets unrestricted	38,848,655	3,566,999	38,757,953	3,345,169	42,103,122
	(4,037,536)	5,727,252	(2,151,686)	6,169,228	4,017,542
Total liabilities and net assets	\$ 34,811,119	9,294,251	36,606,267	9,514,397	46,120,664

See accompanying notes to financial statements

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Auxiliary enterprises	\$ 34,728,379	32,112,093
Operating transfers from constituent institutions	16,050,521	15,623,320
Student fees	4,747,199	4,680,225
Gifts and grants	71,178	55,864
Other operating revenues	19,526	319,999
Total operating revenues	<u>55,616,803</u>	<u>52,791,501</u>
Operating expenses:		
Auxiliary enterprise expenditures	32,530,347	30,460,690
Operation and maintenance of plant	12,253,257	11,900,899
Institutional support	3,346,710	1,846,543
Academic support	1,296,847	1,365,546
Public service	67,862	55,864
Depreciation and amortization	8,943,434	9,270,729
Total operating expenses	<u>58,438,457</u>	<u>54,900,271</u>
Operating loss	(2,821,654)	(2,108,770)
Non-operating revenues (expenses):		
Investment income (note 2)	891,141	952,527
Interest on capital asset related debt	(3,666,416)	(3,818,742)
Other non-operating revenue	-	2,000
Gain (loss) on disposal of assets	35,000	(930)
Net non-operating expenses	<u>(2,740,275)</u>	<u>(2,865,145)</u>
Loss before other revenues, expenses, gains or losses	(5,561,929)	(4,973,915)
State capital appropriations	15,838,042	2,777,778
Capital grants and gifts	<u>817,345</u>	<u>611,810</u>
Change in net assets	11,093,458	(1,584,327)
Net assets, beginning of year	<u>99,269,326</u>	<u>100,853,653</u>
Net assets, end of year	<u>\$ 110,362,784</u>	<u>99,269,326</u>

See accompanying notes to financial statements.

The Auraria Foundation
Consolidated Statements of Activities
June 30, 2008 and 2007

	2008			2007		
	Inn at Auraria		Total	Inn at Auraria		Total
	LLC	Auraria Foundation		LLC	Auraria Foundation	
Revenues and other support						
Contributions	\$ -	200	200	-	16,838	16,838
Rental income	2,464,331	38,625	2,502,956	1,626,751	38,625	1,665,376
Management fees	-	25,000	25,000	-	25,000	25,000
Investment income	129,149	(89,237)	39,912	179,236	529,989	709,225
Miscellaneous income	114,395	-	114,395	60,184	-	60,184
Total revenues and other support	\$ 2,707,875	(25,412)	2,682,463	1,866,171	610,452	2,476,623
Expenses						
Inn at Auraria LLC operations	\$ 4,384,619	-	4,384,619	3,778,603	-	3,778,603
St. Francis program expense	-	64,959	64,959	-	93,730	93,730
Donations to AHEC and other						
Auraria institutions	-	9,970	9,970	-	31,791	31,791
General and administrative	206,606	91,635	298,241	224,860	43,936	268,796
Total operating expenses	4,591,225	166,564	4,757,789	4,003,463	169,457	4,172,920
Non-operating expenses	2,500	-	2,500	14,394	-	14,394
						(Continued)

The Auraria Foundation
Consolidated Statements of Activities, Continued
June 30, 2008 and 2007

	2008		2007		
	Inn at Auraria LLC	Auraria Foundation	Inn at Auraria LLC	Auraria Foundation	Total
Grants to AHEC	-	250,000	-	-	-
Foundry/kiln roof	-	250,000	-	-	-
Total grant expenses	4,593,725	416,564	4,017,857	169,457	4,187,314
Total expenses	(1,885,850)	(441,976)	(2,151,686)	440,995	(1,710,691)
Increase (decrease) in net assets	-	-	-	7,875	7,875
Net gain related to sale of Dravo/Lawrence properties	(1,885,850)	(441,976)	(2,151,686)	448,870	(1,702,816)
Total increase (decrease) in unrestricted net assets	(2,151,686)	6,169,228	-	5,720,358	5,720,358
Net assets, beginning of year	(4,037,536)	5,727,252	(2,151,686)	6,169,228	4,017,542
Net assets, end of year					

See accompanying notes to financial statements

**AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 and 2007**

	2008	2007
Cash flows from operating activities:		
Cash received:		
Student fees	\$ 4,817,406	4,564,213
Transfers from constituent institutions	16,073,842	14,693,561
Gifts and grants	71,178	55,864
Sales of services	18,045,333	14,185,176
Sales of products	16,271,063	17,117,933
Other receipts	19,526	541,496
Cash paid:		
Payments to or for employees	(19,267,631)	(18,606,228)
Payments to suppliers	(28,846,203)	(26,302,357)
Net cash provided by operating activities	7,184,514	6,249,658
Cash flows from capital and related financing activities:		
Capital grants and gifts received	817,345	611,810
State appropriations	15,838,042	2,777,778
Purchases of capital assets	(17,757,773)	(8,427,303)
Principal paid on capital debt and leases	(2,657,992)	(3,778,221)
Interest paid on capital debt and leases	(3,715,972)	(3,294,382)
Net cash used in capital and related financing activities	(7,476,350)	(12,110,318)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	322,440	3,184,023
Investment income	776,130	984,584
Net cash provided by investing activities	1,098,570	4,168,607
Net change in cash and cash equivalents	806,734	(1,692,053)
Cash and cash equivalents, beginning of year	13,424,231	15,116,284
Cash and cash equivalents, end of year	\$ 14,230,965	13,424,231

(Continued)

**AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF CASH FLOWS, CONTINUED
YEARS ENDED JUNE 30, 2008 and 2007**

	2008	2007
Reconciliation of cash and cash equivalents to the Statement of Net Assets:		
Cash and cash equivalents	\$ 12,676,930	11,969,702
Restricted cash and cash equivalents - noncurrent	1,554,035	1,454,529
	\$ 14,230,965	13,424,231
 Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (2,821,654)	(2,108,770)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense	8,943,435	9,270,729
Bad debt expense	45,570	231,506
(Increase) decrease in operating assets:		
Accounts receivable	106,420	(1,923,134)
Inventories	(1,268,248)	(1,609,578)
Prepaid expense	50,885	(139,012)
Increase (decrease) in operating liabilities		
Accounts payable and accrued liabilities	2,408,203	643,484
Deferred revenue	31,553	(18,738)
Accrued compensated absences	118,319	60,666
Other liabilities	(429,969)	221,497
Net cash provided by operating activities	\$ 7,184,514	4,628,650
 Supplemental cash flow information:		
Accounts payable related to capital asset purchases	\$ 424,584	785,474

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements
June 30, 2008 and 2007

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 transfers 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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

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, 2008 and 2007, 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:

	<u>2008</u>	<u>2007</u>
Constituent Institutions	\$ 1,231,531	1,266,472
State of Colorado Central Collections	379,178	375,322
Book Center credit memos due from vendors	299,303	831,602
Auxiliary enterprises	972,517	913,421
Auraria Foundation	650,285	37,970
Other	<u>95,366</u>	<u>299,004</u>
	\$ <u>3,628,180</u>	<u>3,723,791</u>

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

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 collectability 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:

	<u>2008</u>	<u>2007</u>
Prior year parking fines	\$ 324,456	287,715
Book Center bad checks	55,194	44,386
Child Care Center and other auxiliaries	39,092	42,859
Tivoli Student Union building accounts	6,283	8,313
Book Center credit memos	<u>44,928</u>	<u>30,301</u>
	<u>\$ 469,953</u>	<u>413,574</u>

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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

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 \$1,611,375 and \$1,545,047, that was included in accounts payable and accrued liabilities at June 30, 2008 and 2007, 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, 2008 and 2007 is \$1,346,971 and \$1,228,652, respectively. Operating income for the years ended June 30, 2008 and 2007 includes \$118,319 and \$60,666, respectively, representing the increase in the estimated compensated absence liability.

Deferred Revenue

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

	<u>2008</u>	<u>2007</u>
Student fees for the summer semester	\$ 169,621	111,034
Childcare tuition collected in advance	5,813	6,093
Early Learning Center grants	47,628	52,166
Telecomm auxiliary services	-	6,000
Advance rent for Tivoli Student Union space	<u>35,118</u>	<u>51,334</u>
	<u>\$ 258,180</u>	<u>226,627</u>

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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

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. These revenues currently, and for the past several years, do not cover the costs of operating the campus. As a result, the center has had to draw on 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 2008 or 2007.

Note 2: Deposits, Investments and Investment Return

Deposits and Cash Equivalents

At June 30, 2008 the carrying value of the Center's deposits was \$12,676,930. It consists of \$10,733,809 on deposit with the State Treasurer, \$1,707,696 in bank deposits, \$167,797 in credit cards and \$67,628 of cash on hand. The bank balance classified by custodial credit risk category includes \$100,000 covered by federal depository insurance and \$1,607,696 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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

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, 2008. 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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

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.

<u>Investment Type</u>	<u>Fair Value Amount</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
U.S. Govt. Agencies – Explicitly Guaranteed	\$ 5,451,937	Not rated	N/A
Commercial Paper	<u>1,963,585</u>	Gilt edge	.252year(s)
Total Investments	<u>\$ 7,415,522</u>		

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:

	<u>2008</u>	<u>2007</u>
Deposits	\$ 14,230,965	13,424,231
Bond proceeds restricted cash	985,884	1,128,528
Investments	<u>7,415,522</u>	<u>7,480,308</u>
	<u>\$ 22,632,371</u>	<u>22,033,067</u>

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

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 12,676,930	11,969,702
Short term investments	665,503	645,327
Restricted cash and cash equivalents, non-current	2,539,919	2,583,057
Restricted investments, non-current	<u>6,750,019</u>	<u>6,834,981</u>
	<u>\$ 22,632,371</u>	<u>22,033,067</u>

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 2: Deposits, Investments and Investment Return, Continued

Investment Income

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

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 776,128	944,892
Net increase in fair value of investment	<u>115,013</u>	<u>7,635</u>
	891,141	952,527
Capitalized interest income	<u>-</u>	<u>-</u>
	<u>\$ 891,141</u>	<u>952,527</u>

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2008 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 11,752,961	-	-	-	11,752,961
Land improvements	24,601,886	-	-	416,036	25,017,922
Buildings and Improvements	246,223,071	-	-	2,951,083	249,174,154
Equipment	5,430,384	349,767	(137,500)	-	5,642,651
Construction in progress	<u>4,951,446</u>	<u>17,490,162</u>	<u>-</u>	<u>(3,367,119)</u>	<u>19,074,489</u>
	292,959,748	17,839,929	(137,500)	-	310,662,177
Less accumulated depreciation:					
Land improvements	13,425,615	895,511	-	-	14,321,126
Buildings and improvements	109,588,772	7,133,631	-	-	116,722,403
Equipment	<u>3,841,380</u>	<u>638,131</u>	<u>(101,060)</u>	<u>-</u>	<u>4,378,451</u>
	<u>126,855,767</u>	<u>8,667,273</u>	<u>(101,060)</u>	<u>-</u>	<u>135,421,980</u>
Net capital assets	<u>\$ 166,103,981</u>	<u>9,172,656</u>	<u>(36,440)</u>	<u>-</u>	<u>175,240,197</u>

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 3: Capital Assets, Continued

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	<u>1,023,260</u>	<u>6,374,974</u>	<u>-</u>	<u>(2,446,788)</u>	<u>4,951,446</u>
	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	<u>3,411,128</u>	<u>579,179</u>	<u>(148,927)</u>	<u>-</u>	<u>3,841,380</u>
	<u>118,029,155</u>	<u>8,975,539</u>	<u>(148,927)</u>	<u>-</u>	<u>126,855,767</u>
Net capital assets	\$ <u>168,261,181</u>	<u>(2,156,270)</u>	<u>(930)</u>	<u>-</u>	<u>166,103,981</u>

Note 4: Long-term Liabilities

The following is a summary of long-term obligation transactions for the Center for the year ended June 30, 2008:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable:					
Series 2003 Parking	\$ 8,319,432	72,114	(1,630,000)	6,761,545	1,675,000
Series 2003 Student Fee	19,982,613	4,855	(895,000)	19,092,468	925,000
Series 2004 Parking	21,537,593	688,321	-	22,225,914	-
Series 2006 Parking	7,091,456	25,256	-	7,116,712	-
Series 2006 Student Fee	<u>14,893,620</u>	<u>30,461</u>	<u>(180,000)</u>	<u>14,744,081</u>	<u>390,000</u>
Total revenue bonds payable	71,824,714	821,007	(2,705,000)	69,940,720	2,990,000
Capital lease obligations	<u>16,146,210</u>	<u>48,164</u>	<u>(637,226)</u>	<u>15,557,149</u>	<u>672,674</u>
Total bonds and capital leases	<u>87,970,924</u>	<u>869,171</u>	<u>(3,342,226)</u>	<u>85,497,869</u>	<u>3,662,674</u>
Other non-current liabilities:					
Compensated absences	<u>1,228,652</u>	<u>118,319</u>	<u>-</u>	<u>1,346,971</u>	<u>77,414</u>
Total non-current liabilities	<u>\$ 89,199,576</u>	<u>987,490</u>	<u>(3,342,226)</u>	<u>86,844,840</u>	<u>3,740,088</u>

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

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, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
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	<u>14,863,159</u>	<u>30,461</u>	<u>-</u>	<u>14,893,620</u>	<u>180,000</u>
Total revenue bonds payable	73,498,725	790,989	(2,465,000)	71,824,714	2,705,000
Capital lease obligations	<u>17,410,555</u>	<u>48,876</u>	<u>(1,313,221)</u>	<u>16,146,210</u>	<u>637,226</u>
Total bonds and capital leases	<u>90,909,280</u>	<u>839,865</u>	<u>(3,778,221)</u>	<u>87,970,924</u>	<u>3,342,226</u>
Other non-current liabilities:					
Compensated absences	<u>1,167,986</u>	<u>60,666</u>	<u>-</u>	<u>1,228,652</u>	<u>71,282</u>
Total non-current liabilities	<u>\$ 92,077,266</u>	<u>900,531</u>	<u>(3,778,221)</u>	<u>89,199,576</u>	<u>3,413,508</u>

Revenue Bonds Payable

The Center had the following bonds outstanding at June 30, 2008:

- 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 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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 4: Long-term Liabilities, Continued

Series 2003 Parking Bonds, Continued

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, 2008 and 2007, the Series 2003 Parking Bonds are shown net of unamortized premium of \$38,608 and \$48,260, respectively, unamortized deferred loss on refinancing of \$327,063 and \$408,829, respectively, and have related unamortized issue costs of \$82,710 and \$103,388, respectively.

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 Bonds 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, 2008 and 2007, the Series 2003 Student Fee Bonds are shown net of a discount of \$82,532 and \$87,387, respectively, and have related unamortized issue costs of \$250,078 and \$264,788, respectively.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 4: Long-term Liabilities, Continued

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, 2008 and 2007, the Series 2004 Parking Bonds are shown net of a discount of \$80,008 and \$84,094, respectively, and have related unamortized issue costs of \$415,866 and \$435,989, respectively.

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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 4: Long-term Liabilities, Continued

Series 2006 Parking Bonds, Continued

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, 2008 and 2007, the Series 2006 Bonds are shown net of a premium of \$7,727 and \$8,162, respectively, unamortized deferred loss on refinancing of \$456,015 and \$431,706, respectively, and have related unamortized issue costs of \$206,690 and \$218,249, 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.

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, 2008 and 2007, the Series 2006 Bonds are shown net of a discount of \$22,104 and \$23,826, respectively, unamortized deferred loss on refinancing of \$368,814 and \$397,553, respectively, and have related unamortized issue costs of \$244,941 and \$264,027, respectively.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 4: Long-term Liabilities, Continued

Bond Maturity Schedule

Debt service to maturity for all bonds as of June 30, 2008 is as follows:

<u>Years Ending June 30,</u>	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
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	5,524,053	3,735,000	1,789,053
2014-2018	27,227,463	19,590,000	7,637,463
2019-2023	27,136,779	22,045,000	5,091,779
2024-2028	17,083,125	15,020,000	2,063,125
2029-2033	<u>6,740,520</u>	<u>6,550,000</u>	<u>190,520</u>
Total debt service	106,945,663	81,760,000	25,185,663
Less unaccreted principal on 2004 Cap B bonds	(10,529,078)	(10,529,078)	-
Less unamortized discount/premium and deferred loss on refinancing	<u>(1,290,202)</u>	<u>(1,290,202)</u>	<u>-</u>
	<u>\$ 95,126,383</u>	<u>69,940,720</u>	<u>25,185,663</u>

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, 2008 as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Value</u>
Administrative facility	\$ 15,518,172	4,806,169	10,712,003
Equipment	<u>703,848</u>	<u>633,463</u>	<u>70,385</u>
	<u>\$ 16,222,020</u>	<u>5,439,632</u>	<u>10,782,388</u>

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 4: Long-term Liabilities, Continued

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. 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 1998 Administrative Facility Certificates were fully redeemed on May 1, 2008.

The advance refunding of the 1998 Administrative Facility Certificates resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,422,087 and was recorded as a loss on the 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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 4: Long-term Liabilities, Continued

At June 30, 2008 and 2007, the Administrative Facility Certificates are shown net of unamortized discount of \$26,655 and \$27,999, respectively, unamortized deferred loss on refinancing of \$948,112 and \$994,932, respectively, and unamortized issue costs of \$311,478 and \$327,183, respectively.

Equipment Leases

The Center also entered into a lease-purchase contract for copier equipment. The interest rate on the lease was 10.25 percent in fiscal years 2008 and 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, 2008:

	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,349,533	672,672	676,861
2010	1,346,170	699,242	646,928
2011	1,221,643	600,000	621,643
2012	1,222,142	620,000	602,142
2013	1,221,062	640,000	581,063
2014-2018	6,107,113	3,590,000	2,517,113
2019-2023	6,095,513	4,355,000	1,740,513
2024-2028	<u>6,096,388</u>	<u>5,355,000</u>	<u>741,388</u>
	24,659,565	16,531,914	8,127,651
Less unamortized discount and loss on refinancing	<u>974,765</u>	<u>974,765</u>	<u>-</u>
	<u>\$ 23,684,800</u>	<u>15,557,149</u>	<u>8,127,651</u>

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 5: Reserve Balances

Reserve balances and requirements for outstanding bond issues at June 30, 2008 are as follows:

	<u>Reserve Balance</u>	<u>Reserve Required</u>
Series 2003, Series 2004 and Series 2006 Parking Bonds:		
Debt Service Reserve	\$ 4,305,610	4,193,240
Repair and Replacement Reserve*	\$ 600,085	624,204
Series 2003 and 2006 Student Fee Bonds:		
Repair and Replacement Reserve	\$ 350,000	300,000

*\$50,000 was transferred from unrestricted reserves to the Repair & Replacement Fund in September, 2008 to increase the reserve balance to \$650,085. At June 30, 2008, the Center was in compliance with the parking bond reserve balance requirements on an aggregate basis.

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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 6: Revenue Bond Fund Information, Continued

	Series 2006 and 2003 Student		Series 2006, 2004, and	
	Fee Revenue Bonds		2003 Parking Facilities	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Condensed Statements of Net Assets				
Assets				
Current assets	\$ 9,101,369	9,556,206	3,620,409	3,081,590
Other assets	1,439,792	1,832,855	7,879,736	7,805,046
Capital assets	<u>36,498,164</u>	<u>37,860,767</u>	<u>40,231,135</u>	<u>41,889,496</u>
Total assets	<u>47,039,325</u>	<u>49,249,828</u>	<u>51,731,280</u>	<u>52,776,132</u>
Liabilities				
Current liabilities	4,813,416	3,843,654	2,012,091	2,115,091
Non-current liabilities	<u>32,918,262</u>	<u>34,296,069</u>	<u>34,495,850</u>	<u>35,387,752</u>
Total liabilities	<u>37,731,678</u>	<u>38,139,723</u>	<u>36,507,941</u>	<u>37,502,844</u>
Net assets				
Invested in capital assets net of related debt	2,607,470	3,189,207	5,154,397	5,698,642
Restricted – expendable	707,359	742,092	7,243,081	7,099,861
Unrestricted	<u>5,992,818</u>	<u>7,178,806</u>	<u>2,825,861</u>	<u>2,474,785</u>
Total net assets	<u>\$ 9,307,647</u>	<u>15,273,288</u>	<u>15,223,339</u>	<u>15,273,288</u>
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 26,862,920	25,761,051	7,559,075	7,463,374
Operating expenses	(22,857,642)	(22,305,482)	(4,261,463)	(4,245,134)
Depreciation and amortization	<u>(1,999,803)</u>	<u>(2,250,855)</u>	<u>(1,759,829)</u>	<u>(1,975,285)</u>
Operating income	<u>\$ 2,005,475</u>	<u>1,204,714</u>	<u>1,537,783</u>	<u>1,242,955</u>
Non-Operating Revenues (Expenses)				
Capital Grants	\$ 168,440	168,440	74,052	-
Investment income	412,649	475,643	455,818	433,533
Transfers for campus support	(2,942,613)	(1,522,303)	(570,784)	(570,784)
Interest expense on capital debt	<u>(1,446,408)</u>	<u>(1,541,524)</u>	<u>(1,546,818)</u>	<u>(1,576,077)</u>
Total other expenses	<u>(3,807,932)</u>	<u>(2,419,744)</u>	<u>(1,587,732)</u>	<u>(1,713,328)</u>
Change in net assets	<u>(1,802,457)</u>	<u>(1,215,030)</u>	<u>(49,949)</u>	<u>(470,373)</u>
Net assets, beginning of year	<u>11,110,105</u>	<u>12,325,135</u>	<u>15,273,288</u>	<u>15,743,661</u>
Net assets, end of year	<u>\$ 9,307,648</u>	<u>11,110,105</u>	<u>15,223,339</u>	<u>15,273,288</u>

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 6: Revenue Bond Fund Information, Continued

Condensed Statements of Cash Flows	Series 2006 and 2003 Student Fee Revenue Bonds		Series 2006, 2004, and 2003 Parking Facilities Revenue Bonds	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	Net cash flows provided by operating activities	\$ 4,137,306	3,265,398	3,439,884
Net cash flows used in non capital financing	(2,942,613)	(1,541,524)	(570,784)	(570,784)
Net cash flows used in capital and related financing activities	(3,091,782)	(4,769,422)	(2,636,295)	(3,807,249)
Net cash flows provided by investing activities	<u>704,397</u>	<u>2,865,829</u>	<u>381,064</u>	<u>1,292,561</u>
Net increase (decrease) in cash and cash equivalents	(1,192,692)	(179,719)	613,869	(237,511)
Cash and cash equivalents, beginning of year	<u>7,271,907</u>	<u>7,451,626</u>	<u>2,854,289</u>	<u>2,616,778</u>
Cash and cash equivalents, end of year	\$ <u>6,079,215</u>	<u>7,271,907</u>	<u>3,468,158</u>	<u>2,854,289</u>

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, 2008, appropriated current fund expenditures were within the authorized spending authority. The Center had a total current funds appropriation of \$15,686,087, toward which the constituent institutions funded \$15,538,104. The institutions also contributed \$512,417 in one time current funding. The additional funding included \$19,060 for ADA Cost Allocation, \$65,580 toward the purchase of two new Steinway Grand Pianos, \$290,987 to cover the Modular Classrooms, and \$136,790 toward Metropolitan State College of Denver's master plan study. 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, certain revenues of auxiliary, self-funding activities and miscellaneous revenues.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

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 and 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, 2008 the Center incurred and billed expenses of \$342,276 on the Science Building Addition/Renovation Project, all of which is included in receivables at year end. For the years ended June 30, 2008 and 2007, the Center had incurred expenses of \$306,630 and \$193,370, respectively, on the Safe Night Project. At June 30, 2008, \$306,630 is included in receivables. In July, 2007 the Foundation approved a \$250,000 grant to the Center for a roof over the kiln in the foundry area of the Arts Building. The Center will recognize revenue as expenditures are incurred.

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 \$20,000 and \$25,000 for the years ended June 30, 2008 and 2007, respectively. In addition, the Foundation paid the Center \$6,277 during fiscal year 2008 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, 2008 and 2007, the Center paid the Foundation \$38,625 for the use of the St. Francis Center. In addition, the Foundation paid the Center \$6,576 for new doors and to trim trees during fiscal year 2008 and \$47,311 to replace the boiler in the Saint Francis building during fiscal year 2007.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 8: The Auraria Foundation, Continued

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 Executive Tower Inn is located in downtown Denver, Colorado, a few blocks from the Auraria Campus. The facility opened to student residents on August 19, 2006.

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 \$1,885,850 for the fiscal year ended June 30, 2008 and has a net capital deficiency of \$4,037,536. 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. Occupancy rates continued to be lower than expected in the second year of operations. As a result, the Inn failed to meet certain principal and interest payment obligations due on July 1, 2008 under the Series 2005 Revenue Bond requirements. The Inn was issued a Notice of Material Event and Event of Default from the Series 2005 Revenue Bonds trustee, which notified the Inn of an Interest and Principal Payment Default. On October 1, 2008, the Inn satisfied the payment of interest, thus curing the Interest Payment Default. The principal payment has not been satisfied and therefore, an Event of Default continues to exist pursuant to the bond indenture and related agreements.

Management is evaluating alternatives to address this Material Event and 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. The Inn is required to maintain rental rates at a level which will provide income available for debt service at least equal to 120% of the principal and interest due in each year on all outstanding bonds. The Inn has failed to meet this requirement for the years ending June 30, 2008 and 2007.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 8: The Auraria Foundation, Continued

In 2005, when the Inn obtained funding for the housing project, the Foundation loaned the Inn \$250,000 to enable the Inn to make the “borrower contribution” required. During the year ended June 30, 2008, the Foundation loaned the Inn an additional \$194,173 through the payment of utility bills and other expenses which could not be paid from the current operating budget.

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

	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 2,263,443	\$50,000	\$2,213,443
2010	2,338,043	130,000	2,208,043
2011	2,403,759	205,000	2,198,759
2012	2,470,591	285,000	2,185,591
2013	2,542,853	375,000	2,167,853
Thereafter	<u>77,723,131</u>	<u>36,235,000</u>	<u>41,488,131</u>
	<u>\$ 89,741,820</u>	<u>37,280,000</u>	<u>52,461,820</u>

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 an actuarial assessment and legislation by the General Assembly. The state plan and other divisions’ plans are included in PERA’s financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 9: Pension Plan, Continued

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 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

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

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 9: Pension Plan, Continued

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, 2007, to December 31, 2007, the state contributed 11.15 percent (13.85 percent for state troopers and 14.66 percent for the Judicial Branch) of the employee's salary. From January 1, 2008, through June 30, 2008, the state contributed 12.05 percent (14.75 percent for state troopers and 15.56 percent for the Judicial Branch). During all of Fiscal Year 2007-08, 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, 2007, the division of PERA in which the state participates was underfunded 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.

The Center's contributions to PERA and/or the state defined contribution plan for the fiscal years ending June 30, 2008, 2007, and 2006 were \$1,438,374, \$1,258,815 and \$1,165,312, respectively. These contributions met the contribution requirement for each year.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

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: Other Postemployment Benefits and Life Insurance

Health Care Plan

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. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

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

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 9. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Center contributed \$138,611, \$126,782, and \$117,365 as required by statute in fiscal years 2008, 2007, and 2006, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2007, there were 44,214 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2007, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.045 billion, a funded ratio of 19.9 percent, and a 38-year amortization period.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

Note 11: Other Postemployment Benefits and Life Insurance

Life Insurance Program

During fiscal year 2005-06, 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.

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. For fiscal year 2008, the Center has no participants under CHEIBA.

CHEIBA financial statements are prepared under accounting principles 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 year's 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.

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.

AURARIA HIGHER EDUCATION CENTER
Notes to Financial Statements, Continued

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 is in the second year of a \$121,163,682 capital construction project to expand and renovate the Auraria Campus Science Building. The Center has received appropriated funding from the State Legislature totaling \$35,316,976 and expects another \$63,619,180 from Certificates of Participation the State intends to issue in accordance with Senate Bill 233. The Certificates of Participation will be the obligation of the State of Colorado. Accordingly, the issuance of the Certificates of Participation is subject to rates that are favorable to the State. In addition to State funding, the Auraria Foundation has committed \$3,000,000 and the Center has committed \$865,000 to the project. The Institutions on campus are providing \$21,352,000 for furniture, fixtures, equipment, research labs and construction costs. 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, 2008, total approximately \$14,097,372.

**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, 2008, and have issued our report thereon dated October 23, 2008. 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.

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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies as described in the Findings and Recommendations section of this report to be significant deficiencies in internal control over financial reporting.

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.

Members of the Legislative Audit Committee

Page 2

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. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

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

Kundinger, Corder & Engle, P.C.

October 23, 2008

REQUIRED COMMUNICATION LETTER

October 23, 2008

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, 2008 and have issued our report thereon dated October 23, 2008.

Our professional standards require that we provide you with information about significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process, and to comply with our professional responsibilities to the Members of the Legislative Audit Committee. However, we are not required to design procedures specifically to identify such matters. 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

As stated in our engagement letter dated June 9, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Center. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control. Our comments on the Center's internal control can be found beginning on page 5 of this document.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Center's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to management in our meeting about planning matters on May 19, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2008. We noted no transactions entered into by the Center during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the 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 financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the following estimates and determined that the estimates are reasonable in relation to the financial statements taken as a whole. The most sensitive estimates affecting the financial statements are:

- Management's estimate of the useful lives of depreciable assets is based on past experience and industry standards.
- Management's estimate of the allocation of overhead expenses to auxiliary enterprises is based on a detailed study conducted in 2008 to determine the amount of support provided to the auxiliaries by the Center's general operations.
- Management's estimate of the allowance for doubtful accounts related to auxiliary enterprise activities is based on prior experience, analysis of collectability of current accounts receivable, and information received from the State Collections department.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are:

- The disclosure of the concentration of credit risk in Note 1 to the financial statements alerts readers to the fact that transfers from the constituent institutions to pay for services and facilities provided by the Center do not cover the costs of operating the campus. 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.
- The disclosure of the Inn at Auraria's Notice of Material Event and Event of Default on the Series 2005 Revenue Bonds in Note 8 to the financial statements alerts readers to the fact that the Inn's occupancy rates have not been adequate to meet the financial obligations of the Series 2005 Revenue Bonds. However, neither the Foundation nor the Center is obligated for the payment of bond principal or interest.

Difficulties Encountered in Performing the Audit

The Center completed a conversion of the accounting system in 2008. Difficulties with the conversion contributed to a number of problems at year end including: inaccurate and late reporting to the State Controller's Office, inability to provide comparable prior year information for the audit process, and post-closing entries to correct accounts that had not been consistently reconciled during the year.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 23, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Center's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

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

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