



**AURARIA HIGHER EDUCATION CENTER**

Financial and Compliance Audit

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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# AURARIA HIGHER EDUCATION CENTER

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# AURARIA HIGHER EDUCATION CENTER

## Financial and Compliance Audit

### Report Summary

Year ended June 30, 2014

#### **Purpose and Scope**

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Auraria Higher Education Center (the Center) for the year ended June 30, 2014. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from May 2014 to October 2014.

The purpose and scope of our audit was to:

- Express opinions on the financial statements of the Center as of and for the years ended June 30, 2014 and 2013. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate the Center's compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior audit findings and recommendations.

#### **Audit Opinions and Reports**

We expressed an unmodified opinion on the Center's financial statements as of and for the years ended June 30, 2014 and 2013. A qualified opinion was issued over the discretely presented component unit's reporting of discontinued operations as of June 30, 2014 and 2013.

We issued a report on the Center's internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We noted no instances involving the internal control over financial reporting and its operation that we consider to be a material weaknesses.

#### **Summary of Key Findings**

There were no reported findings and recommendations resulting from the audits for fiscal years 2014 and 2013.

## **AURARIA HIGHER EDUCATION CENTER**

Financial and Compliance Audit

Description of Auraria Higher Education Center

Year ended June 30, 2014

### **Organization**

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

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

## AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2014

We have audited the financial statements of the Center as of and for the years ended June 30, 2014 and 2013 and have issued our report thereon, dated November 4, 2014. In planning and performing our audit of the financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion of the Center's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated November 4, 2014, on our consideration of the Center's internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since November 4, 2014. We did not audit the financial statements of the Auraria Higher Education Center Foundation (the Foundation) discussed in note 1 to the financial statements. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards*, and included a qualified opinion over the discretely presented component unit's reporting of discontinued operations as of June 30, 2014 and 2013.

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

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

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

There were no findings and recommendations resulting from the audit for fiscal year 2014.



KPMG LLP  
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## Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Auraria Higher Education Center (the Center), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits and the reports of other auditors. We did not audit the consolidated financial statements of the Auraria Foundation (the Foundation), a discretely presented component unit discussed in note 1 to the financial statements. Those consolidated financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the report of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The consolidated financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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





### **Basis for Qualified Opinion on the Discretely Presented Component Unit**

As discussed in note 7 to the consolidated financial statements of the discretely presented component unit, the Inn at Auraria, LLC (the Inn) sold all of its property and equipment for approximately \$36,000,000 in July 2014. The Foundation has consolidated and presented the Inn as a continuing component in the accompanying consolidated financial statements as of June 30, 2014 and 2013. Under U.S generally accepted accounting principles, the Foundation should present the Inn as a discontinued component, which would result in the presentation of the Inn's results of operations as single line items in the consolidated statements of activities for the years ended June 30, 2014 and 2013.

### **Qualified Opinion**

In our opinion, based on the report of the other auditors, except for the effects of the matter described in the "Basis for Qualified Opinion on the Discretely Presented Component Unit" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit of Auraria Higher Education Center as of June 30, 2014 and 2013, and the respective changes in financial position, for the years then ended in accordance with U.S. generally accepted accounting principles.

### **Unmodified Opinion**

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Auraria Higher Education Center as of June 30, 2014 and 2013, and the respective changes in financial position, and the cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

### **Other Matters**

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 7 to 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado  
November 4, 2014

## AURARIA HIGHER EDUCATION CENTER

### Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

This section of the Auraria Higher Education Center's (the Center) financial statements presents discussion and analysis, prepared by the Center's management, of the Center's financial performance during the fiscal years ended June 30, 2014 and 2013 with comparative information for 2012. The purpose of this section is to provide an objective and easily readable analysis of the Center's financial position and results of operations based on currently known facts, decisions, and opinions. It should be read in conjunction with the financial statements and the related notes.

#### **Understanding the Comparative Financial Report**

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

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

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

#### **Statements of Net Position**

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

As of June 30, 2014 and 2013, total assets and deferred outflows of resources of the Center exceeded total liabilities by \$162.5 million and \$167.5 million, respectively. The largest portion of this excess, 85.6% in 2014 and 83.3% in 2013, was net investment in capital assets. Since these are capital assets that provide the facilities and infrastructure necessary for the three constituent institutions to provide educational services, these assets are not available for future spending. The amount of unrestricted net position as of June 30, 2014 was \$15.3 million compared to \$19.9 million as of June 30, 2013, which represents 9.4% of net position in 2014 and 11.9% of net position as of June 30, 2013. Restricted net position totaled \$8.1 million as of June 30, 2014 compared to \$8.1 million as of June 30, 2013, which represents 5.0% of net position in 2014 and 4.8% of net position in 2013.

**AURARIA HIGHER EDUCATION CENTER**

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

During fiscal year 2014, total net position decreased approximately \$5.0 million from fiscal year 2013. Total assets and deferred outflows of resources decreased \$9.0 million primarily due to current year depreciation on capital assets. Total liabilities decreased \$4.0 million, primarily due to a decrease in long-term debt of \$5.3 million resulting from current year principal payments on outstanding debt. During fiscal year 2013, total net position decreased approximately \$8.8 million from fiscal year 2012. Total assets and deferred outflows of resources increased \$4.9 million primarily due to the receipt of \$16 million in bond proceeds for the construction of a new parking garage at the corner of 5th Street and Walnut Street, which broke ground in July 2013; the elimination of the receivable from the State of Colorado (the State) for the Science Building Project, which was closed out in September 2012; and from current year depreciation on capital assets. Total liabilities increased \$13.8 million, primarily due to an increase in long-term debt of \$14.6 million resulting from the issuance of \$15.7 million in Series 2013A Parking Revenue Bonds to finance the construction of the new parking garage, and offset by a \$1.2 million decrease in accounts payable and accrued liabilities.

**Condensed Statements of Net Position**

	<b>June 30</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
		(In thousands)	(as restated)
<b>Assets:</b>			
Current assets	\$ 28,053	29,529	34,481
Capital assets, net	233,739	226,274	233,387
Other noncurrent assets	29,137	44,031	27,116
Total assets	<u>290,929</u>	<u>299,834</u>	<u>294,984</u>
Deferred outflows of resources	<u>1,320</u>	<u>1,436</u>	<u>1,368</u>
Total assets and deferred outflows of resources	<u>\$ 292,249</u>	<u>301,270</u>	<u>296,352</u>
<b>Liabilities:</b>			
Current liabilities	\$ 19,166	17,943	19,005
Noncurrent liabilities	110,547	115,794	100,969
Total liabilities	<u>\$ 129,713</u>	<u>133,737</u>	<u>119,974</u>
<b>Net position:</b>			
Net investment in capital assets	\$ 139,088	139,567	151,158
Restricted for expendable purposes	8,118	8,097	6,203
Unrestricted	15,329	19,869	19,017
Total net position	<u>\$ 162,535</u>	<u>167,533</u>	<u>176,378</u>

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### Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

#### **Statements of Revenues, Expenses, and Changes in Net Position**

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

For fiscal year 2014, the operating and nonoperating activities of the Center resulted in a decrease in net position of \$5 million as compared to a decrease of \$8.8 million for fiscal year 2013. Operating revenues totaled \$64.6 million while operating expenses totaled \$67.0 million, resulting in an operating loss of \$2.4 million. For fiscal year 2013, the operating and nonoperating activities of the Center resulted in a decrease in net position of \$8.8 million as compared to a decrease of \$6.9 million for fiscal year 2012. Operating revenues totaled \$60.4 million while operating expenses totaled \$62.3 million, resulting in an operating loss of \$1.9 million. The increase in operating loss from fiscal year 2013 to 2014 of \$0.5 million was primarily the result of increases in Auxiliary Enterprises revenues of \$2.6 million and expenses of \$3.6 million, coupled with a \$0.3 million decrease in student fee revenue, and a \$0.2 million decrease in other operating revenue. Support from the three constituent institutions increased approximately \$2.1 million from 2013 to 2014, primarily from additional funding of \$0.8 million to support the Center's general operations, a \$1.4 million increase in funding for the campus-wide electrical infrastructure project, and \$0.1 million in various decreases relating to debt payment obligations and other services. In addition, The Center completed an additional \$2.8 million of auxiliary construction projects on behalf of the constituent institutions. In 2014, approximately \$2.6 million of auxiliary revenue and auxiliary reserves were used to support general operating costs. For 2014 and 2013, the State provided \$2.0 million and \$2.5 million, respectively, in capital contributions primarily for the Fire Sprinkler project, the Auraria Library Renovation, and the Science Building. For 2013, a loss of \$1.5 million is reflected on this financial statement line because the contributions received were offset by a \$4.1 million adjustment (reduction) to state capital contributions to account for the return of funds receivable from the State of Colorado for the Science Building project that were not needed to complete the project.



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Management’s Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions showed an average decrease overall between fall of 2012 and fall of 2013 of 3.8% due to a 6.5% decrease for Community College of Denver, a 3.9% decrease for University of Colorado Denver and a 2.9% decrease for Metropolitan State University of Denver. Estimates for fall of 2014 predict an 8% decline in enrollment for the Community College of Denver, a 5% decline in enrollment for Metropolitan State University of Denver, and a slight decline in enrollment for University of Colorado Denver.

**Capital Assets**

At June 30, 2014, the Center had approximately \$234.0 million invested in capital assets, net of accumulated depreciation of approximately \$199.0 million. At June 30, 2013, the Center had approximately \$226.3 million invested in capital assets, net of accumulated depreciation of approximately \$186.7 million. For the years ended June 30, 2014 and 2013, depreciation expense was approximately \$12.5 million and \$12.5 million, respectively.

A summary of capital assets is provided below:

		<b>June 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2012</b>
		(In thousands)	
Land	\$ 27,896	27,896	27,896
Land improvements	5,962	6,161	6,835
Buildings and improvements	175,357	186,444	195,708
Equipment	3,726	3,044	2,414
Construction in progress	20,797	2,729	534
Total capital assets, net	\$ 233,738	226,274	233,387

Construction in progress increased approximately \$18 million during fiscal year 2014 primarily due to construction of the 5th Street Garage project, which was completed and opened in August 2014.

In December 2008, the Center purchased a parcel of land adjacent to campus, increasing the acreage of the campus by 13.54 acres. The cost of the new parcel was approximately \$16.5 million, and as part of the campus master plan, the Center’s board of directors, at their December 2010 meeting, approved the property as the location for the Metropolitan State University of Denver’s Regency Athletic Complex which will include tennis courts, athletic fields (soccer, baseball, and softball fields), and a locker room facility. This property is a joint venture in the fact that the Center owns the land and Metropolitan State University of Denver is constructing and will own the fields and facilities on the land.

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

## AURARIA HIGHER EDUCATION CENTER

### Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

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

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

#### Bonds and Capital Leases

At June 30, 2014, the Center had approximately \$115.1 million of bond and capital lease obligations outstanding as compared to \$120.1 million as of June 30, 2013. The table below summarizes this debt by type. The outstanding revenue bonds as of June 30, 2014 are comprised of Parking Revenue Bonds totaling \$45.4 million and Student Fee Revenue Bonds totaling \$27.7 million. These debt service requirements are met by pledged revenues from the Center's parking operations and from student fees.

The capital lease obligations as of June 30, 2014 comprise three Certificates of Participation totaling \$42.1 million. The constituent institutions share in the cost of debt service of the three Certificates of Participation. During fiscal year 2014, the constituent institutions provided funding of \$2.3 million in excess of their annual allocation of state-appropriated funds to help fund these capital lease obligations.

During fiscal year 2014, long-term debt decreased \$5.0 million as the result of scheduled principal payments on the debt described above.

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

#### Long-Term Debt

	<b>June 30</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
		(In thousands)	<b>(as restated)</b>
Auxiliary enterprise revenue bonds	\$ 73,067	75,976	59,328
Capital lease obligations	42,057	44,092	46,111
Total long-term debt	<u>\$ 115,124</u>	<u>120,068</u>	<u>105,439</u>

#### Economic Outlook

During fiscal year 2014, the constituent institutions' allocation to fund the Center's general operations was \$17.7 million, as compared to \$16.9 million for fiscal year 2013. In addition, the constituent institutions provided an additional \$1.9 million in funding to be used exclusively for deferred maintenance projects across the aging campus. The Center's budget for fiscal year 2015 reflects a 3.9% increase to the base allocation of the constituent institutions to fund salary and benefit increases.

An extensive master plan study for the entire campus has been completed and provides direction on how to develop the campus over the next 20 years. The master plan identified areas of the Auraria Campus for each of



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### Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

the three constituent institutions to create their own neighborhoods, and for new facilities to be developed within those neighborhoods, primarily utilizing existing parking lots. As a result, during the last several years, the constituent institutions have been working earnestly to formulate plans to fund and build institution-specific buildings, as described in the campus master plan. On March 19, 2012, the first institution-specific building was opened to students, faculty, and staff by MSU Denver. The new Student Success Building added an estimated 145,000 square feet of space on campus for classrooms and faculty offices, specifically for MSU Denver students and professors, and provides students with a central location for a wide range of MSU Denver support services. Several months later, on August 1, 2012, MSU Denver opened its second building, the new Spring Hill Suites Hotel and Hospitality Learning Center, which included a 150-room hotel and conference center as well as an additional 28,000 square feet of space, including classrooms, specialty learning labs, and faculty offices, to provide hands on training opportunities for students in MSU Denver's Hospitality, Tourism and Events Department. The operations of the Marriott chained hotel are being managed by a hotel management company. On May 2, 2013, the Community College of Denver (CCD) opened its new building, Confluence, which added an estimated 87,000 square feet of space on campus for classrooms, administrative offices, and a wide range of CCD support services. Finally, the University of Colorado Denver opened its new Academic Building in August 2014, which adds an estimated 120,000 square feet of campus space and will be home to the College of Liberal Arts and Sciences as well as provide a consolidated location for student services.

In addition to adding new buildings on the Auraria Campus, MSU Denver began construction in February 2013 of a new 12.5-acre athletic complex that will be built in phases. Eight tennis courts and a fitness trail encircling the site were completed in August 2013, a new soccer field was just completed in August 2014, and a new baseball field, softball field, and central building that will contain locker rooms, weightlifting areas, and meeting spaces are expected to be completed by January 2015. The complex will serve varsity athletics, intramural sports, and academic programs as well as provide health, sports, and recreation opportunities to the surrounding underserved Denver communities and to downtown Denver businesses and residents. The land was financed and purchased by the Center in December 2008.

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

From the fall of 2010 to the fall of 2012, parking capacity declined over 1,100 spaces, from 6,858 to 5,733 as a result of the ongoing construction by the three constituent institutions. As a result, the board approved the construction of a new \$20 million parking structure at their December 2012 meeting. The new 925-space 5th Street Parking Garage broke ground in July 2013 and was completed and opened on August 11, 2014. The structure was funded with \$16 million in bond proceeds and \$4 million in cash accumulated in the parking capital reserve fund. The new structure increases parking capacity for fall 2014 to over 6,400 spaces.

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(Unaudited)

The Center's auxiliary enterprise facilities are funded with student fees and user charges. These revenues are currently sufficient to maintain adequate levels of maintenance for the Tivoli Student Union, the recreation center, the childcare center, and all parking facilities. However, these fees and charges are not sufficient to cover the ongoing maintenance needs of the general classroom facilities built approximately 38 years ago. The campus has one of the highest classroom utilization rates in the nation. State funding for maintenance projects has been limited and inadequate to meet the ever-increasing needs of the Center's aging campus infrastructure. Therefore, recognizing that reliance on the State is unrealistic given the current economic conditions, the Center prepared an eight-year deferred maintenance plan, totaling over \$28.8 million, for the review and consideration of the constituent institutions. For year one, the 2012 fiscal year, the three institutions committed and funded an additional appropriation of \$1.7 million to be exclusively used on deferred maintenance projects. For year two and three, the 2013 and 2014 fiscal years, the three institutions committed and funded an additional appropriation of \$1.9 million, each year, for deferred maintenance. As part of the Center's fiscal year 2014 – 15 budget, the three institutions committed and funded an additional appropriation, over and above the \$18.4 million for general campus operations, of \$1.9 million, which was earmarked exclusively for deferred maintenance projects. To date, the deferred maintenance plan has focused on maintenance projects primarily tied to life safety and critical campus operations. During future budget discussions, the Center will work closely with the constituent institutions to continue to secure funding for the deferred maintenance plan.

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

**AURARIA HIGHER EDUCATION CENTER**

Business-Type Activities

Statements of Net Position

June 30, 2014 and 2013

<b>Assets and Deferred Outflows of Resources</b>	<b>2014</b>	<b>2013</b>
Current assets:		
Cash and cash equivalents	\$ 17,386,221	20,831,844
Accounts receivable, net	7,740,334	5,490,228
Notes receivable, current	774,765	736,505
Inventories	2,000,271	2,351,922
Prepaid expenses	151,521	118,282
Total current assets	<u>28,053,112</u>	<u>29,528,781</u>
Noncurrent assets:		
Restricted cash and cash equivalents	6,158,040	7,446,925
Bond proceeds restricted for capital projects	3,249,851	16,000,000
Restricted investments	4,684,746	4,732,346
Notes receivable	14,605,045	15,379,810
Prepaid bond costs	439,433	472,752
Capital assets, net	233,738,356	226,273,760
Total noncurrent assets	<u>262,875,471</u>	<u>270,305,593</u>
Total assets	290,928,583	299,834,374
Deferred outflows of resources:		
Deferred amount on refunding	1,319,985	1,435,501
Total assets and deferred outflows of resources	<u>\$ 292,248,568</u>	<u>301,269,875</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,981,919	5,576,478
Interest payable	692,568	683,602
Deposits held for others	2,932,203	4,378,140
Unearned revenue	1,491,256	1,628,484
Long-term debt, current	5,926,547	5,564,044
Compensated absences liability, current	141,631	112,002
Total current liabilities	<u>19,166,124</u>	<u>17,942,750</u>
Noncurrent liabilities:		
Long-term debt	109,197,683	114,503,705
Compensated absences liability	1,349,679	1,290,401
Total noncurrent liabilities	<u>110,547,362</u>	<u>115,794,106</u>
Total liabilities	<u>\$ 129,713,486</u>	<u>133,736,856</u>
<b>Net Position</b>		
Net position:		
Net investment in capital assets	\$ 139,088,225	139,566,697
Restricted for expendable purposes	8,118,138	8,096,820
Unrestricted	15,328,719	19,869,502
Total net position	<u>\$ 162,535,082</u>	<u>167,533,019</u>

See accompanying notes to financial statements.

**AURARIA HIGHER EDUCATION CENTER**

Discretely Presented Component Unit

Statements of Financial Position

June 30, 2014 and 2013

Assets	2014			2013		
	Inn at Auraria, LLC	The Auraria Foundation	Total	Inn at Auraria, LLC	The Auraria Foundation	Total
Cash and cash equivalents	\$ 404,167	76,201	480,368	709,435	90,527	799,962
Investments	—	3,501,337	3,501,337	—	3,072,214	3,072,214
Accounts receivable, net of allowance for doubtful accounts of \$22,528 and \$8,377, respectively	53,287	—	53,287	44,095	—	44,095
Restricted cash	137,311	—	137,311	278,257	—	278,257
Prepaid expenses and other	10,289	3,630	13,919	5,881	3,019	8,900
Advance to Inn at Auraria LLC	—	134,364	134,364	—	588,540	588,540
Property and equipment, net	28,861,677	—	28,861,677	28,774,143	197	28,774,340
Bond issuance costs, net	597,083	—	597,083	618,407	—	618,407
Elimination of intercompany balances	—	(134,364)	(134,364)	—	(588,540)	(588,540)
<b>Total assets</b>	<b>\$ 30,063,814</b>	<b>3,581,168</b>	<b>33,644,982</b>	<b>30,430,218</b>	<b>3,165,957</b>	<b>33,596,175</b>
<b>Liabilities and Net Assets (Deficit)</b>						
Liabilities:						
Accounts payable and accrued expenses	\$ 113,455	340	113,795	128,957	—	128,957
Deferred rental income	227,544	—	227,544	227,073	—	227,073
Interest payable	6,101,038	—	6,101,038	5,656,130	—	5,656,130
Grants payable	—	175,000	175,000	—	2,250	2,250
Deferred rent payable	43,333	—	43,333	3,333	—	3,333
Due to the Auraria Foundation	134,364	—	134,364	588,540	—	588,540
Bonds payable in default	37,280,000	—	37,280,000	37,280,000	—	37,280,000
Elimination of intercompany balances	(134,364)	—	(134,364)	(588,540)	—	(588,540)
<b>Total liabilities</b>	<b>43,765,370</b>	<b>175,340</b>	<b>43,940,710</b>	<b>43,295,493</b>	<b>2,250</b>	<b>43,297,743</b>
Net assets (deficiency) unrestricted	(13,835,920)	3,540,192	(10,295,728)	(13,453,815)	3,752,247	(9,701,568)
<b>Total liabilities and net assets</b>	<b>\$ 29,929,450</b>	<b>3,715,532</b>	<b>33,644,982</b>	<b>29,841,678</b>	<b>3,754,497</b>	<b>33,596,175</b>

See accompanying notes to financial statements.

**AURARIA HIGHER EDUCATION CENTER**

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Operating revenues:		
Auxiliary enterprises	\$ 35,968,037	33,320,625
Revenue from constituent institutions	23,140,283	21,015,882
Student fees	5,262,890	5,588,157
Other operating revenues	283,570	457,636
Total operating revenues	64,654,780	60,382,300
Operating expenses:		
Auxiliary enterprises	32,650,294	29,032,217
Operation and maintenance of plant	17,013,069	16,001,836
Institutional support	3,488,995	3,485,763
Academic support	1,320,000	1,255,329
Public service	25,700	29,156
Depreciation	12,530,124	12,464,603
Total operating expenses	67,028,182	62,268,904
Operating loss	(2,373,402)	(1,886,604)
Nonoperating revenues (expenses):		
Investment income	430,766	239,320
Interest expense on capital debt	(5,285,715)	(5,704,245)
Gain on disposal of capital assets	181,533	25,292
Nonoperating expenses, net	(4,673,416)	(5,439,633)
Loss before other revenues, expenses, gains, or losses	(7,046,818)	(7,326,237)
Other revenues, expenses, gains, or losses:		
State capital contributions (note 15)	2,048,881	(1,518,978)
Decrease in net position	(4,997,937)	(8,845,215)
Net position, beginning of year	167,533,019	176,378,234
Net position, end of year	\$ 162,535,082	167,533,019

See accompanying notes to financial statements.

**AURARIA HIGHER EDUCATION CENTER**

Discretely Presented Component Unit

Statements of Activities

Years ended June 30, 2014 and 2013

	2014			2013		
	Inn at Auraria LLC	The Auraria Foundation	Total	Inn at Auraria LLC	The Auraria Foundation	Total
Revenues and other support:						
Rental income	\$ 3,396,343	—	3,396,343	3,079,112	—	3,079,112
Investment income	50,940	429,143	480,083	84	302,975	303,059
Miscellaneous income	297,981	49,998	347,979	428,858	49,998	478,856
Total revenues and other support	<u>3,745,264</u>	<u>479,141</u>	<u>4,224,405</u>	<u>3,508,054</u>	<u>352,973</u>	<u>3,861,027</u>
Expenses:						
Inn at Auraria LLC operations	3,847,487	—	3,847,487	4,462,035	—	4,462,035
Donations to AHEC	—	179,998	179,998	—	448,262	448,262
General and administrative	734,058	57,022	791,080	438,296	54,772	493,068
Total operating expenses	<u>4,581,545</u>	<u>237,020</u>	<u>4,818,565</u>	<u>4,900,331</u>	<u>503,034</u>	<u>5,403,365</u>
Decrease in net assets before write off	<u>(836,281)</u>	<u>242,121</u>	<u>(594,160)</u>	<u>(1,392,277)</u>	<u>(150,061)</u>	<u>(1,542,338)</u>
Write off of intercompany accounts:						
Advance to Inn at Auraria, LLC	454,176	—	454,176	—	—	—
Due to The Auraria Foundation	—	(454,176)	(454,176)	—	—	—
Change in net assets	<u>(382,105)</u>	<u>(212,055)</u>	<u>(594,160)</u>	<u>(1,392,277)</u>	<u>(150,061)</u>	<u>(1,542,338)</u>
Unrestricted net assets (deficit), beginning of year	<u>(13,453,815)</u>	<u>3,752,247</u>	<u>(9,701,568)</u>	<u>(12,061,538)</u>	<u>3,902,308</u>	<u>(8,159,230)</u>
Unrestricted net assets (deficit), end of year	<u>\$ (13,835,920)</u>	<u>3,540,192</u>	<u>(10,295,728)</u>	<u>(13,453,815)</u>	<u>3,752,247</u>	<u>(9,701,568)</u>

See accompanying notes to financial statements.

**AURARIA HIGHER EDUCATION CENTER**

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Cash received:		
Student fees	\$ 5,361,995	5,286,003
Revenue from constituent institutions	23,829,244	20,495,985
Sales of products and services	32,297,849	33,144,690
Cash payments:		
Payments for employees	(32,979,253)	(21,403,572)
Payments to suppliers	(21,040,115)	(29,467,863)
Net cash provided by operating activities	7,469,720	8,055,243
Cash flows from capital and related financing activities:		
Proceeds from capital debt	—	34,864,872
Acquisition and construction of capital assets	(16,091,924)	(1,865,092)
Principal received on notes receivable	736,505	703,028
Principal paid on debt refunding	—	(15,300,000)
Principal paid on long-term debt	(5,564,044)	(5,758,483)
Interest paid on long-term debt	(4,513,279)	(4,843,846)
Net cash provided by (used in) capital and related financing activities	(25,432,742)	7,800,479
Cash flows from investing activities:		
Sales of investments	59,691	83,404
Investment income	418,674	27,565
Net cash provided by investing activities	478,365	110,969
Net increase (decrease) in cash and cash equivalents	(17,484,657)	15,966,691
Cash and cash equivalents, beginning of year	44,278,769	28,312,078
Cash and cash equivalents, end of year	\$ 26,794,112	44,278,769

**AURARIA HIGHER EDUCATION CENTER**

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Reconciliation of operating loss to net cash provided by		
Operating activities:		
Operating loss	\$ (2,373,402)	(1,886,604)
Adjustments to reconcile operating loss to net cash		
provided by operating activities:		
Depreciation	12,530,124	12,464,603
Bad debt expense	(683,787)	77,740
Supplies and materials purchased with state funds	113,156	—
Decrease (increase) in assets:		
Accounts receivable	(1,481,000)	(1,646,584)
Inventories	351,651	304,846
Prepaid expenses	(33,238)	(16,162)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	540,475	(1,507,290)
Unearned revenues	(137,228)	324,735
Compensated absences liability	88,906	21,022
Deposits held for others	(1,445,937)	(81,063)
Net cash provided by operating activities	\$ 7,469,720	8,055,243
Noncash operating and capital activities:		
Acquisitions under capital lease arrangements:		
Capital assets:		
Notes receivable	\$ —	662,167
Acquisitions and construction of capital assets funded by:		
State capital contributions received	1,942,747	2,470,050
State capital contributions returned	(7,022)	(4,057,438)
State note receivable	—	(662,167)
Reduction in capital assets for disposal of copier equipment	—	(36,817)
Supplemental cash flow information:		
Accounts payable related to capital asset purchases	\$ 1,870,856	399,930
Parking Bond Funding used to construct new garage	15,206,971	—

See accompanying notes to financial statements.



## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements

June 30, 2014 and 2013

#### (1) Summary of Significant Accounting Policies

##### (a) *Nature of Operations*

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

The financial statements of the Center, which is an institution of higher education of the State, are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of the Center. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Financial results for the State are presented in separate state-wide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in these state-wide financial statements.

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

##### (b) *Basis of Accounting and Presentation*

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

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

## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements

June 30, 2014 and 2013

establish fees and charges designed to recover its costs, including capital costs such as depreciation and debt service.

Effective June 30, 2013, the Center adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. Accordingly, the financial statements of the Auraria Foundation (the Foundation) are included with the Center's financial statements. The Foundation is the sole member of the Inn at Auraria, LLC (the Inn) that is a limited liability corporation that is legally, financially, and operationally independent of the Foundation. For financial reporting purposes, the Inn is consolidated into the Foundation's reporting entity. The Foundation is a private, nonprofit organization that reports under Financial Accounting Standards Board standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Center's financial reporting entity for these differences. A complete copy of the Foundation's financial statements can be obtained by contacting: Auraria Foundation, Box 173361 Campus Box A, Denver, Colorado 80217-3361.

During the fiscal year ended June 30, 2013, the Center implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was effective for financial statements for periods beginning after December 15, 2012, and the Center early implemented GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012. These standards provide financial reporting guidance for deferred outflows and deferred inflows of resources; rename the residual of all financial statements elements as net position; and establish accounting standards to reclassify, as deferred outflows or inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities.

**Future Accounting Change:** The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (Statement No. 68), which revises and established new financial reporting requirements for most governments that provide their employees with pension benefits. The Center provides certain of its employees with pension benefits through the state's multiple employer cost sharing PERA defined benefit retirement program. Statement No. 68 requires cost sharing employers participating in the PERA program, such as the Center, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The Center has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact the Center's future unrestricted net position. Statement No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of the impact of this new accounting standard. Information regarding PERA's current funding status can be found in its Comprehensive Annual Financial Report.

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements

June 30, 2014 and 2013

**(c) Use of Estimates**

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

**(d) Cash Equivalents**

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, cash and cash equivalents and restricted cash and cash equivalents consisted primarily of U.S. Treasury money market funds, certificates of deposit, cash on hand, and amounts on deposit with the Colorado State Treasurer (the Treasurer).

**(e) Investments and Investment Income**

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

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

**(f) Restricted Cash and Cash Equivalents and Restricted Investments**

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

**(g) Accounts Receivable, Net**

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

	<b>2014</b>	<b>2013</b>
Constituent institutions	\$ 6,193,469	3,491,142
State of Colorado central collections	661,376	768,104
Book Center credit memos due from vendors	892,467	310,207
Auxiliary enterprises	503,507	584,618
Auraria Foundation	—	441,927
Other	237,004	747,145
	8,487,823	6,343,143
Less allowance for doubtful accounts	(747,489)	(852,915)
Accounts receivable, net	\$ 7,740,334	5,490,228

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

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements

June 30, 2014 and 2013

uncollectible are charged to the allowance in the year they are deemed uncollectible. Accounts receivable are considered to be past due based on contractual terms.

**(h) Notes Receivable**

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

Notes receivable consist of the following at June 30:

	<b>2014</b>	<b>2013</b>
Science building – receivable from constituent institutions, current	\$ 774,765	736,505
Total current	774,765	736,505
Science building – receivable from constituent institutions, long term	14,605,045	15,379,810
Total notes receivable	\$ 15,379,810	16,116,315

The notes receivable balances are considered to be fully collectible as of June 30, 2014 and 2013.

**(i) Inventories**

The Campus provides an academic bookstore utilized by the three constituent institutions, consisting of new and used textbooks, insignia items, apparel, electronics, convenience items, and other supplies. The Center is responsible for managing and maintaining the bookstore and carries the inventory at the lower of retail or cost method. Provisions are made for obsolete inventory on a periodic basis. Provisions recorded for the years ended June 30, 2014 and 2013 totaled \$219,506 and \$188,096, respectively.

**(j) Capital Assets, Net**

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

Land improvements	20 years
Buildings and improvements	20–40 years
Equipment	3–22 years

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements

June 30, 2014 and 2013

The following is the capitalization threshold used by the Center:

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

Capital leases consist of direct financing leases, in which the Center is the lessor with the constituent institutions in relation to the Science Building.

The Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. As of June 30, 2014 and 2013, capitalized interest amounted to \$0 and \$305,454, respectively.

**(k) *Prepaid Bond Costs and Premiums and Discounts***

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

**(l) *Deferred Outflows of Resources***

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

**(m) *Accrued Salaries***

State Senate Bill 03-197 requires salaries that would normally be paid at the end of June to be paid in July. In FY 2013, State House Bill 12-1246 was implemented, which excluded bi-weekly payroll amounts from this requirement. This resulted in an accrual of \$1,650,635 and \$1,395,199 that were included in accounts payable and accrued liabilities at June 30, 2014 and 2013, respectively.

**(n) *Compensated Absences***

Center employees may accrue annual and sick leave based on length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested at June 30, 2014 and 2013 is \$1,491,310 and \$1,402,403, respectively. Operating expenses for the years ended June 30, 2014 and 2013 include \$88,907 and \$21,022, respectively, representing the annual increase in the estimated compensated absences liability.

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements

June 30, 2014 and 2013

**(o) Unearned Revenue**

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

	<b>2014</b>	<b>2013</b>
Student fees for the summer semester	\$ 338,970	368,400
Childcare tuition collected in advance	11,129	6,137
Foundation Grant – Campus Signage Project	22,000	123,870
Early Learning Center grants	50,000	50,000
Community Campus Improvement Grants	1,250	—
Deferred maintenance	735,064	643,014
Parking	—	2,981
Tivoli prepaid rents	582	1,565
Facilities Services Project Services	2,720	45,083
Lot I Modular build-out fee	329,541	387,434
	\$ 1,491,256	1,628,484

**(p) Classification of Revenues and Expenses**

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

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

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

**(q) Functional Allocation of Expenses**

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

**(r) Income Taxes**

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

## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements

June 30, 2014 and 2013

All income in fiscal years 2014 and 2013 was earned in the exercise of the Center's essential government functions.

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

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

At June 30, 2014 and 2013, the carrying value of the Center's deposits was \$26,729,082 and \$44,278,769, respectively. Balances consist of deposits with the Treasurer, as described below, \$11,846,414 and \$4,307,517 in bank deposits, and \$63,864 and \$70,446 of cash on hand, respectively. The bank balances classified by custodial credit risk category are covered 100% by federal depository insurance or by collateral held by the pledging institutions' trust departments in the name of the state public deposit pool as required by the Public Deposit Protection Act.

##### (b) *Investments*

The Center deposits its cash with the Treasurer as required by C.R.S. The Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited with the Treasury are invested until the cash is needed. Earnings are allocated in proportion to the average daily cash balance for all participants in the pool. As of June 30, 2014 and 2013, the Center had cash on deposit, including restricted cash and cash equivalents, with the Treasurer of \$14,883,835 and \$39,900,806, respectively, which represented approximately 0.20% of the total \$7,455.0 million and 0.55% of the total \$7,260.8 million, respectively, in deposits in the Treasurer's Pool (Pool).

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

For the Center's deposits with the Treasurer, the net unrealized gains for fiscal year 2014 and 2013 were \$65,031 and \$65,667, respectively. These unrealized gains are included in cash and cash equivalents on the statements of net position.

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

Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in either the Center's or the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agency but not held in the Center's or the State's name. As of June 30, 2014 and 2013, the Center has no investments that are subject to custodial risk.

##### (d) *Credit Quality Risk*

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for

## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements

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many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. The State requires two ratings with the rating level set by the investment portfolio and investment type. Based on these parameters, as of June 30, 2014 and 2013, approximately 87.0% and 88.5%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for \$15,235,458 and \$41,074,270 in 2014 and 2013, respectively, of corporate bonds rated lower-medium and \$25,428,000 of corporate bonds rated very speculative, these investments are rated from upper-medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

(e) ***Interest Rate Risk***

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. The Center does not have a formal investment policy, but manages various elements of investment risk by keeping a majority of investments within the State Treasury Pool, which falls under the Treasurer's investment policy, and maintains other investments in low-risk securities with high-credit ratings when purchased.

In addition to statutory limitations on the types of investments, the Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. The weighted average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in terms of years, weighted to reflect the dollar size of individual investments within an investment type. The overall portfolio WAM is derived by dollar weighting the WAM for each investment type. The State has selected WAM as the primary method for reporting interest rate risk. As of June 30, 2014, the WAM of investments in the Pool is 0.043 years for commercial paper (1.0% of the Pool), 1.424 years for U.S. government securities (55.8% of the Pool), 3.033 years for asset-backed securities (19.9% of the Pool), and 2.766 years for corporate bonds (23.3% of the Pool). As of June 30, 2013, the WAM of investments in the Pool is 0.037 years for commercial paper (1.0% of the Pool), 1.321 years for U.S. government securities (63.9% of the Pool), 3.371 years for asset-backed securities (16.0% of the Pool), and 3.100 years for corporate bonds (19.1% of the Pool).

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2014 or 2013.



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The following table lists the Center's investments, by investment type, as of June 30, 2014 and 2013 for those investments not part of the Pool. The fair value amount is shown along with the credit quality rating and WAM:

<u>Investment type</u>	<u>Fair value amount</u>	<u>Credit rating</u>	<u>Weighted average maturity</u>
June 30, 2014:			
U.S. government agencies – explicitly guaranteed	\$ 2,682,651	Not rated	Not available
Commercial paper	<u>2,002,095</u>	Highest	0.5000
Total investments	<u>\$ 4,684,746</u>		
June 30, 2013:			
U.S. government agencies – explicitly guaranteed	\$ 2,730,570	Not rated	Not available
Commercial paper	<u>2,001,776</u>	Highest	0.4972
Total investments	<u>\$ 4,732,346</u>		

**(f) Investment Income**

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

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 442,858	451,076
Net decrease in fair value of investments	<u>(12,092)</u>	<u>(211,756)</u>
	<u>\$ 430,766</u>	<u>239,320</u>

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**(3) Capital Assets**

Capital asset activity for the year ended June 30, 2014 is as follows:

	<b>Beginning balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending balance</b>
Land	\$ 27,895,650	—	—	—	27,895,650
Land improvements	24,162,884	—	—	481,059	24,643,943
Buildings and improvements	350,366,196	—	(4,703)	208,607	350,570,100
Equipment	7,816,314	153,404	(202,461)	1,083,227	8,850,484
Construction in progress, net	2,728,633	19,957,072	(115,242)	(1,772,893)	20,797,570
Total capital assets	<u>412,969,677</u>	<u>20,110,476</u>	<u>(322,406)</u>	<u>—</u>	<u>432,757,747</u>
Less accumulated depreciation:					
Land improvements	18,001,539	680,330	—	—	18,681,869
Buildings and improvements	163,922,537	11,294,997	(4,190)	—	175,213,344
Equipment	4,771,841	554,797	(202,460)	—	5,124,178
Total accumulated depreciation	<u>186,695,917</u>	<u>12,530,124</u>	<u>(206,650)</u>	<u>—</u>	<u>199,019,391</u>
Total capital assets, net	<u>\$ 226,273,760</u>	<u>7,580,352</u>	<u>(115,756)</u>	<u>—</u>	<u>233,738,356</u>

As of June 30, 2014, the construction in progress primarily consists of the 5th Street Parking Garage, Fire Sprinkler System, Auraria Library Renovation, ADA Access for the 10th Street Pedestrian Corridor, Systems in progress, and smaller internal building improvement projects. As of June 30, 2013, the construction in progress primarily consists of the Fire Sprinkler System, 5th Street Parking Garage, Infrastructure project and the 9th Street Roofing project, respectively.

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Notes to Financial Statements

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

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

**(4) Deferred Outflows of Resources**

The deferred outflows of resources represent the remaining unamortized deferral balances from losses on refundings of debt. The balances of \$1,319,985 and \$1,435,501 as of June 30, 2014 and 2013, respectively, are included within the net investment in capital assets component of net position.

A summary of deferred outflows of resources as of June 30, 2014 and 2013 is as follows:

	<b>2014</b>	<b>2013</b>
Deferred refunding – Series 2005 Admin COP	\$ 667,190	714,010
Deferred refunding – Series 2006 Student Fee Bonds	196,382	225,121
Deferred refunding – Series 2006 Parking Bonds	301,869	327,560
Deferred refunding – Series 2013 Student Fee Bonds	154,544	168,810
	<b>\$ 1,319,985</b>	<b>1,435,501</b>

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Notes to Financial Statements

June 30, 2014 and 2013

**(5) Long-Term Debt**

The following is a summary of long-term debt for the Center for the year ended June 30, 2014:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Revenue bonds payable:					
Series 2004 parking	\$ 23,000,682	764,519	(1,605,000)	22,160,201	1,610,000
Series 2006 parking	7,150,550	—	(380,435)	6,770,115	395,000
Series 2006 student fee	10,996,509	1,722	(1,195,000)	9,803,231	1,245,000
Series 2013 student fee	18,348,874	—	(455,609)	17,893,265	485,000
Series 2013A parking	<u>16,479,129</u>	<u>—</u>	<u>(38,512)</u>	<u>16,440,617</u>	<u>55,000</u>
Total revenue bonds payable	<u>75,975,744</u>	<u>766,241</u>	<u>(3,674,556)</u>	<u>73,067,429</u>	<u>3,790,000</u>
Capital lease obligations:					
Administration facility, Series 2005	13,280,065	1,344	(665,000)	12,616,409	690,000
Land acquisition, Series 2008	13,932,557	2,496	(600,000)	13,335,053	635,000
State capital construction financing, Series 2008	<u>16,879,383</u>	<u>—</u>	<u>(774,044)</u>	<u>16,105,339</u>	<u>811,547</u>
Total capital lease obligations	<u>44,092,005</u>	<u>3,840</u>	<u>(2,039,044)</u>	<u>42,056,801</u>	<u>2,136,547</u>
Total long-term debt	<u>\$ 120,067,749</u>	<u>770,081</u>	<u>(5,713,600)</u>	<u>115,124,230</u>	<u>5,926,547</u>

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Notes to Financial Statements

June 30, 2014 and 2013

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

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

**(a) Revenue Bonds Payable**

The Center had the following bonds outstanding at June 30, 2014:

- Parking Enterprise Revenue Refunding Bonds, Series 2004 (Series 2004 Parking Bonds)
- Parking Enterprise Revenue Refunding Bonds, Series 2006 (Series 2006 Parking Bonds)
- Student Fee Revenue Refunding Bonds, Series 2006 (Series 2006 Student Fee Bonds)
- Student Fee Revenue Refunding Bonds, Series 2013 (Series 2013 Student Fee Bonds)
- Parking Enterprise Revenue Bonds, Series 2013A (Series 2013A Parking Bonds)

**(b) Series 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.

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Interest on the Series 2004A bonds is payable in semiannual installments commencing on April 1, 2004. The principal amount of \$6,550,000 is payable in two annual installments of \$2,220,000 and \$4,330,000 due on April 1, 2028 and 2029, respectively. The Series 2004B Bonds accrete in value from the date of issuance, compounding semiannually, beginning April 1, 2004. Principal payments began on April 1, 2012 and range from \$75,000 to \$2,295,000. Interest payments also began on April 1, 2012 and range from 3.6% to 5.2%. 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, 2014 and 2013, the Series 2004 Parking Bonds accreted interest of \$760,433 and \$786,515, respectively. The Bonds are shown net of a discount of \$55,495 and \$59,581, respectively, and have related prepaid bond costs \$126,591 and \$135,222, respectively.

(c) ***Series 2006 Parking Bonds***

On April 20, 2006, the Center issued Series 2006 Parking Bonds in the amount of \$7,565,000 for the purpose of advance refunding \$7,020,000 in Series 2000 Parking Bonds. The Center refunded those bonds by placing the proceeds of the Series 2006 Parking Bonds and amounts held in reserve related to the Series 2000 Bonds (total: \$7,281,623) in an irrevocable trust to provide for the early redemption of the Series 2000 Bonds. The Series 2000 Parking Bonds were redeemed on April 1, 2010. As a result, the Series 2000 Bonds are considered defeased and the liability for those bonds has been removed from the Center's statements of net position.

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

The Series 2006 Bonds are payable in semiannual installments with annual principal payments beginning on April 1, 2012 ranging from \$55,000 to \$1,335,000 and interest ranging from 4.0% to 4.5%. The final installment is due April 1, 2026. The Series 2006 Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2014 and 2013, the Series 2006 Bonds are shown net of a premium of \$5,115 and \$5,550, respectively, an unamortized deferred loss on refunding of \$301,869 and \$327,560, respectively, and have related prepaid bond costs of \$45,069 and \$48,905, respectively.

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### Notes to Financial Statements

June 30, 2014 and 2013

**(d) Series 2006 Student Fee Bonds**

On February 16, 2006, the Center issued \$15,315,000 in Series 2006 Bonds for the purpose of advance refunding \$18,030,000 of Student Fee 1996 Refunding Bonds. These bonds were redeemed on May 1, 2006. As a result, the Series 1996 Bonds are considered defeased and the liability for those bonds has been removed from the Center's statements of net position. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$435,873, and was recorded as a loss on the refunding of the bonds. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources and is being charged to operations through the fiscal 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% to 4.1%. The final installment is due April 1, 2021. The Series 2006 Student Bonds are collateralized by revenues from student fees assessed for student facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2014 and 2013, the Series 2006 Bonds are shown net of a discount of \$11,769 and \$13,491, respectively, an unamortized deferred loss on refunding of \$196,382 and \$225,121, respectively, and have related prepaid bond costs of \$56,360 and \$64,607, respectively.

**(e) Series 2013 Student Fee Bonds**

On March 7, 2013, the Center issued \$17,040,000 in Series 2013 Bonds for the purpose of current refunding \$15,851,887 of Series 2003 Student Fee Revenue Bonds. These bonds were redeemed on May 1, 2013. As a result, the Series 2003 Bonds are considered defeased and the liability for those bonds has been removed from the Center's statements of net position. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$173,565, and was recorded as a loss on the refunding of the bonds. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources and is being charged to operations through the fiscal year 2025. Bonds maturing on or after May 1, 2024 can be called for redemption at the option of the Center's board of directors on or after May 1, 2023 as a whole or in part on any interest payment date, at a redemption price equal to the principal amount of the bonds redeemed, plus accrued interest to the redemption date.

The Center completed the current refunding to reduce its total debt service payments by \$1,618,461 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,583,423.

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### Notes to Financial Statements

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The Series 2013 Bonds are payable in semiannual installments with annual principal payments ranging from \$345,000 to \$4,550,000 and interest ranging from 2.5% to 4.0%. The final installment is due May 1, 2025. The Series 2013 Student Bonds are collateralized by revenues from student fees assessed for student facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2014 and 2013, the Series 2013 Bonds are shown net of a premium of \$1,198,265 and \$1,308,874, respectively, an unamortized deferred loss on refunding of \$154,544 and \$168,810, respectively.

*(f) Series 2013A Parking Bonds*

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

At June 30, 2014, the Series 2013A Parking Revenue Bonds are shown net of a premium of \$760,617 and \$799,129, respectively, and have related prepaid bond costs of \$123,658 and \$129,919.



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Notes to Financial Statements

June 30, 2014 and 2013

(g) ***Bond Maturity Schedule***

Debt service to maturity for all bonds as of June 30, 2014 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2015	\$ 3,790,000	2,202,626	5,992,626
2016	3,870,000	2,120,388	5,990,388
2017	4,105,000	2,035,939	6,140,939
2018	4,205,000	1,943,889	6,148,889
2019	4,305,000	1,851,538	6,156,538
2020–2024	23,230,000	7,537,918	30,767,918
2025–2029	19,105,000	4,816,160	23,921,160
2030–2034	14,490,000	2,049,500	16,539,500
	<u>77,100,000</u>	<u>24,557,958</u>	<u>101,657,958</u>
Add premiums, net of discounts	1,896,732	—	1,896,732
Less unaccreted principal on Series 2004 Parking Bonds	<u>(5,929,303)</u>	<u>—</u>	<u>(5,929,303)</u>
	<u>\$ 73,067,429</u>	<u>24,557,958</u>	<u>97,625,387</u>

Reserve balances and requirements for outstanding bond issues at June 30, 2014 are as follows:

	<u>Reserve balance</u>	<u>Required reserve</u>
Series 2004, Series 2006 and Series 2013 Parking Bonds:		
Debt service reserve	\$ 2,719,300	2,712,740
Repair and replacement reserve	836,620	832,990
Series 2006 and 2013 Student Fee Bonds:		
Debt service reserve	\$ 1,857,573	1,838,574
Repair, replacement, and operation and maintenance reserve	350,000	350,000

As of June 30, 2014 and 2013, the Center was in compliance with all bond covenants and related reserve requirements.

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Student bond fees and parking revenues were pledged as follows:

	<b>2014</b>	<b>2013</b>
Revenue source:		
Student fees pledged for bond payments	\$ 5,262,890	5,588,157
Interest earned on student fees pledged for bond payments	19,317	23,010
Parking revenue	9,414,496	9,391,976
Interest earned on parking revenue	292,985	264,674
Total pledged revenue	\$ 14,989,688	15,267,817

**(h) Capitalized Leases**

The Center is obligated under leases accounted for as capital leases. Assets under capital leases are included in the statements of net position at June 30, 2014 and 2013 as follows:

	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
June 30, 2014:			
Administrative building	\$ 15,518,172	8,195,918	7,322,254
Land	14,983,536	—	14,983,536
Science building	97,807,826	14,056,695	83,751,131
Science building equipment	1,050,330	440,357	609,973
Total capitalized leases	\$ 129,359,864	22,692,970	106,666,894
June 30, 2013:			
Administrative building	\$ 15,518,172	7,675,135	7,843,037
Land	14,983,536	—	14,983,536
Science building	97,807,826	10,867,982	86,939,844
Science building equipment	1,050,330	357,127	693,203
Total capitalized leases	\$ 129,359,864	18,900,244	110,459,620

**(i) Administrative Facility Series 2005**

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

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On September 29, 2005, the Center issued Series 2005 Certificates of Participation (Administrative Office Facility Refunding Project) in the amount of \$17,520,000 for the purpose of advance refunding the 1998 Administrative Facility Certificates. The 1998 Administrative Facility Certificates were fully redeemed on May 1, 2008.

The advance refunding of the 1998 Administrative Facility Certificates resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,422,087, and was recorded as a loss on the refunding of the certificates. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources and is being charged to operations through the year 2028. The Center completed the advance refunding to reduce its total debt service payments by \$722,936 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$704,397.

The Series 2005 Certificates are payable in semiannual installments with annual principal payments ranging from \$145,000 to \$1,170,000, maturing on May 1, 2028, and have interest rates ranging from 3.3% to 4.5%.

At June 30, 2014 and 2013, the Administrative Facility Certificates are shown net of an unamortized discount of \$18,592 and \$19,935, respectively, an unamortized deferred loss on refunding of \$667,190 and \$714,010, respectively, and related prepaid bond costs of \$87,755 and \$94,099, respectively.

**(j) Land Acquisition Series 2008**

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

Effective November 1, 2013, based on the provisions of a Memorandum of Understanding entered into August 24, 2011 by the three constituent institutions and the Center, which amends and supplements the original leased property agreement, MSU Denver assumed responsibility for the entire 50% institutional share of the costs of the land debt service, while the Center will continue to fund the other 50% of debt service costs. MSU Denver assumed CU Denver and CCD's obligation under the original lease property agreement in exchange for paying for their respective shares of the \$3 million electrical infrastructure upgrade that was completed in March 2014, and was critical to the ongoing campus-wide building expansion defined in the Campus Master Plan.

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

At June 30, 2014 and 2013, the Series 2008 Land Acquisition Certificates are shown net of an unamortized discount of \$34,946 and \$37,442, respectively.

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

On November 6, 2008, the Treasurer completed a lease purchase agreement under which a Trustee (Wells Fargo Bank, National Association) issued \$230,845,000 of State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 (the Certificates). The Certificates were issued at a net premium of \$180,940 and were a combination of serial and term maturities with the final maturity in November 2027. The Certificates carry coupon rates ranging from 3.00% to 5.50% with a total interest cost of 5.40%. The Certificate proceeds will be used to fund renovations, additions, and new construction at 12 state institutions of higher education and are collateralized with existing properties at 11 of the 12 institutions. C.R.S. § 23-1-106.3 enacted in the 2008 session of the Colorado State General Assembly authorized the lease purchase and limited the lease payments to average \$16.2 million for the first 10 years and \$16.8 million for the second 10 years. The legislation envisions annual appropriations of Federal Mineral Lease program (FML) revenues to fund the semiannual lease payments required. Annual lease payments are made by the State and are subject to annual appropriations by the Legislature. As a result, the portion of the liability related to the Center of \$63,619,181 is recognized by the State and not included in the Center's financial statements.

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

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

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**(l) Future Minimum Lease Payments**

The following is a schedule of future minimum lease payments under all capital leases for the year ended June 30, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2015	\$ 2,136,547	2,170,141	4,306,688
2016	2,239,922	2,066,691	4,306,613
2017	2,350,913	1,955,224	4,306,137
2018	2,471,266	1,836,547	4,307,813
2019	2,589,001	1,716,748	4,305,749
2020–2024	15,097,606	6,428,407	21,526,013
2025–2029	15,225,085	1,995,740	17,220,825
	<u>42,110,340</u>	<u>18,169,498</u>	<u>60,279,838</u>
Less unamortized discount	<u>(53,538)</u>	<u>—</u>	<u>(53,538)</u>
	<u>\$ 42,056,802</u>	<u>18,169,498</u>	<u>60,226,300</u>

**(m) Ground Leases**

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

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

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

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

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

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

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

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

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

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

#### **(6) State Contributions and Allocations from Other State Agencies**

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

For the year ended June 30, 2014, appropriated current fund expenditures were within the authorized spending authority. The Center had total current funds appropriations of \$17,670,252 for which the constituent institutions funded \$17,670,252 plus an additional \$9,059. The constituent institutions also provided nonappropriated funding of \$1,900,000 for various deferred maintenance projects. An additional amount of \$1,569,146 was provided by MSU Denver and CU Denver in lease payments related to the

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financed portion of the Science Building Project. MSU Denver provided additional nonappropriated funding of \$719,017 to fund a portion of the debt service payments on the additional 13 acres of land purchased in December 2008.

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

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

#### (7) **The Auraria Foundation and Inn at Auraria LLC**

##### (a) *The Auraria Foundation*

The Foundation is a legally separate, tax-exempt component unit of the Center. The Foundation was organized and incorporated in 1983 for the purpose of receiving gifts, legacies, and grants of money and property and administering those exclusively for educational purposes entirely benefiting the Center and its constituent institutions. Although the Center does not control the timing or amount of receipts from the Foundation, the majority of resources that the Foundation holds and invests are restricted to the activities of the Center. Therefore, the Foundation is considered a component unit of the Center and is discretely presented in the Center's financial statements. The Vice Chairman of the board of directors of the Center and the Center's Executive Vice President of Administration serve on the Foundation's 10-person board of directors.

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

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

In June 2013, the Center billed the Foundation \$441,927 for four campus projects the Foundation agreed to fund: Monument Signs (\$314,677); Campus Signage Development (\$25,000); Larimer Banner Project (\$100,000); and 9th Street Park Signage (\$2,250). As of June 30, 2014, the Center expended \$419,927 of those funds. The Foundation paid the Center in July 2013.

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The Foundation has a contract with the Center under which the Center provides services for the Foundation. Under that agreement, the Foundation paid the Center \$2,000 and \$2,000, respectively, for the years ended June 30, 2014 and 2013. In addition, the Foundation paid the Center \$1,498 and \$1,485 during fiscal years 2014 and 2013, respectively, for room rentals and reimbursements.

**(b) *Inn at Auraria LLC***

The Inn is a limited liability corporation that is legally, financially, and operationally independent of the Foundation and the Center. The Foundation is the sole member of the Inn. The Inn was created to provide housing for the students of the Auraria institutions. In July 2005, the Inn received a \$37,280,000 loan from the Colorado Educational and Cultural Facilities Authority through the issuance of long-term serial bonds and purchased the top 14 floors (floors 17 through 30) of the former Executive Tower Inn building to create 125-apartment-style units to provide housing for 439 students. The Executive Tower Inn was built in 1972 and is located in downtown Denver, Colorado, a few blocks from the Campus. The facility opened to student residents on August 19, 2006. The Executive Tower Inn building is condominiumized between the Inn and the remainder of the building. A condominium association provides common building services, such as elevator maintenance and exterior street-level maintenance, to the Inn's portion of the building as well as making a portion of the building's underground parking and athletic facilities available to students on a monthly rental basis. The Inn has engaged American Campus Communities to provide administrative and residential management services under an agreement expiring in August 2016. For the fiscal years ended June 30, 2014 and 2013, the Inn reported net losses of \$382,105 and \$1,392,277, respectively.

In November 2013, the Inn agreed to sell its property to a third party. The related property and equipment are classified as held-for-sale in the consolidated statements of financial position. The Foundation have consolidated and presented the Inn as a continuing component in their consolidated financial statements. Under accounting principles generally accepted in the United States of America (GAAP), the Entities should present the Inn as a discontinued component which would result in the presentation of the Inn's results of operations and discontinued cash flows from operating, investing, and financing activities as single line items in the consolidated statements of activities and consolidated statements of cash flows for the years ended June 30, 2014 and 2013. Due to the non-U.S. GAAP treatment of this matter, the consolidated financial statements received a qualified opinion as of June 30, 2014 and 2013. This means that except for the presentation of the Inn as a continuing component of the Foundation in the consolidated statements of activities, and consolidated statements of cash flows, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2014 and 2013, and the changes in net assets and cash flows for the years then ended in accordance with U.S. GAAP.

On July 15, 2014, the Inn sold the property for approximately \$36,000,000. In connection with the sale, a portion of the bond principal and accrued interest was paid off totaling approximately \$28,000,000 and \$6,000,000, respectively. The remaining unpaid principal balance totaling approximately \$9,000,000 was forgiven by bondholders. This resulted in a gain on sale of approximately \$7,000,000 and a gain on forgiveness of debt, net of bond issuance costs, of approximately \$8,400,000 that was recorded in July 2014.



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As a result of the sale, the Inn and the Foundation agreed to settle their related-party advance and due to in the amount of \$134,364. The remaining \$454,176 was written as of June 30, 2014. The Inn's remaining current assets and liabilities and restricted cash were settled or remitted to the purchaser upon closing on July 15, 2014.

The Inn is required to maintain rental rates sufficient to provide income to cover the debt service payments and has failed to meet this requirement for the years ending June 30, 2014 and 2013.

As of June 30, 2014 and 2013, the Inn was in default on its bonds payable. The Inn has been in default since July 1, 2008, and has received multiple default notifications. As of June 30, 2014, the past-due principal and interest balances total \$2,035,000 and \$6,101,038, respectively. As of June 30, 2013, the past-due principal and interest balances were \$1,520,000 and \$5,656,130, respectively.

In July 2011, the majority of the outstanding bonds were sold to a new investor. Concurrently, the bond trustee, at the direction of the majority bondholders, agreed to forbear from exercising its rights to appoint a receiver with respect to the Inn or to pursue any remedies available to it as a result of the default until December 31, 2012. The Inn subsequently entered into two successive six-month extensions through December 31, 2013. The forbearance agreement included certain financial and operating requirements and restrictions. Additionally, the agreement requires the Inn to maintain a net operating income of not less than \$150,000 for each designated two-month period. As of June 30, 2014 and 2013, management has determined that the Inn is in compliance with its minimum net operating income requirement. Upon the occurrence of a Forbearance Default, as defined in the forbearance agreement, the forbearance agreement will terminate immediately without any notice to the Inn, and the bondholders will have all remedies available to them under applicable agreements, including without limitation acceleration of the bonds or foreclosure of the property. As a result of the default, the bonds payable balances as of June 30, 2014 and 2013, totaling \$37,280,000, is classified as a current liability in the accompanying statements of financial position.

#### (8) Pension Plan

##### (a) Plan Description

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

Nonhigher education employees hired by the State after January 1, 2006 are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the State Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing

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employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

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

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

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

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

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more. Age plus years of service

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requirements increase to 85 for members with less than 5 years of service credit as of January 1, 2011.

- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15.0% increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

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

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

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

#### **(b) Funding Policy**

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

Most employees contribute 8.0% of their salary, as defined in C.R.S. 24-51-101(42), to an individual account in the plan. Effective July 1, 2012, the temporary contribution rate increase of 2.5% for

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members in the State and Judicial Divisions to replace the 2.5% reduction in employer contributions effective for fiscal years 2010-11 and 2011-12 expired.

From July 1, 2013, to December 31, 2013, the State contributed 16.55% of the employee's salary. From January 1, 2014, through June 30, 2014, the State contributed 17.45%. During all of fiscal year 2013-14, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2013, the division of PERA in which the State participates has a funded ratio of 57.5% and a 60-year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 61.0%.

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

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

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

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

The Center's contributions to the PERA and/or the State's defined contribution plan for the fiscal years ended June 30, 2014, 2013, and 2012 were \$2,396,958, 2,137,455, and \$1,655,210, respectively. These contributions met the contribution requirement for each year.

#### **(9) Other Retirement Plans**

##### **(a) *Defined Contribution Plan***

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50% to 100% evenly over 5 years. Participants in the plan are required to contribute 8% of their salary. The temporary contribution rate increase to 10.5% effective in fiscal years 2010-11 and 2011-12 expired on July 1, 2012. At December 31, 2013, the plan had 4,719 participants.

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**(b) *Deferred Compensation Plan***

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2013, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8.0% PERA contribution) to a maximum of \$17,500. The reduction for the 8.00% PERA contribution reflects the expiration of the temporary contribution rate increase to 10.5% effective in fiscal years 2010-11 and 2011-12. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2013, for total contributions of \$23,000. Contributions and earnings are tax deferred. At December 31, 2013, the plan had 17,462 participants.

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

**(10) Other Postemployment Benefits and Life Insurance**

**(a) *Healthcare Plan***

The PERA Health Care Program (the Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the Program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for healthcare coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

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

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in note 8. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The Center contributed \$140,109, \$131,734, and \$128,389 as required by statute in

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fiscal years 2014, 2013, and 2012, respectively. In each year, the amount contributed was 100% of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully insured plans offered through healthcare organizations and self-insured plans administered for PERA by third-party vendors. As of December 31, 2013, there were 53,041 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2013, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.26 billion, a funded ratio of 18.8%, and a 30-year amortization period.

#### **(b) Other Programs**

Nonclassified administrative staffs are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multi-employer insurance purchasing pool, which allows for postemployment health coverage until the retiree is eligible for Medicare. For fiscal years 2014 and 2013, the Center has no retiree participants under CHEIBA.

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

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

#### **(11) Land Condemnation**

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

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

Net proceeds from the land condemnation in the amount of \$1,491,120 are currently being held by Wells Fargo Bank, as trustee, until these funds are needed to pay the final debt service obligations on the Series 2008 Land Acquisition Certificates, with final maturity on May 1, 2028. These proceeds are included in restricted cash and cash equivalents at June 30, 2014 and 2013.

## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements

June 30, 2014 and 2013

#### **(12) Risk Management**

The Center is subject to risks of loss from liability for accident, property damage, and personal injury. These risks are managed by the State Division of Risk Management, an agency formed by statute and funded by the Long Bill. Therefore, the Center is not required to obtain additional insurance, and accordingly, no reduction occurred in coverage nor did any settlements exceed coverage. The Center does not retain risk of loss except for damage incurred to property belonging to the State, limited to a \$5,000 deductible per incident. This deductible rate has been effective since June 7, 2010, when HB-10-1181 was signed into law increasing the property loss claim deductible from \$1,000 to \$5,000 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 claims by the Doctrine of Sovereign Immunity except under certain circumstances in which immunity is waived.

#### **(13) Concentrations of Credit Risk**

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

#### **(14) Litigation**

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

#### **(15) Unspent Construction Proceeds – Science Building**

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

#### **(16) Subsequent Events**

On August 26, 2014, the Auraria Foundation's board of directors voted unanimously to approve a grant request for the Auraria Campus for the initial phase development of the Tivoli Park area in the amount of \$3.3 million. On September 24, 2014, this award and project plan was presented at the Auraria board of directors meeting. 50% of the grant moneys will be distributed on December 31, 2014 and the remaining 50% will be distributed to AHEC on June 30, 2015.

## AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2014 and 2013

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

**(a) *The Auraria Foundation***

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

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

**(b) *Inn at Auraria LLC***

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

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

**(2) Summary of Significant Accounting Policies**

**(a) *Sale of Property***

In November 2013, the Inn agreed to sell its property to a third party. The related property and equipment are classified as held-for-sale in the consolidated statements of financial position. The Entities have consolidated and presented the Inn as a continuing component in the accompanying consolidated financial statements. Under accounting principles generally accepted in the United States of America, the Entities should present the Inn as a discontinued component which would result in the presentation of the Inn's results of operations as single line items in the consolidated statements of activities for the years ended June 30, 2014 and 2013.

On July 15, 2014, the Inn sold the property for approximately \$36,000,000. In connection with the sale, a portion of the bond principal and accrued interest was paid off totaling approximately \$28,000,000 and \$6,000,000, respectively. The remaining unpaid principal balance totaling



## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2014 and 2013

approximately \$9,000,000 was forgiven by the bondholders. This resulted in a gain on sale of approximately \$7,000,000 and a gain on forgiveness of debt, net of bond issuance costs, of approximately \$8,400,000 that was recorded in July 2014.

As a result of the sale, the Inn and the Foundation agreed to settle their related party advance and due to in the amount of \$134,364. The remaining \$454,176 was written off as of June 30, 2014. The Inn's remaining current assets and liabilities and restricted cash were settled or remitted to the purchaser upon closing on July 15, 2014.

**(b) Basis of Consolidation**

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

**(c) Basis of Presentation**

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

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

Neither of the entities has any temporarily or permanently restricted net position at June 30, 2014.

**(d) Use of Estimates**

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

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2014 and 2013

**(e) Cash and Cash Equivalents**

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

**(f) Accounts Receivable**

Accounts receivable consist primarily of rent and other revenues earned but not received. Management determines the adequacy of the allowance for doubtful accounts based upon reviews of individual accounts, recent loss experience, current economic conditions and other pertinent factors. As of June 30, 2014 and 2013, the Inn had an allowance for doubtful accounts of \$22,528 and \$8,377, respectively.

**(g) Investments**

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

**(h) Property and Equipment**

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

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

Expenditures that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Depreciation expense for the years ended June 30, 2014 and 2013 totaled \$197 and \$393 for the Foundation and \$384,733 and \$1,031,990 for the Inn, respectively.

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

The Entities evaluate their investments in long-lived assets to assess whether impairment indicators are present that would impact the recovery of the investments' carrying value. An impairment is deemed to exist if the carrying value of the long-lived assets exceeds the sum of undiscounted cash flows. If such a situation occurs, the Entities will reduce the carrying value of the affected assets to the estimated fair value determined through an independent appraisal or other means and record an impairment loss in earnings. No indicators of impairment were noted for the year ended June 30, 2014 and 2013.

## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2014 and 2013

**(i) Property and Equipment Held for Sale**

Property and equipment is generally classified as held for sale once management has initiated an active program to market an asset for sale. Other assets and liabilities related to the real estate held for sale are recorded at the lower of their carrying amount or fair value less cost to sell.

**(j) Bond Issuance Costs**

Bond issuance costs consist of amounts paid to secure the bonds payable. The costs are amortized on a straight-line basis over the contractual term of the bonds. Accumulated amortization on bond issuance costs as of June 30, 2014 and 2013 totaled \$191,917 and \$170,593, respectively. Amortization expense for each year ended June 30, 2014 and 2013 totaled \$21,324.

**(k) Deferred Rental Income**

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

**(l) Deferred Rent Payable**

In accordance with ASC Topic 840, *Leases*, the Inn is required to recognize rent expense on a straight-line basis over the life of the lease. During the years ended June 30, 2014 and 2013, the rent recognized by the Inn on a straight-line basis is more than the rent that would have accrued in accordance with the lease terms by \$40,000 and \$3,333, respectively. At June 30, 2014 and 2013, the payable which results from recognizing rent on a straight-line basis totaled \$43,333 and \$3,333, respectively.

**(m) Revenue Recognition**

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

**(n) Contributed Property and Services**

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

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

**(o) Advertising and Marketing**

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

## AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2014 and 2013

**(p) *Income Tax Status***

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

The Entities' information returns are subject to review and examination by federal and state authorities. Information returns for years ended after June 30, 2010 are open to examination by those authorities. In certain circumstances, the statute of limitations may remain open indefinitely.

**(3) *Concentrations of Credit Risk***

Financial instruments that potentially subject the Entities to concentration of credit risk consist principally of cash deposited into three financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000. The management of the Foundation and the management of the Inn continue to monitor these balances to mitigate the exposure of risk due to concentration and have not experienced any losses from such concentration.

**(4) *Inn at Auraria LLC Accounts***

**(a) *Construction in Progress***

In accordance with the first renewal to the forbearance agreement, the Inn commenced additional construction improvements in 2013. Construction costs are shared with the adjacent owner of the Executive Tower Inn building based on a predetermined percentage. The Inn's share of construction costs total \$2,069,642. As of June 30, 2014, the Inn has incurred and paid construction costs totaling \$2,029,052. Construction was completed on August 22, 2013 and the improvements were simultaneously placed in service.

As of June 30, 2013, construction in progress totaled \$1,587,834.

**(b) *Bonds Payable***

In July 2014, in connection with the Inn's sale of the property, a portion of the bond principal and accrued interest was paid off totaling approximately \$28,000,000 and \$6,000,000, respectively. The remaining unpaid principal balance totaling approximately \$9,000,000 was forgiven by the bondholders.

In July 2005, the Inn received a loan through the Colorado Educational and Cultural Facilities Authority pursuant to the issuance of Series 2005A tax-exempt bonds in the amount of \$37,180,000 and Series 2005B taxable bonds in the amount of \$100,000. Interest on the Series 2005A bonds is payable semiannually at increasing rates ranging from 5.375% to 6%. Principal on the Series 2005A bonds is payable annually from July 1, 2008 through July 1, 2042 at increasing amounts. Interest on the Series 2005B bonds is payable semiannually at 6.5%. Principal on the Series 2005B bonds was due in full on July 1, 2009. The loan was collateralized by a mortgage on the property, the Inn's revenues from the facility and restricted cash and investment accounts. Under the terms of the bond

## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2014 and 2013

agreement, the Colorado Educational and Cultural Facilities Authority and The Auraria Foundation have no obligation for payment of bond principal or interest.

The Inn was required to maintain rental rates sufficient to provide income to cover the debt service payments and has failed to meet this requirement, thus being in default, for the years ending June 30, 2014 and 2013.

The Inn has been in default on its bonds payable since July 1, 2008, and has received multiple default notifications. As of June 30, 2014, the past due principal and interest balances total \$2,035,000 and \$6,101,038, respectively. As of June 30, 2013, the past due principal and interest balances total \$1,520,000 and \$5,656,130, respectively.

In July 2011, the majority of the outstanding bonds were sold to a new investor. Concurrently, the bond trustee, at the direction of the majority bondholders, agreed to forbear from exercising its rights to appoint a receiver with respect to the Inn or to pursue any remedies available to it as a result of the default until December 31, 2012. The Inn subsequently entered into two successive six-month extensions through December 31, 2013 and again entered into an additional two successive two-month extensions through May 1, 2014. The forbearance agreements include certain financial and operating requirements and restrictions. Additionally, the agreements require the Inn to maintain a net operating income of not less than \$150,000 for each designated two-month period.

As of June 30, 2014 and 2013, management determined that the Inn was in compliance with its minimum net operating income requirement. Upon the occurrence of a Forbearance Default, as defined in the forbearance agreements, the forbearance would have terminated immediately without any notice to the Inn, and the bondholders would have had all remedies available to them under applicable agreements, including without limitation acceleration of the bonds or foreclosure of the property. As a result of the default, the bonds payable balance as of June 30, 2014 and 2013, totaling \$37,280,000, is classified as a current liability.

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

**(c) Additional Nonrecourse Senior Debt**

In the event funds are not sufficient to pay for certain construction costs of the Inn, the Inn may borrow up to \$1,500,000 from the majority bondholders, subject to their approval. As of June 30, 2014 and 2013, no funds have been drawn on the additional senior debt.

**(d) Restricted Cash**

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

As a result of the Inn's sale of the property, the restricted cash was used to settle debt-related items at closing.

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2014 and 2013

**(e) Operating Lease**

On June 1, 2013, the Inn entered into a ten year noncancelable operating lease for space as required by the first forbearance extension agreement. The initial lease term was for ten years with two successive renewal terms of ten years each. As a result of the Inn’s sale of the property, this lease was terminated on July 15, 2014. The future minimum rental payments required under the operating lease are as follows for the years ending June 30:

2015	\$	1
2016		1
2017		1
2018		5,001
2019		60,833
Thereafter		334,167
	\$	400,004

Rent expense for the years ended June 30, 2014 and 2012 totaled \$55,116 and \$4,593, respectively.

**(5) The Auraria Foundation Accounts**

**(a) Fair Value of Investments**

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

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

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

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

- a. Quoted prices for similar assets or liabilities in active markets;
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active (that is, markets in which there are few transactions for the asset or liability, the prices are not current,

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2014 and 2013

price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly);

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

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

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

The following is a summary of the categories and inputs used by the Foundation to measure at fair value on a recurring basis the Foundation’s investments at June 30, 2014 and 2013:

		<b>June 30, 2014</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Short-term investments	\$	140,919	—	140,919
U.S. Treasury and corporate obligations		822,804	50,021	872,825
Equity securities		2,487,593	—	2,487,593
Totals	\$	<u>3,451,316</u>	<u>50,021</u>	<u>3,501,337</u>

  

		<b>June 30, 2013</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Short-term investments	\$	153,126	—	153,126
U.S. Treasury and corporate obligations		746,511	50,252	796,763
Equity securities		2,122,325	—	2,122,325
Totals	\$	<u>3,021,962</u>	<u>50,252</u>	<u>3,072,214</u>

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2014 and 2013

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

The Foundation’s financial assets are, for the most part, designated by the board of directors for the payment of the grants or as an endowment to fund future grants and projects. The balance in these accounts at June 30, 2014 and 2013 are as follows:

	<b>2014</b>	<b>2013</b>
Assets designated for future grants and projects:		
Investments	\$ 3,501,337	3,072,214
Operating cash:		
Checking account	14,737	29,069
Money market account	61,464	61,458
Totals	\$ 3,577,538	3,162,741

The following is a reconciliation of the ending balance of the Foundation’s investments measured at fair value on a recurring basis using Level 1 and Level 2 inputs for the year ended June 30, 2014:

Beginning balance, July 1, 2012	\$ 3,219,261
Withdrawal for provision of grants	(450,000)
Realized and unrealized gains on investments	302,953
Balance, June 30, 2013	3,072,214
Withdrawal for provision of grants	—
Realized and unrealized gains on investments	429,123
Ending balance, June 30, 2014	\$ 3,501,337

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

**(6) Related-Party Transactions**

In July 2005, after the Inn obtained the bond funding, the Foundation loaned the Inn \$250,000 to enable the Inn to make the required borrower contribution. The Foundation has made additional loans to the Inn through the payment of utility bills, property taxes and other expenses, which the Inn was unable to pay. The Foundation’s payments of these expenses on behalf of the Inn totaled \$588,540 as of June 30, 2013. As a result of the Inn’s sale of the property, the Inn and the Foundation agreed to settle the advances in the amount of \$134,364. The remaining \$454,176 was written off as of June 30, 2014. These amounts have been eliminated in these consolidated financial statements.



## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements – Discretely Presented Component Unit

June 30, 2014 and 2013

The Inn paid the Foundation \$49,998 in management fees during each of the years ended June 30, 2014 and 2013. These management fees have been eliminated in these consolidated financial statements.

During the years ended June 30, 2014 and 2013, the Foundation authorized grants to AHEC for projects related to campus signage and renovation of the performing arts center in the amount of \$175,000 and \$441,927, respectively. The grants were considered to be unconditional, and therefore, the expenses were recorded in the year granted. As of June 30, 2014, a total of \$175,000 in grant monies had not been disbursed.

In 2014 and 2013, the Foundation contracted with AHEC for the use of certain office facilities and services at an annual cost of \$2,000.

During the years ended June 30, 2014 and 2013, the Foundation contributed \$4,998 and \$6,335, respectively, to various activities of AHEC.

#### (7) Subsequent Events

The Entities have evaluated subsequent events through September 23, 2014, the date these financial statements were available for issuance. The Entities have identified the following subsequent event that requires disclosure under ASC Topic 855, *Subsequent Events*:

On July 15, 2014, the Inn sold the property for approximately \$36,000,000. In connection with the sale, a portion of the bond principal and accrued interest was paid off totaling approximately \$28,000,000 and \$6,000,000, respectively. The remaining unpaid principal balance totaling approximately \$9,000,000 was forgiven by the bondholders. This resulted in a gain on sale of approximately \$7,000,000 and a gain on forgiveness of debt, net of bond issuance costs, of approximately \$8,400,000 that was recorded in July 2014.

On August 26, 2014, the Foundation's board of directors unanimously approved a grant to AHEC in the amount of \$3,300,000 to fund improvements to Tivoli Park. 50% of the grant monies will be distributed on December 31, 2014 and the remaining 50% will be distributed to AHEC on June 30, 2015. This grant is intended to use the remaining investments of the Foundation and wind up their operations upon final delivery of all grant monies.



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

Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the Auraria Higher Education Center (the Center), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated November 4, 2014. Our report includes a reference to other auditors who audited the financial statements of the Auraria Foundation, a discretely presented component unit, as described in our report on the Center's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Our report stated that a qualified opinion was issued over the discretely presented component unit's reporting of discontinued operations as of June 30, 2014 and 2013. The Inn at Auraria, LLC (the Inn) sold all of its property and equipment for approximately \$36,000,000 in July 2014. The Foundation consolidated and presented the Inn as a continuing component in the accompanying consolidated financial statements as of June 30, 2014 and 2013. Under U.S. generally accepted accounting principles, the Foundation should present the Inn as a discontinued component, which would result in the presentation of the Inn's results of discontinued operations as single line items in the Statements of Activities for the years ended June 30, 2014 and 2013.

**Internal Control over Financial Reporting**

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

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



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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

**KPMG LLP**

Denver, Colorado  
November 4, 2014



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

November 4, 2014

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

Ladies and Gentlemen:

We have audited the financial statements of the business-type activities and the discretely presented component units of the Auraria Higher Education Center (the Center), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon dated of November 4, 2014. Our report was modified to include a reference to other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Auraria Foundation (the Foundation) discretely presented component unit and the Foundation's financial statements were not audited in accordance with *Government Auditing Standards*. Under our professional standards, we are providing you with the accompanying information related to the conduct of our 2013 audit.

#### **Our Responsibility under Professional Standards**

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

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



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the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

### **Other Information in Documents Containing Audited Financial Statements**

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

### **Accounting Practices and Alternative Treatments**

#### *Significant Accounting Policies*

The significant accounting policies used by the Center are described in note 1 to the financial statements.

#### *Unusual Transactions*

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

#### *Qualitative Aspects of Accounting Practices*

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

### **Management Judgments and Accounting Estimates**

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



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

### **Corrected Misstatements**

In connection with our audit of Center's financial statements, we identified an immaterial financial statement misstatement that has been corrected in AHEC's books and records as of and for the year ending June 30, 2014. The misstatement did not materially misstate the financial statements. See page 68 for a copy of the adjustment that has been discussed with management and corrected by AHEC. We have not identified any other material financial statement misstatements that have not been corrected in the Center's books and records as of and for the year ended June 30, 2014.

### **Uncorrected Misstatements**

In connection with our audit of the Center's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the Center's books and records as of and for the year ended June 30, 2014. We have reported such misstatements to management on a Summary of Unadjusted Audit Misstatements and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Page 69 includes a copy of the summary that has been provided to, and discussed with, management.

### **Disagreements with Management**

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

### **Management's Consultation with Other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2014.

### **Significant Issues Discussed, or Subject to Correspondence, with Management**

#### *Major Issues Discussed with Management prior to Retention*

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



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*Material Written Communications*

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

1. Engagement letter
2. Management representation letter

**Significant Difficulties Encountered during the Audit**

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

**Independence**

*Confirmation of Audit Independence*

We hereby confirm that as of November 4, 2014, we are independent accountants with respect to the University under relevant professional and regulatory standards.

\* \* \* \* \*

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

Very truly yours,

**KPMG LLP**

**AURARIA HIGHER EDUCATION CENTER**

Summary of Corrected Audit Misstatements

Year ended June 30, 2014

<u>Adj. No.</u>	<u>Description</u>	<u>Change in net position for adjusted audit differences arising in current period</u>	<u>Statement of net position</u>		
			<u>Net position</u>	<u>Assets</u>	<u>Liabilities</u>
1	Capital assets, net	\$ 1,759,335	—	1,759,335	
	Accounts payable	(1,759,335)	—	—	1,759,335
	<i>To accrue for construction in progress that was incurred in fiscal year 2014.</i>				
		\$ —	—	1,759,335	1,759,335



**AURARIA HIGHER EDUCATION CENTER**

Summary of Unadjusted Audit Misstatements

Year ended June 30, 2014

Adj. No.	Description	Change in net position for unadjusted audit differences arising in current period	Statement of net position			Change in net loss for unadjusted audit differences arising in current period	Statement of revenues, expenses, and changes in net position	
			Net position	Assets	Liabilities		Revenue	Expenses
2	Capitalized interest Interest expense	\$ 662,200 (662,200)		662,200		(662,200)		(662,200)
	<i>To reclass interest expense to capitalized interest as the debt relates to construction in progress</i>							
		\$ —	—	662,200	—	(662,200)	—	(662,200)