**AURARIA HIGHER EDUCATION CENTER**

Financial and Compliance Audit

June 30, 2010 and 2009

(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, 2010

## 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, 2010. 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 April 2010 to October 2010.

The purpose and scope of our audit was to:

- Express opinions on the basic financial statements of the Center as of and for the years ended June 30, 2010 and 2009. 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 unqualified opinion on the Center's basic financial statements as of and for the years ended June 30, 2010 and 2009.

Two audit adjustments were proposed and made to the basic financial statements with a net effect decrease of $2,163,552, which is approximately 1.13% of current year ending net assets.

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

## Summary of Key Findings

There were no reported findings and recommendations resulting from the audit work completed for fiscal year 2010.

## Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2009 included three recommendations. The disposition of these audit recommendations as of November 5, 2010 was as follows.

| | |
|---|---|
| Implemented | 3 |



(Continued)

## Organization

The Board of Directors of the Center is a corporate body created by the State of Colorado. The authority under which the Center operates is Article 70 of Title 23, C.R.S. Its mission is to plan, manage, and operate the physical plant, facilities, buildings, and grounds of the Auraria Campus. The Auraria Campus houses Metropolitan State College of Denver (Metro), the University of Colorado Denver (UCD), 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, 2010

We have audited the basic financial statements of the Center as of and for the years ended June 30, 2010 and 2009 and have issued our report thereon, dated November 5, 2010. In planning and performing our audit of the basic 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 basic 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 5, 2010 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 5, 2010. We did not audit the financial statements of the discretely presented component unit discussed in note 1 to the basic financial statements. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards,* and included an explanatory paragraph about the discretely presented component unit's ability to continue as a going concern.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

There were no reported findings and recommendations resulting from the audit work completed for fiscal year 2010.

**AURARIA HIGHER EDUCATION CENTER**

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2010

Following are the audit recommendations made for the year ended June 30, 2009 and their disposition as of June 30, 2010.

| Recommendation | Disposition |
|---|---|
| **Recommendation No. 1**<br>Strengthen existing policies and procedures over accounting for capital expenditures | Implemented. |
| **Recommendation No. 2**<br>Improve internal controls over financial reporting to ensure that accurate and complete financial statements are prepared in a timely manner. | Implemented. |
| **Recommendation No. 3**<br>Work with the constituent institutions to formulize the general facility uses arrangements and leasehold improvement agreements to ensure financial terms, responsibilities, and obligations are properly understood, documented, and approved by all parties. | Implemented. |

**KPMG LLP**
Suite 2700
707 Seventeenth Street
Denver, CO 80202-3499

## Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Auraria Higher Education Center (the Center), a component unit of the State of Colorado, as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they related to the amounts included for the discretely presented component unit is based 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Auraria Higher Education Center as of June 30, 2010 and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

The financial statements of the discretely presented component unit were prepared assuming that the Inn at Auraria LLC will continue as a going concern. As discussed in note 1 to the basic financial statements of the discretely presented component unit, the Inn at Auraria LLC has incurred operating losses, has a net capital deficiency, and is in default under Series 2005 Revenue Bond agreements, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are discussed in note 1 to the basic financial statements of the discretely presented component unit. The financial statements of the discretely presented component unit do not include any adjustments to reflect the possible future effects of the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 5, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

KPMG LLP

November 5, 2010

This section of the Auraria Higher Education Center's (the Center) basic 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, 2010 and 2009 with comparative information for 2008. 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 basic 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, 2004, the Center adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Accordingly, the financial statements of the Auraria Foundation are included with the Center's financial statements and discussed in more detail in note 6 to the basic financial statements.

This report contains three basic financial statements: the statements of net assets; the statements of revenues, expenses, and changes in net assets; 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 College of Denver, and the University of Colorado Denver (the constituent institutions), parking operations, and student fee operations.

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

## Statements of Net Assets

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

Total net assets increased approximately $29.0 million between fiscal years 2009 and 2010 and approximately $51.3 million between fiscal years 2008 and 2009, for a total increase of approximately $80.3 million since June 30, 2008. Although the Center continues to fund a portion of operating and nonoperating expenses using student auxiliary reserves, total net assets increased as a result of approximately $105.8 million of state capital appropriations, gifts, and grants during the same three-year period. Of this total, approximately $104.1 million is directly related to the Science Building project. This project will provide approximately an additional 196,000 gross square feet of academic space, critically needed to help meet a portion of the space needs of the growing student population. These funds increase net assets when received; net assets will be reduced over the useful life of the building as depreciation expense is recorded.

During fiscal years 2010, 2009, and 2008, the Center used resources totaling approximately $8.4 million from parking, student, and vending activities to support operating requirements, including approximately $2.9 million in 2010. Long-term debt increased from 2008 to 2009 due to the financing of land for $16.5 million and the Science Building for $20.1 million. Payments on long-term debt were $5.1 million in 2010 and $4.6 million in 2009.

**Condensed Statements of Net Assets**

| | June 30 2010 | 2009 | 2008 |
|---|---|---|---|
| | | (In thousands) | |
| Assets: | | | |
| Current assets | $ 24,205 | 22,467 | 19,467 |
| Capital assets, net | 242,654 | 220,301 | 175,240 |
| Other noncurrent assets | 50,168 | 51,710 | 10,801 |
| Total assets | 317,027 | 294,478 | 205,508 |
| Liabilities: | | | |
| Current liabilities | 15,890 | 17,998 | 12,041 |
| Noncurrent liabilities | 110,439 | 114,777 | 83,105 |
| Total liabilities | 126,329 | 132,775 | 95,146 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 165,683 | 144,236 | 91,254 |
| Restricted for expendable purposes | 11,173 | 8,833 | 8,089 |
| Unrestricted | 13,843 | 8,635 | 11,020 |
| Total net assets | $ 190,699 | 161,704 | 110,363 |

**Statements of Revenues, Expenses, and Changes in Net Assets**

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

The Center's operating loss increased approximately $1.5 million between fiscal years 2008 and 2009 and operating income increased approximately $7.2 million between fiscal years 2009 and 2010 for a total operating income of approximately $3.2 million for fiscal year 2010. This change is primarily the result of decreased maintenance costs of $5.8 million in Auxiliary Enterprise in 2010. There was a decrease in personnel and benefit costs of $1.6 million primarily in Facilities Management, Business Services, Telecom, Information Technology, and Campus Police for 2010. Support from the three constituent institutions decreased approximately $0.76 million from 2009 to 2010 and increased $1.7 million from 2008 to 2009. In addition, in fiscal year 2010, the constituent institutions provided approximately $2.1 million for debt service payments on land purchased in December 2008 and payments on the finance leases related to the Science Building project. In 2010, approximately $2.9 million of auxiliary revenue and auxiliary reserves were used to support general operating costs. For 2010 and 2009, the State provided $28.5 million and $57.8 million, respectively, in capital contributions primarily for the Science Building. The Auraria Foundation provided $1.5 million and $1.3 million for the Science Building in 2010 and 2009, respectively.


(Continued)

**Condensed Statements of Revenues, Expenses, and Changes in Net Assets**

| | Year ended June 30 | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | | (In thousands) | |
| Operating revenues: | | | |
| Auxiliary enterprises | $ 35,695 | 36,572 | 34,728 |
| Revenue from constituent institutions | 17,030 | 17,789 | 16,051 |
| Student fees | 5,905 | 5,020 | 4,747 |
| Other operating revenues | 209 | 250 | 91 |
| Total operating revenues | 58,839 | 59,631 | 55,617 |
| Operating expenses: | | | |
| Auxiliary enterprises | 30,114 | 35,952 | 32,530 |
| Operation and maintenance of plant | 12,347 | 13,467 | 12,253 |
| Institutional support | 2,871 | 3,849 | 3,347 |
| Academic support | 1,356 | 1,327 | 1,297 |
| Public service | 108 | 97 | 68 |
| Depreciation | 8,847 | 8,951 | 8,656 |
| Total operating expenses | 55,643 | 63,643 | 58,151 |
| Operating income (loss) | 3,196 | (4,012) | (2,534) |
| Nonoperating revenues (expenses): | | | |
| Investment income | 610 | 948 | 891 |
| Interest expense on capital debt | (4,831) | (5,237) | (3,953) |
| Gain on disposal of capital assets | 3 | 563 | 35 |
| Total nonoperating expenses | (4,218) | (3,726) | (3,027) |
| Capital contributions, grants, and gifts | 30,017 | 59,079 | 16,655 |
| Increase in net assets | 28,995 | 51,341 | 11,094 |
| Net assets, beginning of year | 161,704 | 110,363 | 99,269 |
| Net assets, end of year | $ 190,699 | 161,704 | 110,363 |

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions showed an average increase between Fall of 2008 and Fall of 2009 of 11.2% due to a 44.0% increase for Community College of Denver, 8.0% for University of Colorado at Denver, and 6.0% for Metropolitan State College of Denver. However, estimates for Fall 2010 predict very strong enrollment growth, averaging 7.9% higher than Fall 2009 mainly due to a 30.0% increase for Community College of Denver, a 6.0% increase for Metropolitan State College of Denver, and no change for University of Colorado at Denver.



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### Capital Assets

At June 30, 2010, the Center had approximately $242.7 million invested in capital assets, net of accumulated depreciation of approximately $152.3 million. For the years ended June 30, 2010 and 2009, depreciation expense was approximately $8.8 million and $9.0 million, respectively.

### Capital Assets, Net

| | | June 30 | | |
|---|---|---|---|---|
| | | 2010 | 2009 | 2008 |
| | | | (In thousands) | |
| Land | $ | 28,253 | 28,253 | 11,753 |
| Land improvements | | 8,965 | 9,793 | 10,697 |
| Buildings and improvements | | 119,218 | 125,099 | 132,452 |
| Equipment | | 1,953 | 1,646 | 1,264 |
| Construction in progress | | 84,265 | 55,510 | 19,074 |
| Total capital assets, net | $ | 242,654 | 220,301 | 175,240 |

Construction in progress increased approximately $32.1 million during 2010 relating to the Science Building renovation and addition project, of which $3.3 million was transferred to the constituent institutions resulting in a net increase of $28.8 million. During fiscal year 2009, the State also approved funding of approximately $83.8 million from State issued Certificates of Participation for the final phase of the project for which the State is funding approximately $63.6 million and the Center is responsible for approximately $20.1 million. In addition, the Auraria Foundation committed $3.0 million, the constituent institutions are providing $21.4 million, and the Center is providing an additional $875,000. The 360,000 square foot renovation and expansion project, currently estimated at approximately $121.1 million, is scheduled to be completed by January 2011. The completion of the Science Building project will provide a portion of the square footage critically needed to meet the demands of a growing student population. The Science Building project will provide approximately 196,000 additional gross square feet of academic space. The Science Building is nearing completion and renovations to the old science building continue through 2011. The Center is continuing to explore the use of additional modular units and leasing space off campus to meet the space needs of the growing student population.

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 is approximately $16.5 million, and plans for development are being incorporated into the overall master planning effort for the Campus.

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

### Bonds and Capital Leases

At June 30, 2010, the Center had approximately $114.4 million of bond and capital lease obligations outstanding. The table below summarizes this debt by type. In December 2008, the Center entered into an agreement to finance the acquisition of approximately 13.54 acres with the issuance of Certificate of Participation Series 2008 Land Acquisition Certificates in the amount of approximately $16.5 million. In connection with the Science

Building renovation and expansion project, the Center is required to repay approximately $20.1 million of the State issued Certificates of Participation issued in November 2008. The constituent institutions share in the cost of debt service.

See note 4 to the basic financial statements for additional information on bond and capital lease activity during the fiscal year.

**Long-Term Debt**

| | | June 30 | | |
|---|---|---|---|---|
| | | **2010** | **2009** | **2008** |
| | | | (In thousands) | |
| Auxiliary enterprise revenue bonds | $ | 65,379 | 67,803 | 69,941 |
| Capital lease obligations | | 49,027 | 50,734 | 15,557 |
| Total long-term debt | $ | 114,406 | 118,537 | 85,498 |

**Economic Outlook**

Referendum C enabled the Taxpayer's Bill of Rights Amendment to the Colorado Constitution (TABOR) revenue restrictions to be suspended for five years ending with the fiscal year 2010 budget. During fiscal year 2010, the constituent institutions decreased their allocation to fund the Center's general operations by 10.0% from approximately $16.6 million to approximately $15.0 million. The Center's budget for fiscal year 2011 reflects a 2.7% increase to the base institution's revenue budget. Additional funding of $0.6 million related to the maintenance required during fiscal year 2011 is for the additional square footage in the Science Building.

While parking revenue and reserves continue to grow slightly, given that unrestricted parking reserves are providing half the yearly debt service payment for the 2008 Land acquisition Certificates of Participation, the Center cannot rely on these funds for small projects and controlled maintenance needs in general fund properties. The constituent institutions are working together with the Center to assess critical needs as they arise and to identify funding solutions. The 2011 parking budget maintains funding from the reserves at the same level as was achieved in prior years.

The Center's auxiliary enterprise facilities are funded with student fees and user charges. These revenues are currently sufficient to maintain adequate levels of maintenance for the Tivoli Student Union, the recreation center, the child care center, and all parking facilities. However, these fees and charges are not sufficient to cover the ongoing maintenance needs of the general classroom facilities built approximately 32 years ago. The campus has one of the highest classroom utilization rates in the nation. Although State funding for controlled maintenance has increased in the past few years, the 2011 budget does not include funding for any new projects. The Center and the constituent institutions are studying various options for funding the increasing maintenance needs of these aging facilities.

An extensive master plan study for the entire campus has been completed and provides direction on how to develop the campus over the next 19 years. Included in the study was an analysis on how public/private partnerships might assist in funding academic and administrative buildings to ease the campus's critical space shortage. The constituent institutions are also formulating plans to fund and build institution-specific buildings versus relying on State funding. One of the institutions is moving forward with plans to build two facilities on the campus over the next several years. The campus now houses a total of 38 modular units to help address the classroom shortage issue. Discussions continue about whether additional modular units or leasing space off campus will be necessary to accommodate the growing student population. The Center will continue to work with the constituent institutions to explore creative solutions to the space limitations.

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, CO 80217.



(Continued)

**AURARIA HIGHER EDUCATION CENTER**

Business-Type Activities

Statements of Net Assets

June 30, 2010 and 2009

| **Assets** | | **2010** | **2009** |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ | 14,207,781 | 14,322,685 |
| Accounts receivable, net | | 5,797,047 | 4,036,223 |
| Notes receivable – current | | 636,072 | 602,595 |
| Short-term investments | | 669,123 | 669,123 |
| Inventories | | 2,800,992 | 2,738,191 |
| Prepaid expenses | | 93,501 | 97,867 |
| Total current assets | | 24,204,516 | 22,466,684 |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents | | 2,964,675 | 1,726,956 |
| Bond proceeds restricted to investment in capital projects | | 1,077,670 | 1,120,299 |
| Deferred debt issuance costs | | 1,413,639 | 1,521,460 |
| Restricted investments | | 7,164,980 | 6,994,320 |
| Notes receivable | | 37,548,084 | 40,347,708 |
| Capital assets, net | | 242,653,922 | 220,300,776 |
| Total noncurrent assets | | 292,822,970 | 272,011,519 |
| Total assets | $ | 317,027,486 | 294,478,203 |
| **Liabilities** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | $ | 7,592,851 | 11,023,105 |
| Interest payable | | 662,291 | 695,293 |
| Deposits held for others | | 1,644,078 | 650,142 |
| Deferred revenue | | 621,663 | 466,951 |
| Long-term debt, current portion | | 5,274,415 | 5,067,481 |
| Compensated absences liability, current portion | | 94,670 | 94,648 |
| Total current liabilities | | 15,889,968 | 17,997,620 |
| Noncurrent liabilities: | | | |
| Long-term debt | | 109,131,137 | 113,469,495 |
| Compensated absences liability | | 1,307,846 | 1,307,549 |
| Total noncurrent liabilities | | 110,438,983 | 114,777,044 |
| Total liabilities | $ | 126,328,951 | 132,774,664 |
| **Net Assets** | | | |
| Net assets: | | | |
| Invested in capital assets, net of related debt | $ | 165,682,613 | 144,235,563 |
| Restricted for expendable purposes | | 11,173,074 | 8,833,231 |
| Unrestricted | | 13,842,848 | 8,634,745 |
| Total net assets | $ | 190,698,535 | 161,703,539 |

See accompanying notes to basic financial statements.

**AURARIA HIGHER EDUCATION CENTER**

Discretely Presented Component Units

Statements of Financial Position

June 30, 2010 and 2009

| | | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|
| **Assets** | | **Inn at Auraria LLC** | **The Auraria Foundation** | **Total** | **Inn at Auraria LLC** | **The Auraria Foundation** | **Total** |
| Cash and cash equivalents | $ | 151,773 | 153,813 | 305,586 | 154,635 | 1,582,739 | 1,737,374 |
| Investments | | — | 4,583,409 | 4,583,409 | — | 4,698,663 | 4,698,663 |
| Accounts receivable, net of allowance for doubtful accounts of $229,000 and $204,000, respectively | | 101,028 | — | 101,028 | 140,122 | — | 140,122 |
| Trustee-held cash limited as to use | | 1,133,928 | — | 1,133,928 | 1,154,741 | — | 1,154,741 |
| Trustee-held guaranteed investment contracts limited as to use | | 516,222 | — | 516,222 | 1,293,517 | — | 1,293,517 |
| Prepaid expenses and other | | 25,221 | 9,770 | 34,991 | 32,710 | 9,310 | 42,020 |
| Advance to Inn at Auraria LLC | | — | 588,540 | 588,540 | — | 583,594 | 583,594 |
| Property and equipment, net | | 29,259,166 | 815,602 | 30,074,768 | 30,225,185 | 854,628 | 31,079,813 |
| Bond issuance costs, net | | 682,379 | — | 682,379 | 703,760 | — | 703,760 |
| Elimination of intercompany balances | | — | — | (588,540) | — | — | (583,594) |
| Total assets | $ | 31,869,717 | 6,151,134 | 37,432,311 | 33,704,670 | 7,728,934 | 40,850,010 |
| **Liabilities and Net Assets (Deficit)** | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | $ | 54,606 | — | 54,606 | 202,906 | 23,131 | 226,037 |
| Accrued expenses and other | | 118,257 | — | 118,257 | 158,967 | — | 158,967 |
| Deferred revenue | | 105,721 | — | 105,721 | 114,918 | — | 114,918 |
| Interest payable | | 1,102,134 | — | 1,102,134 | 1,107,534 | — | 1,107,534 |
| Grants payable | | — | 1,534,723 | 1,534,723 | — | 3,157,724 | 3,157,724 |
| Due to The Auraria Foundation | | 588,540 | — | 588,540 | 583,594 | — | 583,594 |
| Bonds payable in default | | 37,280,000 | — | 37,280,000 | 37,280,000 | — | 37,280,000 |
| Elimination of intercompany balances | | — | — | (588,540) | — | — | (583,594) |
| Total liabilities | | 39,249,258 | 1,534,723 | 40,195,441 | 39,447,919 | 3,180,855 | 42,045,180 |
| Unrestricted net assets (deficit) | | (7,379,541) | 4,616,411 | (2,763,130) | (5,743,249) | 4,548,079 | (1,195,170) |
| Total liabilities and net assets (deficit) | $ | 31,869,717 | 6,151,134 | 37,432,311 | 33,704,670 | 7,728,934 | 40,850,010 |

See accompanying notes to basic financial statements – The Auraria Foundation.

**AURARIA HIGHER EDUCATION CENTER**

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Operating revenues: | | |
| Auxiliary enterprises | $ 35,695,001 | 36,572,013 |
| Revenue from constituent institutions | 17,030,016 | 17,789,420 |
| Student fees | 5,905,260 | 5,019,480 |
| Other operating revenues | 208,933 | 249,860 |
| Total operating revenues | 58,839,210 | 59,630,773 |
| Operating expenses: | | |
| Auxiliary enterprises | 30,113,870 | 35,951,824 |
| Operation and maintenance of plant | 12,346,879 | 13,466,711 |
| Institutional support | 2,871,177 | 3,849,171 |
| Academic support | 1,355,769 | 1,327,385 |
| Public service | 107,740 | 96,701 |
| Depreciation | 8,847,305 | 8,950,664 |
| Total operating expenses | 55,642,740 | 63,642,456 |
| Operating income (loss) | 3,196,470 | (4,011,683) |
| Nonoperating revenues (expenses): | | |
| Investment income | 610,138 | 948,028 |
| Interest expense on capital debt | (4,830,596) | (5,237,580) |
| Gain on disposal of capital assets | 2,718 | 563,199 |
| Net nonoperating expenses | (4,217,740) | (3,726,353) |
| Loss before other revenues, expenses, gains, or losses | (1,021,270) | (7,738,036) |
| Other revenues, expenses, gains, or losses: | | |
| State capital contributions | 28,481,543 | 57,787,350 |
| Capital grants and gifts | 1,534,723 | 1,291,441 |
| Increase in net assets | 28,994,996 | 51,340,755 |
| Net assets, beginning of year | 161,703,539 | 110,362,784 |
| Net assets, end of year | $ 190,698,535 | 161,703,539 |

See accompanying notes to basic financial statements.

**AURARIA HIGHER EDUCATION CENTER**

Discretely Presented Component Units

Statements of Activities

Years ended June 30, 2010 and 2009

| | | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|
| | | **Inn at Auraria LLC** | **The Auraria Foundation** | **Total** | **Inn at Auraria LLC** | **The Auraria Foundation** | **Total** |
| Revenues and other support: | | | | | | | |
| Rental income | $ | 2,761,064 | 43,106 | 2,804,170 | 2,677,453 | 38,625 | 2,716,078 |
| Management fees | | — | — | — | — | 25,000 | 25,000 |
| Investment income (loss) | | 52,353 | 148,271 | 200,624 | 90,251 | (773,946) | (683,695) |
| Miscellaneous income | | 223,634 | — | 223,634 | 215,019 | — | 215,019 |
| Total revenues and other support | | 3,037,051 | 191,377 | 3,228,428 | 2,982,723 | (710,321) | 2,272,402 |
| Expenses: | | | | | | | |
| Inn at Auraria LLC operations | | 4,418,222 | — | 4,418,222 | 4,414,977 | — | 4,414,977 |
| St. Francis program expense | | — | 61,850 | 61,850 | — | 68,111 | 68,111 |
| Donations to AHEC and other Auraria institutions | | — | 1,975 | 1,975 | — | 45,615 | 45,615 |
| General and administrative | | 255,121 | 59,220 | 314,341 | 270,963 | 105,126 | 376,089 |
| Total expenses | | 4,673,343 | 123,045 | 4,796,388 | 4,685,940 | 218,852 | 4,904,792 |
| Other nonoperating expenses | | — | — | — | 2,496 | — | 2,496 |
| AHEC grants | | — | — | — | — | 250,000 | 250,000 |
| Change in net assets | | (1,636,292) | 68,332 | (1,567,960) | (1,705,713) | (1,179,173) | (2,884,886) |
| Net assets (deficit), beginning of year | | (5,743,249) | 4,548,079 | (1,195,170) | (4,037,536) | 5,727,252 | 1,689,716 |
| Net assets (deficit), end of year | $ | (7,379,541) | 4,616,411 | (2,763,130) | (5,743,249) | 4,548,079 | (1,195,170) |

See accompanying notes to basic financial statements – The Auraria Foundation.

**AURARIA HIGHER EDUCATION CENTER**

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2010 and 2009

| | | 2010 | 2009 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Cash received: | | | |
| Student fees | $ | 5,308,840 | 5,017,735 |
| Revenue from constituent institutions | | 17,035,038 | 17,789,320 |
| Sales of products and services | | 35,325,085 | 37,789,786 |
| Cash payments: | | | |
| Payments for employees | | (20,636,839) | (21,456,478) |
| Payments to suppliers | | (27,086,215) | (31,117,467) |
| Net cash provided by operating activities | | 9,945,909 | 8,022,896 |
| Cash flows from capital and related financing activities: | | | |
| Capital grants and gifts | | 1,623,001 | 1,291,441 |
| Acquisition and construction of capital assets | | (2,666,245) | (487,410) |
| Proceeds from capital assets | | 27,189 | 577,333 |
| Principal received on notes receivable | | 602,595 | 535,640 |
| Principal paid on long-term debt | | (5,067,481) | (4,625,763) |
| Interest paid on long-term debt | | (3,824,259) | (4,061,155) |
| Net cash used in capital and related financing activities | | (9,305,200) | (6,769,914) |
| Cash flows from investing activities: | | | |
| Net (purchases) sales of investments | | (128,032) | (382,335) |
| Investment income | | 610,138 | 948,029 |
| Net cash provided by investing activities | | 482,106 | 565,694 |
| Net increase in cash and cash equivalents | | 1,122,815 | 1,818,676 |
| Cash and cash equivalents, beginning of year | | 16,049,641 | 14,230,965 |
| Cash and cash equivalents, end of year | $ | 17,172,456 | 16,049,641 |



(Continued)

**AURARIA HIGHER EDUCATION CENTER**

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2010 and 2009

| | | 2010 | 2009 |
|---|---|---|---|
| Reconciliation of operating loss to net cash provided by operating activities: | | | |
| Operating income (loss) | $ | 3,196,470 | (4,011,683) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | | |
| Depreciation | | 8,847,305 | 8,950,664 |
| Bad debt expense | | 301,757 | 336,423 |
| Write-off of noncapitalizable items | | — | 2,681,857 |
| Decrease (increase) in assets: | | | |
| Accounts receivable | | (2,150,859) | (1,214,419) |
| Inventories | | (62,801) | 139,635 |
| Prepaid expenses | | 4,366 | (9,740) |
| Increase (decrease) in liabilities: | | | |
| Accounts payable and accrued liabilities | | (1,339,296) | 691,742 |
| Deferred revenues | | 154,712 | 208,771 |
| Compensated absences liability | | 319 | 55,226 |
| Deposits held for others | | 993,936 | 194,420 |
| Net cash provided by operating activities | $ | 9,945,909 | 8,022,896 |
| Noncash operating and capital activities: | | | |
| Acquisitions under capital lease arrangements: | | | |
| Capital assets: | | | |
| Land | $ | — | 16,500,000 |
| Equipment | | — | 334,800 |
| Reduction of construction in progress relating to direct financing leases with constituent institutions | | (3,294,606) | (18,024,057) |
| Decrease (increase) in intra-agency payables | | 3,294,606 | (3,328,468) |
| Capital lease obligations | | — | (37,085,818) |
| Notes receivable | | (2,163,552) | 41,485,943 |
| Deferred debt issuance costs | | — | 117,600 |
| State capital contributions | | 28,481,543 | 57,787,350 |
| Acquisition and construction of capital assets using State capital contributions | | (28,481,543) | (57,787,350) |
| Acquisition and construction of capital assets from State note receivable | | (2,163,552) | — |
| Supplemental cash flow information: | | | |
| Accounts payable related to capital asset purchases | $ | 112,620 | 54,125 |

See accompanying notes to basic financial statements.

## (1) Summary of Significant Accounting Policies

### *(a) Nature of Operations*

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

The 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. 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.

### *(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 assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Effective June 30, 2004, the Center adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. 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



(Continued)

nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Center's financial reporting entity for these differences. A complete copy of the Foundation's financial statements can be obtained by contacting: Auraria Foundation, Box 173361 Campus Box A, Denver, CO 80217-3361.

***(c) Use of Estimates***

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

***(d) Reclassifications***

Certain 2009 amounts have been reclassified to conform to the 2010 financial statement presentation.

***(e) Cash Equivalents***

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2010 and 2009, 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).

***(f) 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.

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

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

### *(h) Accounts Receivable, Net*

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

| | | 2010 | 2009 |
|---|---|---|---|
| Constituent institutions | $ | 1,658,936 | 1,112,506 |
| State of Colorado central collections | | 562,130 | 477,816 |
| Book Center credit memos due from vendors | | 284,554 | 452,590 |
| Auxiliary enterprises | | 373,279 | 417,408 |
| Interest receivable | | 159,564 | 164,586 |
| Auraria Foundation | | 1,534,723 | 1,701,910 |
| Other | | 1,832,201 | 266,813 |
| | | 6,405,387 | 4,593,629 |
| Less allowance for doubtful accounts | | (608,340) | (557,406) |
| Accounts receivable, net | $ | 5,797,047 | 4,036,223 |

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

### *(i) Notes Receivable*

In 2009, the Center entered into capital lease arrangements with the constituent institutions to lease space in the Science Building, which remained under construction as of June 30, 2010. 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 (refer to note 4 for more details).

Notes receivable consist of the following at June 30:

| | | 2010 | 2009 |
|---|---|---|---|
| Science building – receivable from constituent institutions, current | $ | 636,072 | 602,595 |
| Science building – receivable from Treasurer, long-term | | 20,063,974 | 22,227,526 |
| Science building – receivable from constituent institutions, long-term | | 17,484,110 | 18,120,182 |
| Notes receivable – long-term | | 37,548,084 | 40,347,708 |
| Total notes receivable | $ | 38,184,156 | 40,950,303 |

The notes receivable balances are considered to be fully collectible as of June 30, 2010. The note receivable from the Treasurer represents cash obtained under the State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008, and held by the Treasurer to be utilized by the Center for the construction of the Science Building.

***(j) Inventories***

The Auraria campus provides an academic bookstore utilized by the three constituent institutions, consisting of new and used textbooks, insignia items, apparel, and other supplies. The Center is responsible for managing and maintaining the bookstore and carries the inventory at the lower of the retail method or cost. Provisions are made for obsolete inventory on a periodic basis. Provisions recorded for the years ended June 30, 2010 and 2009 totaled $426,362 and $415,265, respectively.

***(k) Deferred Debt Issue Costs***

Debt issue costs incurred on the revenue bonds and capital leases have been deferred and are being amortized over the shorter of the life of the bonds or term of the leases.

***(l) 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 | 27.5 – 40 years |
| Equipment | 3 – 10 years |

The following is the capitalization threshold used by the Center:

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

Capital leases consist of lease-purchase contracts. Such contracts provide that commitments beyond the current year are contingent upon funds being appropriated for such purposes. Refer to note 4 for further discussion. In addition, the Center is the lessor in direct financing leases with the constituent institutions in relation to the Science Building. As of June 30, 2010, construction costs related to the Science Building included in construction in progress totaled $83,719,892. The Center has reduced the cost of the related capital asset by $21,318,663, reflecting the constituent institutions’ portion of the completed building under capital lease.

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, 2010 and 2009, capitalized interest included in construction in progress totaled $2,714,673 and $1,417,356, respectively.

***(m) Accrued Salaries***

State Senate Bill 03-197 requires monthly and certain biweekly salaries that would normally be paid at the end of June to be paid in July. This resulted in an accrual of $1,639,249 and $1,929,832 that was included in accounts payable and accrued liabilities at June 30, 2010 and 2009, 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, 2010 and 2009 is $1,402,516 and $1,402,197, respectively. Operating expenses for the years ended June 30, 2010 and 2009 include $319 and $55,226, respectively, representing the increase in the estimated compensated absences liability.

***(o) Deferred Revenue***

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

| | | 2010 | 2009 |
|---|---|---|---|
| Student fees for the summer semester | $ | — | 182,264 |
| Childcare tuition collected in advance | | 13,632 | 16,887 |
| Early Learning Center grants | | 50,000 | 58,800 |
| Lot I build out fee | | 558,031 | 209,000 |
| | $ | 621,663 | 466,951 |

***(p) Classification of Revenues***

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

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

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenue sources that are defined as nonoperating revenues by GASB 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 appropriations 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 assets. 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. The Center had no unrelated business income tax liabilities in fiscal year 2010 or 2009.

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

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

At June 30, 2010 and 2009, the carrying value of the Center's deposits was $17,172,456 and $16,049,641, respectively. Balances consist of deposits with the Treasurer, as described below, $1,214,356 and $1,294,562 in bank deposits, and $50,291 and $53,778 of cash on hand, respectively. The bank balance classified by custodial credit risk category is covered by $250,000 of federal depository insurance and by collateral held by the pledging institutions' trust departments in the name of the State public deposit pool as required by the Public Deposit Protection Act.

### *(b) Investments*

The Center deposits its cash with the Treasurer as required by Colorado Revised Statutes (CRS). The Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, CRS. The Treasurer 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 Treasurer are invested until the cash is needed. Earnings are allocated in proportion to the average daily cash balance for all participants in the pool. At June 30, 2010 and 2009, the Center had cash on deposit, including restricted cash and cash equivalents, with the Treasurer of $15,907,809 and $14,701,301, respectively, which represented approximately 0.27% of the total $5,977.9 million and 0.26% of the total $5,742.1 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 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 gain for fiscal year 2010 was $357,484 and the net unrealized gain for fiscal year 2009 was $319,635. These unrealized gains and losses are included in cash and cash equivalents on the statements of net assets.

***(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, 2010 and 2009, the Center has no investments that are subject to custodial risk.

***(d) 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.

***(e) Credit Quality Risk***

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. The State requires two ratings with the rating level set by the investment portfolio and investment type. Based on these parameters, as of June 30, 2010 and 2009, approximately 88.1% and 92.6%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for $25,573,200 and $46,976,250 in 2010 and 2009, respectively, of corporate bonds rated lower-medium, and $14,533,750 and $38,237,320, respectively, of corporate bonds rated as speculative, and $14,218,750 for June 30, 2010 of corporate bonds rated as 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.

***(f) Interest Rate Risk***

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. The weighted average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in terms of years, weighted to reflect the dollar size of individual investments within an investment type. The overall portfolio WAM is derived by dollar-weighting the WAM for each investment type. The State has selected WAM as the primary method for reporting interest rate risk. As of June 30, 2010, the WAM of investments in the Pool is 0.04 years for commercial paper (3.7% of the Pool), 0.01 years for money market funds (3.2% of the Pool), 1.3 years for U.S. government securities (73.8% of the Pool), 1.36 years for asset-backed securities (12.6% of the Pool), and 2.05 years for corporate bonds

(6.7% of the Pool). As of June 30, 2009, the WAM of investments in the Pool is 0.08 years for commercial paper (1.8% of the Pool), 0.01 years for money market funds (7.1% of the Pool), 1.14 years for U.S. government securities (67.2% of the Pool), 1.55 years for asset-backed securities (16.7% of the Pool), and 2.01 years for corporate bonds (7.2% of the Pool).

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2010 or 2009.

The following table lists the Center's investments, by investment type, as of June 30, 2010 and 2009 for those investments not part of the Pool. The fair value amount is shown along with the credit quality rating and WAM.

| Investment type | | Fair value amount | Credit rating | Weighted average maturity |
|---|---|---|---|---|
| June 30, 2010: | | | | |
| U.S. government agencies – explicitly guaranteed | $ | 5,834,715 | Not rated | Not applicable |
| Commercial paper | | 1,999,388 | Highest | 25 years |
| Total investments | $ | 7,834,103 | | |
| June 30, 2009: | | | | |
| U.S. government agencies – explicitly guaranteed | $ | 5,663,799 | Not rated | Not applicable |
| Commercial paper | | 1,999,644 | Highest | 25 years |
| Total investments | $ | 7,663,443 | | |

### *(g) Investment Income*

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

| | | 2010 | 2009 |
|---|---|---|---|
| Interest and dividend income | $ | 252,654 | 628,393 |
| Net increase in fair value of investments | | 357,484 | 319,635 |
| | $ | 610,138 | 948,028 |

## (3) Capital Assets

Capital asset activity for the year ended June 30, 2010 is as follows:

| | Beginning balance | Additions | Disposals | Transfers | Ending balance |
|---|---|---|---|---|---|
| Land | $ 28,252,961 | — | — | — | 28,252,961 |
| Land improvements | 25,017,922 | — | — | — | 25,017,922 |
| Buildings and improvements | 249,174,154 | 904,299 | — | 578,855 | 250,657,308 |
| Equipment | 6,105,080 | 986,955 | (347,880) | — | 6,744,155 |
| Construction in progress, net | 55,509,961 | 29,333,679 | — | (578,855) | 84,264,785 |
| Total capital assets | 364,060,078 | 31,224,933 | (347,880) | — | 394,937,131 |
| Less accumulated depreciation: | | | | | |
| Land improvements | 15,224,640 | 827,979 | — | — | 16,052,619 |
| Buildings and improvements | 124,075,821 | 7,363,698 | — | — | 131,439,519 |
| Equipment | 4,458,841 | 655,631 | (323,401) | — | 4,791,071 |
| Total accumulated depreciation | 143,759,302 | 8,847,308 | (323,401) | — | 152,283,209 |
| Total capital assets, net | $ 220,300,776 | 22,377,625 | (24,479) | — | 242,653,922 |

As of June 30, 2010 and 2009, construction in progress primarily consists of costs incurred relating to the Science Building. The Center has reduced construction in progress by $21,318,663 and $18,024,057 as of June 30, 2010 and 2009, respectively, for the direct financing leases discussed in note 1.

Capital asset activity for the year ended June 30, 2009 is as follows:

| | Beginning balance | Additions | Disposals | Transfers | Ending balance |
|---|---|---|---|---|---|
| Land | $ 11,752,961 | 16,500,000 | — | — | 28,252,961 |
| Land improvements | 25,017,922 | — | — | — | 25,017,922 |
| Buildings and improvements | 249,174,154 | — | — | — | 249,174,154 |
| Equipment | 5,642,651 | 551,909 | (627,477) | 537,997 | 6,105,080 |
| Construction in progress, net | 19,074,489 | 39,979,468 | (3,005,999) | (537,997) | 55,509,961 |
| Total capital assets | 310,662,177 | 57,031,377 | (3,633,476) | — | 364,060,078 |
| Less accumulated depreciation: | | | | | |
| Land improvements | 14,321,126 | 903,514 | — | — | 15,224,640 |
| Buildings and improvements | 116,722,403 | 7,353,418 | — | — | 124,075,821 |
| Equipment | 4,378,451 | 693,732 | (613,342) | — | 4,458,841 |
| Total accumulated depreciation | 135,421,980 | 8,950,664 | (613,342) | — | 143,759,302 |
| Total capital assets, net | $ 175,240,197 | 48,080,713 | (3,020,134) | — | 220,300,776 |

## (4) Long-Term Debt

The following is a summary of long-term debt for the Center for the year ended June 30, 2010:

| | Beginning balance | Additions | Deductions | Ending balance | Current portion |
|---|---|---|---|---|---|
| Revenue bonds payable: | | | | | |
| Series 2003 parking | $ 5,158,660 | 72,112 | (1,730,000) | 3,500,772 | 1,790,000 |
| Series 2003 student fee | 18,172,323 | 4,855 | (965,000) | 17,212,178 | 780,000 |
| Series 2004 parking | 22,945,674 | 752,709 | — | 23,698,383 | — |
| Series 2006 parking | 7,141,968 | 25,256 | — | 7,167,224 | — |
| Series 2006 student fee | 14,384,542 | 30,462 | (615,000) | 13,800,004 | 860,000 |
| Total revenue bonds payable | 67,803,167 | 885,394 | (3,310,000) | 65,378,561 | 3,430,000 |
| Capital lease obligations: | | | | | |
| Administration facility, Series 2005 | 14,716,169 | 145,393 | (580,000) | 14,281,562 | 600,000 |
| Equipment | 278,067 | — | (61,442) | 216,625 | 66,542 |
| Land acquisition, Series 2008 | 16,099,799 | (94,730) | (475,000) | 15,530,069 | 505,000 |
| State capital construction financing, Series 2008 | 19,639,774 | — | (641,039) | 18,998,735 | 672,873 |
| Total capital lease obligations | 50,733,809 | 50,663 | (1,757,481) | 49,026,991 | 1,844,415 |
| Total long-term debt | $ 118,536,976 | 936,057 | (5,067,481) | 114,405,552 | 5,274,415 |

The following is a summary of long-term debt for the Center for the year ended June 30, 2009:

| | | Beginning balance | Additions | Deductions | Ending balance | Current portion |
|---|---|---|---|---|---|---|
| Revenue bonds payable: | | | | | | |
| Series 2003 parking | $ | 6,761,546 | 72,114 | (1,675,000) | 5,158,660 | 1,730,000 |
| Series 2003 student fee | | 19,092,468 | 4,855 | (925,000) | 18,172,323 | 965,000 |
| Series 2004 parking | | 22,225,914 | 719,760 | — | 22,945,674 | — |
| Series 2006 parking | | 7,116,712 | 25,256 | — | 7,141,968 | — |
| Series 2006 student fee | | 14,744,081 | 30,461 | (390,000) | 14,384,542 | 615,000 |
| Total revenue bonds payable | | 69,940,721 | 852,446 | (2,990,000) | 67,803,167 | 3,310,000 |
| Capital lease obligations: | | | | | | |
| Administration facility, Series 2005 | | 15,233,006 | 48,163 | (565,000) | 14,716,169 | 580,000 |
| Equipment | | 324,141 | 334,800 | (380,874) | 278,067 | 61,442 |
| Land acquisition, Series 2008 | | — | 16,549,799 | (450,000) | 16,099,799 | 475,000 |
| State capital construction financing, Series 2008 | | — | 20,133,417 | (493,643) | 19,639,774 | 641,039 |
| Total capital lease obligations | | 15,557,147 | 37,066,179 | (1,889,517) | 50,733,809 | 1,757,481 |
| Total long-term debt | $ | 85,497,868 | 37,918,625 | (4,879,517) | 118,536,976 | 5,067,481 |

### (a) *Revenue Bonds Payable*

The Center had the following bonds outstanding at June 30, 2010:

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

### (b) *Series 2003 Parking Bonds*

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

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

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

The Series 2003 Parking Bonds are due in semiannual installments with annual principal payments ranging from $1,475,000 to $1,855,000 and interest ranging from 2.50% to 3.60%. The final installment is due April 1, 2012. The Series 2003 Parking Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2010 and 2009, the Series 2003 Parking Bonds are shown net of unamortized premium of $19,304 and $28,956, respectively, and unamortized deferred loss on refinancing of $163,532 and $245,298, respectively, and have related unamortized issue costs of $41,355 and $62,033, respectively.

***(c) Series 2003 Student Fee Bonds***

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

At June 30, 2010 and 2009, the Series 2003 Student Fee Bonds are shown net of a discount of $72,822 and $77,677, respectively, and have related unamortized issue costs of $220,657 and $235,368, respectively.

***(d) Series 2004 Parking Bonds***

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

Interest on the Series 2004A bonds is payable in semiannual installments commencing on April 1, 2004. The principal amount of $6,550,000 is payable in two annual installments of $2,220,000 and $4,330,000 due on April 1, 2028 and 2029, respectively. The Series 2004B Bonds accrete in value from the date of issuance, compounding semiannually, beginning April 1, 2004. Principal payments begin on April 1, 2012 and range from $75,000 to $2,295,000. Interest payments also begin on April 1, 2012 and range from 3.6% to 5.2%. The final installment is due April 1, 2028.

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, 2010 and 2009, the Series 2004 Parking Bonds accreted interest of $748,625 and $715,674, respectively. The Bonds are shown net of a discount of $71,838 and $75,923, respectively, and have related unamortized issue costs of $375,621 and $395,743, respectively.

***(e) Series 2006 Parking Bonds***

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

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

The Series 2006 Bonds are payable in semiannual installments with annual principal payments 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, 2010 and 2009, the Series 2006 Bonds are shown net of a premium of $6,856 and $7,291, respectively, and unamortized deferred loss on refinancing of $404,633 and $430,324, respectively, and have related unamortized issue costs of $183,329 and $194,969, respectively.

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

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

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

The Series 2006 Bonds are payable in semiannual installments with annual principal payments ranging from $180,000 to $1,575,000 and interest ranging from 3.5% 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, 2010 and 2009, the Series 2006 Bonds are shown net of a discount of $18,659 and $20,381, respectively, and unamortized deferred loss on refinancing of $311,337 and $340,073, respectively, and have related unamortized issue costs of $206,768 and $225,854, respectively.

### *(g) Bond Maturity Schedule*

Debt service to maturity for all bonds as of June 30, 2010 is as follows:

| | | Principal | Interest | Total |
|---|---|---|---|---|
| Year ending June 30: | | | | |
| 2011 | $ | 3,430,000 | 2,047,809 | 5,477,809 |
| 2012 | | 5,090,000 | 1,923,859 | 7,013,859 |
| 2013 | | 3,735,000 | 1,789,052 | 5,524,052 |
| 2014 | | 3,820,000 | 1,705,815 | 5,525,815 |
| 2015 | | 3,810,000 | 1,619,252 | 5,429,252 |
| 2016 – 2020 | | 20,430,000 | 6,694,441 | 27,124,441 |
| 2021 – 2025 | | 23,295,000 | 3,848,182 | 27,143,182 |
| 2026 – 2029 | | 11,850,000 | 1,115,195 | 12,965,195 |
| | | 75,460,000 | 20,743,605 | 96,203,605 |
| Less unaccreted principal on Series 2004 Parking Bonds | | (9,064,779) | — | (9,064,779) |
| Less unamortized discount/ premium and deferred loss on refinancing | | (1,016,660) | — | (1,016,660) |
| | $ | 65,378,561 | 20,743,605 | 86,122,166 |

Reserve balances and requirements for outstanding bond issues at June 30, 2010 are as follows:

| | | Reserve balance | Required reserve |
|---|---|---|---|
| Series 2003, Series 2004, and Series 2006 Parking Bonds: | | | |
| Debt service reserve | $ | 4,217,740 | 4,217,740 |
| Repair and replacement reserve | | 650,085 | 643,539 |
| Series 2003 and 2006 Student Fee Bonds: | | | |
| Repair, replacement, and operation and maintenance reserve | $ | 350,000 | 350,000 |

As of June 30, 2010 and 2009, the Center was in compliance with all bond covenants and related reserve requirements.

Student bond fees and parking revenues were pledged as follows:

| Revenue source | | 2010 | 2009 |
|---|---|---|---|
| Student bond fees | $ | 5,905,260 | 5,019,480 |
| Interest earned on student bond fees | | 24,122 | 120,350 |
| Parking revenue | | 8,991,974 | 8,828,457 |
| Interest earned on parking revenue | | 305,364 | 350,087 |
| Total pledged revenue | $ | 15,226,720 | 14,318,374 |


(Continued)

### *(h) Capital Lease Obligations*

The Center is obligated under leases accounted for as capital leases. Assets under capital leases are included in the statements of net assets at June 30, 2010 and 2009 as follows:

| | | Cost | Accumulated depreciation | Carrying value |
|---|---|---|---|---|
| June 30, 2010: | | | | |
| Administrative building | $ | 15,518,172 | 5,931,479 | 9,586,693 |
| Equipment | | 334,800 | 100,440 | 234,360 |
| Land | | 16,500,000 | — | 16,500,000 |
| Construction in progress: | | | | |
| Science Building | | 83,719,892 | — | 83,719,892 |
| Equipment | | 604,640 | 43,399 | 561,241 |
| Total capital lease obligation | $ | 116,677,504 | 6,075,318 | 110,602,186 |
| June 30, 2009: | | | | |
| Administrative building | $ | 15,518,172 | 5,372,279 | 10,145,893 |
| Equipment | | 334,800 | 33,480 | 301,320 |
| Land | | 16,500,000 | — | 16,500,000 |
| Construction in progress – Science Building | | 19,639,774 | — | 19,639,774 |
| Total capital lease obligation | $ | 51,992,746 | 5,405,759 | 46,586,987 |

### *(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.

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

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

At June 30, 2010 and 2009, the Administrative Facility Certificates are shown net of an unamortized discount of $23,967 and $25,311, respectively, unamortized deferred loss on refinancing of $854,471 and $901,291, respectively, and unamortized issue costs of $280,068 and $295,773, 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 in the costs of debt service through their lease payments to the Center.

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, 2010 and 2009, the Series 2008 Land Acquisition Certificates had an issuance premium of $44,931 and $47,427, respectively, and unamortized issuance costs of $105,840 and $111,720, respectively

***(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. Legislation 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 Auraria 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%.

### *(l) Equipment Lease*

The Center also entered into a lease-purchase contract for copier equipment for the year ended June 30, 2009. The interest rate on the lease was 8% in fiscal years 2010 and 2009.

### *(m) Future Minimum Lease Payments*

The following is a schedule of future minimum lease payments under all capital leases for the year ended June 30, 2010:

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 2011 | $ 1,844,415 | 2,547,495 | 4,391,910 |
| 2012 | 1,933,079 | 2,455,030 | 4,388,109 |
| 2013 | 2,023,483 | 2,365,696 | 4,389,179 |
| 2014 | 2,039,043 | 2,269,744 | 4,308,787 |
| 2015 | 2,136,547 | 2,170,141 | 4,306,688 |
| 2016 – 2020 | 12,370,922 | 9,159,816 | 21,530,738 |
| 2021 – 2025 | 15,886,584 | 5,638,954 | 21,525,538 |
| 2026 – 2029 | 11,716,287 | 1,200,588 | 12,916,875 |
| | 49,950,360 | 27,807,464 | 77,757,824 |
| Less unamortized discount/ premium and deferred loss on refinancing | (923,369) | — | (923,369) |
| | $ 49,026,991 | 27,807,464 | 76,834,455 |

## (5) 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, 2010, 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 $15,343,463. The constituent institutions also provided additional nonappropriated funding of $719,125 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 $967,428 provided by Metropolitan State College of Denver and the University of Colorado Denver in lease payments related to the financed portion of the Science Building project.

For the year ended June 30, 2009, appropriated current fund expenditures were within the authorized spending authority. The Center had total current funds appropriations of $16,627,252, for which the constituent institutions funded $16,625,772. The constituent institutions also provided additional nonappropriated funding of $511,209 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 $652,439 provided by Metropolitan State College of Denver and the University of Colorado Denver in lease payments related to the financed portion of the Science Building project.

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.

## (6) 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 basic 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, the University of Colorado Denver. In June 2006, the Foundation sold certain buildings to the University of Colorado 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 and $500,000 to the Center for safety projects including night lighting and emergency phones. At June 30, 2010, the Center incurred and billed expenses of $1,534,723 to the Foundation on the Science Building project, all of which is included in accounts receivable at year-end.

At June 30, 2009, the Center incurred and billed expenses of $1,123,001 on the Science Building addition/renovation project and $500,000 on the kiln roof project, all of which were included in accounts receivables at year-end.

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 $20,000, respectively, for the years ended June 30, 2010 and 2009. In addition, the Foundation paid the Center $7,844 and $2,696 during fiscal years 2010 and 2009, respectively, for room rentals and reimbursements. Under that agreement, the Center is also required to pay the Foundation for the Foundation’s services in obtaining financing for construction of the administration facility. For the year ended June 30, 2009, the Center paid the Foundation $25,000 for these one-time services.

The Foundation owns the St. Francis Center and leases it to the Center to provide office space for campus activities and for conferences. The lease requires the Center to pay an annual lease payment and the operating costs of the building. During the years ended June 30, 2010 and 2009, the Center paid the Foundation $43,106 and $38,625, respectively, for the use of the St. Francis Center. In addition, the Center billed the Foundation $18,809 for the fire system during fiscal year 2009.

***(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 Auraria campus. The facility opened to student residents on August 19, 2006. The Executive Tower Inn building is condominium zed 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. As of the fiscal year ended June 30, 2010, the Inn is reporting a net loss of $1,636,292 and has a net capital deficiency of $7,379,541. In the planning for this project, it was anticipated that the Inn’s first years of operation would be difficult because the Inn represented the addition of student housing to a campus, which has historically been a nonresidential “commuter” campus.

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

| | | Principal | Interest | Total |
|---|---|---|---|---|
| Year ending June 30: | | | | |
| 2011 | $ | 385,000 | 2,198,759 | 2,583,759 |
| 2012 | | 285,000 | 2,185,591 | 2,470,591 |
| 2013 | | 375,000 | 2,167,853 | 2,542,853 |
| 2014 | | 475,000 | 2,145,009 | 2,620,009 |
| 2015 | | 515,000 | 2,118,403 | 2,633,403 |
| Thereafter | | 35,245,000 | 37,224,719 | 72,469,719 |
| | $ | 37,280,000 | 48,040,334 | 85,320,334 |

The Inn failed to meet certain principal and interest payment obligations due on July 1, 2008. As a result, the Inn was issued a Notice of Material Event and Event of Default from the bond trustee, which notified the Inn of an Interest and Principal Payment Default. On October 1, 2008, the Inn satisfied the payment of interest, thus curing the Interest Payment Default. The principal payment has not been satisfied, and therefore, an Event of Default continues to exist pursuant to the bond indenture and related agreements. In addition, the Inn failed to meet certain principal payment obligations due on July 1, 2010 and July 1, 2009 under the Series 2005 Revenue Bonds. Neither the Foundation nor the Center is legally obligated to assist the Inn in meeting its debt service requirements. Management of the Inn is evaluating alternatives to address this Material Event and cannot predict the outcome of these actions.

## (7) 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, CO 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, excluding 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.

New employees, excluding four-year college and university employees, are allowed 60 days to elect to participate in PERA's defined contribution plan. If that election is not made, the employee is automatically enrolled in the plan to which he or she last contributed or, if there was no prior participation, to the defined benefit plan. PERA members electing the PERA defined contribution plan are allowed an irrevocable election between the second and fifth year of membership 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 rules in effect for those hired on or after January 1, 2007, as discussed below. The employer contribution to the defined contribution plan is the same amount as the contribution to the PERA defined benefit plan

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

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

Most 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% increase between periods~~.~~

For retirements after January 1, 2009, the HAS is calculated based on original hire date as follows:

- Hired before January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to a 15% increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 15% increase.
- Hired on or after January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to an 8.0% increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 8.0% increase.



(Continued)

Prior to January 1, 2010, retiree benefits were increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5%, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3.0% or the actual increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI).
- Hired on or after January 1, 2007 – the lesser of 3.0% 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% age point of salaries contributed by employers for employees hired on or after January 1, 2007.)

In the 2010 legislative session, the general assembly set the current increase as the lesser of 2.0% or the average of the monthly CPI amounts for calendar year 2009. The 2009 CPI was negative resulting in a calendar year 2010 increase of 0.0%. The 2010 legislation moved the payment date of all increases to July. New rules governing the annual increase amount will be in effect beginning January 1, 2011.

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 CRS 24-51-101(42), to an individual account in the plan. From July 1, 2009 to December 31, 2009, the State contributed 12.95% of the employee's salary. From January 1, 2010 through June 30, 2010, the State contributed 13.85%. During all of fiscal year 2009-10, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per CRS, an amortization period of 30 years is deemed actuarially sound. At December 31, 2009, the division of PERA in which the State participates was underfunded with an amortization period of 43 years.

In the 2004 legislative session, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5% of salary beginning January 1, 2006, another 0.5% of salary in 2007, and subsequent year increases of 0.4% of salary until the additional payment reaches 3.0% in 2012.

In the 2006 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional 0.5% point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by 0.5% point through 2013 resulting in a cumulative increase of 3.0% points. For State employers, each year's 0.5% point increase in the SAED will be deducted from the amount of changes to State employees' salaries, and used by the employer to pay the SAED.

In the 2010 legislative session, the general assembly extended both the AED and SAED. The AED will continue to increase at a rate of 0.4% of salary from calendar years 2013 through 2017. The SAED will continue to increase by 0.5% point from calendar years 2014 through 2017. If the funding ratio reaches 103%, both the AED and the SAED will be reduced by 0.5% point. Neither the AED nor the SAED may exceed 5.0%.

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

The Center's contributions to PERA and/or the State's defined contribution plan for the fiscal years ended June 30, 2010, 2009, and 2008 were $1,763,441, $1,844,737, and $1,438,374, respectively. These contributions met the contribution requirement for each year.

## (8) 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. On July 1, 2009, administration of the State's defined contribution plan was transferred to PERA and participants of the state's plan became participants of the PERA defined contribution plan. Existing State Plan members at the time of the transfer became participants in the PERA defined contribution plan and retained their vesting schedule for employer contributions, while employer contributions for new members will vest from 50% to 100% evenly over 5 years. Participants in the plan are required to contribute 8.0% of their salary. At December 31, 2009, the plan had 3,039 participants.

### *(b) Deferred Compensation Plan*

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the state's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions were transferred to PERA, and all costs of administration and funding are borne by the plan participants. In calendar year 2009, 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 $16,500. Participants who are age 50 and older may contribute an additional $5,500 for total contributions of $22,000 in 2009. At December 31, 2009, the plan had 18,007 participants.

PERA also offers a voluntary 401k plan entirely separate from the defined benefit pension 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.

## (9) Other Postemployment Benefits and Life Insurance

### *(a) Health Care 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, CO 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 5.0% 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 7. 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 $129,871, $145,365, and $138,611 as required by statute in fiscal years 2009-10, 2008-09, and 2007-08, 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. In addition, two of PERA's insurance carriers offered high deductible healthcare plans in 2009. As of December 31, 2009, there were 46,985 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2009, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.50 billion, a funded ratio of 14.8%, and a 53-year amortization period.

### *(b) Other Programs*

Nonclassified administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for postemployment health coverage until the retiree is eligible for Medicare. For fiscal years 2010 and 2009, 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.

## (10) Risk Management

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

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.

## (11) 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.

## (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. Its purpose is 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).

AHEC is an agency of the State of Colorado (the State) 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 (UCD), Metropolitan State College of Denver, and the Community College of Denver (CCD).

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

Inn at Auraria LLC (Inn) is a limited liability corporation, which is legally, financially, and operationally independent of the Foundation. The Foundation is the sole member of Inn. Inn was created to provide housing for the students of the Auraria institutions. In July 2005, 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 Auraria Campus. The facility opened to student residents on August 19, 2006.

The Executive Tower Inn building is condominium zed between Inn and the remainder of the building. A condominium association provides common building services, such as elevator maintenance and exterior street level maintenance, to 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. Inn has engaged American Campus Communities to provide administrative and residential management services under an agreement expiring in August 2016.

As of the fiscal year ended June 30, 2010, Inn is reporting a net loss of $1,636,292 and has a net capital deficiency of $7,379,541. In the planning for this project, it was anticipated that Inn’s first years of operation would be difficult because Inn represented the addition of student housing to a campus, which has historically been a nonresidential “commuter” campus.

Inn failed to meet certain principal and interest payment obligations due on July 1, 2008 under the Series 2005 Revenue Bonds. As a result, Inn was issued a Notice of Material Event and Event of Default from the Series 2005 Revenue Bonds trustee, which notified Inn of an Interest and Principal Payment Default. On October 1, 2008, Inn satisfied the payment of interest, thus curing the Interest Payment Default. The principal payment has not been satisfied, and therefore, an Event of Default continues to exist pursuant to the bond indenture and related agreements. In addition, Inn failed to meet certain principal payment obligations due on July 1, 2010 and 2009 under the Series 2005 Revenue Bonds.

Management is evaluating alternatives to address this Material Event and cannot predict the outcome of these actions.

### (c) Consolidated Financial Statements

The accompanying financial statements include the accounts of the Foundation and Inn. All material interorganization transactions have been eliminated in consolidation. Nevertheless, Inn and the Foundation are legally, financially, and operationally independent entities.

In July 2005, when Inn obtained funding for the housing project, the Foundation loaned Inn $250,000 to enable Inn to make the "borrower contribution" required. The Foundation has made additional loans to the Inn through the payment of utility bills, property taxes, and other expenses, which could not be paid from the Inn's operating budget, including $4,946 and $143,671 during the years ended June 30, 2010 and 2009, respectively.

## (2) Summary of Significant Accounting Policies

### (a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). Revenues are recognized when earned, and expenses and costs are recognized when incurred.

### (b) Financial Statement Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) authoritative guidance on financial statements of not-for-profit organizations. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted; neither the Foundation nor Inn have any temporarily or permanently restricted net assets at June 30, 2010 or 2009.

### (c) Contributions

Foundation follows the requirements of authoritative guidance on accounting for contributions received and contributions made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in unrestricted, temporarily restricted, or permanently restricted net assets depending on the nature of the restriction. When a restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions whose restrictions are met in the same period in which the related contributions are received are reported as unrestricted support.

### (d) Pledges Receivable

Unconditional pledges are recognized as revenues in the period when the pledge is received. Pledges receivable are recorded at net realizable value if expected to be collected in one year and at net present value if expected to be collected in more than one year. Conditional pledges are recognized when the conditions on which they depend are substantially met.



(Continued)

### *(e) Unrestricted Cash and Cash Equivalents*

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and all liquid investments with an initial maturity of three months or less.

### *(f) Unrestricted 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. Unrealized gains and losses are included in the change in net assets in the statement of activities.

### *(g) Property and Equipment*

Property and equipment are recorded at cost. Repairs and maintenance of property and equipment are charged to operations. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets, ranging from 40 years for buildings, 7 to 25 years for building improvements, and 3 to 7 years for furniture and equipment. Amortization of assets recorded under capital leases is computed using the straight-line method over the shorter of the asset useful life or term of the lease and is included in depreciation expense. Upon retirement, sale, or other dispositions 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.

### *(h) Long-Lived Assets*

FASB authoritative guidance on accounting for the impairment or disposal of long-lived assets requires that long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of June 30, 2010 and 2009, management believes the carrying values of all long-lived assets are recoverable.

### *(i) Bond Issuance Costs*

In connection with the issuance of the Series 2005A tax-exempt bonds and the Series 2005B taxable bonds by the Issuer and the note agreement between the Issuer and Inn, Inn was obligated to pay the Issuer fees and expenses for such issuance. These bond issuance costs are being deferred and amortized over the terms of the bonds using the straight-line method, which approximates the interest method. Any unamortized costs would be charged to earnings upon repayment of or in connection with a material change in the terms of the underlying debt agreement. Amortization of bond issuance costs was $21,300 for the years ended June 30, 2010 and 2009.

### *(j) Student Housing Revenues and Related Receivables*

Inn leases student housing apartment units based generally on annual lease agreements beginning in either May or August. Rent amounts are due in 12 equal monthly installments, and income is recognized ratably over the term of the lease. Rent amounts received in advance of revenue recognition are recorded as deferred revenue on the statement of financial position. Unpaid rent amounts due are recorded as accounts receivable. Allowances are established when management determines that collection of a specific receivable is doubtful.


(Continued)

### *(k) Use of Estimates*

The preparation of financial statements in conformity with GAAP 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 and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, provision for doubtful accounts, useful lives of property and equipment, accrued expenses, and contingencies and litigation, among others. Actual results could differ from those estimates.

### *(l) Contributed Property and Services*

Contributed property and equipment are recorded at fair value on the date received. If donors stipulate how long the assets must be used, 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 financial statements for these donated services because they do not meet the criteria for recognition under FASB authoritative guidance.

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

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents in excess of Federal Deposit Insurance Corporation (FDIC) limits, publicly traded corporate securities and U.S. Treasury and Agency securities. The Foundation places its cash and cash equivalents with creditworthy, high-quality, financial institutions. 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.

### *(n) Fair Value of Financial Instruments*

Authoritative guidance on fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value in accordance with generally accepted principles, and expands disclosures about fair value measurements. The guidance became effective for fiscal years beginning after November 15, 2007. Although the adoption of the authoritative guidance has not materially impacted its financial position and results of operations, the Foundation and Inn are now required to provide additional disclosures as part of the consolidated financial statements. FASB authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Effective July 1, 2008, the Foundation and Inn adopted FASB authoritative guidance on fair value measurements for financial assets and liabilities. The carrying amounts of the Foundation's financial instruments, including cash and cash equivalents, investments, accounts receivable and payable, and accrued expenses, approximate their fair values. The carrying amounts of Inn's financial instruments, including cash and cash equivalents, trustee held cash and guaranteed investment contracts limited as to use, accounts receivable and payable, accrued expenses, tenant security deposits, deferred revenue, and bonds payable, approximate their fair values.

See notes 3 and 4 for a summary of the inputs used as of June 30, 2010 and 2009 in determining the fair value of Inn's and Foundation's investments, respectively.

### *(o) Income Tax Status*

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. However, income from activities not directly related to the Foundation tax-exempt purpose is subject to taxation as unrelated business income. The Foundation's tax-exempt status also provides tax-exempt status to Inn.

On July 1, 2009, the Foundation and Inn adopted a FASB interpretation on accounting for uncertainty in income taxes recognized in an entity's financial statements, which prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The companies evaluate uncertain tax positions, if any exist, under this provision. The Foundation and Inn account for uncertainty of income taxes based on a "more-likely than-not" threshold for the recognition and derecognition of tax positions, which includes the accounting for interest and penalties relating to tax positions. At the adoption, there was no liability for uncertain tax positions due to the fact that Foundation's federal income tax status was not considered an uncertain tax position. Neither the Foundation nor Inn had any tax positions that they would consider uncertain at June 30, 2010.

### *(p) Recent Accounting Pronouncements*

In January 2010, the FASB issued an amendment to authoritative guidance on fair value measurements and disclosures to improve the fair value disclosure requirements. This amendment will require new disclosures related to the transfers in and out of Levels 1 and 2 fair value measurements and activity in Level 3 fair value measurements. The amendment also clarifies the existing disclosures related to the level of disaggregation and inputs and valuation techniques. The amendment is effective for annual reporting periods beginning after December 31, 2009.

### *(q) Subsequent Events*

The Foundation evaluated events occurring between the end of the most recent fiscal year ended and October 8, 2010, the date the financial statements were available to be issued.

## (3) Inn at Auraria LLC Accounts

### *(a) Fair Value Measurements*

Inn's investments carried at fair value consist of guaranteed investment contracts valued at $516,222 and $1,293,517 as of June 30, 2010 and 2009, respectively. The estimated fair value of Inn's guaranteed investment contracts has been determined using level two inputs, as defined in note 2.

### *(b) Property and Equipment*

Property and equipment at June 30 consisted of the following:

| | | 2010 | 2009 |
|---|---|---|---|
| Building and improvements | $ | 31,888,713 | 31,887,315 |
| Furniture and equipment | | 1,024,337 | 1,020,625 |
| Equipment under capital lease | | 109,952 | 109,952 |
| Total property and equipment | | 33,023,002 | 33,017,892 |
| Less accumulated depreciation | | (3,763,836) | (2,792,707) |
| Net property and equipment | $ | 29,259,166 | 30,225,185 |

### *(c) Commitments and Contingencies*

Inn leases certain equipment under a capital lease expiring in fiscal year 2012. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset.

Future minimum lease payments required under the capital lease as of June 30, 2010 are as follows:

| | | |
|---|---|---|
| 2011 | $ | 29,139 |
| 2012 | | 1,505 |
| 2013 | | — |
| Total minimum lease payments | | 30,644 |
| Less amount representing interest | | (2,460) |
| Present value often minimum lease payments | $ | 28,184 |

### *(d) Bonds Payable in Default*

In July 2005, Inn received a loan from 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 6.000%. Principal is payable annually from July 1, 2009 through July 1, 2042 at increasing amounts. Interest on the Series 2005B bonds is payable semiannually at 6.5%. The loan is collateralized by a mortgage on Inn's facility, Inn's revenues from the facility and restricted cash and investment accounts. Under the terms of the bond agreement, the Foundation has no obligation for payment of bond principal or interest. Inn is required to maintain rental rates at a level that will provide income available for debt service at least equal to 120% of the principal and interest due in each year on all outstanding bonds. Inn has failed to meet this requirement for the years ended June 30, 2010 and 2009.

As discussed in note 1 of these financial statements, Inn has been issued a Notice of Material Event and Event of Default on these Series 2005 Revenue Bonds. Principal payments were not paid when due on July 1, 2010, 2009, and 2008, respectively.

Principal and interest payments on the bonds, inclusive of principal payments in default, for the years ending June 30 are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 385,000 | 2,198,759 | 2,583,759 |
| 2012 | 285,000 | 2,185,591 | 2,470,591 |
| 2013 | 375,000 | 2,167,853 | 2,542,853 |
| 2014 | 475,000 | 2,145,009 | 2,620,009 |
| 2015 | 515,000 | 2,118,403 | 2,633,403 |
| Thereafter | 35,245,000 | 37,224,719 | 72,469,719 |
| | $ 37,280,000 | 48,040,334 | 85,320,334 |

### *(e) Trustee Held Cash and Guaranteed Investment Contracts Limited as to Use*

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

**Debt Service Reserve Fund**

The amount to remain on deposit in this fund is to be the Debt Service Reserve Requirement, as defined. This fund is to be used to fund interest and principal payments should a shortfall in the Bond Fund exist.

**Revenue Fund**

Gross revenues are to be deposited into this fund. The Trustee is authorized to withdraw amounts to satisfy the Operating Expense Fund. Any amounts remaining in the fund are used to satisfy the Bond Fund as well as other indenture requirements on a monthly basis.

**Operating Expense Fund**

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

**Bond Fund**

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

**Repair and Replacement Fund**

The Trustee is to make deposits into this fund from the Revenue Fund, if available, in order to meet the Repair and Replacement Fund Requirement. Approved repair and replacement expenditures are to be made from this fund.

**Operating Reserve Fund**

Established to pay any operating expenses in excess of those budgeted unless sufficient moneys are not on deposit in the Bond Fund to make a required payment of principal and interest on the Series 2005 Bonds.

The guaranteed investment contract for the debt service reserve pays interest of 4.532% and expires July 1, 2042. Amounts held under this contract are available for expenditure for their restricted purposes within up to a week of Inn's presenting the request for expenditure.

Amounts on deposit in these Trustee-held accounts were as follows:

| | | June 30, 2010 | | |
|---|---|---|---|---|
| | | **Money market accounts** | **Guaranteed investment contracts** | **Total** |
| Debt service reserve | $ | 21,892 | 516,222 | 538,114 |
| Revenue fund | | 5,799 | — | 5,799 |
| Interest accounts: | | | | |
| A bonds | | 1,104,284 | — | 1,104,284 |
| B bonds | | 1,907 | — | 1,907 |
| Principal fund: | | | | |
| A bonds | | 46 | — | 46 |
| Total | $ | 1,133,928 | 516,222 | 1,650,150 |

| | June 30, 2009 | | |
|---|---|---|---|
| | **Money market accounts** | **Guaranteed investment contracts** | **Total** |
| Debt service reserve | $ 41,977 | 1,293,517 | 1,335,494 |
| Revenue fund | 5,570 | — | 5,570 |
| Operating expense fund | 42 | — | 42 |
| Interest accounts: | | | |
| A bonds | 1,104,284 | — | 1,104,284 |
| B bonds | 2,822 | — | 2,822 |
| Principal fund: | | | |
| A bonds | 46 | — | 46 |
| Total | $ 1,154,741 | 1,293,517 | 2,448,258 |

## (4) The Auraria Foundation Accounts

### *(a) Fair Value Measurements*

The following is a summary of the inputs, as defined in note 2, used as of June 30, 2010 and 2009 in valuing Foundation's investments carried at fair value.

| | June 30, 2010 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Short-term investments | $ 307,412 | — | — | 307,412 |
| U.S. Treasury and corporate obligations | 356,762 | 192,614 | — | 549,376 |
| Fixed income | 514,610 | — | — | 514,610 |
| Equities | 1,973,191 | — | — | 1,973,191 |
| Managed investments | 3,151,975 | 192,614 | — | 3,344,589 |
| Certificates of deposit | 1,238,820 | — | — | 1,238,820 |
| Total | $ 4,390,795 | 192,614 | — | 4,583,409 |

| | June 30, 2009 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Short-term investments | $ 317,106 | — | — | 317,106 |
| U.S. Treasury and corporate obligations | 290,449 | 439,528 | — | 729,977 |
| Fixed income | 219,718 | — | — | 219,718 |
| Equities | 1,966,526 | — | — | 1,966,526 |
| Managed investments | 2,793,799 | 439,528 | — | 3,233,327 |
| Certificates of deposit | 1,465,336 | — | — | 1,465,336 |
| Total | $ 4,259,135 | 439,528 | — | 4,698,663 |

***(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 payment of the grants discussed in the "Grants to Auraria Higher Education Center" note below or as an endowment to fund future grants and projects. Status of these accounts at June 30, 2010 and 2009 is as follows:

| **June 30, 2010** | **Cash** | **Investments** | **Combined** |
|---|---|---|---|
| Assets designated for payment of current grants: | | | 1,350,280 |
| Money market fund | $ 111,460 | — | |
| Bank certificates of deposit | — | 1,238,820 | |
| Assets designated for future grants and projects: | | | 3,344,589 |
| Managed investments | — | 3,344,589 | |
| Operating checking account | 42,353 | — | 42,353 |
| Total | $ 153,813 | 4,583,409 | 4,737,222 |

| June 30, 2009 | | Cash | Investments | Combined |
|---|---|---|---|---|
| Assets designated for payment of current grants: | | | | 3,025,052 |
| Money market fund | $ | 1,559,716 | — | |
| Bank certificates of deposit | | — | 1,465,336 | |
| Assets designated for future grants and projects: | | | | 3,233,327 |
| Managed investments | | — | 3,233,327 | |
| Operating checking account | | 23,023 | — | 23,023 |
| Total | $ | 1,582,739 | 4,698,663 | 6,281,402 |

In December 2006 and January 2007, the Foundation transferred $4,700,000 to managed investment accounts. The investment managers have the authority to buy and sell investment securities within the limits prescribed by Foundation's investment policy. As of June 30, 2010 and 2009, these amounts are invested in fixed income, equities, mutual funds, and other assets.

Status of these accounts at June 30, 2010 and 2009 is as follows:

| Investment manager | | Market value June 30, 2009 | Withdrawals | Market value June 30, 2010 | Realized and unrealized loss |
|---|---|---|---|---|---|
| Denver investments | $ | 1,739,504 | 1,454,313 | 3,344,589 | 150,772 |
| UBS | | 1,493,823 | (1,454,313) | — | (39,510) |
| | $ | 3,233,327 | — | 3,344,589 | 111,262 |

It is the intention of the Foundation to utilize these investments as an endowment to fund future grants and projects.

### *(c) Property and Equipment*

Property and equipment at June 30 consisted of the following:

| | | 2010 | 2009 |
|---|---|---|---|
| St. Francis Center: | | | |
| Land | $ | 299,423 | 299,423 |
| Building and improvements | | 1,472,843 | 1,472,843 |
| Furniture and equipment | | 61,067 | 61,067 |
| Total property and equipment | | 1,833,333 | 1,833,333 |
| Less accumulated depreciation | | (1,017,731) | (978,705) |
| Net property and equipment | $ | 815,602 | 854,628 |

### *(d) Grants to Auraria Higher Education Center*

In fiscal 2006, the Foundation agreed to provide funding for two major campus projects. The Foundation agreed to reimburse AHEC up to $3,000,000 for costs of the Science Building, Addition/Renovation project (Science Building) and up to $500,000 for the Night Lighting and Emergency Phones project (Night Lighting). The Foundation authorized a $250,000 grant to AHEC in fiscal 2008 and an additional $250,000 in fiscal 2009 for the construction of a roof over the foundry/kiln area of the Arts Building (Kiln Roof). The grants were considered to be unconditional, and therefore, the expenses and corresponding payables were recorded in fiscal 2009, 2008, and 2006 in accordance with FASB authoritative guidance.

At June 30, 2010, the unpaid balance of the Science Building grant is approximately $1,534,000. It is expected this grant will be paid over the next year. The Night Lighting project and the Kiln Roof project were completed and the grants have been paid as of June 30, 2010.

The Foundation has set aside funds in a money market account and FDIC insured certificates of deposit to provide for future payments on this grant. At June 30, 2010, the amount set aside is $1,350,280. Management expects to pay this amount over the next year and no discount has been applied.

### *(e) Related-Party Transactions*

In 2010, the Foundation contracted with AHEC for use of office facilities and services at a cost of $2,000. In 2009, the contract amount was $20,000 for these items and for staff for management of the Foundation’s affairs.

The contract also provides for the lease of the Saint Francis Center to AHEC for use as a conference center and office space for campus activities. The lease requires AHEC to pay an annual lease payment and the operating costs of the building. The Foundation is responsible for insurance and for the cost of major repairs to the building. AHEC paid the Foundation $43,106 and $38,625 in 2010 and 2009, respectively, for the lease of the building.

The contract no longer requires AHEC to pay a management fee with respect to the Administration Building. For the fiscal years ended June 30, 2010 and 2009, the fees were $0 and $25,000, respectively.

During 2010 and 2009, the Foundation contributed $1,975 and $45,615, respectively, to various activities of AHEC.

**(5) Subsequent Events**

At its July 27, 2010 board meeting, the Foundation Board approved an AHEC grant not to exceed $300,000 for an Infrastructure Master Plan. It is expected that this grant will be paid within the 2011 fiscal year.

Also, at its July 27, 2010 board meeting, the Foundation Board approved the transfer of the St. Francis Center property to state ownership. The St. Francis Center property is located within the boundaries of the Auraria campus in an area, which is designated for future construction. Management believes this property is of enormous value to the future of the campus. The property was acquired by the Foundation in 1983 in order to obtain control of the property for the benefit of the campus. Since acquisition by the Foundation, the property has been used for campus activities. The proposed transfer will establish control of the property in the state government entities housed on the Auraria Campus.

A nonbinding agreement has been reached in principle whereby the CCD will purchase the building and contents from the Foundation for $500,000. The Foundation will donate the 0.57 acres of land in the St. Francis parcel to AHEC. AHEC will lease to CCD, at a nominal rental, the land needed for the building. These transactions are dependent on approval by various institutional governing bodies and, perhaps, formal approval by the Colorado General Assembly and the Governor.

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities and discretely presented component unit of the Auraria Higher Education Center (the Center), a component unit of the State of Colorado, as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements, and have issued our report thereon, dated November 5, 2010. Our report was modified to include a reference to the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the Center's basic financial statements. Those financial statements included an explanatory paragraph about the discretely presented component unit's ability to continue as a going concern. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting 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 opinions on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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.

## Compliance and Other Matters

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

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 Trustees and management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 5, 2010

**KPMG LLP**
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November 5, 2010

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the business type activities and discretely presented component unit of the Auraria Higher Education Center (the Center), a component unit of the State of Colorado, as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon, dated November 5, 2010. Our report was modified to include a reference to the report of other auditors. The financial statements of the discretely presented component unit included an explanatory paragraph about the discretely presented component unit's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the Center's basic financial statements. The financial statements of the discretely presented component unit 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 audits.

**Our Responsibility under Professional Standards**

We are responsible for forming and expressing an opinion about whether the basic financial statements, which 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 conduct our audit of the basic financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements 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 basic financial statements are detected. Our audit does not relieve management of their responsibilities.

In addition, in planning and performing our audit of the basic financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic 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.

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 basic 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 basic 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 basic financial statements.

#### *Unusual Transactions*

We noted no unusual transactions entered into by the Center, which 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 Center's 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 basic financial statements, which include related disclosures.

### Management Judgments and Accounting Estimates

The preparation of the basic 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Accounting estimates are an integral part of the basic financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The significant accounting estimates included in the Center's basic financial statements are the allowance for uncollectible receivables, the period to depreciate capital assets owned by the Center, the percentage of completion related to the science building and the related allocations to constituent institutions, and accrued compensated absences. We evaluated the key factors and assumptions in determining that these estimates are reasonable in relation to the basic financial statements taken as a whole.

**Uncorrected and Corrected Misstatements**

In connection with our audit of the Center's basic financial statements, we did not identify any adjustments, which have not been corrected in the Center's books and records as of and for the year ended June 30, 2010.

**Disagreements with Management**

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the Center's basic financial statements.

**Management's Consultation with Other Accountants**

To the best of our knowledge, management has neither consulted with nor obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2010.

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

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

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the Center's auditors. However, these discussions occur in the normal course of our professional relationship, and the result of these discussions was not a condition to our retention.

***Material Written Communications***

Management has been provided copies of the following material written communications with us:

1. Management representation letter

**Significant Difficulties Encountered in Performing the Audit**

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

**Independence**

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all independence-related relationships between our firm and the Center and persons in a financial reporting oversight role at the Center and provide confirmation that we are independent accountants with respect to the Center.

We are not aware of any independence-related relationships between our firm and the Center.

***Confirmation of Audit Independence***

We hereby confirm that as of November 5, 2010, we are independent accountants with respect to the Center under all relevant professional and regulatory standards.

* * * * * * *

This report 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 the Center's management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

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