UNIVERSITY OF COLORADO

Financial and Compliance Audit

Year ended June 30, 2005

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UNIVERSITY OF COLORADO

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Year ended June 30, 2005

Table of Contents

UNIVERSITY OF COLORADO

Financial and Compliance Audit

Year ended June 30, 2005

Table of Contents

UNIVERSITY OF COLORADO

Report Summary

Year ended June 30, 2005

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the University of Colorado (the University) for the year ended June 30, 2005. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from May 16, 2005 to December 16, 2005, except for NCAA procedures which were completed as of February 17, 2006.

The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of the University of Colorado as of and for the year ended June 30, 2005. This includes a report on internal control over financial reporting and compliance 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.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the University of Colorado for the year ended June 30, 2005.
- Perform certain agreed-upon procedures regarding the records and internal control related to the University of Colorado at Boulder's Intercollegiate Athletics Program and the statements and records of outside organizations' expenses for or on behalf of the University of Colorado at Boulder's Intercollegiate Athletics Program. These procedures were performed to assist the University in complying with the provisions of the National Collegiate Athletic Association (NCAA) bylaws.
- Evaluate progress in implementing prior audit findings and recommendations.

The University's schedule of expenditures of federal awards and applicable opinions thereon by the Office of the State Auditor, State of Colorado, are included in the June 30, 2005 Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on the University's basic financial statements and the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs for the year ended June 30, 2005.

No audit adjustments were proposed and made to the basic financial statements. Seven additional audit adjustments were proposed and not made to the basic financial statements which would have increased beginning net assets by approximately $1,443,000 and decreased ending net assets by approximately $751,000. These passed differences are not considered material in relation to the University's basic financial statements.

We issued a report on the University's compliance and internal control over financial reporting based on an audit of basic financial statements performed in accordance with *Government Auditing Standards.* We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did note, however, certain areas where the University could improve its internal control or compliance procedures or achieve other operating efficiencies, which are described in the Findings and Recommendations section of this report.

We issued a report detailing our performance of agreed-upon procedures related to the University of Colorado at Boulder's Intercollegiate Athletics Program in accordance with NCAA guidelines. Our report disclosed exceptions as a result of our procedures which are detailed on pages 99-123 of this report.

Summary of Findings

Proper Recording of Transactions with the CU Foundation

Some transactions between the University and the University of Colorado Foundation (CU Foundation) are posted to the general ledger with minimal or informal support for such transactions. In some instances, transactions are recorded inconsistently between the entities during the year and at year-end resulting in duplication of amounts or conflicts within the interpretation of the transaction that occurred. As a result, an entry could be recorded that is inaccurate, duplicated, or inconsistent with generally accepted accounting principles in the United States of America (U.S. GAAP).

Logical and Physical Access

Data change requests for the financial and human resources systems are not formally communicated to the University Management Systems (UMS). This increases the risk that an unauthorized user might gain access to the system and perform unauthorized functions and that security violations may go unnoticed.

Application Implementation and Program Change Controls

Application implementation and program change controls are not formally documented, retained, and communicated by management at the University. As a result, roles and responsibilities may not be clear and unauthorized modifications may be implemented without all of the appropriate approvals and testing.

Documentation of Supervisory Review

Management review of various processes is not formally documented as to who completed the review or when it was completed. This increases the risk that errors and irregularities may not be detected and corrected.

NCAA Processes, Controls and Reporting

The results of the University's National Collegiate Athletic Association (NCAA) agreed upon procedures engagement performed by KPMG identified the need for improved processes, controls and reporting to comply with NCAA requirements.

(Continued)

Recommendations and the University's Responses

A summary of the recommendations for the above findings is included in the Recommendation Locator beginning on the next page. The Recommendation Locator also shows the University's responses to the audit recommendations. A discussion of the audit comments and recommendations is contained in the Findings and Recommendations section of our report.

UNIVERSITY OF COLORADO

Report Summary

Year ended June 30, 2005

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2004 included 12 recommendations. The disposition of these audit recommendations as of December 16, 2005 was as follows:

Implemented	6
Partially implemented/in progress	5
Not implemented	1
	12

UNIVERSITY OF COLORADO

Recommendation Locator

Year ended June 30, 2005

Rec. No.	Page No.	Recommendation summary	University response	Implementation date
1	10	Strengthen procedures and related controls to require formal documentation on all transactions and a complete reconciliation of reporting for all significant transactions between the University and the CU Foundation. The University should also document all non-GAAP accounting adjustments.	Agree	October 2006
2	11	Implement logical and physical access enhancements to the IT environment, by implementing the following: a) Evaluating and strengthening password and security settings within BRS b) Developing account management guidelines to ensure timely removal of unauthorized access for terminated employees.	Agree	March 2006
3	12	Develop and implement robust standards to document and retain all program change and implementation activities, addressing: a) Documentation of all change requests with required authorization and approval prior to implementation b) Approval of the program change request prior to the change being made c) Requirement for user and IT sign-off on testing prior to implementation of change d) Monitoring by IT of activity for programs migrated into production	Agree	March 2006

(Continued)

Rec. No.	Page No.	Recommendation summary	University response	Implementation date
4	13	Ensure that supervisory or management reviews of key process are formally documented or evidenced by signature and dating of the reviewer at the time of completion.	Partially Agree – University will encourage, but not commit supervisors to document their review	March 2006
5	14	Improve the reporting process with the CU-Boulder's Intercollegiate Athletics Department by gaining a better understanding of the NCAA requirements and the reporting elements required. Data submitted to the NCAA should be adequately supported by the underlying records within the financial management and other peripheral systems, as applicable, for reconciliation purposes, as needed.	Agree	September 2006
6	18	Establish procedures to ensure that the withdrawal dates for those students who withdraw without providing notification are made within the federally mandated timeframe as well as to ensure that the University's portion of withdrawn students' unearned aid is returned within the federally mandated timeframe. Also establish procedures to ensure that a Return of Title IV Funds calculation is performed for students who withdraw beyond the 60% point of the term.	Agree	June 2006
7	20	Implement procedures to ensure all elements of the FISAP and SURDS are accurate. Additionally, implement reconciliation procedures in order to verify that the information is accurate prior to submission and is consistently reported across campuses, when applicable.	Agree	September 2006

(Continued)

Organization and Administration

The University of Colorado (the University) was established on November 7, 1861, by Act of the Territorial Government. Upon the admission of Colorado into the Union in 1876, the University was declared an institution of the State of Colorado (the State), and the Board of Regents was established under the State Constitution as its governing authority.

The University consists of the system office and the following three campuses:

- Boulder
- Colorado Springs
- Denver and Health Sciences Center

The three campuses comprise 27 schools and colleges which offer more than 114 fields of study at the undergraduate level and 156 fields at the graduate level. Approximately 223 bachelors and masters degrees, along with 71 doctorates are offered.

The Board of Regents is charged constitutionally with the general supervision of the University and the exclusive control and direction of all funds of and appropriations to the University, unless otherwise provided by law. The Board of Regents consists of nine members serving staggered six-year terms, one elected from each of the State's seven congressional districts and two elected from the State at large.

The Board of Regents appoints the President and Chancellors of the University. The President is the chief executive officer of the University. The President is responsible for the administration of the University and for compliance of all University matters with applicable regent laws and policies and state and federal constitutions, laws, and regulations. The President is the chief academic officer of the University, responsible for providing academic leadership for the University in meeting the needs of the State and shall maintain and advance the academic policies of the University. The President is also the chief spokesperson for the University and interpreter of University policy and represents and interprets the roles, goals, and needs of the University throughout the State and elsewhere, as appropriate. The Chancellors are the chief academic and administrative officers at the campus level, responsible to the President for the conduct of the affairs of their respective campuses in accordance with the policies of the Board of Regents.

Enrollment, tuition, and faculty and staff information is presented below. The information was obtained from the Budget Data Book for the respective fiscal years, prepared by the University for the Colorado Commission on Higher Education (CCHE).

Full-Time Equivalent (FTE) Student Enrollment

	Undergraduate		Graduate		
Fiscal year	Resident	Nonresident	Resident	Nonresident	Total
2004-2005	27,471	8,531	7,104	1,184	44,290
2003-2004	26,647	8,642	7,209	1,265	43,763
2002-2003	25,122	8,396	6,699	1,412	41,629

Full-Time Faculty and Staff

Fiscal year	Instructional Faculty	Other Faculty and Staff	Total
2004-2005	2,887	3,207	6,094
2003-2004	2,782	3,211	5,993
2002-2003	2,793	3,434	6,227

New Accounting Standards

During the 2005 fiscal year, the University implemented Governmental Accounting Standards Board (GASB) Statements No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

We have audited the basic financial statements of the University of Colorado (the University) as of and for the year ended June 30, 2005, and have issued our report thereon, dated December 16, 2005. Our report included an explanatory paragraph discussing the University's implementation of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. In planning and performing our audit of the basic financial statements, we considered the University's internal control solely to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on 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 December 16, 2005 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since December 2005. We did not audit the financial statements of the University of Colorado Foundation (CU Foundation) or the University of Colorado Real Estate Foundation (CUREF), discretely presented component units. In addition, we did not audit the financial statements of the University Physicians, Inc. (UPI), a blended component unit. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards.*

Our procedures were designed primarily to enable us to form an opinion on the basic financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We have attempted, however, to use our knowledge of the University gained during our work to make comments and suggestions that we hope will be useful to the University's management.

During our engagement, we noted certain matters involving internal control and other operational matters that are presented for the University's consideration. These comments and recommendations, all of which have been discussed with the appropriate members of the University's management, are intended to improve internal control or result in other operating efficiencies. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. None of the matters discussed below regarding internal control over financial reporting and its operation are considered to be material weaknesses.

We believe it is necessary for the Legislative Audit Committee and Board of Regents to be aware of all findings that we noted during our audit, even those that the University has addressed since their detection during the audit or those in the process of being addressed. In addition, we are required to report all weaknesses in internal control related to compliance over federal awards under *Government Auditing Standards* and OMB Circular A-133*.* To enhance our communication, we have divided our findings into two categories: financial controls and operational matters and federal awards.

FINANCIAL CONTROLS AND OPERATIONAL MATTERS

Proper Recording of Transactions with the CU Foundation

During our fiscal year 2005 audit, as a result of discussions with the University and University of Colorado Foundation (CU Foundation) personnel and related audit work, it came to our attention that certain transactions between the entities were recorded inconsistently from one another and resulted in differences in year-end reporting for each of the respective entities. The risk to the University is that an entry could be recorded that is inaccurate, duplicated, incorrect or does not represent a valid business transaction when taking into account the CU Foundation's financial statements as well. Instances noted, include:

- The audit of the capital grants and gifts revenue for the University revealed approximately $2.1 million recorded as a capital asset and a capital contribution from the CU Foundation for improvements made to the Williams Village Utility Plant on the University's behalf with insufficient documentation to support the transaction. However, when the CU Foundation incurred and paid for these improvements, the improvements were capitalized in the CU Foundation's financial statements as part of Williams Village. As of our report date, there was a disagreement between the entities as to ownership of these Williams Village improvements, and thus, the proper accounting for these transactions.

- When we confirmed certain transactions between the University and the CU Foundation, variances resulted as to the amounts owed from the CU Foundation to the University's campuses as of June 30, 2005. This resulted because it was historically the practice of the CU Foundation to only record contributions made on a cash basis, thus no accruals were made at year-end to the University. Historically, the University also recorded contributions on a cash basis at year-end, even though this does not follow U.S. generally accepted accounting principles (GAAP), as the amounts have not been considered material. However, at fiscal year-end 2005, the University had what they deemed to be material outstanding receivables with the CU Foundation that should be accrued at the Denver campus in the amount of $894,000. This resulted in a discrepancy between what the University recorded as a receivable from the CU Foundation of $894,000 and the amount the CU Foundation recorded as a payable of $0. Further, the University was inconsistent in its recognition of contribution revenue by not recording corresponding receivables for the other campuses ($90,000 for Boulder, $196,000 for Health Sciences Center, and $65,000 for Colorado Springs).

Recommendation No. 1

The University should strengthen procedures and related controls to ensure all transactions between the University and the CU Foundation are properly documented, reconciled, recorded in accordance with GAAP and in the correct fiscal year, and consistent between both entities. Additionally, the University should identify all accounting policies in place that do not follow GAAP, as well as document all known accounting adjustments that the University has elected not to make for the fiscal year.

University of Colorado Response

Agree. The University is committed to continuous improvement and the University Controller will expand the University's current processes for confirming related transactions with the CU Foundation to include items related to the Bear Creek operations. In February 2006, the University provided the necessary information to the CU Foundation to formalize the transfer of the Williams Village utility plant improvement to the University. Effective March 6, 2006, the University is changing its transfer process with the CU Foundation and, thus, accounts receivables resulting from untimely transfer requests will be eliminated. In addition, the University will provide a list of all non-GAAP items to the auditors during the annual audit. These items will be fully implemented with the Fiscal Year 2006 audit which is completed in October 2006.

Logical and Physical Access

During our audit of the University, we reviewed and tested general information technology (IT) controls and noted the following logical and physical access concerns at the University:

a. The Billing and Receivable System (BRS) application security parameters are not fully utilized and the current settings could be strengthened. Specifically, the password parameters for BRS users that were added to the system between December 2003 and May 2005 do not have password expiration.

b. Access to the Human Resources (HR) module of the PeopleSoft application for four terminated employees was not removed or deactivated in a timely manner.

c. Access to the Finance module of the PeopleSoft application for six terminated employees was not removed or deactivated in a timely manner.

d. Access to the housing tables for two employees was not removed or deactivated in a timely manner. One of these employees retired and the other no longer worked in the Bursar's office.

Without appropriate controls over the login validation process, the risk increases that an unauthorized user might gain access to the system and perform unauthorized functions, e.g. alter, delete, or add data. Additionally, the lack of security monitoring increases the risk that a security violation will go unnoticed.

Recommendation No. 2

The University should implement the following logical and physical access enhancements to the environment:

a. Passwords and other security settings within BRS should be evaluated and strengthened. Specifically, user passwords expiration dates should be set to at least 180 days for general users and 90 days for administrator and other power users.

b. Account management guidelines should be developed for terminations that ensure timely removal of unauthorized access for the HR module, the Finance module, and the housing tables, including a periodic review by IT management of user access rights against HR terminated employee listings to ensure that the accounts of terminated employees have been deactivated in a timely manner.

University of Colorado Response

Agree. The Director of University Management Systems will modify the University's processes to strengthen logical and physical access by:

a. Within the Billing and Receivables System, in October 2005, the security parameters were strengthened and the password expiation had been set to 90 days for all users of the system.

b. Account management guidelines have been developed for terminations, which we believe supports timely removal of unauthorized access for the HR module, the Finance module and the housing tables within the Student Information System. Timely removal of access for terminated employees is dependent on (1) supervisors notifying University Management Systems (UMS) of a termination or (2) a termination date is set in the HR system. We have made the supervisor community aware of their responsibility to notify UMS of terminations. To further improve the timeliness of operator ID removal, UMS will run the automated process on a weekly basis (as opposed to current monthly basis) by March 2006.

Application Implementation and Program Change Controls

During our audit of the University, we noted the following ineffective controls over application development and program changes.

a. The program change and implementation methodology has not been documented, approved, and communicated by management.

b. The documentation required in the informal process is not always retained. Of the 18 program changes tested, five were missing the test plans which are required documentation.

Without appropriate documentation and communication of program changes and development standards, roles and responsibilities will not be clear and unauthorized modifications may be implemented without all of the appropriate approvals and testing. Also, if the appropriate level of documentation is not included in the program change, it may not be tested properly, if at all.

Recommendation No. 3

The University should develop and implement the following

a. Robust standards must be developed to document and retain all program change and implementation activities. This should include standards on:

   i. Documentation of all change requests on a program change request form which requires appropriate authorization and approval prior to the request being implemented by an appropriate person in the productions management department.

   ii. Approval of the program change request form before the programmer performs the program changes.

   iii. Requirement of user and IT sign-offs on testing on the program change request form prior to the change being implemented.

   iv. Obtaining a list of the programs migrated into production so IT management can monitor the activity to ensure only the approved change requests are implemented.

University of Colorado Response

Agree. The Director of University Management Systems will implement the following robust standards by March 2006:

a. Documenting and retaining of all change requests and authorizations;

b. Obtaining approval of the program change request form before change occurs;

c. Requiring user and IT sign offs on testing prior to the change being implemented; and

d. Retaining a list of the programs migrated into production.

Documentation of Supervisory Review

As part of the financial statement audit, we tested controls over various processes throughout the University. We noted instances whereby it was represented and corroborated that the management review of various processes took place; however, this review was not documented or dated as to its timeliness. Undocumented reviews included the following:

a) Review of cash reconciliations by someone other than the preparer to ensure the reconciliations are completed timely, accurately and reconciling items are resolved and cleared

b) Review of the reconciliations of the monthly uploads from BRS to PeopleSoft for the Boulder, Health Sciences Center, and Colorado Springs campuses

c) Review of the year-end calculation for the allowance for doubtful accounts for the Boulder campus

d) Review of the monthly reconciliation of the Fixed Asset and Space Tracking System (FAST) to PeopleSoft at the Colorado Springs campus

e) Review of the tuition test calculations by the Bursar's Office and/or other Mainframe staff.

Lack of documented reviews increase the risk that errors and irregularities may not be detected and corrected timely.

Recommendation No. 4

The University should ensure that all supervisory or management reviews related to the cash reconciliations, reconciliation of monthly uploads between BRS and PeopleSoft, year-end calculations for allowance for doubtful accounts, monthly reconciliations between FAST and PeopleSoft, and tuition test calculations are formally documented or evidenced by signature and dating of the aforementioned review.

University of Colorado Response

Partially Agree. The University is committed to performing supervisory or management reviews of its reconciliations. Given the implementation of the recommended best practices require additional resources and the University's current practices mitigate its risk to a sufficient level, by March 2006, the University will only encourage (not commit) supervisors to document their review.

Auditors' Response to Management's Response

As a leading practice, management should appropriately document their review procedures.

NCAA Processes, Controls and Reporting

Effective for fiscal year 2005, the National Collegiate Athletic Association (NCAA) revised its audit guide which led to significant changes in the minimum agreed upon procedures (AUP) required to be performed by the University's external auditors. The University, in turn, engaged the external auditors to carry out those procedures in conjunction with additional supplementary procedures selected by University management. The primary purposes of the NCAA AUP engagement were to assist management of the University in evaluating whether the NCAA statement of revenues and expenses and the statements and records of outside organizations' expenses for or on behalf of the University's Boulder Intercollegiate Athletics program were in compliance with NCAA requirements, and evaluate the effectiveness of internal control over compliance. The results of the NCAA AUP engagement are contained in another part of this report and are highlighted as follows:

CU-Boulder Athletics Department Processes:

- Certain documentation was specifically required to be tested but could not be provided by the CU-Boulder Athletics Department (e.g., current salary letters, job descriptions, records to support existence or disposal of consumable athletic support equipment, and billing information by sport camp participant).

- Procedures and documentation evidencing oversight of intercollegiate athletics-related affiliated and outside organizations (boosters) were not evident. CU-Boulder Athletics Department is required under NCAA bylaws to oversee these organizations to ensure institutional compliance with NCAA regulations.

- In comparing NCAA requirements with University policies, we noted that certain specific and significant NCAA restrictions, such as recruiting restrictions, were not specifically referenced in relevant University policies. For example, NCAA bylaws restrict intercollegiate athletic recruiting activities to specified periods and limit the amount of expenses permitted for specified activities. While University policies contained a general reference to NCAA regulations, some NCAA requirements are sufficiently significant as to warrant specific reference in policy to enable employees to more readily recognize when special attention is necessary to ensure compliance with NCAA requirements.

NCAA Reporting Processes:

- Sufficient documentation for reported amounts could not be provided (e.g., reconciliations to the general ledger for certain reporting line items in the capital expenditure survey, and support for the methodology employed for calculating benefits as 10% of salaries for the sports camps).

- The footnotes provided to us in the initial draft of the NCAA statement of revenues and expenses omitted four of six required disclosures, all of which were new in the current year.

- The schedule of revenue and expenses of the intercollegiate athletics-related affiliated and outside organizations (boosters) originally provided to us did not include the University of Colorado Foundation, Inc. (Foundation), which was separately identified on another schedule. Due to the omission of the Foundation from the original schedule of intercollegiate athletics-related affiliated and outside organizations (boosters), we did not perform certain required procedures such as confirmation of whether any CU-Boulder Intercollegiate Athletic Department personnel were officers of the Foundation and inspection of minutes of the Foundation.

Recommendation No. 5

The University should implement changes to its internal processes and related controls to ensure the CU-Boulder Intercollegiate Athletics Department:

A. Has current job descriptions and salary letters on file;

B. Better manages its consumable inventories;

C. Adequately documents its billings related to sport camps; and

D. Provides adequate monitoring of booster organizations.

In addition, the CU-Boulder Intercollegiate Athletics Department should perform a risk-based review of its policies to determine which NCAA requirements may need to be incorporated more specifically. The University should also strengthen its procedures and related controls to ensure audit schedules and underlying reconciliations are adequately prepared and reviewed.

University of Colorado Response

Agree. The University of Colorado is committed to improving its internal processes and controls related to NCAA requirements and will:

- Ensure all job descriptions and salary letters are on file by the end of the next merit cycle or July 2006;
- Complete improvements over its consumable inventories processes begun as a result of the 2005 internal and external performance audits by July 2006;
- Complete improvements over its sport camps management begun as a result of the 2005 internal and external performance audits by July 2006;
- Document monitoring procedures of booster organizations by May 2006;
- Perform a risk analysis review and, as appropriate, update of CU-Boulder Intercollegiate Athletic Department policies by July 2006; and
- Continue improvement of its year-end processes to ensure timely and adequate audit schedules and reconciliations for the fiscal year 2006 audit by September 2006.

The University expended significant resources in the current year to understand and comply with the newly adopted NCAA requirements during this audit and we are committed to continuing these efforts in the upcoming audit.

FEDERAL AWARDS

We performed procedures required by the Office of Management and Budget (OMB) Circular A-133 and the OMB Compliance Supplement for the following programs:

- Research and Development Cluster
- Student Financial Assistance Cluster

For fiscal year 2005, the University received approximately $445 million and $170 million of federal awards for the Research and Development and Student Financial Assistance Clusters, respectively. The two findings and recommendations presented below result from this work and are presented in the format required under OMB Circular A-133 and *Government Auditing Standards.*

It should be noted that these findings relate only to the sample items selected for testing and the circumstances identified below could be more widespread.

Federal Student Aid Cluster – Special Tests for Return of Title IV (R2T4) Funds (repeat of prior year comment with modification)

Criteria: When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the University must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned is less than the amount disbursed to the student or on the student's behalf, the difference must be returned to the Title IV programs as prescribed by 34 CFR section 668.22(i). If the amount the student earned is greater than the amount disbursed, the difference must be treated as a post-withdrawal disbursement to the student's account or the student (34 CFR sections 668.22(a)(1)-(3)).

In the case of a federal student aid recipient (undergraduate or graduate) who officially withdraws from classes, the institution must determine the withdrawal date of these students on the same date the student withdraws from the institution (34 CFR sections 668.22(c) and (d).

When a federal student aid recipient withdraws from the University without providing notification, the University must determine the student's withdrawal date within 30 calendar days after the end of the earlier of: (1) the payment or enrollment period (as applicable), (2) the academic year, (3) or the student's educational program. *(34 CFR 668.22(j)(2))*

An institution has 30 calendar days from the date the institution determines the student's withdrawal date to return all unearned funds for which it is responsible. *(34 CFR 668.22(j)(1))*

In determining the correct amount of aid to return to Return of Title IV candidates, the University calculates the percentage of the semester the student attended classes. This is determined by calculating the number of days the student attended classes for the semester using the “date of determination” of withdrawal (the date the Office of Financial Aid (OFA) determines the student’s withdrawal) and dividing this by the total number of days in the semester (34 CFR sections 668.22(a)(1)-(3)). A student earns 100% if the withdrawal date is after completion of 60% of either the payment period or period of enrollment for a program measured in credit hours or the clock hours scheduled to be completed for the payment period or period of enrollment for a program measured in clock hours.

Once the correct amount of aid to return to the Return of Title IV student is determined, the University must return the lesser of the total amount of unearned Title IV aid or an amount equal to the total University charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of Title IV grant or loan assistance that has not been earned. The amount a student is responsible for returning is calculated by subtracting the amount of unearned aid that the University is required to return from the total amount of unearned Title IV aid to be returned.

Condition: *Fall*: The University mistakenly used the incorrect date for the last day of the fall semester in its R2T4 calculations. For fall 2004, the OFA incorrectly used 12/09/04 as the last day of the semester. The date that should have been used was 12/16/04. This error affected 18 R2T4 students in our sample and resulted in $447 too little being returned to these students. Extrapolated out to the entire population, this resulted in $11,308 too little being returned for all students, including those not in our sample.

Spring: The University determined the date of withdrawal from the institution beyond the allotted timeframe for three spring 2005 students which represents 25% (three students out of 12 spring 2005 official withdrawals) of the spring 2005 official withdrawals.

The dates of determination for the three students were as follows:

Student	Withdrawal Date	Date of Determination	Number of Days Overdue
#1	1/19/2005	1/20/2005	1
#2	1/11/2005	1/27/2005	16
#3	1/21/2005	1/24/2005	3

The University determines the amount of Return of Title IV funds based on the percentage of time the student was a registered student with the University for the semester under question. The percentage determined is then applied to the aid program for which was eligible to receive money. For one student in the original sample of 35 students, the institution applied $517 to the incorrect aid program. It applied the monies to the Federal Supplemental Education Opportunity Grant Program (FSEOG) when it should have applied it to PELL. We noted that the return calculated was for the correct amount of money.

Questioned Costs: *Fall:* Questioned costs are equivalent to the error that affected all applicable R2T4 students of $11,308 (the amount the University refunded to student accounts subsequent to detection during the audit).

Spring: None

Context: This finding represents a systemic problem in the management review process of the Return of Title IV function. Because no management or other personnel reviews the Return of Title IV calculation performed by the University before the returns are actually made, errors such as this could occur and not be detected.

Effect: The University is noncompliant with federal Return of Title IV Funds regulations concerning the timeliness of the determination of the withdrawal date for withdrawals for both fall 2004 and spring 2005, as well as ensuring the correct amounts are refunded or properly applied against federal programs.

Cause: The University's monitoring controls did not ensure withdrawal determinations were made properly and in a timely manner, and subsequently, Title IV Funds were not refunded within the required timeframe and applied correctly against federal programs.

Recommendation No. 6

The University should ensure the proper number of days for each term are used in the R2T4 calculations. Procedures should be established, including management review of calculations on a test basis, to ensure that the correct date of determination is used in order to avoid potential late returns, and amounts are properly applied to the applicable federal programs.

University of Colorado Response

Agree. The University of Colorado at Boulder Director of Financial Aid will modify the campus' procedures by June 2006:

a. Adding language in our Policy and Procedures to ensure that the General Professional along with the Assistant Director in Administration will review and approve the worksheets (including the length of the pay period) before the worksheets are approved for each semester. They will review the Registrar's academic calendar to confirm the beginning and end of the term along with determining if there are any scheduled breaks of five or more days. They will also review SIS, Screen 397 to ensure the length of the payment period coincides with the beginning and end date of each semester's loan period.

b. Will develop a process in coordination with the Office of the Registrar in which the Date of Determination will be calculated in accordance with 34 CFR 668.22(c).

Federal Student Aid Cluster, State Student Financial Assistance – Reporting

Criteria: To apply for and receive funds for the campus-based Federal Student Aid programs (Federal Perkins Loan, Federal Work Study (FWS), and Federal Supplemental Educational Opportunity Grant (FSEOG)), schools must complete and submit a Fiscal Operations Report and Application to Participate (FISAP) by October 1 of each year. The FISAP that was due on October 1, 2005 reported on the University's campus-based program participation for 2004-2005 and applied for campus-based program funding for 2005-2006. The FISAP must contain accurate data and the school must retain accurate and verifiable records for program review and audit purposes (*Department of Education FISAP Instructions).*

Additionally, universities must submit another report to the State of Colorado during the year, the Student Unit Record Data System (SURDS) and Schedule K (used by the State for the compilation of the state-wide Schedule of Expenditures of Federal Awards (SEFA). Data submitted for this report should be adequately supported by the underlying records within the financial management system and adequate supporting documentation outside the system for reconciliation purposes, as needed.

Condition: Though significant improvements were made by the University over the financial aid reporting process, some issues remain at the University to ensure that accurate data is reported and that the reports appropriately reconcile to one another.

Questioned Costs: None.

Context: Our review of federal and state student financial assistance reporting at each campus revealed the following discrepancies:

Health Sciences Center – State SURDS

- Governor's Opportunity Scholarship (GOS) expenditures of $10,650 are not included in the expenditures per the SURDS report.

Denver – Federal FISAP

- On the FISAP, the change in the federal capital contributions from prior year did not equal the amount reported for the current year federal capital contribution authorization. The amount of the error was $17,522.

Effect: The errors on the FISAP and SURDS do not represent an accurate reporting of data as related to federal and state expenditures.

Cause: The University does not adequately reconcile each of the reports to the underlying data, prior to submission, to prevent or minimize errors from being reported.

Recommendation No. 7

The University should strengthen procedures to ensure that all elements of the FISAP and SURDS reports are accurate. Additionally, the University should strengthen reconciliation procedures in order to verify that the information is accurate prior to submission.

University of Colorado Response

Agree. The University of Colorado at Denver and Health Sciences Center Controller will modify the campus' procedures by:

a. Modified the SURDS report programming to include the COGS funds in February 2006, and will file a corrected SURDS by March 2006, and

b. Strengthen our verification processes on the components of the FISAP related accuracy for the Fiscal Year 2006 report by September 2006 and will file a corrected FISAP by March 2006.

Following are the audit recommendations for the years ended June 30, 2004, and the 2003 recommendations that had not been fully implemented previously, and their disposition. Status changes resulting from activity after December 16, 2005 have not been validated by KPMG LLP.

Recommendation	Disposition
2004 – Recommendation No. 1 Improve the entity-wide process for identifying and reporting, as appropriate, all organizations and related financial activity that directly or indirectly support the institution. Appropriate oversight and monitoring of the process should be incorporated to ensure the University has knowledge of, and an adequate understanding of, both quantitatively and qualitatively, its relationship and financial transactions with each respective organization.	Implemented. The Office of University Controller centralized the process to identify and report organizations that materially provide either direct or indirect support to the University. Written policies and procedures were adopted effective June 30, 2005.
2004 – Recommendation No. 2 Implement procedures to require that a knowledgeable individual, other than the creator, approve all journal entries prior to being posted to the general ledger. Alternatively, the University may consider setting a minimum amount over which journal entries should be approved, thus minimizing the chance that a material error could be posted in the general ledger. Ideally, this control should be designed to be a preventive control rather than a detective control.	Partially Implemented. The University will supplement its current mitigating controls with additional procedures to further minimize the risk of its decentralized financial management environment. First, in fiscal year 2005, the finance system access process was modified to annually require user and supervisor verification of compensating controls if an individual is granted access for both creation and approval of journal entries. No campus had certifications renewed as of June 30, 2005 as all had been in place less than one year. Second, the campus controller offices review for appropriateness and accuracy all journal entries created and approved by a single individual where the journal line item is greater than the established threshold of $500,000. Until an exception report can be developed, the review is occurring no less often than quarterly. A monthly exception report should be developed by June 2006.

(Continued)

Recommendation	Disposition
2004 – Recommendation No. 3 Develop and implement formal data change procedures including documented approval from the users, and monitoring compliance with the procedures. In addition, explore options to better secure the critical 'sysadm' account to minimize the associated risks, by considering the feasibility of the following: a) Restricting the 'sysadm' account to the Database Administrators (DBAs) b) Requiring the 'sysadm' account password comply with existing University password policies, including changing the password every 90 days c) Giving developers database level access only on an as-needed, temporary basis d) Assigning a unique and individually identifiable account for each individual who requires this level of access e) Logging and reviewing the activity for appropriateness	Implemented. In October 2004, the University developed and implemented more formal data change procedures. Additionally, a less-privileged account that has database update capability, without having the full set of capabilities available of the 'sysadm' account was created in September 2004. This new account is used to perform activities such as the ability to create tables and run Structured Query Report Writer (no update capability) at the database level in the production environment by developers on an as-needed, temporary basis. In January 2006, the University changed that the 'sysadm' password and restricted the number of people who know it to DBA staff only.
2004 – Recommendation No. 4 Formalize and strengthen procedures to ensure consistency in the recording of scholarship allowances by requiring all campuses to recognize the scholarship expense, in accordance with its internal policy, based on the prior year summer term. This process should be clearly documented and communicated to all campuses.	Implemented. Through its year-end instructions, the University documented and communicated required procedures to ensure consistency in the recording of scholarship allowances for all campuses.
2004 – Recommendation No. 5 Implement policies to ensure the calculation of deferred revenue from summer school sessions is consistent across all campuses and the deferral method is based on actual days of the session.	Implemented. Through its year-end instructions, the University documented and communicated required procedures to ensure consistency in the recording of scholarship allowances for all campuses.

Recommendation	Disposition
2004 – Recommendation No. 6 Ensure that the detailed warrant table is fully reconciled to the general ledger over the next 12 months, and establish a process to ensure continuous agreement of the detailed warrant table and the general ledger.	In Progress. The Office of University Controller identified this problem in fiscal year 2002. In fiscal year 2002, the finance systems and subsystems were modified to ensure that no further discrepancies between the tables were created. Then, a monthly review process was implemented (and is still in place) to ensure that the discrepancies between the tables were not continually growing. In addition, a project was initiated to manually identify and eliminate the incorrect items on the detail warrant table. This correction process is manually intensive and resources have been redirected to more critical processes, such as GASB implementation, financial reporting, and system upgrades. However, the office has made significant process in reconciling the tables with an initial discrepancy of approximately $5,000,000 reduced to $2,200,000 at June 30, 2005. Resources have not been fully dedicated to the project due to other audits, and the project should be completed by June 2006.
2004 – Recommendation No. 7 Ensure monitoring policies are properly in place and operating to ensure housing tables are accurately updated in a timely manner each year.	Partially Implemented. The University immediately implemented interim procedures to ensure the fiscal year 2005 tables were properly established. The University will develop formal procedures to monitor that housing tables are accurately and timely updated each year. Due to audit delays, the formal procedures should be finalized by April 2006.

Recommendation	Disposition
2004 – Recommendation No. 8 Establish a written evaluation policy and formalize the grant review process. This should include documenting examination of its grants and contracts agreements to determine the appropriate accounting considering the criteria set forth in GASB Statement No. 33.	Partially Implemented. The University implemented a formal documented review of grants based on a draft policy for the year ended June 30, 2005. The campuses utilized different standardized forms to assist in this evaluation, however, these forms were not always completed in their entirely. Additionally, the University's new process did not make the proper determination to recognize revenue rather than to defer revenue on two of 21 grants tested in 2005 and did not detect program income that should have been recognized in two additional grants. An audit adjustment was proposed and passed in the amount of approximately $809,000 in 2005 to reverse the deferred revenue and to recognize the revenue. An Administrative Policy Statement formalizing the evaluation process to be used to ensure that revenue from grants and contracts is properly recorded in the University's financial statements in accordance with the criteria of GASB Statement No. 33 was formally adopted and effective November 2005.
2004 – Recommendation No. 9 Establish procedures to ensure that the withdrawal dates for those students who withdraw without providing notification are made within the federally mandated timeframe as well as to ensure that the University's portion of withdrawn students' unearned aid is returned within the federally mandated timeframe. Also establish procedures to ensure that a Return of Title IV Funds calculation is performed for students who withdraw beyond the 60% point of the term.	Implemented. The University of Colorado at Boulder Office of Student Financial Aid identified an error in interpretation of the regulations with an employment change in its Fiscal Operations Assistant Director. Proper interpretation was made and a revised policy and procedure was implemented in the spring of 2004. In addition, in September 2004, the University identified the students, programs, and amounts affected for the fall 2003 and sent the funds back to the Title IV programs, as required.

Recommendation	Disposition
2004 – Recommendation No. 10 Implement procedures to ensure all elements of the FISAP, SURDS, and Schedule K reports are accurate. Such procedures should include a formal review that agrees amounts reported to supporting documentation. Additionally, implement reconciliation procedures in order to verify that the information is accurate prior to submission and is consistently reported across campuses, when applicable.	Implemented. First, for fiscal year-end 2005, the State modified the Exhibit K instructions for which the University complied. Second, the University changed its year-end processes to reconcile the three reports. See current year comment No. 7 for reporting.
2004 – Recommendation No. 11 Strengthen procedures to ensure that the maximum annual limits of subsidized FDL funds are offered to all students, through additional monitoring of the original parameters set up during the award determination process. Alternatively, if system limitations restrict the University from establishing award levels that are compliant with federal guidelines, waivers should be obtained from the applicable awarding agency.	In Progress. Procedures were modified to ensure all loans manually awarded for spring 2005 and future periods reflect the full amount of Subsidized Stafford eligibility before Unsubsidized Stafford consideration. However, other loans were still subject to the error and was noted in 6 of the 35 students tested. The system was programmed to adjust the awards for the 2005-2006 award year.
2004 – Recommendation No. 12 Strengthen procedures to provide timely supervisory reviews of the calculation of FDL draws prior to their submittal.	Not Implemented. The University disagreed with the finding as stated and has not changed their process. Auditor addendum: During the audit process in 2005, we noted the same lack of supervisory review that would prevent potential errors before overdraws could occur (rather than detecting an error that has already occurred as the current process is designed). We believe based on the information provided and as understanding of cash management controls required to be in place under OMB Circular A-133, that this repeat finding is accurate.

Recommendation	Disposition
2003 – Recommendation No. 2	Implemented.
The University of Colorado at Denver should establish adequate controls over sponsored programs by:	
a. Conducting a comprehensive review of its sponsored program processes, controls, and competencies	a. Implemented. UCD has leveraged the internal audit function and continued the assessment of its program processes, controls, and competencies. An action plan of enhancements was developed by management and has been fully implemented.
b. Clearly identifying respective responsibilities, authorities, and procedures that will fully comply with federal and state requirements, and developing guidance that reflects the same	b. Implemented. A checklist (working set of procedures) has been developed outlining the responsibilities and authorizations required of Pre- vs. Post-Award Offices.
c. Conducting training to ensure all parties involved in sponsored program financial compliance are adequately equipped to carry out their responsibilities	c. Implemented. Finalization of the HSC online training for Principal Investigators was rolled out this spring. More than 190 PIs and administrators at the Denver campus were identified to take the training. Training began May 1 and will be complete by June 30. As of this update, over 90% of the individuals identified had taken the training, most with very positive feedback. We have sanctions in place for anyone not taking the training by the deadline, so we anticipate 100% compliance.

Recommendation	Disposition
2003 – Recommendation No. 3	Implemented.
The University of Colorado should strengthen controls over finance and human resources management system access by:	
a. Determining which users have access to sensitive PeopleTools including Application Designer and Maintain Security and restricting the number of 'Super users' under these PeopleTools to approximately five. If others need such access periodically, develop a policy and approval process for enabling such access on a temporary basis (for a period of hours) and then removing such access.	a. Implemented. The University reviewed the number of users which have access to sensitive PeopleTools including Application Designer and Maintain Security. Based on the specifics of the University's operating environment, the number of system users and our desired service levels, we have reduced access appropriately.
b. Reviewing custom built Correction Action audit trails/logs periodically. Management should set a policy assigning responsibility for reviewing these audit logs and a regular schedule for doing so.	b. Implemented. A working group, with representative from the Office of the University Controller, System Operations and the campuses was convened in August 2004. This group developed policies and procedures for reviewing Correction Action audit trails/logs, which was documented in a report, which was accepted on February 18, 2005. Additionally, the group recommended that a report be developed to assist with the ongoing monitoring. The required report has been developed and deployed. Training on how to use the report will be provided to the campuses during the summer of 2005.

Recommendation	Disposition
2003 – Recommendation No. 4 The University of Colorado should strengthen controls over capital assets and related accounts by: a. Reviewing existing policies and procedures regarding the recording of purchases of capital assets and related accounts to ensure that all aspects of recognition are addressed b. Providing additional training to campus personnel regarding these policies c. Periodically reviewing controls over capital assets to ensure that they are in place and functioning as intended The University should ensure that capital assets policies and procedures specifically address the search for unrecorded liabilities at year-end, as there were two audit adjustments in 2005 which required an increase of approximately $2.3 million in accounts payable and construction in progress.	In progress. The Office of University Controller, in coordination with the campus controllers, will refine existing policies and procedures regarding the recording of capital assets and related accounts. Training and monitoring procedures will be incorporated into the new policies and procedures. Due to delay caused by the Finance System upgrade, the revised policies and procedures will be developed by June 2006.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Colorado (the University), a component unit of the State of Colorado, as of and for the years then ended June 30, 2005 and 2004, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2005 or 2004 financial statements of University Physicians, Inc. (UPI), a blended component unit, which represents 5%, 6%, and 12%, respectively, for 2005, and 5%, 5%, and 11%, respectively, for 2004, of the assets, net assets, and revenues of the business-type activities of the University. In addition, we did not audit the 2005 financial statements of the University of Colorado Foundation (CU Foundation), which represents 92%, 97%, and 97%, respectively for 2005, of the assets, net assets, and revenues of the aggregate discretely presented component units. We also did not audit the 2005 or 2004 financial statements of the University of Colorado Real Estate Foundation (CUREF), which represents 8%, 3%, and 2%, respectively, for 2005, and 2%, 3%, and 10%, respectively, for 2004, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for UPI, CU Foundation, and CUREF, are based on the reports of the 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 CU Foundation, CUREF, and the Coleman Colorado Foundation (Coleman Foundation), discretely presented component units, and UPI, a blended 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 University'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 reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2005 and 2004, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 12 to the financial statements, during fiscal year 2005, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. As discussed in note 20, the University restated the 2004 financial statements of the discretely presented component units.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2005 on our consideration of the University'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 read in conjunction with this report in considering 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 accounting principles generally accepted in the United States of America. 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

December 16, 2005

We are pleased to present this financial discussion and analysis of the University of Colorado (the University). It is intended to make the University's financial statements easier to understand and communicate our financial situation in an open and accountable manner. It provides an objective analysis of the University's position and results of operations as of and for the years ended June 30, 2005 and 2004 (Fiscal Year 2005 and 2004, respectively), with comparative information for Fiscal Year 2003. University management is responsible for the completeness and fairness of this discussion and analysis and the financial statements.

UNDERSTANDING THE UNIVERSITY

The presented information relates to the financial activities of the primary reporting entity of the University, a comprehensive degree-granting research university in the State of Colorado (State). The University comprises the system offices, the following three campuses, and blended component units.

- University of Colorado at Boulder (CU-Boulder)
- University of Colorado at Denver and Health Sciences Center (UCDHSC)
- University of Colorado at Colorado Springs (CU-Colorado Springs)

The above description reflects the Regents' approval of the consolidation of the Denver and Health Sciences Center campuses into a single major urban research university. Effective July 1, 2004, the new campus, UCDHSC, maintains separate facilities in the Denver/Aurora metropolitan area (or the Downtown Denver, Fitzsimons, and 9th Avenue campuses). The primary goal of the consolidation is to open collaborations in education, research, and community partnerships while increasing access for students and offering innovative opportunities across various disciplines.

With more than 52,400 students and 2,800 full-time instructional faculty, the University is the largest institution of higher education in Colorado, providing a comprehensive baccalaureate and graduate education. As discussed in Note 1, each of the three campuses brings a unique character to the system in order to meet the specialized needs of its communities.

In addition, the University has three supporting foundations which are included as discretely presented component units in the University's financial statements (Notes 1, 12, and 20).

Legislation passed in Fiscal Year 2004 provided that higher education institutions in the State of Colorado the ability to designate themselves as enterprises under the State's Constitution section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), given the institution met the stated qualifications. The University qualified as an enterprise because it is a government-owned business with legal authority to issue revenue bonds. In addition, the University was required to receive (and expected to continue to receive) less than 10 percent (in relation to total revenues) in support from the State. In Fiscal Years 2005 and 2004, the University received approximately 8 percent and 9 percent, respectively, in State support (Note 13). The Regents approved the enterprise designation in July 2004 and received validation of its status from the State's Legislative Audit Committee in August 2004.

UNDERSTANDING THE FINANCIAL STATEMENTS

Financial highlights are presented in this discussion and analysis to help your assessment of the University's financial activities. Since this presentation includes highly summarized data, it should be read in conjunction with the financial statements, which have the following five other parts.

- ***Report of Independent Auditors*** presents an unqualified opinion prepared by our auditors (an independent certified public accounting firm, KPMG LLP) on the fairness (in all material respects) of our financial statements.
- ***Statement of Net Assets*** presents the assets, liabilities, and net assets of the University at a point in time (June 30, 2005 and 2004). Its purpose is to present a financial snapshot of the University. It aids readers in determining the assets available to continue the University's operations, how much the University owes to vendors, investors, and lending institutions, and a picture of net assets and their availability for expenditure in the University.
- ***Statement of Revenues, Expenses, and Changes in Net Assets*** presents the total revenues earned and expenses incurred by the University for operating, nonoperating, and other related activities during a period of time (the years ended June 30, 2005 and 2004). Its purpose is to assess the University's operating results.
- ***Statement of Cash Flows*** presents cash receipts and payments of the University during a period of time (the years ended June 30, 2005 and 2004). Its purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.

- ***Notes to the Financial Statements*** present additional information to support the financial statements and are commonly referred to as Note(s). Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to direct you to the details of the financial highlights.

We suggest that you combine this financial analysis with relevant nonfinancial indicators to assess the overall health of the University. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, building condition, and campus safety. Information about nonfinancial indicators is not included in this analysis,

The University has grown over the past three fiscal years with its mix of assets, liabilities, and net assets primarily changing in the last fiscal year due to a revenue bond issue.

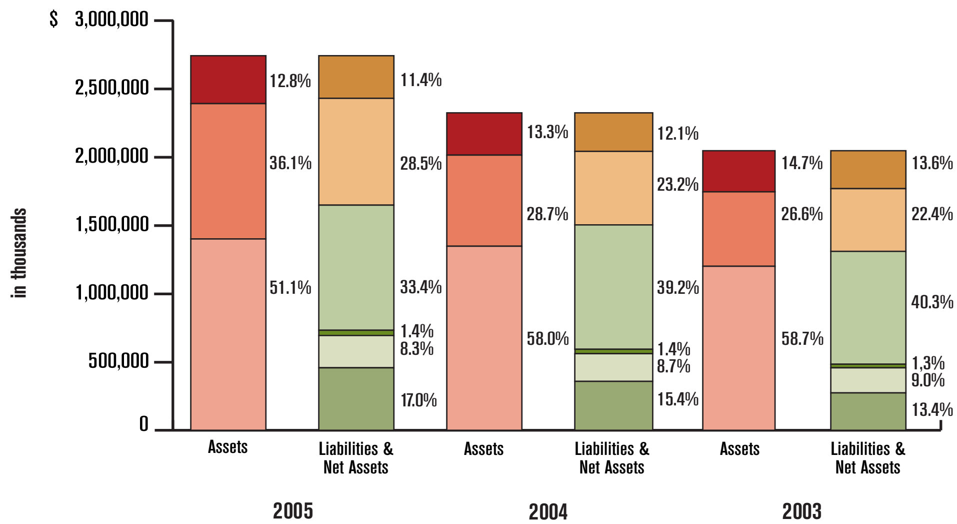

Figure 1. Condensed Statement of Assets, Liabilities, and Net Assets as of June 30, 2005, 2004, and 2003
(all dollars in thousands)

				Increase (Decrease)			
				2005 vs 2004		2004 vs 2003	
	2005	2004	2003	Amount	Percent	Amount	Percent
Assets							
Current Assets	$ 350,608	309,239	300,836	$ 41,369	13.4%	$ 8,403	2.8%
Noncurrent, Noncapital Assets	990,200	666,618	544,686	323,582	48.5%	121,932	22.4%
Net Capital Assets	1,400,018	1,346,896	1,200,123	53,122	3.9%	146,773	12.2%
Total Assets	$ 2,740,826	2,322,753	2,045,645	$ 418,073	18.0%	$ 277,108	13.5%
Liabilities							
Current Liabilities	$ 311,748	281,805	277,614	$ 29,943	10.6%	$ 4,191	1.5%
Noncurrent Liabilities	781,679	538,072	458,921	243,607	45.3%	79,151	17.2%
Total Liabilities	$ 1,093,427	819,877	736,535	$ 273,550	33.4%	$ 83,342	11.3%
Net Assets							
Invested in Capital Assets, Net of Related Debt	$ 915,344	910,007	825,653	$ 5,337	0.6%	$ 84,354	10.2%
Restricted for Nonexpendable Purposes	38,651	32,484	26,442	6,167	19.0%	6,042	22.9%
Restricted for Expendable Purposes	226,733	202,515	183,441	24,218	12.0%	19,074	10.4%
Unrestricted	466,671	357,870	273,574	108,801	30.4%	84,296	30.8%
Total Net Assets	$ 1,647,399	1,502,876	1,309,110	$ 144,523	9.6%	$ 193,766	14.8%
Total Net Assets and Liabilities	$ 2,740,826	2,322,753	2,045,645	$ 418,073	18.0%	$ 277,108	13.5%

but may be obtained from the University's Office of Information and Analysis (see www.cu.edu/system_info).

FINANCIAL HIGHLIGHTS

Sustained increases in net assets over time are one indicator of financial health. The University has sustained increases in its net assets during Fiscal Years 2005, 2004, and 2003. As of June 30, 2005, 2004, and 2003, the University's net assets increased by approximately $144,523,000, $193,766,000, and $103,798,000, respectively. These increases are primarily attributable to the increases in our investments and capital assets of approximately $351,211,000 and $256,629,000 for Fiscal Years 2005 and 2004, respectively, as offset by the increase in our long-term debt financing of those capital assets. The following sections provide further explanation of these drivers of the University's financial health.

STATEMENT OF NET ASSETS

Figure 1 illustrates the University's condensed statement of net assets and demonstrates the University has grown over the past three fiscal years with its mix of assets, liabilities, and net assets primarily changing in the last fiscal year due to a revenue bond issue. Analysis of the University's capital assets and related debt is included in the section Capital Asset and Debt Management, whereas this section provides analysis of the University's non-capital assets and other liabilities.

In analyzing the University's assets, the majority (80 percent) of the University's non-capital assets are investments, with a balance of $1,075,627,000 and $777,538,000 at the end of Fiscal Years 2005 and 2004, respectively. The University maximizes earnings through an internal pooling program and targeted rates of returns. The University has leveraged the investment portfolio and earning power, while ensuring safety and liquidity requirements are also met.

The University's non-debt-related liabilities are 35 and 43 percent, respectively, of total liabilities with $380,695,000 and $353,917,000 of liabilities at June 30, 2005 and 2004, respectively. These liabilities are comprised of amounts due to vendors and others as categorized in Figure 2.

The three largest categories of non-debt-related liabilities are accrued salaries and benefits, accrued compensated absences, and deferred revenue. For each category, the increase in Fiscal Years 2005 and 2004 is a result of the University's overall programmatic growth. Accrued salaries and benefits represent amounts earned by University employees but not paid at fiscal

The categories and mix of other liabilities reflects the nature of our operations and has remained stable over the last three years.

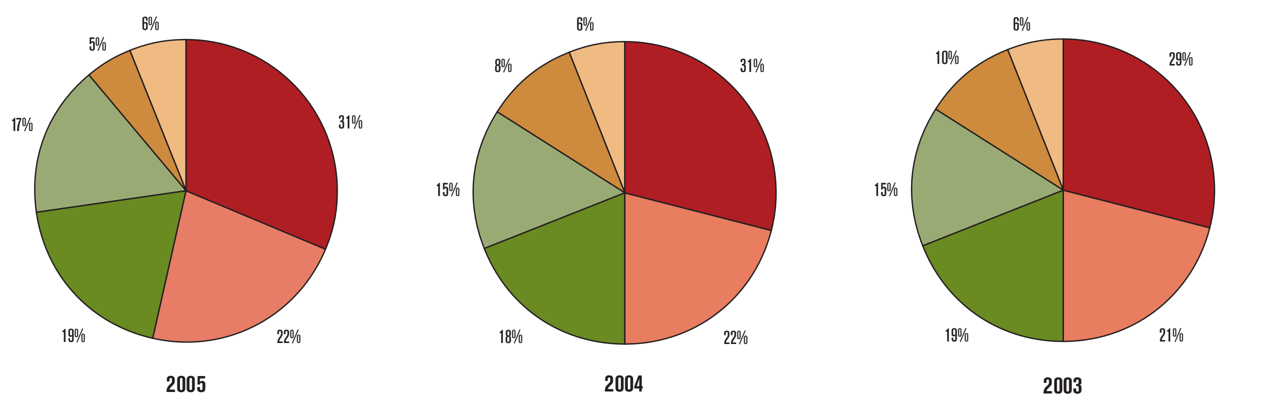

Figure 2. Composition of Non-debt-related Liabilities as of June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

	2005	2004	2003	Increase (Decrease) 2005 vs 2004 Amount	2005 vs 2004 Percent	2004 vs 2003 Amount	2004 vs 2003 Percent
Accrued Salaries and Benefits	$ 118,512	106,774	100,317	$ 11,738	11.0%	$ 6,457	6.4%
Accrued Compensated Absences	83,890	78,384	74,320	5,506	7.0%	4,064	5.5%
Deferred Revenue	73,715	64,258	67,236	9,457	14.7%	(2,978)	(4.4%)
Accounts Payable to Vendors	62,585	54,147	51,419	8,438	15.6%	2,728	5.3%
Miscellaneous Liabilities	19,544	29,063	34,244	(9,519)	(32.8%)	(5,181)	(15.1%)
Risk Financing Related	22,448	21,291	21,581	1,157	5.4%	(290)	(1.3%)
Total Other Liabilities	$ 380,694	353,917	349,117	$ 26,777	7.6%	$ 4,800	1.4%

year end. Accrued compensated absences estimate the amount payable to employees in the future for their vested rights under the University's various leave programs. This estimate is based on personnel policies that define the amount of vacation and sick leave to which each employee is entitled. Deferred revenue represents amounts prepaid by students, auxiliary enterprise customers, grantors, and contractors (or amounts received before the University met all of its requirements for earning the amounts). These amounts will be recognized as revenue in future periods after all conditions have been satisfied.

The University's net assets may have restrictions imposed by external parties, such as donors, or by their nature are invested in capital assets (property, plant, and equipment). The University's net assets have four categories, as displayed in Figure 1.

Net assets are restricted on a global basis for either expendable or nonexpendable purposes, and then more specifically by programmatic restrictions. The programmatic category of the restriction is shown on the statement of net assets. A nonexpendable restriction requires the original principal to be set aside for perpetual investment (as an endowment). The majority of the endowment assets benefiting the University are held by the University of Colorado Foundation, Inc., which is a discretely presented component unit not included in the above figures but discretely included in the financial statements (Note 20). Unrestricted net assets are usually available for spending for any lawful purpose under the full discretion of management. However, the University has placed some limitations on future use by designating unrestricted net assets for certain purposes (Note 11).

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

A shown in Figure 3, the University's condensed statement of revenues, expenses, and changes in net assets, the University's net assets increased by 10 and 15 percent during Fiscal Years 2005 and 2004, respectively.

A key component of this statement is the differentiation of operating and nonoperating activities. Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are paid to acquire or produce goods and services provided in return for operating revenues, and to carry out the mission of the University. Nonoperating revenues are received when goods and services are not provided. Thus, state appropriations are nonoperating because they are provided by the State without the State directly receiving goods and services. For similar reasons, most gifts and investment income are also nonoperating revenues.

State appropriations represent 8 and 9 percent of the University's total revenue in Fiscal Years 2005 and 2004, respectively, as compared to 12 percent in Fiscal Year 2003. However, State appropriations combined with gift and investment revenues are necessary to maintain a balanced operation at the University. Since these revenues are not classified as operating, the University (like most public colleges and univer-

Operations have steadily grown to provide increased instructional, research, and health services. This program expansion has been financed by increases in service fees as well as investment earnings and intellectual property endeavors. Associated expenses reflect a balance of cost containment strategies with necessary investments to support program expansion.

Figure 3. Condensed Statement of Revenues, Expenses, and Changes in Net Assets as of June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

				Increase (Decrease)			
				2005 vs 2004		2004 vs 2003	
	2005	2004	2003	Amount	Percent	Amount	Percent
Operating revenues	$ 1,515,413	1,421,580	1,294,429	$ 93,833	6.6%	$ 127,151	9.8%
Operating expenses	1,688,196	1,569,395	1,491,562	118,801	7.6%	77,833	5.2%
Operating Loss	(172,783)	(147,815)	(197,133)	(24,968)	16.9%	49,318	(25.0%)
Nonoperating revenues (net of expenses)	294,206	268,369	265,330	25,837	9.6%	3,039	1.1%
Income before Other Revenues, Expenses, Gains, or Losses	121,423	120,554	68,197	869	0.7%	52,357	76.8%
Other revenues	23,100	73,212	35,601	(50,112)	(68.4%)	37,611	105.6%
Increase in Net Assets	144,523	193,766	103,798	(49,243)	(25.4%)	89,968	86.7%
Net assets, beginning of year	1,502,876	1,309,110	1,205,312	193,766	14.8%	103,798	8.6%
Net Assets, end of year	$ 1,647,399	1,502,876	1,309,110	$ 144,523	9.6%	$ 193,766	14.8%

sities) experienced an operating loss; the University's operating loss totaled $172,783,000 and $147,815,000 in Fiscal Years 2005 and 2004, respectively.

This classification creates a need to consider not just the operating loss but also the net income before other revenues in determining the University's overall financial health. For Fiscal Years 2005 and 2004, a net income before other revenues of $121,423,000 and $120,554,000, respectively, presents the complete picture of the University. It provides a full match between the source of revenues and the related expenses. The increase in the operating loss in Fiscal Year 2005 is a result of the University's growth in instructional, research, and health programs. Such growth required expanded investments that were not fully offset by cost containment strategies and service fee increases. This operating loss was mitigated by increased nonoperating revenues, specifically investment earnings and intellectual property endeavors.

Figure 4 provides a graphic display of operating and nonoperating revenues by major sources. These sources include both State-appropriated and non-appropriated funds (Note 13). Appropriated funds include both State appropriations and certain cash funds, including tuition. Thus, the ability of the Regents to increase tuition rates is limited by the State, although the University's operations no longer impact the state's TABOR spending limits due to the University's enterprise status. However, increases in tuition revenue due to student growth are not directly restricted.

The University has experienced steady growth in all categories of revenues except state appropriations, which have been significantly reduced over the last three fiscal years.

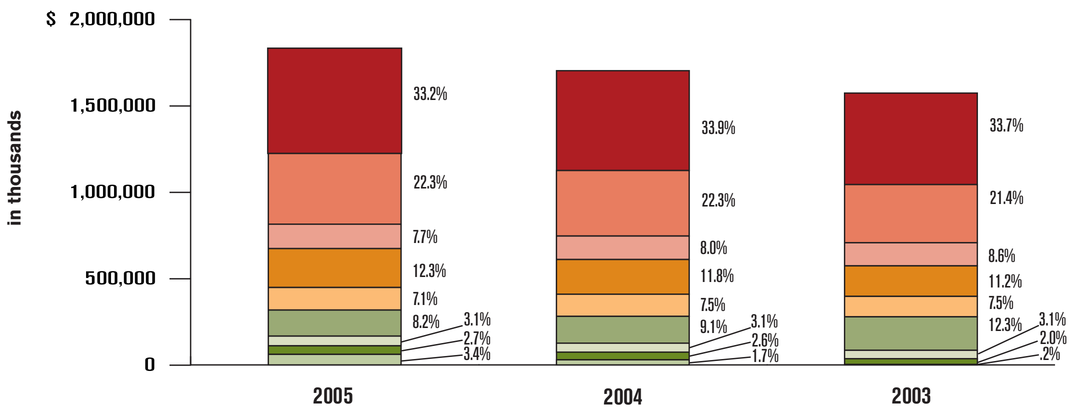

Figure 4. Operating and Nonoperating Revenues for years ended June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

	2005	2004	2003	Increase (Decrease) 2005 vs 2004 Amount	2005 vs 2004 Percent	2004 vs 2003 Amount	2004 vs 2003 Percent
Operating Revenues							
Grants and contracts	$ 609,369	577,672	529,408	$ 31,697	5.5%	$ 48,264	9.1%
Student tuition and fees, net	409,136	379,103	336,321	30,033	7.9%	42,782	12.7%
Other operating	141,135	135,851	133,878	5,284	3.9%	1,973	1.5%
Health services	225,205	200,819	176,500	24,386	12.1%	24,319	13.8%
Auxiliary enterprises, net	130,568	128,135	118,322	2,433	1.9%	9,813	8.3%
Total Operating Revenues	1,515,413	1,421,580	1,294,429	93,833	6.6%	127,151	9.8%
Nonoperating Revenues							
State appropriations	150,673	155,173	193,628	(4,500)	(2.9%)	(38,455)	(19.9%)
Gifts	56,278	51,983	48,715	4,295	8.3%	3,268	6.7%
Investment income, net	49,488	44,383	33,500	5,105	11.5%	10,883	32.5%
Other nonoperating, net	61,064	29,513	2,528	31,551	106.9%	26,985	1,067.4%
Total Nonoperating Reveues	317,503	281,052	278,371	36,451	13.0%	2,681	1.0%
Total Revenues (noncapital)	$ 1,832,916	1,702,632	1,572,800	$ 130,284	7.7%	$ 129,832	8.3%

As illustrated in Figure 4, the University experienced increases in all operating revenue sources in Fiscal Years 2005 and 2004. The increase in tuition and fees revenues reflects both enrollment and approved rate increases. (Trend analysis of both factors is included in Figures 13 and 14 toward the end of this discussion.) Consistent with the University's goal to increase its focus and national role as a research institution, the University increased grants and contracts revenue by 6 and 9 percent in Fiscal Years 2005 and 2004, respectively, to achieve a ranking as the sixth and first highest among research institutions in the nation per National Science Foundation and National Aeronautics Space Administration, respectively. The majority of health services represents medical practice plan revenues earned through University Physicians, Incorporated (Note 1). The practice plan growth results from additional service contracts in Fiscal Year 2005.

The University also experienced growth in all nonoperating revenues, except State appropriations. In Fiscal Years 2005 and 2004, the University experienced decreases in State appropriations of $4,500,000 and $38,455,000, respectively, or 3 and 20 percent, respectively. This decrease was the third cut of State appropriations experienced in the last three fiscal years as the State is challenged with an economic downturn. The decrease results in the Fiscal Year 2005 and 2004 State appropriations being approximately equal to the amount received by the University in 1989 (on an absolute dollar basis). The University has maintained a constant increase in the levels of gifts of 8 and 7 percent, respectively, for Fiscal Years 2005 and 2004. Investment income increased by $5,105,000 and $10,883,000 or 12 and 33 percent in Fiscal Years 2005 and 2004, respectively. In Fiscal Year 2004, the investment income increase was primarily driven by unrealized gains. The University recognized one-time revenue from the sale of intellectual property receivables (patent fees to be paid in future years) of $44,000,000 in Fiscal Year 2005 and a technology transfer legal settlement (to reimburse the University for past unpaid patent fees) of approximately $28,306,000 in Fiscal Year 2004.

In addition to operating and nonoperating revenues, the University had capital revenues in the amounts depicted in Figure 5. The largest factor contributing to the University's Fiscal Year 2004 growth in capital revenues was the receipt of equipment related to a federal-sponsored research program valued at approximately $50,108,000. Otherwise, there has been a steady decline in capital revenues over the last three fiscal years, similar to State appropriations for operations.

The programmatic uses of expenses are displayed in Figure 6, which demonstrates the programmatic focus is basically unchanged over the past three fiscal years while the programs overall have grown. Due to decreasing State support, cost management measures implemented in Fiscal Year 2003 were continued into Fiscal Years 2004 and 2005. The objectives of such measures were to expand programmatic costs to meet increased demand for services, while limiting increases in support services costs. In Fiscal Year 2005, the University experienced an increase in total operating expenses of 8 percent, as necessary investments in the University's programs were made to offset the reduced investment in previous years.

In Fiscal Years 2005 and 2004, depreciation expense increased by $19,503,000 and $20,155,000, respectively, due to two factors. First, the University accelerated its depreciation by $8,529,000 related to a change in estimated useful lives for the buildings and improvements on UCDHSC's 9th Avenue campus. The change in life was triggered by the State legislative requirement that the Regents approve a third-party master developer agreement to carry out the sale and redevelopment of the campus by June 30, 2006. The current plans indicate that the 9th Avenue campus will no longer be in use by Fiscal Year 2008. Second, depreciation expense increased as the result of the new acquisitions of capital assets (discussed more in the following section).

Outside of a one-time contribution of equipment related to a federally sponsored research program in Fiscal Year 2004, capital revenues have been declining over the last three fiscal years.

Figure 5. Capital Revenues for years ended June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

					Increase (Decrease)			
					2005 vs 2004		2004 vs 2003	
		2005	2004	2003	Amount	Percent	Amount	Percent
Grants and gifts	$	16,208	70,451	25,806	$ (54,243)	(77.0%)	$ 44,645	173.0%
Appropriations		1,037	2,744	9,734	(1,707)	(62.2%)	(6,990)	(71.8%)
Total Capital Revenues	**$**	**17,245**	**73,195**	**35,540**	**$ (55,950)**	**(76.4%)**	**$ 37,655**	**106.0%**

CAPITAL ASSET AND DEBT MANAGEMENT

The University had $2,244,687,000 and $2,092,867,000 of plant, property, and equipment at June 30, 2005 and 2004, respectively, offset by accumulated depreciation of $844,669,000 and $745,971,000, respectively. The major categories of plant, property, and equipment at June 30, 2005 and 2004 are displayed in Figure 7. Related depreciation charges of $108,038,000 and $88,535,000 were recognized in Fiscal Years 2005 and 2004, respectively. Detailed financial activity related to the changes in capital assets is presented in Note 5.

In Fiscal Years 2005 and 2004, the University put into service capital construction projects of $77,418,000 and $336,918,000, respectively. In addition, another $100,102,000 and $68,302,000 of construction activity was in progress at June 30, 2005 and 2004, respectively. Major projects are detailed in Figure 8.

The University plans to continue its investment in property, plant, and equipment with an approved Fiscal Year 2006 capital projects budget of $76,326,000 (excluding the UCDHSC Fitzsimons Campus Academic Expansion described below). Of this budget amount, $35,026,000 is related to continuing projects (described in Figure 8). New projects included in the Fiscal Year 2006 budget are detailed in Figure 9. There is relatively no State support available for construction projects. Therefore, all of these projects, except the CU-Colorado Springs Dwire Building project, will be funded by existing resources of the campus or through additional financing to be issued in Fiscal Year 2006.

The University's focus on programs (as illustrated by its expense categories) has remained stable over the last three fiscal years as overall the programs have grown.

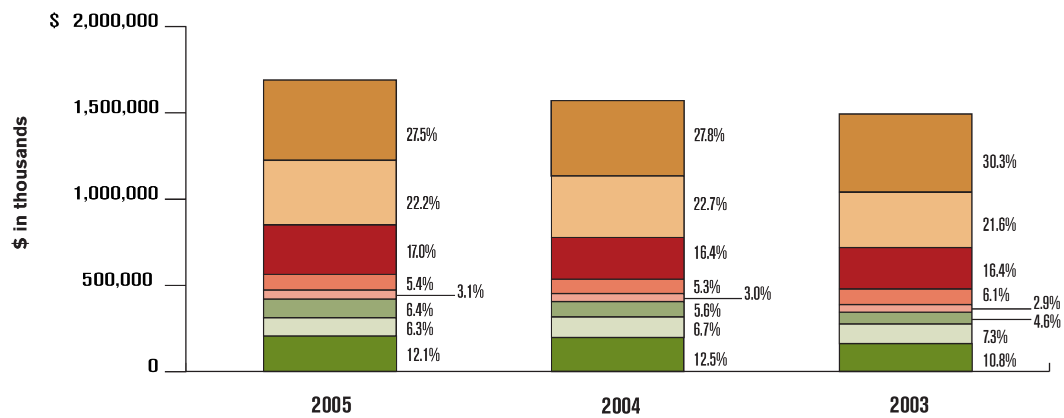

Figure 6. Expense Program Categories for years ended June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

					Increase (Decrease)			
					2005 vs 2004		2004 vs 2003	
		2005	2004	2003	Amount	Percent	Amount	Percent
Instruction	$	464,743	436,598	452,457	$ 28,145	6.4%	$ (15,859)	(3.5%)
Research		374,753	356,280	321,743	18,473	5.2%	34,537	10.7%
Academic, Institutional, and Plant Support		285,817	257,146	245,298	28,671	11.1%	11,848	4.8%
Student Aid and Other Services		91,239	83,439	90,670	7,800	9.3%	(7,231)	(8.0%)
Public Service		52,436	46,568	43,764	5,868	12.6%	2,804	6.4%
Total Education and General		1,268,988	1,180,031	1,153,932	88,957	7.5%	26,099	2.3%
Depreciation		108,038	88,535	68,380	19,503	22.0%	20,155	29.5%
Auxiliary enterprises		105,971	104,436	108,176	1,535	1.5%	(3,740)	(3.5%)
Health services		205,024	196,372	161,014	8,652	4.4%	35,358	22.0%
Miscellaneous		175	21	60	154	733.3%	(39)	(65.0%)
Total Operating Expenses	**$**	**1,688,196**	**1,569,395**	**1,491,562**	**$ 118,801**	**7.6%**	**$ 77,833**	**5.2%**

In addition to the authorized budget above, the Regents have authorized the construction of educational buildings at the UCDHSC Fitzsimons campus, detailed in Figure 8 as Fitzsimons Campus Academic Expansion. The financing for these buildings will be provided by the State. In Fiscal Year 2003, the State (not the University) received legislative authorization for the issuance of a lease-purchase agreement not to exceed $202,876,000, which will be collateralized by the University's buildings. Certain legal challenges were resolved that allow the target issuance date to be the second quarter of Fiscal Year 2006. The construction project schedules have various completion dates through Fiscal Year 2008.

As discussed previously, as a condition of receiving the Fitzsimons lease purchase agreement funding from the State, UCDHSC was required to sell for redevelopment the land and buildings located at the 9th Avenue campus. Therefore, the University was required to enter into a third-party master development agreement to carry out the sale and redevelopment of the 9th Avenue campus by June 30, 2006.

As a result of the University's efforts to identify alternative financing sources for its capital improvements to offset the lack of State capital support, the University financed the capital projects detailed in Figure 10 during the Fiscal Years 2005, 2004, and 2003.

At June 30, 2005 and 2004, the University had debt (or similar long-term obligations) of $712,733,000 and $465,960,000, respectively, in the categories illustrated in Figure 11. More detail about the University's debt is included in Note 9.

The University Board of Regents (the Regents) has adopted a debt management policy that includes limitations on the use of external debt. A component of this policy is debt capacity, which is the calculated ratio of our debt service requirement as compared to certain unrestricted revenues. The University was able to minimize financing costs due to current market conditions and by maintaining a bond rating of AA- and Aa3 (Standard & Poors and Moody's, respectively). The University increased its outstanding debt by 53 and 20 percent in Fiscal Years 2005 and 2004, respectively, while maintaining its debt capacity limits.

The University's completed construction projects in each of the last three fiscal years, continuing its trend of physical facility investment.

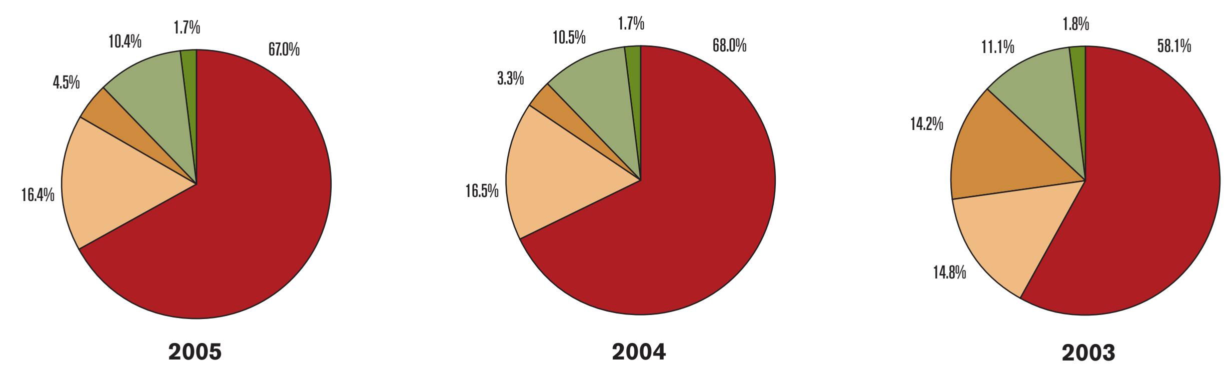

Figure 7. Capital Asset Categories (before depreciation) for years ended June 30, 2005, 2004, and 2003
(all dollars in thousands)

					Increase (Decrease)				
					2005 vs 2004			2004 vs 2003	
		2005	2004	2003		Amount	Percent		Amount	Percent
Buildings and Improvements	$	1,503,011	1,422,943	1,088,366	$	80,068	5.6%	$	334,577	30.7%
Equipment		370,027	345,047	276,933		24,980	7.2%		68,114	24.6%
Construction in progress		100,102	68,302	266,091		31,800	46.6%		(197,789)	(74.3%)
Library and other collections		232,629	220,061	208,697		12,568	5.7%		11,364	5.4%
Land		38,918	36,514	33,921		2,404	6.6%		2,593	7.6%
Total Capital Assets (gross)	$	2,244,687	2,092,867	1,874,008	$	151,820	7.3%	$	218,859	11.7%

Figure 8. Current Construction Project Details *(in thousands)*

Campus/Project Description	Project Status	Financing Sources	Value*
CU-Boulder:			
• Alliance for Teaching, Learning, and Society (ATLAS) Center, new building to support information technology curriculums	In progress	State appropriations, bond proceeds, and campus cash resources	$ 29,995
• Energy Savings and Conservation Projects	In progress	Bond proceeds and campus cash resources	6,320
• Laboratory for Atmospheric and Space Physics Technology Research Center addition	In progress	Bond proceeds	13,022
• Wolf Law Building	In progress	State appropriations, bond proceeds, and campus cash resources	46,350
• An extensive renovation to student housing centers, which has been segregated into the following phases:		Bond proceeds and campus cash resources	
– Phase I	2003		14,857
– Phase II	2004		5,704
– Phase III	2005		770
– Future Phases	In progress		34,752
• CU-Boulder Research Laboratory, new research building	2004	Bond proceeds and campus cash resources	8,200
• Folsom Stadium improvements to enlarge seating capacity and facilities management shop space	2004	Bond proceeds	45,574
UCDHSC:			
• Oral Health Building to provide space for patient care and instruction	In progress	Private resources and Certificates of Participation (COP) proceeds	28,774
• Fitzsimons Campus Academic Expansion:		State of Colorado lease purchase agreements	
– Academic Office West	In progress		41,069
– Education Facility II and Bridge and Academic Office East	In progress		75,714
– Fitzsimons Library	In progress		34,999
– Education Complex 1B	In progress		32,581
– Facilities Support Building	In progress		15,707
– Environmental Health and Safety II	In progress		1,806
• Fitzsimons Building 500 phase 3 remodel	In progress	Campus cash resources	9,000
• Fitzsimons Center for BioEthics and Humanities, new building	In progress	Campus cash resources	5,436
• Fitzsimons infrastructure development:			
– Phase 8	In progress	Campus cash resources	4,357
– Phase 9	In progress	Campus cash resources	5,424
• Fitzsimons parking facility	In progress	Campus cash resources	23,000
• Barbara Davis Center for Childhood Diabetes (Fitzsimons) providing clinical, research, and educational space:		Private donations, federal grants, and bond proceeds	
– Phase I & II	2005		22,539
– Phase III	In Progress		6,442
• State-of-the art biomedical research facilities with research laboratory modules, lab support space, research offices, and academic auditorium space:		Bond proceeds, federal awards, gifts, and campus cash resources	
– Research Complex I	2004		214,688
– Research Complex II	In Progress		205,820
• Administration building for University Physicians, Inc.	2004	Bond proceeds	20,500
CU-Colorado Springs:			
• Dwire Hall, renovation and upgrade of the classroom library facility	In Progress	State appropriations and campus cash resources	10,084
• Heller Center, new building for humanities and arts center	In Progress	Campus cash resources	5,400
• Parking facility to address the campus' growing needs:			
– Phase I	2005	Bond proceeds	6,743
– Phase II	In Progress	Bond proceeds	4,000
• Recreation Center, new building	In progress	Bond proceeds	12,000
• Science and Engineering building (Phase I), new building	In progress	Bond proceeds and campus cash resources	38,251
• Housing facilities to address the campus' growing student housing needs	2005	Bond proceeds	18,040
• Cragmor administrative building renovation	2004	State appropriations and COP proceeds	3,500
• University Hall, new building for nursing and engineering programs	2004	COP proceeds	7,925

** Value represents actual costs for completed projects and budgeted costs for projects in progress.*

WHERE DO WE GO FROM HERE?

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Legislation passed in Fiscal Year 2004 provided for a change in the funding mechanism of higher education beginning in July 2005. The State will no longer provide State appropriations to public institutions of higher education. The College Opportunity Fund has been established to provide stipends to qualified undergraduate students; the receiving students will then use the stipends to pay a portion of their tuition. The University expects to receive $64,600,000 of its tuition revenue in Fiscal Year 2006 from the College Opportunity Fund. This budgeted amount is based on the assumption that the change in funding does not have a negative impact on enrollment. In addition, the Colorado Commission on Higher Education (CCHE) will purchase certain educational services, including graduate and specialized education such as law and medicine, from public higher education institutions. The University's service contract for Fiscal Year 2006 provides for revenue of $86,048,000. In total, this funding mechanism change is projected to have a neutral impact on the University's funding from the State in Fiscal Year 2006 as compared to Fiscal Year 2005.

To be eligible for participation in either the College Opportunity Fund or the educational service contracts with CCHE, the University entered into a performance contract with CCHE in April 2005. The purpose of the performance contract is to increase the accountability of the University to its constituents. The goals of the performance contract are detailed in Figure 12.

Due to the Enterprise designation, the State Legislature established the University's tuition rates at a higher level than the rest of the public institutions in the State. Figure 13 depicts the three-year trend of tuition and fee rate increases for the predominant undergraduate degree program (Arts & Sciences and

The University is continuing its trend of investing in physical facilities in Fiscal Year 2005 through different financing mechanisms.

Figure 9. Fiscal Year 2006 Planned Capital Projects
(in thousands)

CU-Boulder Business School renovation and addition	$	34,300
CU-Boulder Ekeley sciences building renovation		13,950
CU-Boulder Information technology upgrade		13,524
CU-Boulder Ketchum arts & sciences building restoration		8,090
CU-Boulder Outdoor recreation improvements		5,731
CU-Boulder Visual Arts Complex		53,110

Figure 10. Capital Projects Financed by Debt
(in thousands)

Issuance Description	Construction Project (See Figure 8 for Project Description)		Allocated Proceeds
Fiscal Year 2005 Revenue Bonds:			
• UCDHSC Fitzsimons Research Complex II		$	141,770
• CU-Boulder Wolf Law Building			40,400
• CU-Boulder Alliance for Teaching, Learning, and Society (ATLAS) Center			27,900
• CU-Colorado Springs Housing			18,040
• CU-Boulder Laboratory for Atmospheric and Space Physics Technology Research Center addition			13,022
• CU-Boulder Energy Savings and Conservation Projects			6,320
• CU-Colorado Springs Parking Facility Phase II			4,000
	Total 2005 Revenue Bonds issuance*		251,452
Fiscal Year 2004 Revenue Bonds:			
• UCDHSC Fitzsimons Research Complex 1			31,660
• UCDHSC Fitzsimons Barbara Davis Center for Childhood Diabetes			20,000
• CU-Boulder Research Laboratory			6,600
• CU-Colorado Springs Parking			6,000
	Total 2004 Revenue Bonds issuance		64,260
Fiscal Year 2004 Certificates of Participation:			
• UCDHSC Fitzsimons Oral Health Building			25,000
• CU-Colorado Springs University Hall			7,925
• CU-Colorado Springs Cragmor Building			2,550
	Total 2004 Certificates of Participation Issuance	$	35,475

** Proceeds do not include $2,933,000 of proceeds used to pay prior year revenue bonds.*

The University's overall bonds and lease obligations have grown over the last three years as the University has financed its capital investments.

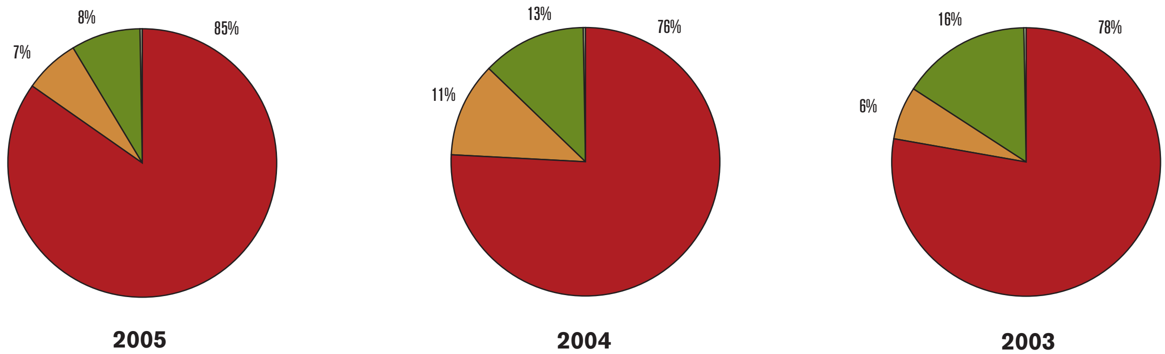

Figure 11. Debt Categories for years ended June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

					Increase (Decrease)					
					2005 vs 2004			2004 vs 2003		
		2005	2004	2003		Amount	Percent		Amount	Percent
Revenue Bonds	$	604,913	354,517	301,627	$	250,396	70.6%	$	52,890	17.5%
Certificates of Participation		47,100	52,725	25,240		(5,625)	(10.7%)		27,485	108.9%
Other Capital Lease Obligations		60,543	58,386	60,204		2,157	3.7%		(1,818)	(3.0%)
Notes Payable		177	332	347		(155)	(46.7%)		(15)	(4.3%)
Total Long-term Debt	$	712,733	465,960	387,418	$	246,773	53.0%	$	78,542	20.3%

Figure 12. Performance Contract Goals

Access:

- Guaranteed admission for in-state undergraduate applicants meeting published criteria
- Greater access for academically qualified in-state students who are historically underrepresented
- Debt-free coverage for low-income, in-state students who are first-time freshmen or community college transfers
- Increased transferability among State institutions of higher education in general education core courses

Quality and Success:

- High level of student satisfaction with their learning experience and overall education
- High numbers of students engaged in activities that lead to successful learning
- High level of student achievement on national standardized tests
- National recognition of the University's high-quality programs
- Increased student retention and graduation rates
- Enhanced academic rigor
- Maintaining a high-quality faculty

Efficiency:

- Efficient use of the University's resources
- Increased revenues from sources other than state funds and tuition dollars
- Increased resources for capital assets and maintenance

Addressing State Needs:

- Enrichment of the State's economy
- Provide undergraduate, graduate, and professional training to meet the State's needs
- Meeting the need for well-prepared primary and secondary education teachers

Figure 13. Undergraduate Tuition and Fees Rate Increases

	In-state			Out-of-state		
	2006	2005	2004	2006	2005	2004
CU-Boulder	23.8%	8.0%	12.7%	6.4%	5.6%	7.7%
CU-Colorado Springs	17.8%	7.3%	9.0%	0.0%	8.0%	10.3%
UCDHSC-Denver	23.3%	12.8%	8.8%	1.0%	4.0%	10.0%
UCDHSC-Health Sciences	12.6%	7.4%	9.4%	1.9%	12.4%	5.7%

Rates shown for the predominant undergraduate degree program (Arts & Sciences and Nursing for the general campuses and Health Sciences, respectively). Actual tuition rates vary by campus, school, and degree level.

Nursing for the general campuses and Health Sciences, respectively). Actual tuition rates vary by campus, school, and degree level. The tuition increases in Fiscal Year 2006 were offset by increased institutional financial aid packages for all students equal to 8.8 percent of the tuition increase.

Another factor in the University's ability to generate tuition and fees (and its overall economic position) relates to its ability to recruit and retain high-quality students. As depicted in Figure 14, student enrollment remains relatively stable.

The University continues to wrestle with the implications of a slow economic recovery in the State and reduced state funding. In November 2005, to provide relief from the slow economic recovery, the voters authorized the State to retain the money it collects over its TABOR spending limit for the next five years to be used for strategic transportation projects; health care for low-income, disabled, and elderly Coloradans; health insurance premiums for individuals and small businesses; preschool through twelfth grade public education; and community colleges and other public institutions of higher education.

The 10 and 15 percent growth in net assets in Fiscal Years 2005 and 2004, respectively, (both of which were periods of declining State support and economic weakness) illustrates the University's financial position. Specifically, the University had an increase in net assets of $144,523,000 and income before other revenues of $121,423,000 over the last fiscal year despite the current economic environment. To date in Fiscal Year 2006, the University's financial position remains stable due to revenues being in line with expectations and expenses being lower than expectations as a result of management's coupling of cost containment strategies and focused programmatic investments. The University has budgeted for Fiscal Year 2006 to continue its prudent use of resources, alternative financing for capital projects, and cost containment strategies. As demonstrated by the University's financial monitoring processes, management will continue to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues and maintain this financial position.

The University's overall student enrollment has remained steady over the last three years.

Figure 14. Fall Enrollment Figures

	2005 Census	2004 Actual	2003 Actual	2005 Census vs. 2004 Actual	2004 Actual vs. 2003 Actual
Resident					
CU-Boulder	20,322	20,376	20,102	(54)	274
CU-Colorado Springs	7,106	7,194	7,175	(88)	19
UCDHSC-Denver	11,244	11,458	11,129	(214)	329
UCDHSC-Health Sciences	2.473	2,438	2,298	35	140
Total Resident	**41,145**	**41,466**	**40,704**	**(321)**	**762**
Nonresident					
CU-Boulder	8,793	9,380	9,725	(587)	(345)
CU-Colorado Springs	461	435	465	26	(30)
UCDHSC-Denver	826	888	881	(62)	7
UCDHSC-Health Sciences	301	279	269	22	10
Total Nonresident	**10,381**	**10,982**	**11,340**	**(601)**	**(358)**
Total CU	**51,526**	**52,448**	**52,044**	**(922)**	**404**

UNIVERSITY OF COLORADO
FINANCIAL STATEMENTS

June 30, 2005 and 2004

UNIVERSITY OF COLORADO

STATEMENTS OF NET ASSETS

June 30, 2005 and 2004 (*in thousands*)

	2005		2004	
	University	Component Units	University	Component Units (restated)
Assets				
Current Assets				
Cash and cash equivalents	$ 27,690	14,836	12,263	11,553
Investments	144,812	31,652	151,244	364
Accounts, contributions, and loans receivable, net	165,681	14,034	134,214	21,143
Inventories	8,476	–	7,540	–
Other assets	3,949	603	3,978	445
Total Current Assets	**350,608**	**61,125**	**309,239**	**33,505**
Noncurrent Assets				
Investments	930,815	663,563	626,294	608,410
Accounts, contributions, and loans receivable, net	50,192	15,893	33,481	43,818
Other assets	9,193	4,294	6,843	1,462
Capital assets, net	1,400,018	95,385	1,346,896	83,736
Total Noncurrent Assets	**2,390,218**	**779,135**	**2,013,514**	**737,426**
Total Assets	**$ 2,740,826**	**840,260**	**2,322,753**	**770,931**
Liabilities				
Current Liabilities				
Accounts payable	$ 62,585	4,188	54,147	3,855
Accrued expenses	119,639	–	109,112	–
Accrued compensated absences	5,872	–	5,487	–
Deferred revenue	66,912	1,268	57,169	1,024
Bonds, notes, and leases payable	29,434	1,425	22,404	177
Split-interest agreements	–	3,372	–	3,250
Custodial funds	–	4,690	–	4,174
Other liabilities	27,306	422	33,486	765
Total Current Liabilities	**311,748**	**15,365**	**281,805**	**13,245**
Noncurrent Liabilities				
Accrued compensated absences	78,018	–	72,897	–
Deferred revenue	6,803	122	7,089	873
Bonds, notes, and leases payable	683,299	123,253	443,556	74,318
Split-interest agreements	–	27,384	–	27,361
Custodial funds	–	85,028	–	74,909
Other liabilities	13,559	3,951	14,530	4,414
Total Noncurrent Liabilities	**781,679**	**239,738**	**538,072**	**181,875**
Total Liabilities	**$ 1,093,427**	**255,103**	**819,877**	**195,120**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF NET ASSETS

June 30, 2005 and 2004 (*in thousands*)

	2005		2004	
	University	Component Units	University	Component Units (restated)
Net Assets				
Invested in capital assets, net of related debt	$ 915,344	8,276	910,007	9,241
Restricted for nonexpendable purposes (endowments)				
Instruction	–	87,189	–	81,211
Research	3,268	24,464	3,049	24,150
Academic support	13,311	15,515	12,653	15,150
Capital and other	3,135	7,605	2,965	7,595
Scholarships and fellowships	18,937	55,147	13,817	51,382
Total restricted for nonexpendable purposes	38,651	189,920	32,484	179,488
Restricted for expendable purposes				
Instruction	20,265	136,959	14,701	123,351
Research	8,345	44,683	12,461	39,754
Academic support	6,511	34,762	5,164	33,871
Student loans and services	39,944	–	40,481	–
Capital	22,360	34,672	11,830	68,490
Scholarships and fellowships	14,446	93,401	11,189	86,965
Auxiliary enterprises	99,392	–	97,201	–
Other	15,470	4,042	9,488	3,826
Total restricted for expendable purposes	226,733	348,519	202,515	356,257
Unrestricted	466,671	38,442	357,870	30,825
Total Net Assets	**$ 1,647,399**	**585,157**	**1,502,876**	**575,811**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

June 30, 2005 and 2004 (*in thousands*)

	2005		2004	
	University	Component Units	University	Component Units (restated)
Operating Revenues				
Student tuition (net of scholarship allowances of $46,687 in 2005 and $43,093 in 2004; pledged revenues of $37,102 in 2005)	$ 370,953	–	342,428	–
Student fees (net of scholarship allowances of $5,216 in 2005 and $5,088 in 2004; pledged revenues of $4,643 in 2005 and $4,457 in 2004)	38,183	–	36,675	–
Federal grants and contracts (pledged revenues of $100,369 in 2005 and $100,638 in 2004)	536,350	–	502,627	–
State and local grants and contracts (pledged revenues of $3,926 in 2005 and $4,130 in 2004)	23,844	–	24,478	–
Nongovernmental grants and contracts	49,175	–	50,567	–
Sales and services of educational departments (pledged revenues of $7,179 in 2005 and $6,065 in 2004)	104,754	–	96,120	–
Auxiliary enterprises (net of scholarship allowances of $2,091 in 2005 and $1,941 in 2004; pledged revenues of $30,227 in 2005 and $30,133 in 2004)	130,568	–	128,135	–
Health services (pledged revenues of $121 in 2005 and $178 in 2004)	225,205	–	200,819	–
Contributions	–	54,059	–	86,267
Other operating revenues (pledged revenues of $2,154 in 2005 and $1,910 in 2004 for University)	36,381	20,691	39,731	20,277
Total Operating Revenues	**1,515,413**	**74,750**	**1,421,580**	**106,544**
Operating Expenses				
Education and General				
Instruction	464,743	–	436,598	–
Research	374,753	–	356,280	–
Public service	52,436	–	46,568	–
Academic support	85,779	–	83,264	–
Student services	63,186	–	57,801	–
Institutional support	101,796	114,011	91,521	97,336
Operation and maintenance of plant	98,242	–	82,361	–
Student aid	28,053	–	25,638	–
Total Education and General Expenses	1,268,988	114,011	1,180,031	97,336
Depreciation	108,038	2,921	88,535	1,997
Auxiliary enterprises	105,971	–	104,436	–
Health services, net	205,024	–	196,372	–
Other operating expenses	175	–	21	–
Total Operating Expenses	**1,688,196**	**116,932**	**1,569,395**	**99,333**
Operating Income (Loss)	**$ (172,783)**	**(42,182)**	**(147,815)**	**7,211**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

June 30, 2005 and 2004 (*in thousands*)

	2005		2004	
	University	Component Units	University	Component Units (restated)
Nonoperating Revenues (Expenses)				
State appropriations	$ 150,673	–	155,173	–
Gifts	56,278	3,600	51,983	–
Investment income (net of investment expenses of $4,142 in 2005 and $3,673 in 2004; pledged revenues of $94 in 2005 and $125 in 2004 for the University)	49,488	51,994	44,383	73,134
Royalty income (net of royalty expense of $6,962 in 2005 and $1,585 in 2004)	51,078	–	23,303	–
Gain (loss) on disposal of capital assets	(2,911)	–	258	–
Interest expense on capital asset related debt	(20,393)	(4,066)	(12,941)	(3,900)
Other nonoperating revenues (net of expenses of $80 in 2005)	9,993	–	6,210	–
Net Nonoperating Revenues	**294,206**	**51,528**	**268,369**	**69,234**
Income Before Other Revenues	**121,423**	**9,346**	**120,554**	**76,445**
Capital appropriations	1,037	–	2,744	–
Capital grants and gifts	16,208	–	70,451	–
Additions to permanent endowments	5,855	–	17	–
Total Other Revenues	**23,100**	**–**	**73,212**	**–**
Increase in Net Assets	**144,523**	**9,346**	**193,766**	**76,445**
Net Assets, beginning of year	1,502,876	575,811	1,309,110	499,366
Net Assets, end of year	**$ 1,647,399**	**585,157**	**1,502,876**	**575,811**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF CASH FLOWS

June 30, 2005 and 2004 (*in thousands*)

	2005	2004
	University	
Cash Flows from Operating Activities		
Tuition and fees	$ 409,687	382,295
Grants and contracts	611,030	556,797
Payments to suppliers	(415,889)	(385,476)
Payments for utilities	(45,368)	(37,899)
Payments to employees	(889,433)	(858,066)
Payments for benefits	(182,915)	(165,305)
Payments for scholarships and fellowships	(25,808)	(24,268)
Loans issued to students and employees	(8,234)	(10,164)
Collection of loans to students and employees	9,922	9,470
Auxiliary enterprise charges	132,061	123,268
Sales and services of educational departments	104,454	96,254
Health services	218,151	199,540
Other receipts	44,921	68,060
Total Cash Flows Used for Operating Activities	**(37,421)**	**(45,494)**
Cash Flows from Noncapital Financing Activities		
State appropriations	150,673	155,173
Gifts and grants for other than capital purposes	54,552	52,666
Endowment additions	5,855	17
William D. Ford direct lending receipts	99,599	90,420
William D. Ford direct lending disbursements	(99,618)	(90,393)
PLUS loans receipts	43,970	39,402
PLUS loans disbursements	(43,986)	(39,371)
Agency transactions, net	(494)	313
Total Cash Flows Provided by Noncapital Financing Activities	**210,552**	**208,227**
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	267,474	101,709
Capital grants and gifts received	16,208	70,451
Proceeds from sale of capital assets	1,416	6,096
Purchases and construction of capital assets	(162,101)	(166,911)
Principal paid on capital debt	(25,070)	(23,319)
Interest paid on capital debt	(22,245)	(21,410)
Total Cash Flows Provided by (Used for) Capital and Related Financing Activities	**75,682**	**(33,384)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	3,540,094	3,373,034
Purchase of investments	(3,840,359)	(3,515,412)
Interest on investments	51,443	15,828
Royalty income	26,540	3,408
Royalty expense	(6,962)	(1,585)
Investment management fees paid	(4,142)	(5,258)
Total Cash Flows Used for Investing Activities	**(233,386)**	**(129,985)**
Net Increase (Decrease) in Cash and Cash Equivalents	**15,427**	**(636)**
Cash and Cash Equivalents, beginning of year	12,263	12,899
Cash and Cash Equivalents, end of year	**$ 27,690**	**12,263**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF CASH FLOWS

June 30, 2005 and 2004 (*in thousands*)

	2005	2004
	University	
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	$ (172,783)	(147,815)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	108,038	88,535
Provision for doubtful receivables	1,837	2,116
Receipts of items classified as nonoperating revenues	10,516	30,109
Changes in assets and liabilities		
Receivables	(13,506)	(21,564)
Loans to students and employees	(936)	(1,626)
Inventories	(815)	222
Other assets	5,247	512
Accounts payable	8,705	2,645
Accrued expenses	9,458	794
Deferred revenue	5,506	(2,979)
Accrued compensated absences	1,201	4,064
Other liabilities	111	(507)
Net Cash Used for Operating Activities	**$ (37,421)**	**(45,494)**

	2005	2004
Noncash Transactions		
Donations, lease-financed acquisitions, or state-funded acquisitions of capital assets	$ 8,670	55,991

See accompanying notes to financial statements.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GOVERNANCE

The University of Colorado (the University) is a comprehensive degree-granting research university in the State of Colorado. It is governed by a nine-member Board of Regents (the Regents) elected by popular vote in the State of Colorado's (the State) general elections. Serving staggered six-year terms, one member is elected from each of the State's seven congressional districts with two Regents elected from the State at large. The University comprises the system offices and the following three accredited campuses, each with its unique mission as detailed below:

- University of Colorado at Boulder (CU-Boulder)

  Established in 1861, CU-Boulder is a comprehensive graduate research university (with selective admission standards) offering a comprehensive array of undergraduate, master's, and doctoral degree programs.

- University of Colorado at Denver and Health Sciences Center (UCDHSC)

  Operated as two separate campuses, the Health Sciences Center and the Denver campus were established in 1883 and 1974, respectively. On July 1, 2004, the two campuses were merged into the single campus operations of University of Colorado at Denver and Health Sciences Center. UCDHSC is an urban comprehensive research university offering a full range of undergraduate, graduate, and professional degree programs in life sciences, professional programs, and liberal arts.

- University of Colorado at Colorado Springs (CU-Colorado Springs)

  Established as a separate campus in 1965, CU-Colorado Springs is a comprehensive baccalaureate university (with selective admission standards).

To accomplish these roles, the University's 2,800 full-time instructional faculty serve more than 52,400 students through more than 230 degree programs in 27 schools and colleges.

BASIS OF PRESENTATION AND FINANCIAL REPORTING ENTITY

Blended Component Units

The University's financial reporting entity includes the operations of the University and all related entities for which the University is financially accountable and that provide services entirely or almost entirely to the University, referred to as blended component units. Financial accountability may stem from the University's ability to appoint a majority of the governing board of the related organization, its ability to impose its will on the related organization, its ability to access assets, or its responsibility for debts of the related organization.

The University has the following blended component units:

- Buffalo Power Corporation

  Established in 1991, Buffalo Power is a Colorado nonprofit corporation organized to facilitate the construction and financing of a cogeneration plant project. The project is designed to supply steam and electric power to CU-Boulder. Excess electricity produced by the project is sold to third parties. Buffalo Power Corporation's directors are appointed by the Regents.

- The University of Colorado Finance Corporation

  Established in 1998, the Finance Corporation is a Colorado nonprofit corporation organized to facilitate the acquisition of personal and real property for the University. The corporation is the lessor for The Regents of the University of Colorado Master Lease Purchase Agreement Adjustable Tender Certificates of Participation, Series 1998A (the Certificates). The Certificates provide a lease/purchase financing mechanism for certain equipment, construction projects, and real property necessary for the University's operation.

- University of Colorado Insurance Pool (UCIP)

  Established in 1993, UCIP is a public entity insurance pool operated for the benefit of the University and the University of Colorado Hospital Authority that insures property, liability, and workers' compensation risks under the regulatory authority of the Colorado Division of Insurance. Effective September 30, 1996, the University discontinued utilizing UCIP for its insurance and began utilizing a protected self-insurance program (Note 10). UCIP is responsible for claims covered under the terms of its policies. When all of UCIP's liabilities are discharged, UCIP will be legally dissolved. Detailed financial information may be obtained directly from UCIP at 4001 Discovery Drive, Suite 230, Boulder, Colorado 80303.

- The University Improvement Corporation (TUIC)

  Established in 1976, TUIC is a separate corporation managing real estate investments for the sole benefit of the University. TUIC is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. At June 30, 2004, a majority of the assets of TUIC were transferred to The University of Colorado Real Estate Foundation (CUREF), a discretely presented component unit of the University.

- University License Equity Holding, Inc. (ULEHI)

  Originally established in 1992, with a significant reorganization in 2001, ULEHI facilitates certain licensing activities for the University. ULEHI is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. Detailed financial information may be obtained directly from ULEHI at 4001 Discovery Drive, Suite 390B, Boulder, Colorado 80303.

- University Physicians, Inc. (UPI)

  Established in 1982, UPI performs the billing, collection, and disbursement services for the professional health services rendered for UCDHSC as authorized in Section 23-20-114, Colorado Revised Statutes. UPI, a nonprofit entity under Section 501(c)(3), collects patient and other revenues generated from professional activities by over 940 member physicians of the faculty of the UCDHSC School of Medicine. Medical care is provided to patients throughout the Rocky Mountain region through a statewide and regional network of services with over 160 sites of practice. In 1997, UPI acquired a 30 percent interest in the University of Colorado Hospital Authority's investment in TriWest Healthcare Alliance Corp. (TriWest). TriWest was formed to deliver health care services to eligible beneficiaries of the Civilian Health and Medical Program of the Uniformed Services within certain specified geographic regions. UPI accounts for its participation in TriWest on the cost basis. Detailed financial information may be obtained directly from UPI at P.O. Box 876, Aurora, Colorado 80040.

Discretely Presented Component Units

The University's financial statements include certain supporting organizations as discretely presented component units (DPCU) of the University (labeled component units). The majority of the resources, or income thereon, that the supporting organizations hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by the supporting organizations can only be used by, or for the benefit of, the University, the following supporting organizations are considered discretely presented component units of the University:

- Coleman Colorado Foundation (Coleman Foundation)

  Established in 2001, the Coleman Foundation is a nonprofit entity under Sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code and was established to support the University's operational unit, the University of Colorado Coleman Institute for Cognitive Disabilities, and related activities and professorships. A five-member board of directors governs the Coleman Foundation. One of the board members, the Treasurer, is the spouse of the previous University President in 2004 and 2005.

- University of Colorado Foundation (CU Foundation)

  Established in 1967, the CU Foundation solicits, collects, and invests donations for the University. The CU Foundation, a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code, has a 15-member board of directors, of which a member of the Regents and the president of the University serve as ex-officio non-voting members. CU Foundation's reporting entity includes the Alumni Association of the University of Colorado at Boulder (Boulder Alumni Association) and Bear Creek I, LLC (Bear Creek).

  The Boulder Alumni Association connects alumni, students, friends, and all members of the University community to each other and to the University through activities and programs that stimulate interest, loyalty, and support for the University.

  In June 2002, the CU Foundation established Bear Creek, a Colorado limited liability company, whose sole member is the CU Foundation. Bear Creek was established for the purpose of financing, developing, and operating a student residence center on land located at CU-Boulder. The terms of the operating agreement provide Bear Creek with the use of the University's land in exchange for net cash flow of the housing project as defined in the agreement.

  Under an agreement between the CU Foundation and the University, the CU Foundation provides development and investment services to the University in exchange for a fee. Detailed financial information may be obtained directly from the CU Foundation at 4740 Walnut Street, Boulder, Colorado 80301.

- The University of Colorado Real Estate Foundation (CUREF)

  Established in 2002, CUREF solicits and manages real estate investments for the sole benefit of the University. CUREF, a nonprofit entity under Section 509(a)(3) of the Internal Revenue Code, has up to a 14-member board of directors, of which up to nine are voting members who may not be University employees and up to five are ex-officio non-voting members who may be University employees. Under an operating agreement, CUREF provides management services to TUIC in exchange for a nominal fee. At June 30, 2004, the University transferred the majority of the assets of TUIC to CUREF. Detailed financial information may be obtained directly from CUREF at 4740 Walnut Street, Boulder, Colorado 80301.

  In May 2005, Campus Village Apartments, LLC (Campus Village) was formed with CUREF as the sole shareholder to promote the general welfare, development, growth, and well being of the University, specifically by acquiring, constructing, improving, equipping, and operating a new student housing facility located in Denver, Colorado.

Joint Ventures and Related Organizations

The University has associations with the following organizations for which it is not financially accountable, nor has primary access to the resources. Accordingly, these organizations have not been included in the University's financial statements. Information regarding the nature of the relationships are included in Note 21.

- University of Colorado Hospital Authority (Hospital Authority)
- Auraria Higher Education Center (AHEC)

Relationship to State of Colorado

The University of Colorado is an institution of higher education of the State of Colorado (State). Thus, for financial reporting purposes, the University is included as part of the State of Colorado's primary government.

TAX EXEMPT STATUS

The income generated by the University, as an instrumentality of the State, is generally excluded from federal income taxes under Section 115(a) of the Internal Revenue Code. The University also has a determination letter from the Internal Revenue Service stating it is exempt under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Income generated from activities unrelated to the University's exempt purpose is subject to tax under Internal Revenue Code Section 511(a)(2)(B). There was no tax liability related to income generated from activities unrelated to the University's exempt purpose as of June 30, 2005 and 2004.

BASIS OF ACCOUNTING

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation is incurred.

The University applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. In addition, the University has chosen to only apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements. All changes in accounting are discussed in Note 12.

ACCOUNTING POLICIES

Cash and Cash Equivalents are defined for the purposes of reporting cash flows as cash on hand and deposit accounts. Investments in mutual funds and deposits with the State Treasurer are presented as investments. UPI and the DPCU consider money market accounts with a maturity, when acquired, of three months or less to be cash equivalents.

Investments reported in the financial statements are at fair value, which is determined primarily based on quoted market prices as of June 30, 2005 and 2004. Amortized costs (which approximate fair value) are used for money market investments.

The classification of investments as current or noncurrent is based on the underlying nature and restricted use of the asset. Current investments are those without restrictions imposed by third parties that can be used to pay current obligations of the University. Noncurrent investments include restricted investments and those investments designated to be used for long-term obligations.

The University's investment policies permit investments in fixed-income and equity securities. These policies are implemented using individual securities, mutual funds, commingled funds, and alternative investments for the endowments.

Investments of the DPCU are comprised of marketable securities and alternative investments such as interest in private equity partnerships and real estate. All investments are stated at fair value based upon quoted market prices, professional appraisals, and other readily determinable information.

Endowments and similar gift instruments owned by the University and the DPCU are primarily recorded as investments in the accompanying financial statements. True endowment funds are subject to the restrictions of donor gift instruments requiring the principal to be invested in perpetuity. Life income funds are used to account for cash or other property contributed to the University subject to the requirement that the University periodically pay the income earned on such assets to a designated beneficiary. The assets of life income funds become the property of the University or DPCU upon the death of the designated beneficiary. Annuity funds are used to account for property contributed to the University or DPCU in exchange for a promise to pay a fixed amount to the donor for a specified period of time. In addition, certain funds have been established by the Regents to function as endowment funds until the restrictions are lifted by the Regents and are referred to as quasi-endowments.

Accounts, Contributions, and Loans Receivable are recorded net of estimated uncollectible amounts, approximating anticipated losses.

Contributions receivable for the DPCU are unconditional promises to give. Promises to give to CUREF are recorded at net realizable value if expected to be collected within one year and at fair value if expected to be collected in more than one year. The CU Foundation and Coleman Foundation use the allowance method to determine the uncollectible portion of the unconditional contributions receivable. The allowance is based on management's analysis of the historical collectibility of contributions pledged. These promises to give are recorded at the net present value of the expected future cash flows using a risk-free interest rate.

For all receivables, individual accounts are written off against the allowance when collection of the account appears doubtful. Bad debts substantially consist of write offs for uncollectible balances on self-pay patients and contributions receivable.

Inventories are primarily accounted for using the consumption method and are stated at the lower of cost or market. Cost is determined using either the first-in, first-out, average cost, or retail method.

Capital Assets are stated at cost at the date of acquisition or at fair value at the date of donation. For equipment, the capitalization policy, except for UPI, includes all items with a value of $5,000 or more, and an estimated useful life of greater than one year. UPI capitalizes assets with a value of $1,000 or greater, and an estimated useful life of greater than one year.

Renovations to buildings and other improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense. Major outlays for capital assets and improvements are capitalized as construction in progress throughout the building project. Interest incurred during the construction phase is included as part of the value of the construction in progress.

All collections, such as works of art and historical artifacts, have been capitalized at cost at the date of acquisition or fair value at the date of donation. The nature of certain collections is such that the value and usefulness of the collections does not decrease over time. These collections have not been depreciated in the accompanying financial statements.

Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or the estimated useful life. Such amortization is included as depreciation expense in the accompanying financial statements.

Depreciation is computed using the straight-line method and monthly convention over the estimated useful lives of the assets as displayed in Table 1, Asset Useful Lives.

Accrued Compensated Absences and related personnel expenses are recognized based on estimated balances due to employees upon termination or retirement. The limitations on such payments are defined by the rules associated with the personnel systems at the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service. Vacation accruals are paid in full upon separation whereas only a portion of sick leave is paid upon specific types of separation, such as retirement.

TABLE 1 Asset Useful Lives

Asset Class	Years
Buildings	20 – 50*
Improvements other than buildings	10 – 40
Equipment	3 – 20
Library and other collections	6 – 15

*Certain buildings are componentized and the components may have useful lives similar to Improvements or Equipment.

The recording of the liability for compensated absences may result in deficit net assets that are expected to be funded by state appropriations, federal funds, or other sources available in future years when the liability is paid.

Deferred Revenue consists of amounts received from the provision of educational, research auxiliary goods and services, and royalties that have not yet been earned.

Capital Leases consists of various lease-purchase contracts and other lease agreements. Such contracts provide that any commitments beyond the current year are contingent upon funds being appropriated for such purposes by the Regents. It is reasonably assured that such leases will be renewed in the normal course of business and, therefore, are treated as non-cancelable for financial reporting purposes.

Split-Interest Agreements are beneficial interests in various agreements held by one of the DPCU, which include gift annuities, charitable remainder annuity trusts and unitrusts, and a pooled income fund. The DPCU typically serves as trustee, although certain trusts are administered by outside trustees. For trusts administered by the DPCU, specified earnings are typically paid to a named beneficiary. After termination of the trusts, the assets revert to the DPCU to create an endowment to support University activities or to be temporarily restricted for other purposes at the University. Assets received under such agreements are typically marketable equity and fixed income securities, are recorded at their market value, and are included in investments in the accompanying financial statements. The estimated net present value of the obligation to named beneficiaries is recorded as a liability under split-interest agreements. A risk-free rate, using U.S. Treasury bonds at the date of the gift, was used in conjunction with actuarially determined life expectancies to calculate present values. The fair value of assets received in excess of the obligation is recognized as contribution revenue at the date of the gift. Changes in the value of the investments are combined with the changes in the estimated liability and are recorded in the accompanying financial statements.

In cases where a split-interest agreement is administered by an outside trustee, the DPCU records the estimated fair value of future cash flows from the trust as a contribution receivable from charitable remainder trusts at the point at which the DPCU becomes aware of its interest in the trust. Under certain circumstances, the DPCU accepts and manages trust funds for which the DPCU or University has beneficial interest but is not the sole beneficiary of the trust. Funds received for which the DPCU or the University is not the ultimate beneficiary are included as other liabilities in the accompanying financial statements and are not included in contributions revenue.

Custodial Funds consist of funds held by the DPCU for endowments legally owned by other entities, including the University (Note 20).

Net Assets are classified in the accompanying financial statements as follows:

Invested in capital assets, net of related debt represents the total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted for expendable purposes represents net resources in which the University or DPCU is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted for nonexpendable purposes consists of true endowments and similar instruments in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets represent net resources derived from student tuition and fees, state appropriations, and sales and services of educational departments. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Regents to meet current expenses for any purpose. These resources also include those from auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

Internal Transactions occur between University operating units, including its formal self-funded internal service units and blended component units. Examples of self-funded operating units are telecommunications, cogeneration, and storerooms. Transactions include the recognition of revenues, expenses, receivables, and payables in the appropriate accounts of the operating units. To accommodate external financial reporting, the internal revenues and receivables are netted against expenses and payables, respectively.

Classification of Revenues and Expenses in the accompanying financial statements as either operating or nonoperating has been made according to the following criteria:

Operating Revenues are derived from activities associated with providing goods and services for instruction, research, public service, health services, or related support to entities separate from the University and that are exchange transactions. Examples include student tuition and fees, sales and services of auxiliary enterprises, healthcare and patient service, grants, contracts, and interest on student loans. Operating revenues also include contributions to DPCU, which are derived from their fundraising mission.

Operating expenses are paid to acquire or produce goods and services provided in return for operating revenues, and to carry out the mission of the University. All other expenses are deemed nonoperating.

Nonoperating Revenues include all revenues that do not meet the definition of operating revenues, capital revenues, or endowment additions. They are primarily derived from activities that are non-exchange transactions (e.g., gifts); from activities defined as such by the GASB cash flow standard (e.g., investment income); and from sources defined as such by other GASB standards (e.g., State appropriations).

Scholarship Allowances are the difference between the stated charge for the goods and services provided by the University and the amount that is paid by the students or by other third parties making payments on the students' behalf. Student tuition and fee revenues and certain other auxiliary enterprises revenue are reported net of scholarship in the accompanying financial statements. Certain grants from external governmental and private programs are recorded as either operating or nonoperating revenues in the accompanying financial statements. To the extent that such grant revenues are used to satisfy tuition and fees and other student charges, the University records scholarship allowances. Any excess grant revenues are recorded as student aid operating expense.

Health Service Revenue from Contractual Arrangements is recognized by UPI as a result of providing care to patients covered under various third-parties such as Medicare and Medicaid, private insurance companies, and managed care programs, primarily from fixed-rate agreements. The federal and state government update fixed-rate agreements for Medicare and Medicaid, respectively, annually. In addition to the standard Medicaid program, UPI provides substantial care to Medicaid patients under the Colorado Access program. Contractual arrangements with insurance companies and managed care plans are negotiated periodically for future years.

Health services revenue is reported at the estimated net realizable amounts due from third-party payers and others for services rendered. Net patient service revenue includes care provided to patients who meet certain criteria under UPI's medically indigent care policy as reimbursed with funds provided by the State of Colorado processed by Hospital Authority, and co-payments made by care recipients. In accordance with UPI's mission and philosophy, UPI members annually provide substantial levels of charity care to patients who meet certain defined criteria. Charity care relates to services rendered for which no payment is expected.

Donor Restricted Endowment disbursements of the net appreciation (realized and unrealized) of investments of endowment gifts are permitted by State law, except where a donor has specified otherwise. The amount of earnings and net appreciation available for spending by the University and the CU Foundation is based on a spending rate set by the Regents on an annual basis. For the years ended June 30, 2005 and 2004, the authorized spending rate was equal to the greater of 4 percent of the prior month's market value or 4.5 percent of the average market value of endowment investments at the end of the previous three years. Earnings in excess of the amount authorized for spending are available in future years and are included in the value of the related investment. Earnings authorized to be spent are recognized in the University's financial statements as investment or gift revenue for University or CU Foundation-owned endowments, respectively.

Application of Restricted and Unrestricted Resources is made on a case-by-case basis by management depending on overall program resources. Generally, management applies unrestricted resources then restricted resources when both restricted and unrestricted resources are available to pay an expense.

Use of Estimates is made in order to prepare financial statements in conformity with accounting principles generally accepted in the United States of America. Management is required 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 revenue and expense during the reporting period. Actual results could differ significantly from those estimates.

Reclassifications of certain prior year balances have been made to conform to the current year's financial statement presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

The University's and DPCUs' cash and cash equivalents are detailed in Table 2.1, Cash and Cash Equivalents.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. To manage custodial credit risk, deposits with U.S. and foreign financial institutions are made in accordance with University and State policy, including the Public Deposit Protection Act (PDPA). PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal depository insurance. Deposits collateralized under the PDPA are considered to be collateralized with securities held by the pledging institution in the University's name. Deposits with foreign financial institutions are not PDPA-eligible deposits and thus are exposed to custodial credit risk and require separate authorization as depositories by the State. During the years ended June 30, 2005 and 2004, all deposits with foreign financial institutions were authorized. Of the University's total cash and cash equivalents, $67,000 and $49,000 related to deposits in foreign institutions is subject to custodial credit risk at June 30, 2005 and 2004, respectively. Custodial credit risk investment is not available for the DPCU.

TABLE 2.1 Cash and Cash Equivalents *(in thousands)*

Type	2005	2004
University		
Cash on hand (petty cash and change funds)	$ 281	272
Deposits with U.S. and foreign financial institutions	27,409	11,991
Total Cash and Cash Equivalents – University	**$ 27,690**	**12,263**
Discretely Presented Component Units		
Deposits with University Treasurer	$ –	664
Deposits with U.S. financial institutions	14,836	10,889
Total Cash and Cash Equivalents – DPCU	**$ 14,836**	**11,553**

NOTE 3 – INVESTMENTS

The University's investments generally include direct obligations of the U.S. Government and its agencies, commercial paper, corporate bonds, asset-backed securities, mortgage-backed securities, money market funds, commingled and mutual funds, repurchase agreements, guaranteed investment contracts, and equities. Endowments are pooled to the extent possible under gift agreements. The CU Foundation manages certain of these endowments for the University in accordance with their investment policy.

To the extent permitted, and excepting the University's blended entities, the University pools cash balances for investment purposes. An investment policy statement approved by the Regents directs the treasurer of the University to meet the following investment objectives:

- liquidity for daily operations,
- protection of the nominal value of assets, and
- generation of distributable earnings at a level commensurate with the time horizon of the investments.

For financial statement purposes, investment income is reported on a total return basis and is allocated among operational units based on average daily balances, using amortized costs. Average daily balances approximated $631,052,000 and $547,105,000 for the years ended June 30, 2005 and 2004, respectively. The total return on this pool was 6.0 percent and 5.6 percent for the years ended June 30, 2005 and 2004, respectively.

CUSTODIAL CREDIT RISK

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Therefore, exposure arises if the securities are uninsured, are not registered in the University's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the University's name. Open-ended mutual funds and certain other investments are not subject to custodial risk because ownership of the investment is not evidenced by a security. The University does not have a policy concerning custodial credit risk. Table 3.1, Investments, lists the fair value of the major types of investments owned by the University. None of the University's investments are subject to custodial risk. Custodial credit risk categories are not available for the DPCU.

TABLE 3.1 Investments *(in thousands)*

Investment Type	2005	2004 (restated)
University		
U.S. government and agency securities	$ 95,373	123,773
Corporate securities	16,110	17,542
Corporate bonds and commercial paper	87,776	84,379
Repurchase agreements	226,227	41,397
Certificates of deposit	–	6,146
Asset-backed securities	114,808	93,336
Open-ended mutual funds	452,294	336,518
Endowment-related investments held by CU Foundation	82,406	72,473
Other	633	1,974
Total Investments – University	**$1,075,627**	**777,538**
Discretely Presented Component Units		
Equity securities		
Domestic	$ 239,891	244,530
International	100,029	86,592
Fixed income securities	99,152	97,584
Alternative non-equity securities	218,574	179,704
Guaranteed investment contracts	37,569	364
Total Investments – DPCU	**$ 695,215**	**608,774**

TABLE 3.2 Debt Investments *(in thousands)* **and Interest Rate Risk** *(in years)*

Investment Type	2005 Amount	2005 Duration
University		
U.S. government and agency securities	$ 89,765	4.796
Corporate bonds	55,123	4.792
Asset-backed securities	114,484	5.800
Bond mutual funds	32,250	2.050
	Amount	**Weighted Average Maturity**
University Physicians Inc.		
U.S. government and agency securities	$ 1,458	2.04
Federal agency paper	4,150	3.01
Commercial paper	1,983	0.24
Corporate bonds	30,670	2.38
Asset-backed securities	95	1.00
Money market mutual funds (Non-2a7-like pools)	320	0.50

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. Interest rate risk only applies to debt investments. The University, except for UPI, manages interest rate risk in its investment portfolios by managing the duration, the maximum maturity, or both. University investment policies establish duration and maturity guidelines for each portfolio. The duration methods use the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. UPI manages interest rate risk using weighted average maturity. Weighted average maturity is a measure of the time to maturity in years that has been weighted to reflect the dollar size of the individual investment within an investment type. The University's investment policy mitigates interest rate risk through the use of maturity limits for each of the investment segment pools.

A summary of the fair value of the University's debt investments and interest rate risk as of June 30, 2005, is shown in Table 3.2, Debt Investments and Interest Rate Risk. Interest rate risk is not available for the DPCU.

As disclosed above, the University has investments in asset-backed securities. The securities consist mainly of mortgages, home equity loans, student loans, automobile loans, equipment trusts, and credit card receivables. These securities are based on cash flows from principal and interest payments on the underlying securities. An asset-backed security has repayments that are expected to significantly vary with interest rate changes. The variance may present itself in terms of variable repayment amounts and uncertain early or extended repayments. At June 30, 2005, the University has $114,484,000 invested in asset-backed securities. Of this amount, $69,427,000 are invested in fixed-rate securities, $37,141,000 are invested in variable-rate securities, and $7,916,000 are invested in collateralized mortgage obligations.

CREDIT QUALITY RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk only applies to debt investments. This risk is assessed by national rating agencies, which assign a credit quality rating for many investments. The University's investment policies for the Treasury pool do not permit investments in debt securities that are below investment grade at the time the security is purchased. University policy allows no more than 20 percent of investments to be rated below A- (Standard and Poor's) or A3 (Moody's). There are two other investment policies tailored to non-pooled investments. Those policies do not restrict investments to a particular credit quality standard. Credit quality ratings are not required for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government. A summary of the University's debt investments and credit quality risk as of June 30, 2005, is shown in Table 3.3, Debt Investments and Credit Quality Risk. Credit quality risk is not available for the DPCU.

At June 30, 2004, in accordance with GASB Statement No. 3, as amended by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* the Univesity's investments have been catagorized into the following three categories of credit risk:

Category 1–Investments that are insured or registered or investments that are held by the University in the University's name.

Category 2–Investments that are uninsured or unregistered that are held by the counterparty's agent or trust department in the University's name.

Category 3–Investment that are uninsured or unregistered that are held by the counterparty's agent or trust department but are not in the University's name.

Mutual funds and certain other investments, including trusts, are not categorized as to custodial risk because ownership is not evidenced by a security. Custodial credit risk categories are not available for the DCPU. Table 3.4, Investments by Risk Category, summarizes the risk categories as of June 30, 2004. A summary of the fair value of the investments as of June 30, 2004, is shown in Table 3.1, Investments.

SECURITY LENDING

The University treasurer, under the authority granted by the Regents, enters into an agreement with the trust department of its custodial bank to lend its fixed income and equity securities to certain qualified borrowers. Loans can be terminated on demand by either the University or the borrowers. The loans consist of two types: term and open. A term loan is for a fixed number of days while an open loan may be renewed by both parties daily.

The custodian, acting as lending agent, lends the University's securities for collateral of 102 percent to broker-dealers and other entities (borrowers) with a simultaneous agreement to return the collateral for the same security in the future. Acceptable forms of collateral are cash, irrevocable standby letters of credit, and obligations issued or guaranteed by the U.S. Government or its agencies. If the fair value of a loaned security increases, the borrower is required to deliver additional collateral to the custodian to protect the University. For both term and open loans collateralized by cash from the borrower, the collateral is invested in high-quality, U.S. dollar-denominated, short-term money market instruments that can have fixed, variable, or floating rates of interest. Collateral is invested in diversified instruments to provide adequate liquidity and to avoid concentration by issuer or industry except that no concentration limits are set for obligations of the U.S. Government or its agencies. The University does not have the ability to pledge or sell securities under a security lending agreement unless the borrower defaults. As of June 30, 2005 and 2004, the University had no securities on loan.

The custodian provides indemnification to protect against a borrower's failure to perform or a borrower's default on a loan. There were no violations of legal or contractual provisions and no borrower or custodian has defaulted.

Table 3.3 Debt Investments and Credit Quality Risk

	2005		
	Unrated	Rated	
Investment Type	*Fair Value (in thousands)*	*Fair Value (in thousands)*	*% of Rated Value by Credit Rating*
U.S. government agencies	$ 27,208	66,306	100% AAA/Aaa
Commercial paper	992	992	100% A-1
Corporate bonds	2,039	83,754	9% AAA
			58% Aa/A
			1% A-1
			23% Baa
			9% Ba/Caa
Asset-backed securities	44,770	69,808	90% AAA/Aaa
			8% AA/BB
			2% A-1
Money market mutual funds	47,291	146,934	100% Aaa
Bond mutual funds	32,577	–	NA

TABLE 3.4 Investments by Risk Category *(in thousands)*

Investment Type	2004
University	
Category of Risk No. 1	
U.S. government and agency securities	$ 123,773
Corporate securities and commercial paper	101,921
Repurchase agreements	41,397
Certificates of deposit	6,146
Subtotal Category of Risk No. 1	273,237
Uncategorized	504,301
Total Investments–University	**$ 777,538**

TABLE 3.5 DPCU Investments Held Under Split-Interest Agreements *(in thousands)*

Type		2005	2004
Beneficial interests in perpetual trusts held by others	$	52	37
Charitable unitrusts and other life income		44,085	42,841
Charitable annuity trusts		5,160	4,974
Charitable gift annuities and pooled income funds		996	892
Total Investments Held Under Split-Interest Agreements	**$**	**50,293**	**48,744**

SPLIT-INTEREST AGREEMENTS

Assets held by the DPCU under split-interest agreements are included in investments, and consisted of the following as of June 30, 2005 and 2004, and are shown in Table 3.5, DCPU Investments Held Under Split-Interest Agreements.

For years ended June 30, 2005 and 2004, $673,000 and $438,000, respectively, was included as contributions revenue attributable to new split-interest agreements and $1,406,000 and $4,000,000, respectively, was included as contribution revenue resulting from the change in value of the split-interest agreements.

NOTE 4 – ACCOUNTS, CONTRIBUTIONS, AND LOANS RECEIVABLE

Table 4.1, Accounts, Contributions, and Loans Receivable, segregates receivables as of June 30, 2005 and 2004, by type.

During previous years, the DPCU recorded contributions receivable from a single donor totaling $65,000,000 that are expected to be received over a five-year period. As of June 30, 2005 and 2004, the DPCU have collected approximately $47,800,000 and $47,700,000, respectively, of this pledge. At June 30, 2005, the remaining balance was $0 because $17,200,000 was distributed to the University of Colorado Hospital. At June 30, 2004, the remaining balance of approximately $17,300,000 comprises approximately 27 percent of net contributions receivable. In 2001, the Coleman Foundation received a pledge from another single donor of $250,000,000 (Note 20).

TABLE 4.1 Accounts, Contributions, and Loans Receivable *(in thousands)*

		2005			
Type of Receivable		**Gross Receivables**	**Allowances**	**Net Receivables**	**Net Current Portion**
University					
Student accounts	$	25,149	8,284	16,865	16,854
Federal government		39,582	–	39,582	39,580
Other governments		12,249	–	12,249	12,249
Private sponsors		61,596	–	61,596	45,096
Patient accounts		36,756	5,586	31,170	31,170
DPCU		5,742	–	5,742	5,742
Interest		3,918	–	3,918	3,918
Other		12,442	1,557	10,885	10,417
Total Accounts Receivable		197,434	15,427	182,007	165,026
Student loans		34,310	3,104	31,206	–
Other loans receivable		2,660	–	2,660	655
Total Loans Receivable		36,970	3,104	33,866	655
Total Receivable–University	**$**	**234,404**	**18,531**	**215,873**	**165,681**
Discretely Presented Component Units					
Contributions*	$	281,170	251,428	29,742	13,849
Interest		108	–	108	108
Other		77	–	77	77
Total Receivable–DPCU	**$**	**281,355**	**251,428**	**29,927**	**14,034**

		2004 (restated)			
Type of Receivable		**Gross Receivables**	**Allowances**	**Net Receivables**	**Net Current Portion**
University					
Student accounts	$	23,529	8,149	15,380	15,375
Federal government		40,651	–	40,651	40,582
Other governments		7,692	–	7,692	7,692
Private sponsors		25,578	–	25,578	25,476
Patient accounts		29,701	5,635	24,066	24,066
DPCU		3,765	–	3,765	3,765
Interest		2,128	–	2,128	2,128
Other		15,871	1,441	14,430	14,430
Total Accounts Receivable		148,915	15,225	133,690	133,514
Student loans		35,359	3,076	32,283	–
Other loans receivable		1,722	–	1,722	700
Total Loans Receivable		37,081	3,076	34,005	700
Total Receivable–University	**$**	**185,996**	**18,301**	**167,695**	**134,214**
Discretely Presented Component Units					
Contributions*	$	319,279	254,731	64,548	20,730
Interest		92	–	92	92
Other		321	–	321	321
Total Receivable–DPCU	**$**	**319,692**	**254,731**	**64,961**	**21,143**

*The allowance on the contributions receivable is comprised of uncollectible and unamortized discount of $249,843,000 and $1,585,000 as of June 30, 2005, respectively, and $249,139,000 and $5,592,000 as of June 30, 2004, respectively.

CONCENTRATION OF CREDIT RISK

UPI grants credit without collateral to its patients. The mix of gross receivables from patients and third-party payers as of June 30, 2005 and 2004 is detailed in Table 4.2, UPI Concentration of Credit Risk.

TABLE 4.2 UPI Concentration of Credit Risk

Category	2005	2004
Managed care	50.7%	41.2%
Medicare	15.3	13.4
Medicaid	11.9	16.9
Other third-party payers	7.9	17.6
Self-pay	14.2	10.9
Total	**100.0%**	**100.0%**

NOTE 5 – CAPITAL ASSETS

Table 5, Capital Assets, presents changes in capital assets and accumulated depreciation by major asset category for the years ended June 30, 2005 and 2004.

The total interest expense related to capital asset debt incurred by the University during the years ended June 30, 2005 and 2004 approximated $24,067,000 and $21,235,000, respectively. Of this amount, approximately $1,896,000 and $7,615,000, respectively, was capitalized as part of the value of construction in progress. Interest expense incurred by the DPCU and capitalized for the years ended June 30, 2005 and 2004 was $0 and $2,554,000 respectively.

TABLE 5 Capital Assets *(in thousands)*

Category	Balance 2004 (restated)	Additions	Adjustments/Retirements	Transfers	Balance 2005
University					
Nondepreciable Capital Assets					
Land	$ 36,514	2,404	–	–	38,918
Construction in progress	68,302	109,427	209	(77,418)	100,102
Collections	7,847	231	–	–	8,078
Total Nondepreciable Capital Assets	112,663	112,062	209	(77,418)	147,098
Depreciable Capital Assets					
Buildings	1,327,561	5,677	2,557	66,668	1,397,349
Improvements other than buildings	95,382	1,679	2,149	10,750	105,662
Equipment	345,047	33,615	8,635	–	370,027
Library and other collections	212,214	12,863	526	–	224,551
Total Depreciable Capital Assets	1,980,204	53,834	13,867	77,418	2,097,589
Less Accumulated Depreciation					
Buildings	374,864	54,686	1,202	–	428,348
Improvements other than buildings	37,292	4,538	575	–	41,255
Equipment	205,438	37,854	7,031	–	236,261
Library and other collections	128,377	10,960	532	–	138,805
Total Accumulated Depreciation	745,971	108,038	9,340	–	844,669
Net Depreciable Capital Assets	1,234,233	54,204	4,527	77,418	1,252,920
Total Net Capital Assets – University	**$ 1,346,896**	**57,858**	**4,736**	**–**	**1,400,018**
Discretely Presented Component Units					
Nondepreciable Capital Assets					
Land	$ 12,859	6,963	–	–	19,822
Construction in progress	482	4,740	–	(482)	4,740
Total Nondepreciable Capital Assets	13,341	11,703	–	(482)	24,562
Depreciable Capital Assets					
Buildings	68,992	2,174	–	482	71,648
Improvements other than buildings	592	9	–	–	601
Equipment	5,888	732	435	–	6,185
Total Depreciable Capital Assets	75,472	2,915	435	482	78,434
Less Accumulated Depreciation					
Buildings	2,694	1,946	–	–	4,640
Improvements other than buildings	146	47	–	–	193
Equipment	2,237	928	387	–	2,778
Total Accumulated Depreciation	5,077	2,921	387	–	7,611
Net Depreciable Capital Assets	70,395	(6)	48	482	70,823
Total Net Capital Assets – DPCU	**$ 83,736**	**11,697**	**48**	**–**	**95,385**

TABLE 5 (continued) Capital Assets *(in thousands)*

Category	Balance 2003 (restated)	Additions	Retirements	Transfers	Balance 2004 (restated)
University					
Nondepreciable Capital Assets					
Land	$ 33,921	2,854	263	2	36,514
Construction in progress	266,091	139,205	76	(336,918)	68,302
Collections	7,246	569	–	32	7,847
Total Nondepreciable Capital Assets	307,258	142,628	339	(336,884)	112,663
Depreciable Capital Assets					
Buildings	1,002,307	7,164	4,810	322,900	1,327,561
Improvements other than buildings	86,059	1,685	3,358	10,996	95,382
Equipment	276,933	79,502	14,376	2,988	345,047
Library and other collections	201,451	11,480	717	–	212,214
Total Depreciable Capital Assets	1,566,750	99,831	23,261	336,884	1,980,204
Less Accumulated Depreciation					
Buildings	335,724	42,622	3,482	–	374,864
Improvements other than buildings	33,004	4,864	576	–	37,292
Equipment	186,877	30,235	11,674	–	205,438
Library and other collections	118,280	10,814	717	–	128,377
Total Accumulated Depreciation	673,885	88,535	16,449	–	745,971
Net Depreciable Capital Assets	892,865	11,296	6,812	336,884	1,234,233
Total Net Capital Assets – University	**$ 1,200,123**	**153,924**	**7,151**	**–**	**1,346,896**
Discretely Presented Component Units					
Nondepreciable Capital Assets					
Land	$ 1,274	12,341	1,242	485	12,858
Construction in progress	46,117	17,489	856	(62,267)	483
Total Nondepreciable Capital Assets	47,391	29,830	2,098	(61,782)	13,341
Depreciable Capital Assets					
Buildings	13,209	2,853	7,041	59,970	68,991
Improvements other than buildings	592	–	–	–	592
Equipment	4,877	144	944	1,812	5,889
Total Depreciable Capital Assets	18,678	2,997	7,985	61,782	75,472
Less Accumulated Depreciation					
Buildings	1,569	1,157	32	–	2,694
Improvements other than buildings	99	47	–	–	146
Equipment	1,895	793	451	–	2,237
Total Accumulated Depreciation	3,563	1,997	483	–	5,077
Net Depreciable Capital Assets	15,115	1,000	7,502	61,782	70,395
Total Net Capital Assets – DPCU	**$ 62,506**	**30,830**	**9,600**	**–**	**83,736**

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Table 6.1, Accounts Payable and Accrued Expenses, details the accounts payable and accrued expenses as of June 30, 2005 and 2004, by type.

OPERATING LEASES

The University leases various buildings and equipment under operating lease rental agreements. Operating leases do not give rise to property rights or meet other capital lease criteria and, therefore, the related asset and liabilities are not recorded in the accompanying financial statements. For the years ended June 30, 2005 and 2004, total rental expense under these agreements approximated $6,985,000 and $6,983,000 for the University, respectively. Future minimum payments for these operating leases are shown in Table 6.2, Operating Leases Minimum Lease Obligations.

NOTE 7 – ACCRUED COMPENSATED ABSENCES

Table 7, Accrued Compensated Absences, presents changes in accrued compensated absences for the years ended June 30, 2005 and 2004.

NOTE 8 – DEFERRED REVENUE

As of June 30, 2005 and 2004, the types and amounts of deferred revenue are shown in Table 8, Deferred Revenue.

TABLE 6.1 Accounts Payable and Accrued Expenses
(in thousands)

Type	2005	2004
University		
Accounts payable vendors	$ 62,585	54,147
Accrued salaries and benefits	115,325	106,774
Accrued interest payable	3,187	1,365
Other accrued expenses	1,127	973
Total Accounts Payable and Accrued Expenses–University	**$ 182,224**	**163,259**
Discretely Presented Component Units		
Accounts payable vendors	$ 4,188	3,855

TABLE 6.2 University Operating Leases Minimum Lease Obligations *(in thousands)*

Years Ending June 30	Minimum Lease Obligation
2006	$ 5,566
2007	4,505
2008	3,221
2009	2,598
2010	1,779
2011 – 2015	2,778
Total Operating Lease Obligations	**$ 20,447**

TABLE 8 Deferred Revenue *(in thousands)*

	2005		2004	
Type	Total	Current Portion	Total	Current Portion
University				
Tuition and fees	$ 12,061	12,061	11,258	11,258
Auxiliary enterprises	17,681	10,878	17,844	10,755
Grants and contracts	37,088	37,088	28,862	28,862
Miscellaneous	6,885	6,885	6,294	6,294
Total Deferred Revenue – University	**$ 73,715**	**66,912**	**64,258**	**57,169**
Discretely Presented Component Units				
Miscellaneous	$ 1,390	1,268	1,897	1,024

TABLE 7 University Accrued Compensated Absences *(in thousands)*

Balance 2003	Additions	Adjustments/Reductions	Balance 2004	Additions	Adjustments/Reductions	Balance 2005
$ 74,320	59,907	55,843	78,384	66,879	61,373	83,890

NOTE 9 – BONDS, NOTES, AND LEASES PAYABLE

As of June 30, 2005 and 2004, the categories of long-term obligations are detailed in Table 9.1, Bonds, Notes, and Leases Payable.

Table 9.2, Changes in Bonds, Notes, and Leases Payable, presents changes in bonds, notes, and leases payable for the years ended June 30, 2005 and 2004.

REVENUE BONDS

A general description of each revenue bond issue, original issuance amount, and the amount outstanding as of June 30, 2005 and 2004 is detailed in Table 9.3, Revenue Bonds Detail.

The University's revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the University to redeem, at various dates, portions of the outstanding revenue bonds at prices varying from 100 to 101 percent of the principal amount of the revenue bonds redeemed.

The Enterprise System Revenue Bonds are secured by a pledge of all net revenues of certain auxiliary enterprise facilities and further secured by a subordinate pledge of Research Building Revolving Fund (RBRF) net revenues as defined below. As of June 30, 2005 and 2004, total net pledged revenues, including the subordinate pledge, approximate $185,815,000 and $147,636,000, respectively.

The RBRF revenue bonds (Note 19) were secured by a pledge of net revenues of the Research Building Support Services Enterprise, including: all rents and charges generated from buildings and facilities, net of applicable operating expenses; allocated investment earnings on balances in the RBRF; and to the extent necessary, indirect cost recoveries received by the University on grants and contracts performed by the University. As of June 30, 2004, net pledged revenues for RBRF approximate $111,579,000. During the year ended June 30, 2005, proceeds from the University Enterprise Refunding and Improvement Revenue Bonds Series 2005A were used to defease the RBRF revenue bonds. Subsequent to the in-substance defeasance and prior to June 30, 2005, the RBRF revenue bonds were called and paid in full.

TABLE 9.1 Bonds, Notes, and Leases Payable *(in thousands)*

Type	Interest Rates	Final Maturity		Balance 2005	Balance 2004 (restated)
University					
Revenue Bonds					
Research Building Revolving Fund (RBRF)	4.45–6.00%	6/1/12	$	–	2,865
Enterprise System (including premium of $17,063 in 2005 and $4,442 in 2004)	3.50%–7.00%	6/1/28		584,973	331,152
UPI Variable Demand Bonds	2.35%*	1/1/25		19,940	20,500
Total Revenue Bonds				604,913	354,517
Certificates of Participation					
Cogeneration Plant Series 1996	4.63–6.00%	12/1/05		7,515	11,440
Master Lease Purchase Series 1998A	3.90–5.25%*	7/1/18		5,575	6,555
Master Lease Purchase Series 2003A and 2003B	2.00–4.125%	6/1/33		34,010	34,730
Total Certificates of Participation				47,100	52,725
Other Capital Lease Obligations					
Central Utility Plant	6.00%	12/31/22		30,265	27,025
Other Lease Obligations	2.87–13.95%	Various		30,278	31,361
Total Other Capital Lease Obligations				60,543	58,386
Notes Payable	5.00–6.00%	12/31/09		177	332
Total Bonds, Notes, and Leases Payable – University			**$**	**712,733**	**465,960**
Discretely Presented Component Units					
Revenue Bonds					
Student Housing Series 2002 (including premium of $146 in 2005 and $151 in 2004)	2.50–5.38%	7/1/32	$	69,236	69,241
Student Housing Facility Series 2005	3.205%*	7/1/37		50,365	–
Total Revenue Bonds				119,601	69,241
Capital Leases	7.50%	9/1/14		5,077	5,254
Total Bonds, Notes, and Leases Payable – DPCU			**$**	**124,678**	**74,495**

*Interest on the UPI Variable Rate Demand Bonds, the Master Lease Purchase Certificates of Participation, and the Student Housing Faculty Series 2005 Bonds are set at an adjustable rate as discussed below under Revenue Bonds and Certificates of Participation, respectively; the rates reflected in this table are as of June 30, 2005.

TABLE 9.2 Changes in Bonds, Notes, and Leases Payable *(in thousands)*

Type		Balance 2004 (restated)	Additions	Retirements	Balance 2005	Current Portion
University						
Revenue Bonds	$	350,075	254,385	16,610	587,850	16,120
Plus Unamortized Premiums		4,442	13,089	468	17,063	1,378
Net Revenue Bonds		354,517	267,474	17,078	604,913	17,498
Certificates of Participation		52,725	–	5,625	47,100	9,195
Other Capital Lease Obligations		58,386	4,837	2,680	60,543	2,700
Notes Payable		332	–	155	177	41
Total Bonds, Notes, and Leases Payable – University	**$**	**465,960**	**272,311**	**25,538**	**712,733**	**29,434**
Discretely Presented Component Units						
Revenue Bonds	$	69,090	50,365	–	119,455	1,200
Plus Unamortized Premium		151	–	5	146	–
Net Revenue Bonds		69,241	50,365	5	119,601	1,200
Capital Leases		5,254	–	177	5,077	225
Total Bonds, Notes, and Leases Payable – DPCU	**$**	**74,495**	**50,365**	**182**	**124,678**	**1,425**

Type		Balance 2003 (restated)	Additions	Retirements	Balance 2004 (restated)	Current Portion
University						
Revenue Bonds	$	298,760	64,260	12,945	350,075	14,120
Plus Unamortized Premiums		2,867	1,974	399	4,442	468
Net Revenue Bonds		301,627	66,234	13,344	354,517	14,588
Certificates of Participation		25,240	35,475	7,990	52,725	5,370
Other Capital Lease Obligations		60,204	508	2,326	58,386	2,352
Notes Payable		347	43	58	332	94
Total Bonds, Notes, and Leases Payable – University	**$**	**387,418**	**102,260**	**23,718**	**465,960**	**22,404**
Discretely Presented Component Units						
Revenue Bonds	$	69,090	–	–	69,090	–
Plus Unamortized Premium		156	–	5	151	–
Net Revenue Bonds		69,246	–	5	69,241	–
Capital Leases		5,534	–	280	5,254	177
Total Bonds, Notes, and Leases Payable – DPCU	**$**	**74,780**	**–**	**285**	**74,495**	**177**

All University revenue bonds are special limited obligations of the Regents and are payable solely from the pledged revenues (or the Net Income of the Facilities as defined in the bond resolution). The revenue bonds are not secured by any encumbrance, mortgage, or other pledge of property, except pledged revenues, and do not constitute general obligations of the Regents.

The University revenue bonds contain provisions to establish and maintain reasonable fees, rates, and other charges to ensure gross revenues are sufficient for debt service coverage. The University is also required to comply with various other covenants while the bonds are outstanding. These covenants, among other things, restrict the disposition of certain assets, require the Regents to maintain adequate insurance, and require the Regents to continue to operate the underlying programs. Management of the University believes the University has met all debt service coverage ratios and has complied with all bond covenants.

UPI variable rate demand bonds, Series 2002 were issued on behalf of UPI by the Fitzsimons Redevelopment Authority. The bonds bear interest at a variable municipal bond interest rate that is reset weekly. In addition, UPI has entered into a five-year renewable letter of credit agreement with Allied Irish Bank allowing the bonds to be remarketed using Allied Irish Bank's national credit rating. UPI is required to carry an annual $28,000,000 unrestricted operating reserve and UPI management believes it has met all of the financial ratio requirements.

TABLE 9.3 Revenue Bonds Detail *(in thousands)*

Issuance Description		Original Issuance Amount	Outstanding Balance 2005	Outstanding Balance 2004
University				
Enterprise System Revenue Bonds:				
Refunding Series 1995A –				
Used to refund all of the Refunding Series 1986, 1989, 1990 and 1992B	$	32,940	21,450	23,075
Refunding and Improvement Series 1997 –				
Used to refund all of the Series 1986 and fund capital improvements at CU-Boulder and CU-Colorado Springs		12,760	1,415	2,045
Refunding Series 1999A –				
Used to refund all of the Adjustable Tender Series 1996A		22,495	21,030	21,420
Refunding Series 2001A –				
Used to refund all of the Student Recreation Center and Refunding Series 1989, Auxiliary Facilities System Refunding Series 1992A, RBRF Series 1989 (Note 18), and RBRF Series 1992 (Note 18) and a portion of the Enterprise System Tax Exempt Commercial Paper		34,840	21,846	25,567
Refunding and Improvement Series 2001B –				
Used to refund all of the Tax Exempt Commercial Paper and fund capital improvements at CU-Boulder (includes premium)		51,320	49,097	50,692
Series 2002A –				
Used to fund capital improvements at UCDHSC (includes premium)		101,875	95,687	98,179
Series 2002B –				
Used to fund capital improvements at CU-Boulder (includes premium)		40,055	40,104	40,107
Series 2002C –				
Used to fund capital improvements at CU-Boulder (includes premium)		5,670	4,258	5,242
Series 2003A –				
Used to finance capital improvements at CU-Boulder, CU-Colorado Springs, and UCDHSC		64,260	62,862	64,825
Series 2004 –				
Used to fund improvements at CU-Boulder, CU-Colorado Springs, and UCDHSC		24,360	24,110	–
Series 2005A –				
Used to construct Wolf Law Building, ATLAS Center, UCCS Parking Facility, and RC2; expand LASP; and refund 1995 RBRF Bonds (includes premium)		230,025	243,114	–
Total Enterprise System Revenue Bonds			584,973	331,152
Research Building Revolving Fund (RBRF) Revenue Bonds:				
Refunding Series 1995 –				
Used to refund a portion of the Series 1986 and all of Series 1990 (Note 19)		11,055	–	2,865
UPI Variable Rate Demand Bonds-				
Used to finance construction of UPI's administrative office building		20,500	19,940	20,500
Total Revenue Bonds			604,913	354,517
Less Premium			17,063	4,442
Total Outstanding Revenue Bond Principal – University			**587,850**	**350,075**
Discretely Presented Component Units				
Student Housing Series 2002 –				
Used to finance Williams Village student housing		69,090	69,236	69,241
Less Premium			(146)	(151)
Student Housing Facility Series 2005 –				
Used to finance construction of housing facility adjacent to Auraria Higher Education Center		50,365	50,635	–
Total Outstanding Revenue Bond Principal – DPCU			**119,455**	**69,090**

TABLE 9.4 Revenue Bonds Future Minimum Payments *(in thousands)*

		University			Discretely Presented Component Units		
Years Ending June 30		Principal	Interest	Total	Principal	Interest	Total
2006	$	16,120	29,166	45,286	1,200	4,932	6,132
2007		19,030	27,430	46,460	1,000	4,890	5,890
2008		19,860	26,637	46,497	1,525	4,857	6,382
2009		21,480	25,736	47,216	1,865	4,794	6,659
2010		21,400	24,715	46,115	2,010	4,727	6,737
2011 – 2015		111,200	108,027	219,227	12,625	22,322	34,947
2016 – 2020		115,705	80,577	196,282	16,600	19,134	35,734
2021 – 2025		143,335	49,796	193,131	21,315	14,844	36,159
2026 – 2030		86,445	18,252	104,697	27,180	9,532	36,712
2031 – 2035		33,275	2,608	35,883	25,045	3,259	28,304
2036 – 2037		–	–	–	9,090	200	9,290
Total	**$**	**587,850**	**392,944**	**980,794**	**119,455**	**93,491**	**212,946**

Colorado Educational and Cultural Facilities Authority (the Authority) issued $69,090,000 of Series 2002 Student Housing Revenue Bonds. The Authority then loaned the proceeds of the bonds to Bear Creek. The Student Housing revenue bonds are special limited obligations of the Authority and are payable solely from 1) revenue payable under the Loan Agreement dated as of June 1, 2002 (the Loan Agreement), between the Authority and Bear Creek, including certain Net Pledged Revenues, as defined, as evidenced by a separate promissory note dated the date of issuance of the Student Housing revenue bonds, 2) funds held by the trustee of the Student Housing revenue bonds pursuant to the loan agreement, and 3) in certain events, monies derived under a Commitment of Support entered into by and between the CU Foundation and the Authority and assigned to the trustee of the Student Housing revenue bonds. The CU Foundation entered into a Commitment of Support with the Authority pursuant to which the CU Foundation agrees that as long as any of the Student Housing revenue bonds are outstanding, it will contribute such amount as may be necessary to make up any deficiency in the Student Housing revenue bonds on the business day preceding any date on which a payment is due on the Student Housing revenue bonds. The Loan Agreement and other agreements contain certain financial and nonfinancial covenants that include the generation of revenue in each fiscal year that the student housing facility is in operation in an amount at least equal to 120 percent of the actual annual debt service.

The Student Housing revenue bonds are payable annually, commencing July 1, 2005, and are subject to optional, mandatory, and extraordinary redemption prior to the stated maturity. Payment of the principal and interest on the Student Housing revenue bonds when due is insured by a financial guaranty insurance policy.

Colorado Educational and Cultural Facilities Authority (the Authority) issued $50,365,000 of Series 2005 Variable Rate Student Housing Facility Revenue Bonds. The Authority then loaned the proceeds of the bonds to Campus Village. The assets of Campus Village are not available to satisfy the claims of creditors of any affiliate of Campus Village, including CUREF, and the assets of any affiliate of Campus Village, including CUREF, are not available to satisfy the claims of any creditors of Campus Village. The bonds payable are secured by a letter of credit held with Citibank, N.A. The letter of credit expires on May 25, 2010, and provides for the renewal or replacement of such upon that date. Under the letter of credit agreement, Campus Village is required to pay annual letter of credit fees and quarterly remarketing fees equal to 1.24 percent and 0.125 percent, respectively, of the outstanding principal balance.

The Variable Rate Student Housing revenue bonds are payable annually, commencing July 1, 2008, with interest payments due monthly at a variable rate established by the remarketing agent.

Future minimum payments for revenue bonds are detailed in Table 9.4, Revenue Bonds Future Minimum Payments.

CERTIFICATES OF PARTICIPATION

Certificates of participation have been issued to finance lease purchase agreements for a cogeneration plant (1996 Series), the acquisition and refinancing of equipment (1998A Series), and finance capital improvements and acquisitions (2003A and 2003B Series). The certificates are secured by the buildings or equipment acquired with the lease proceeds and any unexpended lease proceeds. Annual lease payments are subject to annual appropriations by the Regents. The underlying capitalized assets have a gross cost of approximately $86,635,000 and $68,213,000 as of June 30, 2005 and 2004, respectively. The certificates contain optional redemption provisions allowing the University to redeem, at various dates, portions of the outstanding certificates at prices varying from 100 to 102 percent of the principal amount of the certificates redeemed.

At any time, the certificates for the 1998A Series bear interest at adjustable rates equal to comparable rates for tax-exempt obligations (market-rate). The interest is payable monthly and may be reset at the following four defined periods as elected by the University: daily, weekly, short-term (more than weekly and less than semi-annually), or long-term (more than semi-annually and less than the maturity period). The interest rate period during the year ended June 30, 2005 and 2004 was weekly. Principal is payable annually or semiannually subject to annual appropriation by the Regents. Future minimum payments for certificates of participation are detailed in Table 9.5, Certificates of Participation.

OTHER CAPITAL LEASES

During the year ended June 20, 2004, the University effectively entered into a capital lease agreement to lease purchase a central utility plant (CUP) to deliver steam and chilled water to the UCDHSC Fitzsimons campus. As of June 30, 2005 and 2004, the CUP capital lease had an outstanding liability approximating $30,265,000 and $27,025,000, respectively, with underlying gross capitalized asset cost approximating $32,685,000 and $28,545,000, respectively. The CUP capital lease agreement provides for biannual payments through December 2022 with an effective interest rate of 6 percent.

Beginning in 2011, the University has the ability to purchase the CUP from the lessor in accordance with an established purchase price schedule.

As of June 30, 2005 and 2004, the University had an outstanding liability for all other capital leases approximating $30,278,000 and $31,361,000, respectively, with underlying gross capitalized asset cost approximating $35,498,000 and $34,744,000, respectively. As of June 30, 2005 and 2004, the DPCU had an outstanding liability for capital leases approximating $5,077,000 and $5,254,000, respectively, with underlying gross capitalized asset cost approximating $5,750,000.

Future minimum payments for capital lease obligations are detailed in Table 9.6, Capital Leases.

NOTES PAYABLE

As of June 30, 2005 and 2004, the University had notes payable issued for general purposes and with amounts outstanding in Table 9.7, Notes Payable. Future minimum payments of the notes payable are detailed in Table 9.8, Notes Payable Future Minimum Payments.

EXTINGUISHMENT OF DEBT

Previous revenue bond issues and certificates of participation, considered to be extinguished through in-substance defeasance under generally accepted accounting principles, are not included in the accompanying financial statements. The amount of debt in this category, covered by assets placed in trust to be used solely for future payments, amounted to approximately $1,910,000 and $4,396,000 as of June 30, 2005 and 2004, respectively.

TABLE 9.5 Certificates of Participation *(in thousands)*

Years Ending June 30		Principal	Interest	Total
2006	$	9,195	2,086	11,281
2007		1,750	1,792	3,542
2008		1,820	1,716	3,536
2009		1,900	1,633	3,533
2010		1,975	1,548	3,523
2011 – 2015		4,910	7,016	11,926
2016 – 2020		5,760	5,839	11,599
2021 – 2025		7,360	4,248	11,608
2026 – 2030		7,985	2,248	10,233
2031 – 2035		4,445	452	4,897
Total	**$**	**47,100**	**28,578**	**75,678**

TABLE 9.6 Capital Leases *(in thousands)*

		University			Discretely Presented Component Units		
Years Ending June 30		Principal	Interest	Total	Principal	Interest	Total
2006	$	2,700	3,450	6,150	225	563	788
2007		2,383	3,299	5,682	281	535	816
2008		2,302	3,172	5,474	345	499	844
2009		2,200	3,049	5,249	417	457	874
2010		2,228	2,926	5,154	499	405	904
2011 – 2015		13,070	12,516	25,586	3,310	898	4,208
2016 – 2020		17,510	8,065	25,575	–	–	–
2021 – 2025		12,600	2,813	15,413	–	–	–
2026 – 2030		5,550	549	6,099	–	–	–
Total	**$**	**60,543**	**39,839**	**100,382**	**5,077**	**3,357**	**8,434**

TABLE 9.7 Notes Payable *(in thousands)*

Issuance Description		2005	2004
Issued for the acquisition of land for the site of student housing known as Williams Village at CU-Boulder; payable from student housing revenue	$	177	216
Issued for the acquisition of a property known as the Bennett Property contiguous to the CU-Colorado Springs campus; payable by general campus resources		–	73
Issued for the acquisition of the UPI automobile and medical equipment		–	43
Total Notes Payable	**$**	**177**	**332**

TABLE 9.8 Notes Payable Future Minimum Payments
(in thousands)

Years Ending June 30		Principal	Interest	Total
2006		41	9	50
2007		43	7	50
2008		45	5	50
2009		48	2	50
Total	**$**	**177**	**23**	**200**

NOTE 10 – OTHER LIABILITIES

Table 10.1, Other Liabilities, details other liabilities as of June 30, 2005 and 2004.

RISK FINANCING RELATED LIABILITIES

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; medical malpractice; employee occupational injuries; graduate medical students' health; and natural disasters. The University finances these risks through various self-insurance programs. The University finances costs and risks associated with employee health benefit programs through purchase of commercial insurance.

The University utilizes a protected self-insurance program for its property, liability, and workers' compensation risks. The University has established a separate self-insurance program for the purpose of providing professional liability coverage for UCDHSC and the University of Colorado Hospital Authority (Note 21). A separate self-insurance program has also been established to provide health insurance for graduate medical students and eligible dependents at UCDHSC.

All self-insurance programs assume losses up to certain limits and purchase a defined amount of excess insurance for losses over those limits. These limits range from $100,000 to $1,000,000 per occurrence.

Reserves for unpaid claims under these programs are actuarially reviewed and evaluated for adequacy each year and are reported on an undiscounted basis. Settlements have not exceeded coverages for each of the past three fiscal years. There were no significant reductions or changes in insurance coverage from the prior year.

The amount recorded as risk financing related liabilities represents reserves based upon the annual actuarial valuation and includes reserves for incurred but not reported claims. Such liabilities depend on many factors including claims history, inflation, damage awards, investment return, and changes in legal doctrine. Accordingly, computation of the claims liabilities requires an annual estimation process. Claims liabilities are reevaluated on a periodic basis and take into consideration recently settled claims, frequency of claims, and other relevant factors.

Changes in the balances of risk financing related liabilities for the years ended June 30, 2005 and 2004 are presented in Table 10.2, Risk Financing Related Liabilities.

TABLE 10.1 Other Liabilities *(in thousands)*

		2005		2004	
Type		Total	Current Portion	Total	Current Portion
University					
Risk financing	$	22,448	8,901	21,291	7,521
Construction contract retainage		3,837	3,825	11,660	11,660
Funds held for others		13,682	13,682	14,210	14,210
Miscellaneous		898	898	855	95
Total Other Liabilities – University	**$**	**40,865**	**27,306**	**48,016**	**33,486**
Discretely Presented Component Units					
Funds held for others	$	3,188	422	3,529	765
Miscellaneous		1,185	–	1,650	–
Total Other Liabilities – DPCU	**$**	**4,373**	**422**	**5,179**	**765**

TABLE 10.2 Risk Financing Related Liabilities *(in thousands)*

	Property, General Liability and Workers' Compensation	UCDHSC Professional Liability	Graduate Medical Students' Health Benefits	Total
Balance 2003	**$ 12,034**	**8,759**	**788**	**21,581**
Fiscal Year 2004				
Claims and changes in estimates	7,025	149	4,135	11,309
Claim payments	(6,217)	(1,270)	(4,112)	(11,599)
Balance 2004	**$ 12,842**	**7,638**	**811**	**21,291**
Fiscal Year 2005				
Claims and changes in estimates	8,810	(225)	5,166	13,751
Claim payments	(6,732)	(857)	(5,005)	(12,594)
Balance 2005	**$ 14,920**	**6,556**	**972**	**22,448**

TABLE 10.3 Direct Lending *(in thousands)*

Campus	2005	2004
CU-Boulder	$ 106,268	98,614
UCDHSC	37,336	31,150
Total Direct Lending	**$ 143,604**	**129,764**

DIRECT LENDING

CU-Boulder and UCDHSC participate in the federal government's Direct Loan Program. This program provides loans from the federal government to qualifying students and their families for educational purposes. While the University helps students obtain these loans, the University is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers, as the U.S. Department of Education performs these functions. The amount of direct loans during the years ended June 30, 2005 and 2004 is detailed in Table 10.3, Direct Lending.

NOTE 11 – UNRESTRICTED NET ASSETS

In addition to external restrictions, the University has many activities that require a certain level of reserves to be maintained. Examples of this include working capital reserves for auxiliary operations, internal service centers, and continuing education activities; loss reserves for risk financing activities; and capital reserves for planned construction efforts.

As of June 30, 2005 and 2004, all of the University's unrestricted net assets have been designated or reserved by management for the following purposes and amounts detailed in Table 11, Designations of Unrestricted Net Assets.

TABLE 11 Designations of Unrestricted Net Assets
(in thousands)

Designation Description	2005	2004
Accounts Receivable	$ 94,698	50,656
Accumulated Unrealized Gain on Investments	19,067	16,891
Auxiliary Facilities Operating Reserves	28,567	3,915
Campus Operating Reserves	16,455	23,374
Capital Related Activities	108,132	98,721
Faculty Start-up and Research Initiatives	60,530	38,080
Inventories and Prepaids	10,469	9,939
Investment Pool	27,247	10,942
Purchase Commitments	4,849	6,938
Quasi-endowments	21,341	19,432
Risk Financing Activities	14,774	12,780
Service Center Reserves	2,896	6,943
Technology Transfer Office	2,861	6,422
University Physicians, Inc.	54,785	52,837
Total Designated Unrestricted Net Assets	**$ 466,671**	**357,870**

NOTE 12 – CHANGES IN ACCOUNTING AND REPORTING

CHANGE IN DEPRECIABLE LIVES

It is the University's policy to periodically reassess the estimated useful lives of its capital assets. The reassessment during the year ended June 30, 2004 indicated that the useful lives for certain buildings and improvements associated with the UCDHSC's 9th Avenue campus were impacted by the Regent's approval of an agreement with a third-party master developer to carry out the sale and redevelopment of the campus. As a result, the University revised the estimated useful lives of the campus' buildings and improvements effective July 1, 2003 and recognized approximately $8,529,000 of additional depreciation expense during the year ended June 30, 2004.

CHANGE IN REPORTING ENTITY

In 2004, the University was required to adopt GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. It requires legally separate, tax-exempt organizations be recognized as discretely presented component units (DPCU) if the entities' economic resources are for the benefit of, accessible by, and significant to the University. The change was made effective July 1, 2002.

CHANGE IN REPORTING REQUIREMENTS

Effective July 1, 2004, the University adopted GASB No. 40, *Deposit and Investment Risk Disclosures*. This statement changes the reporting requirements for deposits and investments.

RESTATEMENT

As discussed in Note 20, the CU Foundation restated its financial statements as of July 1, 2003.

NOTE 13 – SPENDING LIMITATIONS

In November 1992, the Colorado voters passed Section 20, Article X of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax, and debt limitations that apply to all local governments and the State of Colorado, including the University. During the year ended June 2004, the Colorado State Legislature determined that in Section 23-5-101.7 of the Colorado Revised Statutes an institution of higher education may be designated as an enterprise for the purposes of TABOR so long as the institution's governing board retains authority to issue revenue bonds on its behalf and the institution receives less than ten percent of its total annual revenues in grants from all Colorado State and local governments combined. Further, so long as it is so designated as an enterprise, the institution shall not be subject to any of the provisions of TABOR.

TABLE 13.1 TABOR Enterprise State Support Calculation *(in thousands)*

State Grants	
State appropriations	$ 150,673
Capital appropriations	1,037
Total State Grants	$ 151,710
Total Revenues (gross operating, nonoperating, and other revenues)	$ 1,867,207
Ratio of State Grants to Total Revenues	8.12%

TABLE 13.2 Appropriated Funds *(in thousands)*

Description	2005	2004
Total appropriation	$ 612,270	594,838
Actual appropriated revenues	606,502	542,151
Actual appropriated expenditures and transfers	606,825	537,005
Net increase (decrease) in appropriated net assets	(323)	5,146

In July 2005, the Regents designated the University as a TABOR enterprise pursuant to the statute. During the year ended June 30, 2005, the University believes it has met all requirements of TABOR enterprise status. Specifically, the Regents retain the authority to issue revenue bonds and the amount of State grants received by the University was 8.11 percent during the year ended June 30, 2005, as shown in Table 13.1, TABOR Enterprise State Support Calculation.

A portion of the University is subject to revenue and expense limitations imposed by the Colorado State Legislature through the annual appropriation process. The University's appropriated funds include the State appropriation from the State's General Fund, as well as certain cash funds as specified in the State's annual appropriations bill. Appropriated cash funds include tuition, certain fees, and certain other revenue sources, which are recognized in various revenue lines, as appropriate, in the accompanying financial statements.

All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the years ended June 30, 2005 and 2004, appropriated expenses were within the authorized spending authority. Table 13.2, Appropriated Funds, details the related activities for the years ended June 30, 2005 and 2004.

NOTE 14 – SCHOLARSHIP ALLOWANCES

During the years ended June 30, 2005 and 2004, scholarship allowances were provided by the following funding sources in amounts detailed in Table 14, Scholarship Allowances.

NOTE 15 – HEALTH SERVICES REVENUE

Health services revenue is recorded net of contractual adjustments of $220,445,000 and $196,992,000 and bad debt expense on uncollectible patient account receivables of $8,238,000 and $7,921,000 as of June 30, 2005 and 2004, respectively. Charity care provided during the years ended June 30, 2005 and 2004, for which no reimbursement was received, measured at established rates, totaled approximately $16,200,000 and $13,300,000, respectively.

NOTE 16 – ON-BEHALF PAYMENTS

On-behalf payments occur when a third party, instead of the University, pays the salary and benefits (or portion thereof) for a University employee. The University receives on-behalf payments from the Hospital Authority and other sponsors. On-behalf payments for University faculty salaries and benefits during the year ended June 30, 2005 and 2004 were approximately $3,339,000 and $4,100,000, respectively.

NOTE 17 – RETIREMENT PLANS AND INSURANCE PROGRAMS

Employees of the University eligible for retirement benefits participate in one of four retirement plans. Eligible student employees participate in a student retirement plan that is funded solely by contributions from the student employees. The student retirement plan is a defined contribution plan administered by a consortium of higher educational institutions in the State. All other eligible employees of the University participate in one of the three additional plans, the Public Employees' Retirement Association (PERA) plan, the University's optional retirement plan, and UPI's retirement plan. The CU Foundation and CUREF offers a retirement plan for certain of their employees.

TABLE 14 Scholarship Allowances *(in thousands)*

Funding Source Description		Tuition and Fees	Auxiliary Enterprise Revenues	Total 2005	Tuition and Fees	Auxiliary Enterprise Revenues	Total 2004
University general resources	$	13,254	588	13,842	10,100	474	10,574
University auxiliary resources		3,545	236	3,781	3,413	238	3,651
Colorado Commission on Higher Education financial aid program		6,424	156	6,580	6,957	201	7,158
Federal programs, including Pell grants		20,948	781	21,729	21,160	788	21,948
Other State of Colorado programs		1,547	103	1,650	640	8	648
Private programs		2,301	5	2,306	2,074	17	2,091
Gift fund		3,884	222	4,106	3,837	215	4,052
Total Scholarship Allowances	**$**	**51,903**	**2,091**	**53,994**	**48,181**	**1,941**	**50,122**

PERA DEFINED BENEFIT PENSION PLAN

The PERA plan provides 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 PERA. PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The State and other employers' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203 or at www.copera.org.

Plan members vest after five years of service and are eligible for retirement benefits at age fifty with thirty years of service, age sixty with twenty years of service, or at age sixty-five with five years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least fifty-five and have a minimum of five years of service credit and their age plus years of service equals eighty or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of twelve consecutive months of service credit.

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

The total payroll of employees covered by PERA was $215,062,000 and $208,913,000 for the years ended June 30, 2005 and 2004, respectively. Employees contribute 8 percent of their gross covered wages to an individual account in the plan. During the years ended June 30, 2005, 2004, and 2003, the University contributed a total of 10.16, 10.15, and 9.9 percent, respectively, of the employee's gross covered wages to PERA in accordance with the following allocations and amounts detailed in Table 17, University Contributions to PERA. These contributions met the contribution requirement for each year.

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

VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

On January 1, 2001, the Matchmaker Program established a State match for PERA members' voluntary contributions to other tax-deferred retirement plans: PERA's voluntary 401(k) plan, the State's 457 deferred compensation plan, and a 403(b) plan of certain agencies and institutions of the State.

The PERA Board sets the level of the match annually, based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan assets is 110 percent of the actuarially accrued plan liabilities. This condition was not met during the years ended June 30, 2005 and 2004.

UNIVERSITY OPTIONAL RETIREMENT PLAN

Under the University's optional retirement plan, certain members of the University participate in a defined contribution retirement plan administered by the University for the benefit of full-time faculty and unclassified staff members. The Constitution of the State assigns the authority to establish and amend plan provisions to the Regents. The contribution requirements of plan members and the University are established and may be amended by the Regents. For the years ended June 30, 2005 and 2004, the University's contribution to the defined contribution retirement plan was equal to 10 percent of covered payroll and the employee contribution was equal to 5 percent of covered payroll. The University's contribution under the optional retirement plan during the years

TABLE 17 University Contributions to PERA *(in thousands)*

Program	Basis	2005	2004	2003
Health Care Trust Fund	1.02 percent after January 1, 2004; 1.1 percent between July 1, 2004 and January 1, 2003; and 1.64 percent between January 1, 2003 and January 1, 2002	$ 223	2,298	3,037
Matchmaker Program (see Voluntary Tax Deferred Retirement Plans above)	The amount needed to meet the match requirement established by the PERA Board	–	1,690	3,184
Defined Benefit Plan	The balance remaining	21,628	17,217	15,978
Total University Contribution		**$ 21,851**	**21,205**	**22,199**

ended June 30, 2005 and 2004 approximated $46,771,000 and $44,388,000, respectively. The employees' contribution under the optional retirement plan approximated $23,297,000 and $21,877,000 during the years ended June 30, 2005 and 2004, respectively.

Participants in the University's optional retirement plan choose to invest all contributions with one or more of three designated vendors. In addition, participants in the University's optional retirement plan are covered under federal Social Security (FICA). Federal Social Security regulations required both the employer and employee to contribute 6.2 percent of covered payroll to the plan during the years ended June 30, 2005 and 2004.

UPI RETIREMENT PLAN

UPI sponsors a defined contribution retirement plan for its permanent employees that is administered by the Teachers Insurance Annuities Association's College Retirement Equities Fund. The board of directors for UPI has the authority to amend plan provisions. Employees are eligible for participation in the plan after completing one year of service. UPI contributed an amount equal to 7 percent of eligible employees' salaries for the years ended June 30, 2005 and 2004. UPI's contributions for covered payroll to the retirement plan for the years ended June 30, 2005 and 2004 approximated $1,381,000 and $1,101,000, respectively.

CU FOUNDATION RETIREMENT PLAN

The CU Foundation sponsors a 401(k) plan for the benefit of its employees. Under the 401(k) plan, the CU Foundation matches employee contributions up to 6 percent of the employee's salary. For the years ended June 30, 2005 and 2004, the CU Foundation's matching contributions approximated $421,000 and $448,000, respectively.

CUREF RETIREMENT PLAN

Starting July 1, 2004, CUREF established a 401(k) safe-harbor plan for the benefit of substanially all full-time employees. Under the 401(k) plan, CUREF matches employee contributions up to 6 percent of the employee's salary. Participating employees immediately vest in employer contributions. For the year ended June 30, 2005, CUREF's matching contributions approximated $26,000.

HEALTH INSURANCE PROGRAMS

The University's contributions to the various health insurance programs approximated $35,138,000 and $30,379,000 during the years ended June 30, 2005 and 2004, respectively.

NOTE 18 – POST-EMPLOYMENT BENEFITS

UNIVERSITY POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE PLAN

The University provides certain post-retirement health care and life insurance benefits for retired employees in accordance with the Regents' authority. Substantially all of the University's employees may become eligible for those benefits if they reach normal retirement age while working for the University. During the years ended June 30, 2005 and 2004, approximately 3,160 and 3,051 retirees, respectively, met the eligibility requirements and are receiving benefits. Under this program, the University subsidizes a portion of health care and life insurance premiums by charging them as a current expense. These costs approximated $4,031,000 and $3,275,000 during the years ended June 30, 2005 and 2004, respectively.

PERA POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERACare (formerly know as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the PERACare and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of the premium through an automatic deduction from the monthly retirement benefit. During the years ended June 30, 2005 and 2004, the premium subsidy was $115 for those with twenty years of service credit ($230 for members under age sixty-five and not eligible for Medicare), and it was reduced by five percent for each year of service fewer than twenty.

The Health Care Trust Fund is maintained by an employer's contribution (see PERA Defined Benefit Pension Plan (Note 17).

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2004, there were approximately 39,668 enrollees in the plan.

Life Insurance Program

During the years ended June 30, 2005 and 2004, PERA provided its members access to two group decreasing-term life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who transition to the new plan may continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means.

NOTE 19 – SEGMENT INFORMATION

As of June 30, 2005, the University has one segment, UPI. As of June 30, 2004, the University had two segments, the Research Building Revolving Fund (RBRF) and UPI.

The RBRF had identifiable activities for which Refunding Series 1995 and a portion of the Refunding Series 2001A revenue bonds approximating $18,207,000 were outstanding as of June 30, 2004. The activities supported by this segment include research operations and related support. During fiscal year 2005, the RBRF revenue bonds were defeased and subsequently called and paid in full.

UPI has identifiable activities for which UPI Variable Rate Demand bonds approximating $19,940,000 and $20,500,000 are outstanding as of June 30, 2005 and 2004, respectively. The activities of this segment include all the UCDHSC's School of Medicine's faculty practice plan.

Summary financial information as of and for the years ended June 30, 2005 and 2004, respectively, is presented in Table 19, Segment Financial Information.

NOTE 20 – DISCRETELY PRESENTED COMPONENT UNITS

Summary financial information as of and for the years ended June 30, 2005 and 2004, respectively, for the University's DPCU are presented in Table 20, DPCU Summary Financial Statements.

UNIVERSITY OF COLORADO FOUNDATION

Distributions made by the CU Foundation to the University during the years ended June 30, 2005 and 2004 were approximately $48,738,000 and $62,522,000, respectively. This amount has been recorded as University gift revenue and DPCU operating expense in the accompanying financial statements, and does not include undistributed income on University endowments. At June 30, 2005 and 2004, the CU Foundation recorded an accounts payable to the University and the University has recorded an equal accounts receivable from the CU Foundation of $5,742,000 and $3,765,000, respectively.

The University is the ultimate beneficiary of substantially all restricted and trust funds held by the CU Foundation and is income beneficiary of a significant portion of endowment funds held by the CU Foundation. The University has endowments held by the CU Foundation totaling $82,742,000 and $76,634,000 at June 30, 2005 and 2004, respectively.

In 1996, the University of Colorado Real Estate Council (the Council) was created as a division of the CU Foundation to provide resources for the development of a real estate curriculum at the University, as well as to advise the CU Foundation in real estate holdings, research park development, potential investments, and real estate gifts to the University. In November 2003, the board of directors of the CU Foundation approved the dissolution of the Council's status as a division of the CU Foundation and authorized the transfer of the Council's ongoing activities, operations, and applicable funds and other assets to CUREF.

Bear Creek

During the year ended June 30, 2002, CU-Boulder and Bear Creek entered into an operating agreement whereby Bear Creek would construct and operate a student residence center on certain campus land, commonly referred to as Williams Village. The terms of the operating agreement provide the CU Foundation with the use of the University's land in exchange for net cash flow of the housing project as defined in the agreement. During the year ended June 30, 2005 and 2004, the University recognized related revenue of $786,000 and $1,300,000, respectively. During the year ended June 30, 2005, the University made an irrevocable gift to Bear Creek of $3,600,000 to facilitate its housing operations.

Restatement

Following a review of its accounting policies during 2005, the CU Foundation determined that in Fiscal Year 2000, the building and land under its capital lease obligation had been incorrectly accounted for. In a related transaction, the building owner made a conditional promise to gift the building, or the cash equivalent of the building, at the end of the lease term. The CU Foundation recorded the appraised fair value of the building and the pledge receivable in its financial statements. In accordance with Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS No.116), the conditional pledge receivable should not be recognized until the promise to give becomes unconditional. Accordingly, the CU Foundation has restated its 2004 financial statements to properly account for the capital lease and the conditional promise to give. As a result, the previously recorded unrestricted net assets as of July 1, 2003 decreased by approximately $4,400,000, from $15,100,000 to $10,700,000.

Also, University policy was clarified in 1986 to provide clear guidelines on the deposit of funds with the CU Foundation. This policy states that all gift monies received by the University, intended by the donor for the exclusive use of the University, will be deposited directly by the CU Foundation into its bank accounts. Exceptions to the above guidelines are when the donor specifically requests the gift be retained by the University. During 2005, the CU Foundation performed a legal review of donor intent documentation on all externally held trusts, at which time it was determined that nine trusts were exclusively between the University and the donor. Accordingly, the CU Foundation has restated its 2004 financial statements to remove these external trust accounts from its financial statements.
As a result, the previously reported temporarily restricted and permanently restricted net assets as of July 1, 2003 decreased by

TABLE 19 Segment Financial Information *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2005
	UPI
Assets	
Cash, cash equivalents	$ 18,926
Short-term investments	14,290
Other current assets	35,700
Total current assets	68,916
Investments	38,978
Capital assets, net	18,847
Other noncurrent assets	1,372
Total noncurrent assets	59,197
Total Assets	**$ 128,113**
Liabilities	
Accounts payable and accrued expenses	$ 17,103
Bonds, notes, and leases payable	457
Other current liabilities	–
Total current liabilities	17,560
Bonds, notes, and leases payable	19,895
Other noncurrent liabilities	–
Total noncurrent liabilities	19,895
Total Liabilities	**$ 37,455**
Net Assets	
Invested in capital assets, net of related debt	$ (1,199)
Unrestricted	91,857
Total Net Assets	**$ 90,658**
Operating revenues	$ 220,588
Depreciation expense	(1,654)
Other operating expenses	(207,802)
Operating Income	11,132
Nonoperating Revenues (Expenses)	
Investment income	1,885
Interest expense on capital asset related debt	(432)
Other nonoperating expenses	(3,352)
Total Nonoperating Revenues (Expenses)	(1,899)
Increase in Net Assets	**9,233**
Net Assets, beginning of year	81,425
Net Assets, end of year	**$ 90,658**
Condensed Statement of Cash Flows	
Net Cash Flows Provided by (Used for)	
Operating activities	$ 7,655
Non-capital financing activities	(2,828)
Capital and related financing activities	(1,756)
Investing activities	3,912
Net Decrease in Cash and Cash Equivalents	**6,983**
Cash and Cash Equivalents, beginning of year	11,943
Cash and Cash Equivalents, end of year	**$ 18,926**

TABLE 19 (continued) Segment Financial Information *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2004	
	RBRF	UPI
Assets		
Cash, cash equivalents, and equity in pooled cash and investments	$ 27,649	11,943
Short-term investments	–	20,856
Other current assets	–	26,739
Total current assets	27,649	59,538
Investments	–	34,476
Capital assets, net	49,542	19,850
Other noncurrent assets	–	1,869
Total noncurrent assets	49,542	56,195
Total Assets	**$ 77,191**	**115,733**
Liabilities		
Accounts payable and accrued expenses	$ 225	13,273
Bonds, notes, and leases payable	3,041	732
Other current liabilities	85	–
Total current liabilities	3,351	14,005
Bonds, notes, and leases payable	15,165	20,303
Other noncurrent liabilities	38	–
Total noncurrent liabilities	15,203	20,303
Total Liabilities	**$ 18,554**	**34,308**
Net Assets		
Invested in capital assets, net of related debt	$ 32,196	497
Unrestricted	26,441	80,928
Total Net Assets	**$ 58,637**	**81,425**
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues	$ 11,639	194,761
Depreciation expense	(3,509)	(1,196)
Other operating expenses	(5,465)	(187,636)
Operating Income	2,665	5,929
Nonoperating Revenues (Expenses)		
Investment income	1,145	279
Interest expense on capital asset related debt	(936)	(143)
Other nonoperating expenses	–	(634)
Total Nonoperating Revenues (Expenses)	209	(498)
Income Before Other Revenues and Transfers	**2,874**	**5,431**
Transfers in from other University funds	214	–
Increase in Net Assets	**3,088**	**5,431**
Net Assets, beginning of year	55,549	75,994
Net Assets, end of year	**$ 58,637**	**81,425**
Condensed Statement of Cash Flows		
Net Cash Flows Provided by (Used for)		
Operating activities	$ 6,537	9,704
Non-capital financing activities	215	(646)
Capital and related financing activities	(6,152)	(13,250)
Investing activities	(600)	4,087
Net Decrease in Cash and Cash Equivalents	**–**	**(105)**
Cash and Cash Equivalents, beginning of year	–	12,048
Cash and Cash Equivalents, end of year	**$ –**	**11,943**

TABLE 20 DPCU Summary Financial Statements *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2005			
	Coleman Foundation	CU Foundation	CUREF	Total
Assets				
Current Assets				
Cash, cash equivalents, and investments	$ 65	14,189	582	14,836
Investments	–	–	31,652	31,652
Accounts and contributions receivable, net	–	13,773	261	14,034
Other assets	–	491	112	603
Total current assets	65	28,453	32,607	61,125
Noncurrent Assests				
Investments	–	657,646	5,917	663,563
Contributions receivable, net	–	15,642	251	15,893
Other assets	–	1,608	2,686	4,294
Capital assets, net	–	67,743	27,642	95,385
Total noncurrent assets	–	**742,639**	**36,496**	**779,135**
Total Assets	**$ 65**	**771,092**	**69,103**	**840,260**
Liabilities				
Current Liabilities				
Accounts payable	$ –	3,655	533	4,188
Deferred revenue	–	1,242	26	1,268
Bonds and leases payable	–	1,425	–	1,425
Split-interest agreements	–	3,372	–	3,372
Custodial funds	–	4,690	–	4,690
Other liabilities	–	422	–	422
Total current liabilities	–	14,806	559	15,365
Noncurrent Liabilities				
Deferred revenue	–	122	–	122
Bonds and leases payable	–	72,888	50,365	123,253
Split-interest agreements	–	27,384	–	27,384
Custodial funds	–	85,028	–	85,028
Other liabilities	–	2,766	1,185	3,951
Total noncurrent liabilities	–	188,188	51,550	239,738
Total Liabilities	$ –	**202,994**	**52,109**	**255,103**
Net Assets				
Invested in capital assets, net of related debt	$ –	(6,570)	14,846	8,276
Restricted for nonexpendable purposes	–	189,920	–	189,920
Restricted for expendable purposes	65	347,974	479	348,519
Unrestricted	–	36,773	1,669	38,442
Total Net Assets	**$ 65**	**568,098**	**16,994**	**585,157**
Statements of Revenue, Expenses, and Changes in Net Assets				
Operating Revenues				
Contributions	$ 1,472	51,899	688	54,059
University support	–	8,246	–	8,246
Other revenue	–	10,749	1,696	12,445
Total operating revenues	1,472	70,894	2,384	74,750
Operating Expenses				
Institutional Support				
Gifts and income distributed to University and related parties	1,800	85,864	86	87,750
Other program services	–	7,523	1,284	8,807
Support services	4	17,112	338	17,454
Depreciation	–	2,818	103	2,921
Total operating expenses	1,804	113,317	1,811	116,932
Operating Income (loss)	**(332)**	**(42,423)**	**573**	**(42,182)**
Nonoperating Revenues (Expenses)				
Gifts	–	3,600	–	3,600
Investment income	8	51,954	32	51,994
Interest expense on capital asset related debt	–	(4,066)	–	(4,066)
Increase in Net Assets	**(324)**	**9,065**	**605**	**9,346**
Net Assets, beginning of year	389	559,033	16,389	575,811
Net Assets, end of year	**$ 65**	**568,098**	**16,994**	**585,157**

TABLE 20 (continued) DPCU Summary Financial Statements *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2004			
	Coleman Foundation	CU Foundation (restated)	CUREF	Total
Assets				
Current Assets				
Cash, cash equivalents, and investments	$ 25	10,488	1,040	11,553
Investments	364	–	–	364
Accounts and contributions receivable, net	–	20,866	277	21,143
Other assets	–	445	–	445
Total current assets	389	31,799	1,317	33,505
Noncurrent Assets				
Investments	–	608,410	–	608,410
Contributions receivable, net	–	43,539	279	43,818
Other assets	–	1,462	–	1,462
Capital assets, net	–	68,608	15,128	83,736
Total noncurrent assets	–	722,019	15,407	737,426
Total Assets	**$ 389**	**753,818**	**16,724**	**770,931**
Liabilities				
Current Liabilities				
Accounts payable	$ –	3,554	301	3,855
Deferred revenue	–	990	34	1,024
Leases payable	–	177	–	177
Split-interest agreements	–	3,250	–	3,250
Custodial funds	–	4,174	–	4,174
Other liabilities	–	765	–	765
Total current liabilities	–	12,910	335	13,245
Noncurrent Liabilities				
Deferred revenue	–	873	–	873
Bonds and leases payable	–	74,318	–	74,318
Split-interest agreements	–	27,361	–	27,361
Custodial funds	–	74,909	–	74,909
Other liabilities	–	4,414	–	4,414
Total noncurrent liabilities	–	181,875	–	181,875
Total Liabilities	**$ –**	**194,785**	**335**	**195,120**
Net Assets				
Invested in capital assets, net of related debt	$ –	(5,887)	15,128	9,241
Restricted for nonexpendable purposes	–	179,488	–	179,488
Restricted for expendable purposes	389	355,353	515	356,257
Unrestricted	–	30,079	746	30,825
Total Net Assets	**$ 389**	**559,033**	**16,389**	**575,811**
Statements of Revenue, Expenses, and Changes in Net Assets				
Operating Revenues				
Contributions	$ 1,810	67,380	17,077	86,267
University support	–	8,146	–	8,146
Other revenue	–	11,686	445	12,131
Total operating revenues	1,810	87,212	17,522	106,544
Operating Expenses				
Institutional Support				
Gifts and income distributed to University and related parties	1,830	74,484	656	76,970
Other program services	–	6,987	205	7,192
Support services	11	12,962	201	13,174
Depreciation	–	1,930	67	1,997
Total operating expenses	1,841	96,363	1,129	99,333
Operating Income (loss)	**(31)**	**(9,151)**	**16,393**	**7,211**
Nonoperating Revenues (Expenses)				
Investment income	137	72,995	2	73,134
Interest expense on capital asset related debt	–	(3,900)	–	(3,900)
Increase in Net Assets	**106**	**59,944**	**16,395**	**76,445**
Net Assets, beginning of year as adjusted	283	499,089	(6)	499,366
Net Assets, end of year	**$ 389**	**559,033**	**16,389**	**575,811**

approximately $100,000 and $7,100,000, respectively. The transfers of these trusts were recorded by the University as additions to endowments and gift revenues in the current period.

COLEMAN COLORADO FOUNDATION

The Coleman Foundation received a January 2001 private donor pledge of $250,000,000 benefiting the University's Coleman Institute for Cognitive Disabilities. The ultimate timing to be contributed to the Coleman Foundation can be altered by the donors. As of June 30, 2005 and 2004, the donor deferred all scheduled payments, except the initial payment, and as a result, the pledge receivable has been recorded with a full allowance.

Distributions made by the Coleman Foundation to the University during the years June 30, 2005 and 2004 were $1,800,000 and $1,830,000, respectively. All contributions have been recorded as University gift revenue and DPCU operating expense in the accompanying financial statements. The CU Foundation received a partial pledge contribution, which created an endowment fund. As of June 30, 2005 and 2004, this related endowment was valued at $10,111,000 and $9,692,000 respectively.

THE UNIVERSITY OF COLORADO REAL ESTATE FOUNDATION

At June 30, 2004, the majority of the assets and liabilities of TUIC were transferred to CUREF. The assets consisted of three parcels of real property and cash and cash equivalents. The real property was transferred "as is, where is with all faults" at fair value as determined by market quotes on similar property. CUREF assumed all risks and obligations associated with the real property. CUREF also has all rights to future income associated with the real property. The transfer resulted in a contribution recorded by CUREF of approximately $16,168,000 and an equal amount of University gift expense. For the years ended June 30, 2005 and 2004, CUREF distributed $86,000 and $205,000, respectively, reported as operating expense, to the University, which recognized an equal amount of gift revenue. CUREF has a $7,000,000 line of credit with an interest rate of 4.5 percent from the University. During the year ended June 30, 2005, approximately $1,185,000, including accrued interest of $5,000, was drawn and owed under the line of credit. Amounts drawn and repaid during the year ended June 30, 2004 totaled approximately $6,734,000.

CUREF has a long-term agreement with the University to rent portions of the building owned by CUREF. For the years ended June 30, 2005 and 2004, the University paid $378,000 and $179,000, respectively, in rent to CUREF, which recognized an equal amount of other operating revenues.

NOTE 21 – RELATED ORGANIZATIONS AND JOINT VENTURES

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

In accordance with 1991 State legislation, the University of Colorado Hospital Authority (Hospital Authority) was established as a separate and distinct entity, where the University does not control the appointment of staff nor does it assume responsibility for the debts of the Hospital Authority. The Hospital Authority is not considered a component unit of the University because the University is not financially accountable for the Hospital Authority and its resources are not restricted to the University. Detailed financial information may be obtained directly from the Hospital Authority at Mail Stop F-401, P.O. Box 6506, Aurora, Colorado, 80045.

UCDHSC and UPI have several types of financial transactions with the Hospital Authority. On an annual basis, UCDHSC or UPI and the Hospital Authority enter into agreements specifying the fees to be charged for services and the allocation of expenses between the two organizations. In certain circumstances, UCDHSC may bear the entire cost of certain services in exchange for educational or other services provided by the Hospital Authority. In some instances, the fee charged by UCDHSC, UPI, or the Hospital Authority is a set amount for specific services to be provided. In other circumstances, the fee charged is based upon the amount or type of services requested by either UCDHSC or the Hospital Authority.

Examples of services provided by UCDHSC to the Hospital Authority include telecommunications services, rental of office space, and resident doctors. Examples of services provided by the Hospital Authority to UCDHSC include shipping and receiving services and student health services. In general, amounts receivable from, or payable to, the Hospital Authority are settled within the following calendar quarter.

Total payments issued by the Hospital Authority to UCDHSC approximated $27,230,000 and $30,000,000 for the years ended June 30, 2005 and 2004, respectively. Total payments issued by UCDHSC to the Hospital Authority for the years ended June 30, 2005 and 2004 approximated $6,770,000 and $7,222,000, respectively.

During the years ended June 30, 2005 and 2004, UPI recognized approximately $16,684,000 and $14,462,000, respectively, in health services revenue from the Hospital Authority in support of clinical and academic missions. Additionally, during the years ended June 30, 2005 and 2004, the Hospital Authority reimbursed UPI approximately $2,313,000 and $1,708,000, respectively, for joint patient care and network administrative functions performed by UPI. UPI also received approximately $19,839,000 and $17,752,000 during the years ended June 30, 2005 and 2004, respectively, from the Hospital Authority for amounts earned for services performed by UPI faculty members but required to be processed through the Hospital

Authority (such as State of Colorado medically indigent program, Ryan White, and other miscellaneous programs).

In 1997, UPI assumed a 30 percent participation in the Hospital Authority's investment in TriWest Healthcare Alliance Corp. (TriWest) for $994,000. The Hospital Authority purchased the minority interest in TriWest for approximately $3,300,000. UPI received $189,000 and $1,022,000 in dividends from TriWest during the years ended June 30, 2005 and 2004, respectively. UPI has also signed an agreement to assume the Hospital Authority's network management commitment to TriWest for a fee and has also signed a provider service agreement with TriWest.

The Hospital Authority is relocating to the Fitzsimons Campus in Aurora, Colorado. The new Fitzsimons site will require substantial infrastructure improvements to support the current and future buildings. The Hospital Authority and UCDHSC are sharing in the costs of the infrastructure projects based on estimates of future usage. An agreement governs the sharing of infrastructure costs between the two parties. UCDHSC is responsible for managing the infrastructure improvement projects and is then reimbursed by the Hospital Authority for its share under the agreement. During the years ended June 30, 2005 and 2004, UCDHSC received $906,000 and $1,025,000, respectively, in reimbursements for the projects.

AURARIA HIGHER EDUCATION CENTER

The Auraria Higher Education Center (AHEC), established by legislation in 1974, is jointly governed and utilized by UCDHSC, the Community College of Denver, and Metropolitan State College of Denver. The institutions share the costs of operating common educational, library, and other auxiliary facilities. Costs of the common facilities are shared in accordance with an operating agreement between AHEC and the respective institutions. During the years ended June 30, 2005 and 2004, the University incurred expenses related to the common facilities of $4,678,000 and $4,678,000, respectively, for payments to AHEC.

NOTE 22 – COMMITMENTS AND CONTINGENCIES

Contracts have been entered into for the purpose of planning, acquiring, constructing, and equipping certain building additions and other projects with outstanding amounts totaling approximately $66,212,000 and $69,992,000, as of June 30, 2005 and 2004, respectively. These additions will be funded or financed by donor contributions, appropriations from the State, issuance of revenue bonds, and other financing. As of June 30, 2005 and 2004, the amount of capital construction appropriations authorized from the State for these projects approximated $407,000 and $870,286, respectively.

Substantial amounts are received and expended by the University under federal and State grants and contracts, and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position or operations.

UPI, as a member of the healthcare industry, is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued to increase with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. UPI management believes that UPI is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The University is a defendant in a number of legal actions. While the final outcome of many of these legal actions cannot be determined at this time, management is of the opinion that the ultimate liability not covered by insurance, if any, for these legal actions will not have a material effect on the University's financial position or operations.

NOTE 23 – SUBSEQUENT EVENTS

On September 30, 2005, the University issued $25,225,000 of University Enterprise Revenue Bonds, Series 2005B. The proceeds of the bonds will be used to finance capital improvements and acquisitions for a parking facility at the Fitzsimons site of the Health Sciences Center location of UCDHSC and certain energy-related improvements to facilities at CU-Colorado Springs. The revenue bonds bear interest rates from 3 to 5 percent with final maturity in 2035. The revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the University to redeem, at various dates, portions of the outstanding revenue bonds at prices equal to 100 percent of the principal amount of the revenue bonds redeemed.

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Denver, CO 80202

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 basic financial statements of the business-type activities and aggregate discretely presented component units of the University of Colorado (the University), a component unit of the State of Colorado, as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon, dated December 16, 2005, which included a reference to the reports of the other auditors. Our report included an explanatory paragraph discussing the University's implementation of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3,* and that the University restated the 2004 financial statements of the discretely presented component units. 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. The financial statements of University Physicians, Inc., a blended component unit, and the University of Colorado Foundation, the University of Colorado Real Estate Foundation, and the Colorado Coleman Foundation, the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards.*

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the entities audited by the other auditors referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's 2005 basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.* We noted certain matters that we reported to management of the University of Colorado in the findings and recommendations section of this report dated December 16, 2005.

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

KPMG LLP

December 16, 2005

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

December 16, 2005

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the University of Colorado (the University) as of and for the year ended June 30, 2005, and have issued our report thereon, dated December 16, 2005, which included an explanatory paragraph discussing the University's implementation of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3,* and that the University restated the 2004 financial statements of the discretely presented component units. Under our professional standards, we are providing you with the following information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We have a responsibility to conduct our audit of the 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.

In addition, in planning and performing our audit of the financial statements, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit of the financial statements does not include examining the effectiveness of internal control and does not provide assurance on internal control. 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 University's internal control over financial reporting.

Significant Accounting Policies

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

As described in note 12, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This statement is effective for the year ended June 30, 2005. Under this statement, the University addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, as applicable.

Unusual Transactions

We noted no unusual transactions entered into by the University, 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.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the University to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accounting estimates are an integral part of the 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 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 University's basic financial statements are the allowance for uncollectible receivables, the period to depreciate capital assets owned by the University, the incurred but not reported self-insured liability, scholarship allowances, accrued compensated absences, contractual allowances under third-party reimbursement programs, and net patient service revenue. We and other auditors evaluated the key factors and assumptions in determining that these estimates are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments and Uncorrected Misstatements

Audit Adjustments

No audit adjustments were made to the basic financial statements.

Uncorrected Misstatements

In connection with our audit of the University's basic financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the University's books and records as of and for the year ended June 30, 2005. Seven adjustments were not made to the basic financial statements, which would have increased beginning net assets by approximately $1,443,000 decreased ending net assets by approximately $751,000. We have reported such misstatements to management on a Summary of Uncorrected Misstatements and have received written representations from management that management believes these misstatements are immaterial.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the University's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents, for example, Management's Discussion and Analysis. We have, however, read the other information included in the University'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.

Disagreements with Management

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

Consultation with Other Accountants

To the best of our knowledge, management has neither consulted with or obtained opinions, written or oral, from other independent accountants during the past year that are subject to the requirements of AU 625, *Reports on the Application of Accounting Principles.*

Major Issues Discussed with Management Prior to Retention

We discussed a variety of matters, including the application of accounting principles and auditing standards, with management prior to appointment as the University's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our appointment.

Difficulties Encountered in Performing the Audit

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

Material Written Communications

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

1) NCAA engagement letter

2) Management representation letter

3) Management letter (findings and recommendations included in this report)

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 University and provide confirmation that we are independent accountants with respect to the University. We are not aware of any independence-related relationships between our firm and the University.

Confirmation of Audit Independence

We hereby confirm that as of December 16, 2005, we are independent accountants with respect to the University under all relevant professional and regulatory standards.

* * * * * * *

This report is intended solely for the information and use of the Legislative Audit Committee, the State Auditor, the Board of Regents, and the University's management and is not intended to be and should not be used by anyone other than these specified parties. This report is not intended for general use, circulation, or publication, and should not be published, circulated, reproduced, or used for any purpose without our prior written permission in each specific instance.

Very truly yours,

KPMG LLP

UNIVERSITY OF COLORANDO

Summary of Uncorrected Misstatements

Year ended June 30, 2005

		Adjustments on financial statement captions							
		Change in net assets unadjusted audit differences arising in			Balance sheet				
Adj No.	Description	Current period	Prior period	Total	Net assets	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities
1	Construction in Progress	$					1,022,686		
	Accounts Payable							(1,022,686)	
	To accrue costs on construction project								
2	Accumulated Depreciation						606,823		
	Depreciation Expense	(606,823)		(606,823)					
	To correct overstatement of depreciation due to fixed asset system error that was depreciating over seven months instead of six months								
3	Deferred revenue - Other advances							808,866	
	Private Grant/Contra-Other	(808,866)		(808,866)					
	To recognize program income and other grant revenues that were deferred in error								
4	Receivable					350,785			
	Contribution Revenue	(350,785)		(350,785)					
	To recognize receivable with the CU Foundation								
5	Intergovernmental Receivable (2004)				1,443,663				
	Federal Grant/Contra-Other (2005)	1,443,663		1,443,663					
	Federal Grant/Contra-Other (2004)		(1,443,663)	(1,443,663)					
	FB Unreserved/Undesignated (2005)				(1,443,663)				
	To match the revenue recognized in FY 2005 with the expense that occurred in FY 2004								
	Contribution Revenue - Health Sciences Center	—		—					
	To recognize receivable with the CU Foundation								
6	Revenue - Capital Grants and Gifts	2,141,080		2,141,080					
	Capital Assets							(2,141,080)	
	To remove overstatement of contribution revenue from the Foundation for Bear Creek improvements								
7	Expenses	375,917		375,917					
	Accounts Payable							(375,917)	
	To recognize extrapolated error over the populations for expense testwork								
	Total	$ 2,194,186	(1,443,663)	750,523	—	350,785	1,629,509	(2,730,817)	—

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Program

Introduction

Year ended June 30, 2005

The University of Colorado (the University) is governed by the University of Colorado Board of Regents. The University is a state–supported institution of higher education comprised of the system office and the following three campuses:

- University of Colorado at Boulder (CU–Boulder)
- University of Colorado at Denver and Health Sciences Center (UCDHSC)
- University of Colorado at Colorado Springs (CU–Colorado Springs)

UCDHSC receives state-funded student financial assistance at both the Denver campus and the Health Sciences Center campus.

Our financial and compliance examination of the various state-funded student financial assistance programs at the University for the year ended June 30, 2005 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHE) Financial Aid Policy, adopted April 2000. The state–funded student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2005.

State-Funded Student Financial Assistance Programs

The University's various state–funded student financial assistance programs include the following:

- Colorado Need–Based Grants awards comprised of:
  - Colorado Student Grant
  - Colorado Graduate Grant
  - Colorado Leveraging Educational Assistance Partnership (CLEAP) *(reported separately on the accompanying statement of appropriations, expenditures, transfers and reversions)*
  - Supplemental Leveraging Assistance Partnership (SLEAP) *(reported separately on the accompanying statement of appropriations, expenditures, transfers and reversions)*
- Colorado Merit Scholarships (or merit–based awards) comprised of:
  - Colorado Undergraduate Merit scholarships
  - Colorado Graduate Fellowship
- Colorado Work–Study
- Governor's Opportunity Scholarships
- Colorado Nursing Grants (or scholarships)
- Loan Matching for the Perkins Loan and Health Professions Student Loan Programs

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Program

Introduction

Year ended June 30, 2005

The director of financial aid at each campus is responsible for administration of these programs. This responsibility includes application processing, eligibility determination and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the University in federal and state student financial aid programs. The campus controller's office at each campus is responsible for the programs' financial management, general ledger accounting, payments and collections.

The total state–funded student financial assistance expenditures made by the University were $12,881,943 during the year ended June 30, 2005. Of this amount, state–funded matching funds of $113,811 were transferred to the Perkins Loan and Health Professions Student Loan Funds during the year ended June 30, 2005.

Authorizations and expenditures for state-funded student financial assistance are detailed by program in the accompanying statement of appropriations, expenditures, transfers and reversions for the year ended June 30, 2005. The University also obtained authorizations for federal student financial aid funds as follows:

- Pell Grants $19,738,196
- Direct Loan $143,604,240
- Supplemental Educational Opportunity Grant $1,854,560
- College Work-Study $3,086,443
- Perkins Student Loan Program – new capital contributions $376,984

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Independent Auditors' Report on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the state-funded student financial assistance programs (the Statement) of the University of Colorado (the University), a component unit of the State of Colorado, for the year ended June 30, 2005. The Statement is the responsibility of the University of Colorado's management. Our responsibility is to express an opinion on the Statement based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. 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 University'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 statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the Statement, the Statement was prepared in accordance with the format set forth in the Colorado Commission on Higher Education (CCHE) Audit Guide, and in conformity with the provisions of the CCHE Financial Aid Policy. The Statement is a summary of cash activity of the state-funded student financial assistance programs with the exception of the Colorado Work-Study Program and Perkins Loan Program, and does not present certain transactions that would be included in the statement of the state-funded student financial assistance programs if it was presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America.

Because the Statement presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position or changes in financial position of the University of Colorado in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly the appropriations, expenditures, transfers, and reversions of the state-funded student financial assistance programs of the University for the year ended June 30, 2005, in accordance with the format set forth in the Colorado Commission on Higher Education (CCHE) Audit Guide, and in conformity with the provisions of the CCHE Financial Aid Policy, as described in note 1 to the Statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2005 on our consideration of the University'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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Statement in accordance with the format set forth in the CCHE Audit Guide, and in conformity with the provisions of the CCHE Financial Aid Policy. The accompanying schedules of appropriations, expenditures, transfers, and reversions of the University by campus (the Schedules) are presented for purposes of additional analysis and are not a required part of the Statement. The Schedules have been subjected to the auditing procedures applied in the audit of the Statement and, in our opinion, are fairly stated, in all material respects, in relation to the Statement taken as a whole.

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

KPMG LLP

December 16, 2005

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2005

		Total Financial Aid	Colorado Need-based Grants	CLEAP	SLEAP	Colorado Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarships	Loan Matching
Appropriations:									
Original official allocation notice	$	12,917,367	6,646,620	305,138	183,629	1,603,118	2,508,219	1,564,774	105,869
Additional funds reallocated by CCHE		2,053	(31,239)	(1,434)	(863)	9,506	(26,718)	37,382	15,419
Funds released to CCHE		(7,477)	—	—	—	—	—	—	(7,477)
Total appropriations	$	12,911,943	6,615,381	303,704	182,766	1,612,624	2,481,501	1,602,156	113,811
Total expenditures	$	12,881,943	6,615,381	303,704	182,766	1,612,624	2,481,501	1,572,156	113,811
Reversions		30,000	—	—	—	—	—	30,000	—

See accompanying notes to statement of appropriations, expenditures, transfers, and reversions.

(1) Basis of Presentation

The University of Colorado (the University) is governed by the University of Colorado Board of Regents. The University is comprised of the system office and the following three campuses:

- University of Colorado at Boulder (Boulder)
- University of Colorado at Denver and Health Sciences Center (UCDHSC)
- University of Colorado at Colorado Springs (Colorado Springs)

The accompanying statement of appropriations, expenditures, transfers and reversions of state–funded student financial assistance programs (the Statement) has been prepared in accordance with the format as prescribed by the Colorado Commission on Higher Education (CCHE) Audit Guide, and in conformity with the provision of the CCHE Financial Aid Policy. The purpose of the Statement is to present, in summary form, the state–funded student financial assistance activities of the University's three campuses for the year ended June 30, 2005.

Because the Statement presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position or changes in financial position of the University in conformity with accounting principles generally accepted in the United States of America.

(2) Basis of Accounting

All state–funded student financial assistance is expensed on a cash basis, except for the Perkins Loan Program and the Colorado Work-Study program. Perkins student loans are recorded as loans receivable when the funds are disbursed. Colorado Work–Study wages are recorded on the accrual basis recognizing expenses when the services are performed.

The Colorado Leveraging Educational Assistance Partnership (CLEAP) and Supplemental Leveraging Assistance Partnership (SLEAP) consist of state and federal funds. The amount shown in the statement is the combined total.

The University's various state–funded student financial assistance programs include the following: the Colorado Need–Based Grants awards comprised of the Colorado Student Grant, the Colorado Graduate Grant, the Colorado Leveraging Educational Assistance Partnership (CLEAP) (reported separately on the accompanying statement of appropriations, expenditures, transfers and reversions), and the Supplemental Leveraging Assistance Partnership (SLEAP) (reported separately on the accompanying statement of appropriations, expenditures, transfers and reversions); the Colorado Merit Scholarships (or merit–based awards) comprised of the Colorado Undergraduate Merit scholarships and the Colorado Graduate Fellowship; Colorado Work–Study, the Governor's Opportunity Scholarships, the Colorado Nursing Grants (or scholarships), and the Loan Matching for the Perkins Loan and Health Professions Student Loan Programs.

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Program

Schedules of Appropriations, Expenditures, Transfers, and Reversions by Campus

Year ended June 30, 2005

		Total Financial Aid	Colorado Need-based Grants	CLEAP	SLEAP	Colorado Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarships	Loan Matching
Boulder									
Appropriations:									
Original official allocation notice	$	5,821,959	2,912,022	195,833	107,206	887,435	1,335,955	363,533	19,975
Additional funds reallocated by CCHE		(145)	(13,687)	(920)	(504)	12,869	(6,279)	5,902	2,474
Funds released to CCHE		—	—	—	—	—	—	—	—
Total appropriations	$	5,821,814	2,898,335	194,913	106,702	900,304	1,329,676	369,435	22,449
Total expenditures	$	5,821,814	2,898,335	194,913	106,702	900,304	1,329,676	369,435	22,449
Reversions		—	—	—	—	—	—	—	—
UCDHSC-Health Sciences Center Campus									
Appropriations:									
Original official allocation notice	$	991,833	808,296	12,732	—	85,180	38,225	—	47,400
Additional funds reallocated by CCHE		(3,250)	(3,799)	(60)	—	(400)	(15,109)	10,650	5,468
Funds released to CCHE		(7,477)	—	—	—	—	—	—	(7,477)
Total appropriations	$	981,106	804,497	12,672	—	84,780	23,116	10,650	45,391
Total expenditures	$	988,583	804,497	12,672	—	84,780	23,116	10,650	52,868
Reversions		—	—	—	—	—	—	—	—

See accompanying independent auditors' report on the statement of appropriations, expenditures, transfers and reversions.

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Program

Schedules of Appropriations, Expenditures, Transfers, and Reversions by Campus

Year ended June 30, 2005

		Total Financial Aid	Colorado Need-based Grants	CLEAP	SLEAP	Colorado Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarships	Loan Matching
UCDHSC-Denver Campus									
Appropriations:									
Original official allocation notice	$	3,458,874	1,784,094	51,176	55,927	380,055	609,045	559,422	19,155
Additional funds reallocated by CCHE		(10,651)	(8,385)	(241)	(263)	(1,786)	(2,863)	2,887	—
Funds released to CCHE		—	—	—	—	—	—	—	—
Total appropriations	$	3,448,223	1,775,709	50,935	55,664	378,269	606,182	562,309	19,155
Total expenditures	$	3,418,223	1,775,709	50,935	55,664	378,269	606,182	532,309	19,155
Reversions		30,000	—	—	—	—	—	30,000	—
Colorado Springs									
Appropriations:									
Original official allocation notice	$	2,644,701	1,142,208	45,397	20,496	250,448	524,994	641,819	19,339
Additional funds reallocated by CCHE		8,622	(5,368)	(213)	(96)	(1,177)	(2,467)	17,943	—
Funds released to CCHE		—	—	—	—	—	—	—	—
Total appropriations	$	2,653,323	1,136,840	45,184	20,400	249,271	522,527	659,762	19,339
Total expenditures	$	2,653,323	1,136,840	45,184	20,400	249,271	522,527	659,762	19,339
Reversions		—	—	—	—	—	—	—	—

See accompanying independent auditors' report on the statement of appropriations, expenditures, transfers and reversions.

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Program

Audit Comments and Recommendations

Year ended June 30, 2005

Please see recommendation No. 7 on pages 19-20 of this report for an audit comment and recommendation related to the state-funded student financial assistance programs.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Accountants' Report on the Application of Agreed-Upon Procedures to the Records of the University of Colorado and to Its System of Internal Accounting Controls Related to the Intercollegiate Athletics Department of the University of Colorado at Boulder

Members of the Legislative Audit Committee:

We have performed the procedures enumerated below, which were agreed to by the management of the University of Colorado (the University) solely to assist the University in evaluating whether the statement of revenues and expenses (the Statement) of the Intercollegiate Athletics Department of the University of Colorado at Boulder (CU-Boulder), is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 6.2.3.1. for the year ended June 30, 2005, and the effectiveness of CU-Boulder's Intercollegiate Athletics Department's internal control over compliance with the aforementioned compliance requirements as of June 30, 2005. Management is responsible for the Intercollegiate Athletics Department's compliance and internal control over compliance with those requirements. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

Agreed-Upon Substantive Procedures Related to the CU-Boulder Intercollegiate Athletics Department Statement of Revenues and Expenses

1. We obtained the statement of revenues and expenses for the CU-Boulder Intercollegiate Athletics Department (Statement) for the year ended June 30, 2005 as prepared by University management, and recalculated the addition of the amounts on the Statement without exception.

   a. We compared the amounts on each line on the Statement to the corresponding amounts on management's reconciliation between the University's general ledger and the amounts on the Statement. We noted one reconciling item of $3,733 for which only budgetary support was provided by management.

   b. We obtained a copy of the completed NCAA/EADA (Equity in Athletics Disclosure Act) Financial Reporting Survey (Survey) for the year ended June 30, 2005, as prepared by management.

   c. We compared the amounts on each line on the Survey to corresponding amounts on the Statement. We noted no differences between the amounts on the Survey and the amounts on the Statement.

2. We compared actual revenues and expenses reported on the Statement for the year ended June 30, 2005 to those for the year ended June 30, 2004 and obtained explanations for variances exceeding $270,000 and 20% of the June 30, 2004 balance.

   Due to the change in the Statement format by NCAA for 2005, the University compiled the 2005 data into the comparable 2004 format to facilitate this analysis. We obtained these explanations through inquiry with management based on these differences under the 2004 format.

   Ticket Sales – The decrease is due to the football season tickets including seven games in FY 2004, instead of the usual six games. CU versus CSU (Colorado State University) game tickets were sold as part of the season package in FY 2004.

   Guarantees Received – The decrease is due to the guarantee in FY 2004 of $550,000 for the game with Florida State. The guarantee in FY 2005 was with Washington State for $240,000.

   Bowl Game Proceeds – The increase was due to the fact that the University did not attend a bowl game in FY 2004 but did attend a bowl game in FY 2005.

   Summer Camp Revenue – The increase was due to the Department taking over responsibility for summer athletic camps in June 2005; previously, summer camps had been run by private organizations.

   President's Support – The increase is due to the President's support in FY 2004 including $135,000 for use in paying for the recruiting investigation. The President's support in FY 2005 included $600,000 for use in paying debt service.

   Chancellor's Support – The decrease is due to the Chancellor's support in FY 2004 including just over $600,000 for use in paying for the recruiting investigation.

   Guarantees Paid – The increase is due to an increase in the amount being paid each year. In FY 2004, the University paid UCLA $300,000 and Washington State $240,000 and in FY 2005, the University paid CSU $500,000 and University of North Texas $450,000.

   Contractual Services – The decrease is due to the recruiting investigation costing $676,000 in FY 2004 compared to $218,000 in FY 2005.

   Debt Service Expense – In FY 2004, debt service was paid beginning on September 1 and the yearly principal payment was $500,000. In FY 2005, the principal increased to $960,000. The increase is due to paying the full debt service amount for the east stadium addition in FY 2005.

   No additional procedures were performed with respect to management's representations as to the reasons for the variances.

3. We obtained from management a detailed listing of contributions of moneys, goods, or services received directly by CU-Boulder's Intercollegiate Athletics Department, which individually identified any contributions from outside organizations, agency or group of individuals (two or more), not including contributions from corporate sponsors, that constituted 10% or more of all contributions received for CU Boulder's Intercollegiate Athletics Department during the year ended June 30, 2005.

   a. We recalculated the total contributions per the detailed listing and agreed the amount to the contributions on the Statement. All amounts were recalculated without exception.

b. For each contribution that constituted 10% or more of all contributions received, we obtained and reviewed supporting documentation and performed the following:

   i. We noted no individual donors that constituted 10% or more of all contributions received.

   ii. For contributions received from an affiliated or outside organization, we confirmed the contributions and other revenue included in the Statement, and year-end receivables, with the affiliated or outside organization. We noted the only organization that constituted 10% or more of all contributions received was the CU Foundation and the contributions were confirmed without exception.

   iii. We verified the disclosure of the source of funds and values of the contributions that constituted 10% or more of all contributions were included in the notes to the Statement without exception.

4. We recalculated 75% of ticket revenues and various concession revenues for the following games by using detailed ticket sales and ticket price information from the "Event Audit and Recap" reports and "Price Table Reports" provided by the CU-Boulder Intercollegiate Athletics Department. All ticket revenues were recalculated without exception. For concession revenues, we obtained a third-party statement from management and agreed it to the general ledger and to check stub copies. All concession revenues were recalculated without exception. Ticket and concession revenues were tested for the following games:

Game	Program
Colorado State	Football
University of Texas	Football
Kansas State	Football
Colorado State	Men's Basketball
Texas A&M	Men's Basketball

5. We obtained from management a detail listing from the University's Billing Receivable System (BRS) for student fees to CU-Boulder's Intercollegiate Athletics Department and compared and agreed student fees on the Statement to the detail listing without exception.

6. We were unable to compare the direct institutional support on the Statement to supporting University authorization and/or other corroborative supporting documentation as no support was provided by management regarding authorization. We compared direct institutional support of $1,561,878.00 on the Statement to the general ledger detail of $1,565,611.02, noting a difference of $3,733.02. See also step 1.a.

7. We selected 25 days during the fiscal year ended June 30, 2005 for testing of cash receipts. For each date selected, we obtained the Daily Cash Receipts Log from management and selected one batch transaction. For the days selected, we agreed the batch transaction information to the daily deposit

slip, bank statement, and general ledger. For the selection dated 11/15/04, there was a difference of $15 between the amount recorded in the batch log of $3,594.50 and the amount recorded in the general ledger of $3,609.50. The 25 days selected for testing were as follows:

Selected days	Daily batch log number	Amount received per log
07/20/04	23094	$ 26,250.00
07/27/04	23139	26,614.50
08/18/04	23240	21,754.00
08/24/04	23282	10,736.50
09/08/04	23428	5,341.00
09/21/04	23555	2,086.00
10/12/04	23741	12,800.00
10/20/04	23801	7,829.50
10/25/04	23823	3,712.00
11/08/04	23941	2,779.50
11/15/04	24043	3,594.50
11/18/04	24070	1,266.00
11/27/04	24114	1,191.00
12/06/04	24179	3,158.50
12/08/04	24193	3,122.50
01/12/05	24917	2,531.00
01/20/05	24974	222.50
02/11/05	25125	6,048.00
02/23/05	25205	913.50
03/07/05	25296	12,501.00
03/17/05	25396	24,105.00
04/04/05	25487	37,540.00
04/20/05	25632	16,673.00
05/23/05	25738	1,640.00
06/21/05	25854	7,713.50

8. We obtained and inspected agreements, rules, or other relevant documentation related to the University's participation in revenues from the Big XII conference during the year ended June 30, 2005 and gained an understanding of the relevant terms and conditions. We also obtained from management a summary from the University of all conference distributions and check advices with check explanations.

   a. We obtained a copy of the Big XII, Section 2, Revenue Distribution noting consistency of terms with other relevant documentation.

   b. We recalculated totals on the summary of all conference distributions to be $7,549,215 without exception.

   c. We agreed check advice amounts to bank deposits without exception.

   d. We reconciled total conference distribution revenues on the summary to the Statement, as a portion of contributions, without exception.

9. We obtained from management a schedule of sports camp revenue for tennis, soccer, and women's basketball camps.

a. We recalculated the schedules without exception. We compared the schedule for CU men's and women's tennis camps revenue of $15,251.75 to the Statement detail by sport combined total revenue of $15,910, noting a difference of $658.25. We compared the schedule for Soccer camps revenue of $106,356 to the Statement detail by sport total of $109,995, noting a difference of $3,639. We compared the schedule for women's basketball revenue of $77,651.50 to the Statement detail by sport total of $76,960, noting a difference of $691.50.

b. For tennis, soccer, and women's basketball camps:

i. and ii. We obtained from management all sports camp contracts between the University and the person conducting the sports camps and gained an understanding of the methodology for recording revenues for sports camps, including all asset transfer agreements.

iii. We obtained from management a schedule of camp participants and fee schedules (brochures) for the three camps.

iv. and v. We selected a total of 10 participants across all three camps. We compared the amounts on the brochure to the fee schedule and cash receipts and recalculated the totals. We also compared participant cash receipts documents to the schedule of revenues by camp. For one tennis participant, there was a difference of $9.69 between the cash receipt amount of $158.69 and the amount on the brochure and schedule of $149; we found all other participant amounts to be in agreement. For one participant in soccer and one participant in women's basketball, there was no documentation of a cash receipt; therefore, we could not determine the amount actually paid. For one other participant in women's basketball, cash receipts documents were only provided for $100 of the $175 charged. The following are the 10 participants selected:

Sport	Participant	Camp description	Brochure and Schedule Amount	Cash Receipt Amount
Tennis	Participant # 1	Adult Weekend Clinic	$ 125	$ 125.00
Tennis	Participant # 2	Junior Competition Camp	149	158.69
Tennis	Participant # 3	Junior Day Clinic	175	175.00
Soccer	Participant # 4	College Prep	225	225.00
Soccer	Participant # 5	Girls Camp 1	495	495.00
Soccer	Participant # 6	Advanced Youth	225	225.00
Soccer	Participant # 7	Lil Buffs Day Camp	165	No receipt
Women's Basketball	Participant # 8	Junior Buffs	175	100.00
Women's Basketball	Participant # 9	Fundamentals	225	No receipt
Women's Basketball	Participant # 10	Shooting	75	75.00

10. We obtained from management a detail of disbursements for consumable (non-capitalizable) athletic support equipment (e.g., helmets) and selected five transactions and vouched the equipment acquisitions to supporting documentation without exception. However, for four out of five selections, we were unable to determine whether they were in existence or consumed because management was unable to provide supporting records. See selections below:

Transaction	Journal Line	Account Code		Amount	
Football – facemasks	25	537600	$	2,999.00	*
Plaster, crutches, bandages	633	537600		23,141.82	*
Football – windscreen	171	537600		1,431.33	
Ankle and knee braces	1003	537600		8,065.49	*
Ice bags	807	537600		1,999.80	*

* Unable to individually verify

11. We obtained from management a list of athletes who received financial aid during the fiscal year. From that list, we selected five student athletes and obtained their financial aid awards. We agreed the amounts of financial aid per the CU-Boulder's Intercollegiate Athletics Department to the student's file per the Student Information System online without exception.

Program	Student ID		Amount
Men's Golf	XXXXX4848	$	34,540.62
Volleyball	XXXXX6702		12,523.62
Men's Basketball	XXXXX3108		32,985.62
Football	XXXXX1287		35,164.62
Women's Track	XXXXX8766		14,698.62

12. We obtained from management a detailed listing of guarantees paid on the Statement.

    a. We recalculated the total guarantees and agreed the amounts to the Statement without exception.

    b. There were two guarantees that constituted greater than 10% of all guarantees paid. For these two guarantees, we obtained and reviewed the guarantee agreement and compared the amounts paid to the terms of the agreement without exception.

    See selections below:

Program	Sport		Amount
University of North Texas	Football	$	450,000
Colorado State University	Football		500,000

13. We obtained a schedule of individual coaches' salaries from the general ledger and benefit expense for all coaches in the aggregate. Salaries were listed by individual coach, coach level (e.g., head, assistant) and sport.

a. We recalculated the total coaches' salaries from the general ledger and agreed the total to the Statement without exception.

We selected five coaches from the schedule which included football, men's and women's basketball, as well as various levels of coaching.

b. For the contracted coaches, we obtained the coaches' contract and a general ledger detail of the coaches' salary.

i. and ii. For contracted coaches in the sample, we compared and agreed the financial terms and conditions of each contract to the related detail without exception.

c. For the non-contracted coaches, we obtained from management the coaches' offer letter and salary letter for fiscal year 2005 and the general ledger detail for the coaches' salary.

i. and ii. For non-contracted coaches in the sample, we were unable to compare and agree the financial terms and conditions of the offer letter or salary letter to the related detail as the letters were either not provided or the letters provided were not current.

S. Watson: The offer letter provided was effective January 21, 1999. Amounts in addition to the base salary are not detailed in the offer letter and total $19,869.31. A salary letter for fiscal year 2005 was not provided.

M. Neighbors: Offer letter indicates a base salary for 2004-2005 of $85,000, which was prorated for 16/31 days for the month of May plus salary for the month of June would be $10,739.24. However, the general ledger indicates the amount paid was $10,946.96, a difference of $207.72.

P. Graham: The offer letter provided was for fiscal year 2004. A salary letter for fiscal year 2005 was not provided.

G. Hankwitz: The offer letter provided was for fiscal year 2004. The additional payments made in excess of base salary amounts were not detailed in the offer letter. A salary letter for fiscal year 2005 was not provided.

The coaches tested included the following:

Name	**Position**	**Sport**	**General Ledger Base Salary Paid**
Patton, Ricardo	Head Coach	Men's Basketball	$ 156,750
Watson, Shawn	Assist. Coach	Football	155,250
Neighbors, Michael	Assist. Coach	Women's Basketball	10,947
Graham, Paul	Assist. Coach	Men's Basketball	106,750
Hankwwitz, George	Assist. Coach	Football	162,375

14. We obtained a schedule of individual administrative staff's salaries and benefit expense for the staff in the aggregate.

a. We recalculated the administrative staff's salary amounts and agreed the total to the Statement for other compensation without exception.

b. We selected five staff from the schedule and obtained the staff salary letter for fiscal year 2005 and a general ledger detail of the staff's salary.

i. and ii. We compared and agreed the financial terms and conditions of the salary letter and related detail and recalculated totals with the following exceptions.

G. Brown: Staff salary letter indicates a base salary of $2,500/month. The December salary is prorated for 18/31 days for December 2004 which is recalculated to be $1,451.61. However, the general ledger indicates the amount paid was $1,630.42, a difference of $178.81.

S Pryor: The salary letter detail calculated an annual salary of $34,752 compared to the general ledger payments of $34,488.73, a difference of $263.27.

Name	Position	General Ledger Base Salary Paid	
Brown, Graham	Admin Assistant II	$ 16,630	*
Brent, Susan	Admin Assistant III	36,240	
Onaga, Jean	Admin Assistant II	34,380	
Pryor, Susan	Admin Assistant III	34,489	*
Mossoni, Jodell	Admin Assistant II	14,036	

* Amounts do not agree to salary letter provided

15. We obtained from management a schedule of sports camp expenses by natural type of expense (e.g., housing, supplies, etc) and by camp name and sport.

a. We obtained the schedules (general ledger reports) for soccer and women's basketball and recalculated the schedule and compared totals to the Statement detail by sport. In order to reconcile the amount in the general ledger schedule and the amount on the Statement, the salary amounts had to be increased by 10% for an allocated benefit expense. There is no documentation to support the 10% allocation amount. *For soccer*: the general ledger expense schedule of $92,870.60 plus the 10% allocation of $2,015 plus $1.40 agrees to the Statement amount of $94,887. *For women's basketball*: the general ledger expense schedule of $43,167.29 plus the 10% allocation of $762.50 totals $43,929.79. This differs from the Statement amount of $72,748 by $28,818.21.

b. For housing costs for soccer and women's basketball camps:

i. We inspected sports camp contracts between the camp and the housing department for both soccer and women's basketball.

ii. We requested billings by camp participants for housing. *For soccer*: we were able to obtain a listing of 161 overnight campers; however, there was no billing information detailed by camp participant provided. We obtained the invoice for lodging of 161 campers and agreed rate amounts to the contract, except for the extra night charge, as no rate was provided for the rate for extra nights or support for the number of campers that stayed extra nights. *For women's basketball*: we were able to obtain a listing of 129 overnight campers; however, there was no billing information by camp participant provided. We obtained the invoice for lodging of 129 campers and agreed two potential rate amounts to the contract (double package or special single), except for the extra commuter meals, as no rate was provided for the number of campers that had commuter meals. We were unable to determine which campers had the double package or special single package; therefore, we could only agree the total number of campers to the invoice.

iii. For ten camp participants in total for the soccer and women's basketball camps, we compared the housing bill to the student's camp enrollment documents and to the terms of the housing contract to determine if the housing charge was appropriate. We selected five campers from the list of 161 overnight campers for soccer and five campers from the list of 129 overnight campers for women's basketball, but we were unable to determine if the housing charge was appropriate for either sample since the billings were not detailed by camper.

iv. We compared total housing costs invoiced to the general ledger schedule of expenses by camp for both soccer and women's basketball without exception.

16. We obtained from management the University's methodology for allocating indirect facilities support (general administrative recharges – GAR). We recalculated charges to CU-Boulder's Intercollegiate Athletics Department, noting that we calculated GAR to be $968,271.28 compared to the general ledger charge of $979,450.64, an overcharge of GAR in the amount of $11,179.36.

17. We obtained from management a copy of the completed NCAA Capital Expenditure Survey for CU-Boulder's Intercollegiate Athletics Department for fiscal year ended June 30, 2005.

a. As we were not provided with a complete reconciliation, we were unable to compare amounts on each line on the survey to the corresponding amounts on management's reconciliation between the University's general ledger and the amounts on the survey. The following line items were not included on the reconciliation:

Current year additions:	
Football Athletics Facilities	$ 13,850
Basketball Athletics Facilities	255,492
Total Athletics Facilities	269,072
Other Institutional Facilities	13,275,059
Current year deletions:	
Other Institutional Facilities	81,366
Total book value of athletically-related and university plant and equipment, net of depreciation:	
Athletically-Related Property Plant and Equipment balance	63,617,629
Institution's Total Property Plant and Equipment balance	621,193,890
Total annual debt service on athletics and university facilities:	
Athletically-Related Facilities Annual Debt Service	3,930,521
Institution's Annual Debt Service	19,682,968

b. We verified the disclosure of the capital activity and related debt activity was included in the notes to the Statement. We also verified the future maturities schedule for the related debt was included in the notes to the Statement.

c. We traced debt repayments on the future maturities schedule to the supporting repayment schedules of debt issuance, noting the following: In note 6 of the Statement, all of the amounts in the table for original issuance amount, changes during the year, and amount outstanding as of June 30, 2005 agreed to the supporting schedules except the beginning and ending balances of the Series 1998 A Bonds. The beginning and ending balances were understated by $109,000 compared to what was on the repayment schedules and no documented support was provided to explain the difference. No other exceptions were noted.

d. We obtained the University's policies and procedures related to acquiring, approving, depreciating, and disposing of intercollegiate athletics-related assets. CU-Boulder's Intercollegiate Athletics Department does not have policies related to acquiring, approving, depreciating, and disposing of intercollegiate athletics-related assets other than the University policies.

e. We verified that disclosure of the University's policies and procedures for acquiring, approving, depreciating, and disposing of intercollegiate athletics-related assets was summarized in note 2 of the Statement.

18. We obtained from management any independent reviews performed during the year for CU-Boulder's Intercollegiate Athletics Department to determine if there were adjustments to the Statement not made by management or any identified material weaknesses. We noted no such independent reviews that identified adjustments to the Statement not made by management and no material weaknesses were noted. However, the State Auditor conducted a performance audit of CU-Boulder's Intercollegiate Athletics Department. Because a performance audit, unlike a financial audit, is not intended to provide reasonable assurance about whether financial statements are presented fairly in all material respects, the performance audit of CU-Boulder's Athletics Department conducted by the State Auditor did not identify adjustments to the financial statements. The audit did identify weaknesses in internal controls within the Athletics Department. The control weaknesses related primarily to football operations and football game expenses, cash handling by Athletics Department staff for the summer football camps, and a lack of monitoring of contracts for sports camps operated by outside entities.

19. We obtained written management representation as to the completeness, accuracy, and fair presentation of the Statement. In addition, we obtained certain written representations regarding management's knowledge of institutional compliance with NCAA rules and other laws and regulations applicable to CU-Boulder's Intercollegiate Athletics Department, including monitoring and taking responsibility for outside organizations, and all outside organizations reports from external auditors.

Agreed-Upon Internal Control Procedures Related to the University of Colorado at Boulder's Intercollegiate Athletics Department

1. We obtained information from management concerning the internal control environment for CU-Boulder's Intercollegiate Athletics Department, including the general control environment, use of internal audit, recording of revenues, authorization of expenses, review of budget to actual reports, and processing of specific elements or controls for CU-Boulder's Intercollegiate Athletics Departments, such as ticket sales, and initiating, authorizing, processing, and recording entries in the general ledger and financial statements.

2. We obtained a listing of all personnel of CU-Boulder's Intercollegiate Athletics Department. From that list, we selected 10% of the employees (15 employees in total) and performed the following:

a. We determined whether the responsibilities for compliance with NCAA legislation are reflected in the individual's job description. We noted that for two personnel (the football head coach and the basketball head coach) we did not receive job descriptions; therefore, we were unable to determine if their NCAA responsibilities were included in their job descriptions. For an additional three personnel (the Director of Alumni Club, the football defensive coach, and the Associate Athletic Director), the job descriptions provided did not include the individual's responsibilities for compliance with NCAA legislation

b. We interviewed the employees selected to inquire whether they understand their responsibilities for complying with NCAA legislation. All personnel represented that they understand their responsibilities for complying with NCAA legislation.

See the 15 employees selected below:

Employee ID	Position	
152021	Athletic Director	
670098	Director	**
106633	Accountant II	
104298	Program Assist. II	
108235	Accountant I	
152352	Asst. Athletic Director	
152984	Assoc. Athletic Director	
152801	Head Coach	*, **
152350	Asst. Coach	**
152387	Head Coach	
152723	Head Coach	*, **
152769	Assoc. Athletic Director	**
152100	Head Trainer	
152054	Head Coach	
152259	Head Coach	

* No job description was provided
** No NCAA responsibilities in job description

3. We were not provided with formal documented procedures in order to document our understanding of CU-Boulder's Intercollegiate Athletics Department's procedures for gathering information on the nature and extent of outside organizations not under the University's accounting control (e.g., University of Colorado Foundation, other booster clubs) on behalf of CU-Boulder's intercollegiate athletics program. Also, because we did not receive formal documented procedures, we were unable to determine how CU-Boulder's Intercollegiate Athletics Department communicates, monitors, and takes responsibility for these affiliated and outside organizations.

4. We selected five purchasing disbursements from throughout the year ended June 30, 2005 and determined the following:

   a. The disbursed amount and payee agreed to the corresponding information on the vendor invoice and we found such information to be in agreement.

   b. The transaction was authorized in accordance with the purchasing policies and procedures of the University without exception.

   c. The proper expense account was used.

The five disbursements selected were as follows:

Date	Description	Amount
07/29/04	IPS	$ 1,040.28
09/03/04	Pioneer Press of Greely	56,168.00
11/30/04	US Postmaster	30,000.00
05/16/05	Estey Printing Company	2,518.76
06/24/05	Postmaster	10,000.00

5. We selected 10 payroll disbursements from throughout the year ended June 30, 2005 and determined the following:

   a. The disbursed amount and payee agreed to the corresponding information on the personnel file and we found such information to be in agreement.

   b. The transaction was authorized in accordance with the payroll policies and procedures of the University without exception.

   The 10 payroll disbursements selected were as follows:

Date	Employee	Amount paid
07/30/04	Borbely, D	$ 10,750.00
07/30/04	Hansburg, D	6,083.33
01/31/05	Green, J	3,498.00
01/31/05	Goslin, J	2,500.00
03/31/05	Lengyel, J	738.46
03/31/05	Barnett, G	15,029.17
04/22/05	Fekade, A	304.19
04/29/05	Mutlu, C	2,056.00
04/29/05	Parker, M	1,937.52
04/29/05	Hamler, O	297.26

6. We obtained the recruiting expense policies of the CU-Boulder's Intercollegiate Athletic Department, including any policies specific to football. We compared and agreed the policies below to the University's proprietary expense policies and NCAA regulations. See results below:

   The CU Athletics Department memorandum dated August 11, 2004 does not address the policies listed below specifically. However, the policy contained in this memorandum does require compliance with NCAA recruiting policies. The University policy also does not specifically address the following expenses for recruiting.

   a. ***NCAA policy 13.2.2*** *Specific Prohibitions*

   b. ***NCAA policy 13.5*** *Transportation*

   c. ***NCAA policy 13.6.2*** *Limitations on Official Visit*

   d. ***NCAA policy 13.8*** *Entertainment, Reimbursement and Employment of High School/ College Preparatory School/Two-Year College Coaches*

   e. ***NCAA policy 13.14*** *Use of Recruiting Funds*

f. ***NCAA policy 13.15*** *Precollege Expenses*

The CU Athletics Department memorandum dated August 11, 2004 appears to meet the requirements set forth in the following sections of the NCAA Bylaws. However, the University policy does not specifically address the following policies regarding recruiting.

g. ***NCAA policy 13.6.1*** *Institutional Policies*

h. ***NCAA policy 13.6.3*** *Length of Official Visit*

i. ***NCAA policy 13.6.5*** *Accommodations on Official Visit*

The CU Athletics Department memorandum dated August 11, 2004 does not address the following policy specifically except for subsections 13.6.6.5 (a) and 13.6.6.7, which appear to be consistent with NCAA policy. The policy contained in this memorandum does require compliance with all NCAA recruiting policies. However, the University policy does not specifically address entertainment/tickets on official visits for recruiting.

j. ***NCAA policy 13.6.6- 13.6.8-*** *Entertainment/Tickets on Official Visit*

7. We obtained the team travel policies of the CU-Boulder's Intercollegiate Athletics Department and compared it to the University travel policies and NCAA regulations. See results below:

   The Athletics Department and University policies do not specifically address the following regulations:

   a. ***NCAA policy 16.5.2 (e) (1) & (2)*** - *Vacation Period Expenses*

   b. ***NCAA policy 16.6.1.1*** *Expenses for Spouse/Children to Postseason Football Game or NCAA Championship*

   c. ***NCAA policy 16.8.1.5*** *Travel to NCAA Championships, NGB Championships in Emerging Sports and Licensed Bowl Games*

   The Athletics Department policy appears to be consistent with NCAA policy for the following regulations. However, the University policy does not specifically address the following expenses.

   d. ***NCAA policy 16.7.1*** *Team Entertainment*

   e. ***NCAA policy 16.8.1.6*** *Incidental Expenses at NCAA Championships, NGB (National Guard Bureau) Championships in Emerging Sport and Licensed Bowl Games*

   f. ***NCAA policy 16.8.1.2.1*** *Departure/Return Expense Restrictions*

8. We obtained documentation from management concerning the monthly budget-to-actual review and we inquired of CU-Boulder's Assistant Athletic Director and other accounting staff about how they investigate variances.

* * * * * * *

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items or an examination on the effectiveness of the internal control over financial reporting. Accordingly, we do not express any such opinions. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The report is intended solely for the information and use of the Legislative Audit Committee, the State Auditor, the Board of Regents, University management, and the NCAA and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 17, 2006

UNIVERSITY OF COLORADO

University of Colorado at Boulder Intercollegiate Athletics Department

Statement of Revenues and Expenses (Unaudited)

Year ended June 30, 2005

	Football	Men's Basketball	Women's Basketball	Other Men's Sports	Other Women's Sports	Non-Program Specific	Total
Operating revenue:							
Ticket sales	$ 9,876,576	736,828	201,361	—	15,999	—	10,830,764
Student fees	—	—	—	—	1,520,071	—	1,520,071
Guarantees received	240,000	—	—	—	—	—	240,000
Contributions	166,978	10,541	29,126	75,867	49,794	992,758	1,325,064
Direct state support	18,658	6,516	4,418	17,188	33,839	—	80,619
Direct institutional support	681,098	47,289	75,359	46,144	28,338	683,650	1,561,878
Conference distributions	6,630,117	1,867,599	—	—	—	127,704	8,625,420
Radio and television	504,000	210,905	178,000	—	—	—	892,905
Programs, concessions, parking	438,585	54,242	20,416	—	3,953	55,208	572,404
Royalties, advertising, sponsors	506,781	114,803	80,882	85,771	128,675	2,079,001	2,995,913
Sports camps	138,476	—	76,960	7,955	117,950	—	341,341
Endowments donations and investment income	2,794,308	180,000	—	—	3,050	3,194,121	6,171,479
Other income	57,991	—	6,425	330	8,160	621,027	693,933
Total operating revenue	22,053,568	3,228,723	672,947	233,255	1,909,829	7,753,469	35,851,791

UNIVERSITY OF COLORADO

University of Colorado at Boulder Intercollegiate Athletics Department

Statement of Revenues and Expenses (Unaudited)

Year ended June 30, 2005

	Football	Men's Basketball	Women's Basketball	Other Men's Sports	Other Women's Sports	Non-Program Specific	Total
Operating expenditures:							
Financial aid	$ 2,524,207	433,340	422,195	613,209	1,556,863	2,000	5,551,814
Guarantees paid	950,000	175,000	24,500	—	6,000	—	1,155,500
Coaches' compensation	2,936,435	1,009,303	650,607	389,911	710,297	—	5,696,553
Other compensation	337,655	120,377	103,083	43,046	76,366	4,648,324	5,328,851
Recruiting	239,963	98,127	97,529	27,818	97,646	—	561,083
Team travel	1,082,703	253,212	185,780	212,453	412,655	—	2,146,803
Equipment and supplies	595,335	49,770	41,228	108,711	164,712	129,886	1,089,642
Game-day expenses	1,632,597	337,428	251,860	6,627	56,544	—	2,285,056
Fundraising and marketing	10,260	—	809	—	—	1,843,653	1,854,722
Sports camps	109,424	107,467	72,748	2,367	97,253	—	389,259
Maintenance and rentals	51,224	6,423	3,113	31,381	43,072	6,954,651	7,089,864
Spirit groups	—	—	—	—	—	131,075	131,075
Medical and insurance	192,915	23,809	49,687	55,258	136,046	47,397	505,112
Memberships and dues	960	—	915	2,922	3,612	16,305	24,714
Other operating	271,627	51,223	63,386	28,861	80,913	2,308,656	2,804,666
Total operating expenses	10,935,305	2,665,479	1,967,440	1,522,564	3,441,979	16,081,947	36,614,714
Excess/(deficiency)	$ 11,118,263	563,244	(1,294,493)	(1,289,309)	(1,532,150)	(8,328,478)	(762,923)

UNIVERSITY OF COLORADO

University of Colorado at Boulder Intercollegiate Athletics Department

Notes to Statement of Revenues and Expenses (Unaudited)

Year ended June 30, 2005

(1) Basis of Presentation

The accompanying statement of revenues and expenditures presents the results of financial activity of the Intercollegiate Athletics Department of the University of Colorado at Boulder (CU-Boulder Athletics Department) and are not intended to present the operations of the University as a whole.

The accompanying statement of revenues and expenditures has been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation is incurred.

For reporting purposes, the major sports in which the university participates are combined by and reported by the following major categories: Football, Men's Basketball, Women's Basketball, Men's Other Sports, and Women's Other Sports. The first three categories represent individual activities whereas the last two represent combinations. The administrative functions of the CU-Boulder Athletics Department, which support all sports, have been combined and reported within the category Non-Program Specific. General administrative costs of the University have been allocated to athletics operations and are reported herein.

(2) Summary of Significant Accounting Policies

Revenues from operations have been allocated based on management's estimate of which sport generated the income. Gifts have been allocated as directed by the donor. Financial aid support has been allocated based on the actual payments made in support of each activity.

Revenues received during a given fiscal year but not expended are carried forward for use by the CU-Boulder Athletics Department in future fiscal years. The current fiscal year deficiency of revenues over expenditures exceeds amounts carried forward in previous years and represents an internal draw on general campus resources, which will be repaid with future year excess revenues over expenditures.

Capital Assets are stated at cost at the date of acquisition or fair value at the date of donation. For equipment, the capitalization policy includes all items with a value of $5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings and other improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense.

CU-Boulder Athletics Department follows University procurement rules for acquiring and approving intercollegiate athletics-related assets and follows Boulder campus policies and procedures for disposing of intercollegiate athletics-related assets.

Depreciation is computed using the straight-line method and monthly convention over the estimated useful lives of the assets as displayed in the following table.

Asset class	Years
Buildings	20 – 50
Improvements other than buildings	10 – 40
Equipment	3 – 20

3. Affiliated and Outside Organization Cash Balances

The following table presents the cash balances of CU-Boulder Athletic Department's affiliated and outside organizations' as of June 30, 2005.

Name of affiliated/outside organization	Cash balance, June 30, 2005
Dear Old CU	$ 390
Denver Buff Club	13,955
Boulder Buff Club	4,125
Buff Belles	31,605
Northern Colorado	7,612
Thundering Herd	5,124
University of Colorado Foundation, Inc.	4,064,864

4. Concentration of Donor Sources

The University of Colorado Foundation, Inc. was the single largest donor source the CU-Boulder Athletics Department with contributions of $7,365,656 or 98% of total contributions, endowments donations and investment income for the year ended June 30, 2005. The contributions received from the University of Colorado Foundation, Inc. represent gifts from various donors made on behalf of the CU-Boulder Athletics Department.

5. Capital Assets

The following table presents changes in the CU-Boulder Athletics Department's capital assets and accumulated depreciation for the year ended June 30, 2005.

Category		Balance 2004	Additions	Retirements	Balance 2005
Depreciable capital assets:					
Buildings	$	77,000,120	269,072	—	77,269,192
Improvements other than buildings		4,562,612	—	—	4,562,612
Equipment		3,376,014	113,101	(74,690)	3,414,425
Total depreciable capital assets		84,938,746	382,173	(74,690)	85,246,229
Less accumulated depreciation:					
Buildings		13,860,480	3,578,556	—	17,439,036
Improvements other than buildings		894,306	224,410	—	1,118,716
Equipment		2,988,279	152,569	(70,000)	3,070,848
Total accumulated depreciation		17,743,065	3,955,535	(70,000)	21,628,600
Total net capital assets	$	67,195,681	(3,573,362)	(4,690)	63,617,629

6. Bonds and Leases Payable

The following table presents a general description of each revenue bond and certificate of participation issued related to the CU-Boulder Athletics Department, including its original issuance amount, changes during the year ended June 30, 2005, and the amount outstanding as of June 30, 2005.

Description		Original issuance amount	Balance 2004	Additions	Retirements	Balance 2005
Enterprise System Revenue Refunding Bonds, Series 1995A: Used to refund all of the Refunding Series 1986, 1989, 1990 and 1992B	$	542,371	501,083	—	(8,692)	492,391
Enterprise System Revenue Bonds, Series 2002B: Used to fund capital improvements at the football stadium of the CU-Boulder Athletics Department (includes premium)		40,055,000	40,055,000	—	—	40,055,000
Enterprise System Revenue Bonds, Series 2002C: Used to fund capital improvements at the football stadium of the CU-Boulder Athletics Department (includes premium)		5,670,000	5,170,000	—	(960,000)	4,210,000
Master Lease Purchase Series 1998A: Used to fund capital improvements at the football stadium of the CU-Boulder Athletics Department		4,045,700	2,619,779	—	(415,509)	2,204,270
Total bonds and leases payable	$	50,313,071	48,345,862	—	(1,384,201)	46,961,661

The University's revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the University to redeem at various dates, portions of the outstanding revenue bonds at prices varying from 100 to 101 percent of the principal amount of the revenue bonds redeemed. The Enterprise System Revenue Bonds are secured by a pledge of all net revenues of certain auxiliary enterprise facilities.

All University revenue bonds are special limited obligations of the Regents and are payable solely from the pledged revenues (or the Net Income of the Facilities as defined in the bond resolution). The revenue bonds are not secured by any encumbrance, mortgage, or other pledge of property, except pledged revenues, and do not constitute general obligations of the Regents.

The University revenue bonds contain provisions to establish and maintain reasonable fees, rates and other charges to ensure gross revenues are sufficient for debt service coverage. The University is also required to comply with various other covenants while the bonds are outstanding. These covenants, among other things, restrict the disposition of certain assets, require the Regents to maintain adequate insurance, and require the Regents to continue to operate the underlying programs. Management of the University believes the University has met all debt service coverage ratios and has complied with all bond covenants.

Certificates of participation have been issued to finance lease purchase agreements for the acquisition and refinancing of equipment. The certificates are secured by the equipment acquired with the lease proceeds and any unexpended lease proceeds.

At any time, the certificates bear interest at adjustable rates equal to comparable rates for tax-exempt obligations (market-rate). The interest is payable monthly and may be reset at the following four defined periods as elected by the University: daily, weekly, short-term (more than weekly and less than semi-annually) or long-term (more than semi-annually and less than the maturity period). The interest rate period during the year ended June 30, 2005 was weekly. Principal is payable annually or semiannually subject to annual appropriation by the Regents.

Future minimum payments for the revenue bonds and certificates of participation are detailed in the following table.

	Revenue bonds			Certificates of participation		
	Principal	**Interest**	**Total**	**Principal**	**Interest**	**Total**
Years ending june 30:						
2006	$ 1,128,228	2,236,540	3,364,768	436,649	110,589	547,238
2007	1,254,265	2,175,054	3,429,319	458,865	88,373	547,238
2008	1,319,898	2,106,990	3,426,888	482,213	65,025	547,238
2009	1,170,000	2,035,126	3,205,126	456,225	41,144	497,369
2010	1,335,000	1,973,581	3,308,581	370,318	18,048	388,366
2011 – 2015	7,585,000	8,972,269	16,557,269	—	—	—
2016 – 2020	9,615,000	6,937,381	16,552,381	—	—	—
2021 – 2025	12,350,000	4,201,156	16,551,156	—	—	—
2026 – 2028	9,000,000	934,050	9,934,050	—	—	—
Total	$ 44,757,391	31,572,147	76,329,538	2,204,270	323,179	2,527,449

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Independent Accountants' Report on the Application of Agreed-Upon Procedures Applied to Statements and Records of Outside Organizations' Expenses for or on Behalf of the University of Colorado at Boulder's Intercollegiate Athletics Program

Members of the Legislative Audit Committee:

We have performed the procedures enumerated below, which were agreed to by the Intercollegiate Athletics Department of the University of Colorado at Boulder (the University), solely to assist the University in evaluating compliance with NCAA Bylaw 6.2.3.1 and its related Audit Guidelines for the year ended June 30, 2005 and the effectiveness of the University's internal control over compliance with the aforementioned compliance requirements as of June 30, 2005. Management is responsible for compliance and internal control over compliance with those requirements. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

1. We obtained a list of intercollegiate athletics-related affiliated and outside organizations (boosters) not under the accounting control of the University from management and a list of their officers. The list provided by management initially excluded the University of Colorado Foundation, Inc. See list of boosters below:

Club Name
Denver Buff Club
Boulder Buff Club
Buffalo Belles
Thundering Herd
Northern Colorado
Dear Old CU
University of Colorado Foundation, Inc.

2. With the exception of the University of Colorado Foundation, Inc., we determined through confirmation that none of the CU-Boulder's Intercollegiate Athletic Department personnel serve as officers for the affiliated and outside organizations. A confirmation for the University of Colorado Foundation did not include confirmation of officers.

3. We obtained a prepared summary of revenues and expenses on behalf of the CU-Boulder's Intercollegiate Athletics Department.

   a. We recalculated the totals provided without exception. The University of Colorado Foundation Inc. was not included on the summary of revenues and expenses on behalf of the CU-Boulder's Intercollegiate Athletics Department.

   b. We confirmed the revenue and expenses with the officers of the affiliated and outside organizations, with the exception of the University of Colorado Foundation, Inc. for which the confirmation completed did not include this activity. As a result of the confirmations, all amounts agreed except for: a difference between the University recorded disbursement (expense) amount of $102,645.76 and the confirmation amount from the Boulder Buff Club of $108,211.63, a difference of $5,565.87; and a difference between the University recorded cash receipts (revenue) amount of $123,185.03 and the confirmation amount from the Boulder Buff Club of $120,642.35, a difference of $2,542.68.

   c. Per the summary of revenues and expenses and confirmation from the affiliated and outside organizations, excluding the University of Colorado Foundation, Inc., there were no contributions to CU-Boulder's Intercollegiate Athletics Department, and no detail was provided for cash receipts from outside organizations to trace to contributions revenue on the summary of revenues and expenses. The University of Colorado Foundation, Inc. confirmed $321,358 of contributions from agency funds and $21,388 of contributions from current funds made on behalf of the CU-Boulder's Intercollegiate Athletics Department. Of the $321,358 of agency funds contributions, $167,405 was included in booster club contributions reflected on the summary of revenues and expenses. We were unable to determine whether the remaining amount of $153,953 should have been included on the summary of revenues and expenses. Management of the University represented to us that the $153,953 of contributions is not from booster clubs, and therefore, should not be included on the summary of revenues and expenses. The $21,388 of contributions from current funds confirmed by the Foundation were made on behalf of the CU-Boulder's Intercollegiate Athletics Department and should have been, but were not, included on the summary of revenues and expenses.

   d. Per the summary of revenue and expenses and confirmation from the affiliated and outside organizations, excluding the University of Colorado Foundation, Inc., there were no direct expenses on behalf of CU-Boulder Intercollegiate Athletics Department, and no detail was provided for expenses to trace to an appropriate expense category on the summary of revenues and expenses and to verify the expenditures, such as physical examination of property donations or confirmations with recipients of other cash activity. The University of Colorado Foundation, Inc. confirmed $321,358 of contributions (expenditures) from agency funds and $21,388 of contributions (expenditures) from current funds made on behalf of the CU-Boulder's Intercollegiate Athletics Department. Of the $321,358 of agency funds expenditures, $167,405 was included in booster club expenses reflected on the summary of revenues and expenses. We were unable to determine whether the remaining amount of $153,953 should have been included on the summary of revenues and expenses. Management of the University represented to us that the $153,953 of expenditures is not from booster clubs, and therefore, should not be included on the summary of revenues and expenses. The $21,388 of expenditures from current funds confirmed by the Foundation were made on behalf of the CU-Boulder's Intercollegiate Athletics Department and should have been, but were not, included on the summary of revenues and expenses.

e. We obtained written management representation from the University as to the completeness and accuracy of the summary.

4. We obtained a prepared summary of cash balances of the Intercollegiate Athletics-related affiliated and outside organizations as of June 30, 2005. The list initially excluded the University of Colorado Foundation, Inc. and the related cash balance of $4,064,864.

   a. We confirmed the cash balances with the officers of the affiliated and outside organizations. As a result of the confirmation, we noted a difference in the cash balance amount between the University recorded cash of $31,605.49 and the confirmation from the Boulder Buff Club of $32,228.94, noting a difference of $623.45 for Boulder Buff Club.

   b. We verified disclosure of the cash balances were included in the notes to the Statement.

   c. We obtained written management representation as to the completeness and accuracy of the summary.

5. We obtained and inspected minutes of the outside organizations' governing bodies during the University's fiscal year (if any). However, we did not receive the minutes for Buffalo Belles which is stated in the confirmation that there were no minutes for the club, or the University of Colorado Foundation, Inc. We reviewed all other clubs that had minutes which are the Boulder and Denver Buff Clubs noting there were no financial transactions to or on behalf of CU-Boulder's Intercollegiate Athletics Department discussed in the minutes.

6. With the exception of the University of Colorado Foundation, Inc. for which we obtained audited financial statements, we confirmed with the outside organizations (boosters) that they are not audited independently of the agreed-upon procedures required by NCAA legislation and, therefore, do not have any audited financial statements and any additional reports regarding internal control matters. We also confirmed that there has been no corrective action taken in response to comments concerning their internal control structures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items or an examination on the effectiveness of the internal control over financial reporting. Accordingly, we do not express any such opinions. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The report is intended solely for the information and use of the Legislative Audit Committee, the State Auditor, the Board of Regents, University management, and the NCAA and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 17, 2006

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