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University of Colorado

Financial, State-Funded Student Financial Assistance Programs, and National Collegiate Athletic Association Examinations

Fiscal Year Ended June 30, 1998

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October 16, 1998

Members of the Legislative Audit Committee:

This report contains the results of the financial, state-funded student financial assistance programs, and National Collegiate Athletic Association examinations of the University of Colorado. The report presents our findings and recommendations, and the responses of the University of Colorado.

The Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, included in this document is intended solely for the information and use of the Legislative Audit Committee, the Board of Regents and University management and is not intended to be and should not be used by anyone other than these specified parties.

The Auditor's Report on the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Financial Assistance Programs included in this document is intended solely for the information and use of the Legislative Audit Committee, the Board of Regents, University management, the Colorado Commission on Higher Education and the Office of the State Auditor, State of Colorado, and is not intended to be and should not be used by anyone other than the specified parties.

The Accountants' Reports on the Application of Agreed-Upon Procedures to the Records of the University of Colorado and to its Internal Control Related to the Intercollegiate Athletics Program and to Statements and Records of Outside Organizations' Expenditures for or on Behalf of the University of Colorado's Intercollegiate Athletics Program are intended solely for the use and information of the Legislative Audit Committee, the Board of Regents, University management, and the Office of the State Auditor, State of Colorado, and are not intended to be and should not be used by anyone other than the specified parties.

These restrictions are not intended to limit distribution of the reports, which upon release by the Legislative Audit Committee, are a matter of public record.

KPMG Peat Marwick LLP

UNIVERSITY OF COLORADO

FINANCIAL, STATE FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS, AND NATIONAL COLLEGIATE ATHLETIC ASSOCIATION EXAMINATIONS

June 30, 1998

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FINANCIAL, STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS, AND NATIONAL COLLEGIATE ATHLETIC ASSOCIATION EXAMINATIONS

REPORT SUMMARY

FISCAL YEAR ENDED JUNE 30, 1998

Purpose and Scope

The Office of the State Auditor, State of Colorado engaged KPMG Peat Marwick LLP (KPMG) to conduct certain examinations of the University of Colorado (the University) for its fiscal year ended June 30, 1998. KPMG performed these examinations in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related field work from May through October 1998.

The purpose and scope of our audits were to:

- Express an opinion on the consolidated financial statements of the University as of and for the year ended June 30, 1998. This includes a review of internal control as required by generally accepted auditing standards and *Government Auditing Standards*.

- Evaluate compliance with laws, regulations, contracts and grants governing the expenditure of federal and state funds.

- Express an opinion on the University's compliance and internal control over financial reporting based on our audit of the consolidated financial statements performed in accordance with *Government Auditing Standards*.

- Express an opinion on the financial statements of the University's bond funds as of and for the year ended June 30, 1998. This included an evaluation of compliance with bond indenture provisions.

- Express an opinion on the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Financial Assistance Programs of the University for the year ended June 30, 1998.

- Perform certain agreed-upon procedures regarding the records and internal control related to the University's Intercollegiate Athletics Program and the statements and records of outside organizations' expenditures for or on behalf of the University'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 financial statements of the University's bond funds and the related opinion of the independent auditors are contained in the University's bond fund report issued under separate cover. The University's Schedule of Expenditures of Federal Awards and applicable opinions thereon of the Office of the State Auditor, State of Colorado are included in the June 30, 1998, Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on the University's consolidated financial statements, bond funds financial statements, and the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 1998. Our report on the University's consolidated financial statements included an explanatory paragraph stating that the University adopted the provisions of Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, effective July 1, 1997.

We issued a report on the University's compliance and internal control over financial reporting based on an audit of consolidated financial statements performed in accordance with *Government Auditing Standards*. We did not note any material weaknesses or any material instances of noncompliance with legal or regulatory requirements based on our audit of the consolidated financial statements. However, we did note certain areas where the University could improve its internal control and compliance procedures, 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's Intercollegiate Athletic Program in accordance with NCAA guidelines. Our report disclosed no exceptions as the result of our procedures.

Summary of Key Findings and Recommendations

The Year 2000 Monitoring Process Needs Further Enhancement

The control environment related to the University's information systems encompasses University Management Systems (UMS), which is responsible for university-wide computing services, and the Information Technology departments at the four campuses, which are responsible for many different functions, including campus-specific systems.

For each campus, UMS, and the University as a whole, we performed limited procedures to inquire about the status of the Year 2000 issue. Our procedures were not intended to and do not provide any assurance on whether any existing Year 2000 problems have been identified, on the adequacy of the University's remediation plans related to Year 2000 financial or operational problems, or on whether the University is or will become Year 2000 compliant.

Report Summary, Continued

The impact of the Year 2000 issue is one of the most significant exposures facing the University in this century due to the magnitude of the problem, its far-reaching effects and its immovable deadline. Activities to mitigate the impact of the Year 2000 issue are some of the University's most significant undertakings in this century. Thus, it is imperative the University has a well-designed process for assessing, remediating and monitoring the University-wide Year 2000 issues. Further, the process should ensure all areas of risk, both information technology and business risks, associated with the Year 2000 issue are addressed by the plan.

To monitor the Year 2000 issue, the University has established Year 2000 committees for each campus and UMS, which have individual Year 2000 assessment and remediation plans with various degrees of completeness. The assessment and remediation plan of UMS is the most extensive in the University in terms of content and progress against the plan. Recently, a Year 2000 committee to monitor the activities of the University as a whole was established by the President. This committee, which includes representation from each campus and UMS, reports regularly to the University's senior administrative group and is in the process of compiling a University-wide Year 2000 assessment and remediation plan.

Since all organizations are faced with this issue, the industry has developed best practices related to the Year 2000 monitoring process which an organization can measure itself against. According to these best practices, management should develop an enterprise-wide, business-based effort sponsored by the most senior members of management. Then, the organization should compile a comprehensive, detailed inventory of systems and applications, both custom and purchased, and system software and operating systems for each computing platform being utilized. For the identified items, there should be an assessment of the impact to the organziation of potential failures of these systems and applications, which details the priority of each item and the time horizon to the Year 2000. This assessment should consider the impact of all significant business relationships as well as current and potential legal issues. Using this assessment, an overall Year 2000 transformation strategy should be developed in sufficient detail to address all major related issues. The strategy should include critical milestones, testing plans and quality assurance. Further, contingency plans should be developed and tested for all mission critical systems in the event that Year 2000 compliance requirements are not met.

Best practices also include management's allocation of appropriate financial resources to the Year 2000 project that are separate from the information technology operating budget to ensure resources are available and expended on critical business systems or to ensure the remediation process can be supported. The Year 2000 budget should be developed by senior information technology officers, senior business managers, legal counsel, external vendor contacts, etc. In addition, there should be monthly reporting on critical milestones, at a minimum, to the Year 2000 oversight body. The reporting mechanism should include appropriate processes and controls which, at multiple levels of detail, track progress against the baseline plan and compare actual results to budgeted project timelines and costs.

When comparing the University's current monitoring process against these best practices, we noted some areas which should be enhanced to reduce the risk of Year 2000 project failures. Although the University's process is an enterprise-wide effort sponsored by the most senior members of management, the process does not appear to be focused on the vital functions of the university (e.g., students, research) in addition to the information systems aspects. The University's inventory process does not appear to include all non-traditional platforms, e.g., embedded chips, specifically those for which the information technology departments are not responsible. To ensure that all impacted systems are considered, the project should include all platforms in all mission-critical departments of the University.

However, an assessment of mission-critical patforms has not been completed. For each of the identified systems, there should be detailed remediation and subsequent testing plans or contingency plans for those systems which cannot be adequately or timely remediated.

In addition, strategic business alliances, such as the University Hospital, the State of Colorado or the U.S. Department of Education have not been fully addressed. The University should have a full understanding of the Year 2000 project status of these entities and how failures might impact their interaction with the University. Contingency plans, which could be implemented in the event of a failure by non-University entities, should be developed to enable the University to be responsive to its constituents' needs. Further, the University has not developed a separate Year 2000 budget or established critical milestones for the project. Therefore, there is no reporting to the Year 2000 committee at the milestone level.

The University of Colorado should enhance their Year 2000 project to include the following procedures and to reduce the associated risks:

- **a comprehensive inventory**
- **a business-based, university-wide impact assessment**
- **business relationship monitoring**
- **detailed test plans**
- **contingency plans**
- **specific project budget**
- **milestone reporting**

By addressing each of the above points, the University will enhance their Year 2000 project and reduce the risk of failure or future legal issues.

University of Colorado Response:

The University concurs. The University recognizes the significance the Year 2000 may have on University operations. While Year 2000 work at the University has been on going, it will be enhanced over the next 12 to 15 months to strengthen its focus on business issues.

Control Development in the Administrative Streamlining Project Should Be Monitored

The University is in the process of replacing its legacy Financial Reporting System and numerous other financial applications with the Peoplesoft application. Peoplesoft is an integrated package consisting of numerous modules (e.g., general ledger, accounts payable, purchasing, payroll, human resources, etc.). The Peoplesoft implementation project and the related business process redesign are commonly referred to as the Administrative Streamlining Project. The business redesign phase has just been completed. Currently, the initial modules are scheduled to be implemented in July 1999.

Peoplesoft runs in a client server environment versus the University's current mainframe environment and is designed to meet the needs of a wide-variety of clients. In order to address the needs of these distinct environments, it is designed to be an open-system. Combining this architecture with the client server environment could lead to an environment with minimal internal control if the inherent weaknesses of an open-system are not properly addressed. Further, the controls over the new financial management system will be decentralized so that user maintained tables drive functionality within Peoplesoft. Previously, system functionality was maintained by UMS since it was programmatically built into the legacy system.

Proper utilization of security and process control features within the Peoplesoft system; the University processes; the client server package; and the database package strengthens internal control. It is more efficient and effective to implement security and process control features during the system implementation project than after its completion.

The Administrative Streamlining Project has been executed consistent with several best practices related to system implementation projects. The most significant example of an executed best practice is the process of incorporating business process re-design. Specifically, the University has reviewed its business processes and re-engineered many of them to ensure maximization of the functionality of Peoplesoft as well as the efficiency and effectiveness of operations.

Another best practice in the industry is an independent review of security and process control features during the system design and testing phase of a system implementation project. Individuals with control design knowledge and experience as well as independence from the process design team should perform the review. The system design and testing phase of the Administrative Streamlining Project has recently begun. Based on our conversations with the University's management responsible for overseeing the project and the internal audit department, it appears that an independent review of control features during the Administrative Streamlining Project is planned but has not been scheduled.

Therefore, we recommend the University ensure its plans for an independent review of security and process control features are scheduled during the implementation project. The objective of the review should be to ensure the control environment within the new Peoplesoft application is appropriately configured so that information technology and process controls are at least equal to the current controls associated with the University's legacy system. Overall, the review would reduce the risk of inadequate internal control upon project completion.

The University of Colorado should ensure execution of its plans for an independent review of control features during the Administrative Streamlining Project to ensure an adequate control environment within the new Peoplesoft application is appropriately configured.

University of Colorado Response:

The University concurs. The creation of an appropriate control environment is essential to ensure the University's new financial processes efficiently produce accurate, reliable information. The University intends to utilize an optimal mix of manual and automated process controls and security features of the PeopleSoft system to construct such an environment. The Internal Audit Director and ASP Interim Project Director are planning for the optimal timing and approach to an independent review of designed security and process control features. Much of the review will be conducted prior to placing the systems in production. This work is underway, is scheduled for completion by February 1999, and is part of the implementation.

A Security Assessment of the Network Environment Should Be Performed

UMS and the campuses are connected with each other through a wide-area network. This wide-area network is also the gateway for the University to access the Internet. Further, the campuses use the wide-area network to connect the majority of their information technology equipment.

To protect equipment and data on the wide-area network, firewalls should be utilized to restrict access to the University's environment through the Internet. With complex wide-area networks similar to that of the University, several strategically placed firewalls are needed to effectively restrict access.

In the prior year, given that UMS has an installed firewall, we recommended the campuses install firewalls to protect their network environments and the associated critical data. Health Sciences Center has implemented firewalls. The other campuses are panning on implementing firewalls or alternative controls during fiscal year 1999. These firewalls and/or alternative controls offer various degrees of restrictions.

However, during the current year audit, unauthorized users penetrated certain non-critical systems in Boulder's environment. Once an unauthorized user has obtained access to a system on a wide area network, any improperly secured information technology on the wide area network is vulnerable. Although Boulder detected the intrusion, there appears to be a risk that an unauthorized user might gain access to more critical University systems from a campus.

The University has not performed a university-wide assessment of its wide-area network to determine if the installed firewalls are sufficient to restrict access to critical systems via non-critical systems. Further, University management has not quantified its vulnerability to ensure that such an assessment is cost-beneficial. To adequately protect the University systems, management needs to minimize the vulnerability of its wide-area network to a defined acceptable level.

The University of Colorado should perform a university-wide assessment of its wide-area network security. As a result of that assessment, appropriate security enhancements should be made to minimize its vulnerability of unauthorized access via the Internet to a defined level.

University of Colorado Response:

The University concurs. The University concurs with the value of undertaking a university-wide assessment of the wide area network. As noted in the comment, work is underway to implement electronic security firewalls and alternative controls. UMS and Health Sciences Center have implemented firewalls. The other campuses are planning on implementing firewalls or alternative controls during this fiscal year. Knowing that certain critical systems are protected through existing firewalls, and given the need to address Year 2000 issues in the coming year, the University will initiate the assessment in February, 2000.

Summary Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 1997, included eleven recommendations. The disposition of these audit recommendations as of October 16, 1998, was as follows:

Implemented	7
Partially Implemented	4
Total	**11**

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1.	14	Enhance its Year 2000 project to include the following procedures: a comprehensive inventory; a business-based, university-wide impact assessment; business relationship monitoring; detailed test plans; contingency plans; specific project budget; and milestone reporting.	University of Colorado	Concurs.	December 1999
2	16	Ensure execution of its plans for an independent review of control features during the Administrative Streamlining Project.	University of Colorado	Concurs.	February 1999
3	18	Perform a university-wide assessment of its wide-area network security and, then, make appropriate security enhancements.	University of Colorado	Concurs.	December 1999
4	19	Modify policies and procedures related to password composition and trusted relationships within in the UNIX environment.	University of Colorado at Boulder	Concurs.	June 1999
5	20	Establish a formal process for monitoring compliance with restrictions on gifts received from the Foundation and appropriateness of the timing of department request for Foundation reimbursement of gift expenditures.	University of Colorado	Concurs.	April 1999
6	21	Implement procedures to calculate student financial aid refunds in accordance with both the institutional and federal refund policies in accordance with federal regulations.	University of Colorado at Boulder	Concurs.	October 1998

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
7	22	Should modify its compilation of athletic revenues and expenditures to include all sources of revenues and expenditures designated to athletics. Also, ensure the compilation is made available to the public.	University of Colorado at Colorado Springs	Concurs.	June 1999

Description of the University of Colorado

Organization

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 a central administration and the following four campuses:

Boulder	Colorado Springs
Denver	Health Sciences Center

The four campuses comprise 16 schools and colleges which offer more than 140 fields of study at the undergraduate level and 100 fields at the graduate level.

The vision of the University is to become the premier public learning university in the United States through the creation of a Total Learning Environment. To reach the vision, each campus and the system administration has developed long-term, strategic goals that will transform the University. The Total Learning Environment initiative was developed to anticipate and respond to the University's future. It encompasses four objectives that are intended to prepare the University's students, infrastructure, and entire community for the 21st century. The purpose of the Total Learning Environment initiative is to augment and enhance the best of the University's innovations in teaching, learning, research, management and planning, and to identify emerging and leading edge innovations in teaching and learning. The themes that define the Total Learning Environment include supporting innovation in learning, including undergraduate and graduate education; being more responsive to its students and other constituents; using technology to improve teaching, learning, and management; and enhancing the University's human, capital, financial, and organizational infrastructure.

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 six congressional districts and three elected from the State at large.

The president and chancellors of the University are appointed by the Board of Regents. The president is the chief academic and administrative officer of the University. The duties and responsibilities of the president include providing academic leadership to the University and being the chief spokesperson for and interpreter of the University's policies. The chancellors are the chief academic and administrative officers at the campus level. They are responsible for ensuring each campus complies with the policies of the Board of Regents and the president.

Description, Continued

An integral part of the educational process, including the graduate programs, at the University includes an ongoing involvement with research and service activities. The University sponsors numerous institutions, laboratories, bureaus, and centers involved in research and service activities. In addition, faculty members engage in research to advance knowledge in their fields and to train graduate students to practice and undertake independent study in various professions. Many of the programs also provide valuable direct services to the citizens, business and industry, governmental agencies of the State, and other governmental entities in the local area. The research and service activities are funded by state, federal, and private contracts and grants.

Enrollment, tuition, and faculty and staff information is presented below.

Full-Time-Equivalent (FTE) Student Enrollment			
Fiscal Year	**Resident**	**Nonresident**	**Total**
1997-1998	28,032.0	8,181.9	36,213.9
1996-1997	27,311.4	7,912.8	35,224.2
Source: Format 30 of the Budget Data Book for Fiscal Year 1999-2000.			

Full-Time Faculty and Staff			
Fiscal Year	**Resident**	**Nonresident**	**Total**
1997-1998	2,666.1	3,047.9	5,714.0
1996-1997	2,613.6	3,111.1	5,724.7
Source: Format 30 of the Budget Data Book for Fiscal Year 1999-2000.			

Findings and Recommendations

We have audited the consolidated financial statements of the University of Colorado (the University) for the year ended June 30, 1998, and have issued our report thereon dated October 16, 1998. In planning and performing our audit of the consolidated financial statements, we considered the University's internal control solely to determine our auditing procedures for the purpose of expressing our opinion on the consolidated 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 October 16, 1998 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. We have not considered internal control since October 16, 1998.

Our procedures were designed primarily to enable us to form an opinion on the consolidated financial statements and on management's assertion regarding compliance and the effectiveness of internal control over financial reporting, 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.

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 and are detailed in the following section.

Information Technology

The control environment related to the University's information systems encompasses University Management Systems (UMS), which is responsible for university-wide computing services, and the Information Technology departments at the four campuses, which are responsible for many different functions, including campus-specific systems. UMS manages some of the more significant computer systems of the University, including:

- Financial Reporting System
- Billing and Receivable Systems
- Student Information System
- Budget System
- Human Resources Management System

We assessed the adequacy of the control environment related to the University's information systems. Our assessment included consideration of the process for monitoring the Year 2000 issue, the controls over physical and logical access to information technology resources, change management controls over modifications made to critical programs, and overall management of information technology resources.

For each campus, UMS, and the University as a whole, we performed limited procedures to inquire about the status of the Year 2000 issue. Our procedures were not intended to and do not provide any assurance on whether any existing Year 2000 problems have been identified, on the adequacy of the University's remediation plans related to Year 2000 financial or operational problems, or on whether the University is or will become Year 2000 compliant.

The Year 2000 Monitoring Process Needs Further Enhancement

The impact of the Year 2000 issue is one of the most significant exposures facing the University in this century due to the magnitude of the problem, its far-reaching effects and its immovable deadline. Activities to mitigate the impact of the Year 2000 issue are some of the University's most significant undertakings in this century. Thus, it is imperative the University has a well-designed process for assessing, remediating and monitoring the University-wide Year 2000 issues. Further, the process should ensure all areas of risk, both information technology and business risks, associated with the Year 2000 issue are addressed by the plan.

To monitor the Year 2000 issue, the University has established Year 2000 committees for each campus and UMS, which have individual Year 2000 assessment and remediation plans with various degrees of completeness. The assessment and remediation plan of UMS is the most extensive in the University in terms of content and progress against the plan. Recently, a Year 2000 committee to monitor the activities of the University as a whole was established by the President. This committee, which includes representation from each campus and UMS, reports regularly to the University's senior administrative group and is in the process of compiling a University-wide Year 2000 assessment and remediation plan.

Since all organizations are faced with this issue, the industry has developed best practices related to the Year 2000 monitoring process which an organization can measure itself against. According to these best practices, management should develop an enterprise-wide, business-based effort sponsored by the most senior members of management. Then, the organization should compile a comprehensive, detailed inventory of systems and applications, both custom and purchased, and system software and operating systems for each computing platform being utilized. For the identified items, there should be an assessment of the impact to the organziation of potential failures of these systems and applications, which details the priority of each item and the time horizon to the Year 2000. This assessment should consider the impact of all significant business relationships as well as current and potential legal issues. Using this assessment, an overall Year 2000 transformation strategy should be developed in sufficient detail to address all major related issues. The strategy should include critical milestones, testing plans and quality assurance. Further, contingency plans should be developed and tested for all mission critical systems in the event that Year 2000 compliance requirements are not met.

Best practices also include management's allocation of appropriate financial resources to the Year 2000 project that are separate from the information technology operating budget to ensure resources are available and expended on critical business systems or to ensure the remediation process can be supported. The Year 2000 budget should be developed by senior information technology officers, senior business managers, legal counsel, external vendor contacts, etc. In addition, there should be monthly reporting on critical milestones, at a minimum, to the Year 2000 oversight body. The reporting mechanism should include appropriate processes and controls which, at multiple levels of detail, track progress against the baseline plan and compare actual results to budgeted project timelines and costs.

When comparing the University's current monitoring process against these best practices, we noted some areas which should be enhanced to reduce the risk of Year 2000 project failures. Although the University's process is an enterprise-wide effort sponsored by the most senior members of management, the process does not appear to be focused on the vital functions of the university (e.g., students, research) in addition to the information systems aspects. The University's inventory process does not appear to include all non-traditional platforms (e.g., embedded chips), specifically those for which the information technology departments are not responsible. To ensure that all impacted systems are considered, the project should include all platforms in all mission-critical departments of the University. However, an assessment of mission-critical patforms has not been completed. For each of the identified systems, there should be detailed remediation and subsequent testing plans or contingency plans for those systems which cannot be adequately or timely remediated.

In addition, strategic business alliances, such as the University Hospital, the State of Colorado or the U.S. Department of Education have not been fully addressed. The University should have a full understanding of the Year 2000 project status of these entities and how failures might impact their interaction with the University. Contingency plans, which could be implemented in the event of a failure by non-University entities, should be developed to enable the University to be responsive to its constituents' needs. Further, the University has not developed a separate Year 2000 budget or established critical milestones for the project. Therefore, there is no reporting to the Year 2000 committee at the milestone level.

Recommendation No. 1:

The University of Colorado should enhance their Year 2000 project to include the following procedures and to reduce the associated risks:

- a comprehensive inventory
- a business-based, university-wide impact assessment
- business relationship monitoring
- detailed test plans
- contingency plans
- specific project budget
- milestone reporting

By addressing each of the above points, the University will enhance their Year 2000 project and reduce the risk of failure or future legal issues.

University of Colorado Response:

The University concurs. The University recognizes the significance the Year 2000 may have on University operations. While Year 2000 work at the University has been on going, it will be enhanced over the next 12 to 15 months to strengthen its focus on business issues. Additional details are provided below.

Each campus and UMS have project teams in place to address the Year 2000 issue, each led by a Year 2000 coordinator. In addition, campus departmental liaisons who are involved in the day-to-day business operations of the University have been appointed and are being trained to take responsibility for identifying and remediating Year 2000 problems in their departments, and communicating their efforts with the project team. While on going communication occurs between campuses regarding their Year 2000 activities and results, each project team is responsible for developing a Year 2000 plan, approved by the respective chancellor. At the Presidential level, review of the plans and progress made will continue, to assure management, the Board and various public constituencies that the University will not be significantly impacted by Year 2000.

In July 1998, the President requested from each of the chancellors an updated plan for resolving Year 2000 issues on their campuses. At the President's direction, each campus plan and that of UMS includes an inventory component. The first drafts of these plans tended to focus on the computer hardware and software, including both system software and application systems. Some campus plans addressed embedded processors more fully than others. The plans are currently being expanded to include consideration of embedded processors and their Year 2000 effect on University operations. This necessitates an enhanced assessment of Year 2000 potential problems, and thus more contact with campus liaisons, as well as with equipment vendors, property managers, and service providers, to obtain written statements of compliance for the systems they provide. The enhanced inventory of critical systems and processes impacted by Year 2000 will be completed by January 1, 1999, for review by the System Office.

As critical processes are identified and examined, they will be prioritized to ensure Year 2000 problems posing the greatest exposure and risk are identified and addressed in a timely fashion. To determine exposure and risk, campus teams, departmental liaisons, and system users will consider the magnitude of the problem that could occur in terms of cost due to business interruption, the date on which the problem is expected to occur, and the availability, complexity and cost of any workarounds that may be possible. All dependencies for critical processes, including product and service vendors, and any interfaces with other systems, will be considered. Departmental liaisons are responsible for identifying critical processes and systems, and their related dependencies, quantifying the impact of Year 2000, and providing this information to their campus project team. The campus project team and department liaisons will work together to prioritize issues and coordinate obtaining assurances of business continuity.

With regard to contingency plans, department liaisons are responsible for contacting vendors with whom their systems interface to determine the impact of Year 2000 on the delivery of goods and services by those vendors, and for considering contingency plans to be implemented in the event there is a failure beyond the control of the University that will significantly impact the University. For critical processes, contingency plans will be provided to campus project teams and the chancellors for review and approval. Campus contingency plans will be provided to the System Office for review by April 1, 1999.

Campus and System Office test plans are an important part of the Year 2000 effort. Detailed test plans for the University-wide systems are in place. Campus project teams will assist departmental liaisons in understanding how to develop test plans (and environments, if appropriate) for their significant processes, and how to execute those plans to ensure compliance. Milestones for testing activities on critical processes and systems will be established and incorporated in the campus Year 2000 plans by April 1, 1999.

The University agrees funding is critical to the successful completion of the Year 2000 task. As called for by the President, each campus will review their completed plans to determine the budget necessary to implement them. The primary budget responsibility resides with the campuses. Exceptional resource needs beyond the capacity of campus budgets will be submitted to the President's office by April 1, 1999.

Each campus Year 2000 plan contains a timeline of activity toward the completion of the project. As these plans are updated, more concrete milestones will be developed, with reporting procedures to indicate (1) where the campus stands with respect to their milestones, and (2) what actions need to be taken if a milestone is missed. Technical assistance and monitoring tools will be provided to the campuses. The System Office will monitor the plans and provide timely communication with the Board of Regents and key public constituencies.

Control Development in the Administrative Streamlining Project Should Be Monitored

The University is in the process of replacing its legacy Financial Reporting System and numerous other financial applications with the Peoplesoft application. Peoplesoft is an integrated package consisting of numerous modules (e.g., general ledger, accounts payable, purchasing, payroll, human resources, etc.). This Peoplesoft implementation project and the related business process redesign are commonly referred to as the Administrative Streamlining Project. The business redesign phase has just been completed. Currently, the initial modules are scheduled to be implemented in July 1999.

Peoplesoft runs in a client server environment versus the University's current mainframe environment and is designed to meet the needs of a wide-variety of clients. In order to address the needs of these distinct environments, it is designed to be an open-system. Combining this architecture with the client server environment could lead to an environment with minimal internal control if the inherent weaknesses of an open-system are not properly addressed. Further, the controls over the new financial management system will be decentralized so that user maintained tables drive functionality within Peoplesoft. Previously, system functionality was maintained by UMS since it was programmatically built into the legacy system.

Proper utilization of security and process control features within the Peoplesoft system; the University processes; the client server package; and the database package strengthens internal control. It is more efficient and effective to implement security and process control features during the system implementation project than after its completion.

The Administrative Streamlining Project has been executed consistent with several best practices related to system implementation projects. The most significant example of an executed best practice is the process of incorporating business process re-design. Specifically, the University has reviewed its business processes and re-engineered many of them to ensure maximization of the functionality of Peoplesoft as well as the efficiency and effectiveness of operations.

Another best practice in the industry is an independent review of security and process control features during the system design and testing phase of a system implementation project. Individuals with control design knowledge and experience as well as independence from the process design team should perform the review. The system design and testing phase of the Administrative Streamlining Project has recently begun. Based on our conversations with the University's management responsible for overseeing the project and the internal audit department, it appears that an independent review of control features during the Administrative Streamlining Project is planned but has not been scheduled.

Therefore, we recommend the University ensure its plans for an independent review of security and process control features are scheduled during the implementation project. The objective of the review should be to ensure the control environment within the new Peoplesoft application is appropriately configured so that information technology and process controls are at least equal to the current controls associated with the University's legacy system. Overall, the review would reduce the risk of inadequate internal control upon project completion.

Recommendation No. 2:

The University of Colorado should ensure execution of its plans for an independent review of security and process control features during the Administrative Streamlining Project to ensure an adequate control environment within the new Peoplesoft application is appropriately configured.

University of Colorado Response:

The University concurs. The creation of an appropriate control environment is essential to ensure the University's new financial processes efficiently produce accurate, reliable information. The University intends to utilize an optimal mix of manual and automated process controls and security features of the PeopleSoft system to construct such an environment. The Internal Audit Director and ASP Interim Project Director are planning for the optimal timing and approach to an independent review of designed security and process control features. Much of the review will be conducted prior to placing the systems in production. This work is underway, is scheduled for completion by February 1999, and is part of the implementation.

A Security Assessment of the Network Environment Should Be Performed

UMS and the campuses are connected with each other through a wide-area network. This wide-area network is also the gateway for the University to access the Internet. Further, the campuses use the wide-area network to connect the majority of their information technology equipment.

To protect equipment and data on the wide-area network, firewalls should be utilized to restrict access to the University's environment through the Internet. With complex wide-area networks similar to that of the University, several strategically placed firewalls are needed to effectively restrict access.

In the prior year, given that UMS has an installed firewall, we recommended the campuses install firewalls to protect their network environments and the associated critical data. The Health Sciences Center has implemented firewalls. The other campuses are planning on implementing firewalls or alternative controls during fiscal year 1999. These firewalls and/or alternative controls offer various degrees of restrictions.

However, during the current year audit, unauthorized users penetrated certain non-critical systems in Boulder's environment. Once an unauthorized user has obtained access to a system on a wide area network, any improperly secured information technology on the wide area network is vulnerable. Although Boulder detected the intrusion, there appears to be a risk that an unauthorized user might gain access to more critical University systems from a campus.

The University has not performed a university-wide assessment of its wide-area network to determine if the installed firewalls are sufficient to restrict access to critical systems via non-critical systems. Further, University management has not quantified its vulnerability to ensure that such an assessment is cost-beneficial. To adequately protect University systems, management needs to minimize the vulnerability of its wide-area network to a defined acceptable level.

Recommendation No. 3:

The University of Colorado should perform a university-wide assessment of its wide-area network security. As a result of that assessment, appropriate security enhancements should be made to minimize its vulnerability of unauthorized access via the Internet to a defined level.

University of Colorado Response:

The University concurs. The University concurs with the value of undertaking a university-wide assessment of the wide area network. As noted in the comment, work is underway to implement electronic security firewalls and alternative controls. UMS and Health Sciences Center have implemented firewalls. The other campuses are planning on implementing firewalls or alternative controls during this fiscal year. Knowing that certain critical systems are protected through existing firewalls, and given the need to address Year 2000 issues in the coming year, the University will initiate the assessment in February, 2000.

Security Over Boulder's Information Technology Environment Should Be Strengthened

Boulder has developed several in-house systems to gather data before it is transmitted to the UMS mainframe. Examples are the Acquisition Card maintenance, Payroll, and Viking data-entry systems. Boulder has the most complex and greatest number of administrative systems of all the University's campuses. The Administrative Systems Group maintains these systems, which are all based on a UNIX operating platform.

We evaluated the logical security environment for the UNIX operating platform. To strengthen the associated environment, Boulder should modify its policies and procedures related to the following three features of the UNIX platform.

First, the password formatting and composition feature of the operating system are not currently used. This feature controls the minimum password length, password history, and password expiration of a user's password. If this feature is not used, a user's password could have a length of zero, which is basically no assigned password. Passwords are the first line of defense against improper access to the system. If passwords are not used to their fullest extent, an unauthorized user could gain access to the system and disrupt operations or data. Industry standards prescribe passwords with a minimum length of six characters, an expiration every 60-90 days, as well as restricted use of similar characters in subsequent passwords. To reduce the risk of unauthorized access, Boulder should use the password formatting and composition feature of the operating system consistent with industry standards.

Second, we found a large number of users with assigned passwords that could be easily guessed. Boulder should actively monitor passwords and notify users not in compliance with University policy regarding the construction and use of passwords.

Third, we found UNIX files which create trusted relationships between different machines at Boulder. If trusted relationships exist, users do not need to re-authenticate themselves to the remote machines. A knowledgable user could use these trusted relationships to gain unauthorized access to another system. Currently, no formal policy exists to discourage users from creating these files and to restrict the type of user with the ability to create these files. Boulder should implement policies and procures to limit the use of trusted relationships to a valid operational reason and not for the convenience of the user.

Recommendation No. 4:

The University of Colorado at Boulder should modify its policies and procedures related to password composition and trusted relationships to ensure a more secure UNIX environment.

University of Colorado at Boulder Response:

The University of Colorado at Boulder concurs. Information technology security is of utmost concern to the campus. The campus has recently created and is filling a security position, which will be responsible for increasing security for both Boulder Information Technology Services' (ITS) and distributed machines.

In response to the first two audit comments, ITS will extend password checking procedures to UNIX systems by March 31, 1999. In response to the third audit comment, ITS will research the issues associated with the remote login capabilities by December 31, 1998. By June 30, 1999, ITS will install appropriate security around the capability, either by reengineering or replacement

Monitoring and Application of Gifts and Contracts from the Foundation Should Be Enhanced

The University of Colorado Foundation, Inc. (the Foundation) was established in 1967 as a separate non profit corporation to solicit, collect and invest donations for the University. All new gifts and grants, except for contracts from private sources, must be initially deposited with the Foundation via campus development offices. Gifts and grants must remain on deposit at the Foundation until needed to pre-fund imminent expenditures through University accounts in accordance with the donor's restrictions. During fiscal year 1998, the Foundation distributed approximately $32 million to the University. Since these funds remain in the University's treasury only temporarily and do not add significantly to the investment base, transferred funds will not earn interest from the University Treasury. In addition, if gift funds are unnecessarily transferred to the University Treasury, without any immediate need for expenditure, the projected interest earnings from the Foundation will decline. While the University's central accounting office provides the Foundation with a report detailing total revenues, expenditures and fund balance by account, it is the responsibility of the University to ensure monies are requested timely. The timing should be a delayed request so that Foundation earnings are maximized, but not so late that general resources are borrowed from the University.

The Foundation, upon receipt of the gift or grant, establishes limitations on the use of the funds in compliance with the donor's requirements. By establishing these limitations, the Foundation restricts the use of the funds by the University, even if the restriction is only that a specified department, school, etc. may use the funds. The Foundation, when transmitting the funds to the University upon its request, notifies the University of the specific restrictions. It is the University's responsibility to comply with these restrictions when expending the funds.

However, the University does not have a formal process in place to monitor compliance with gift restrictions. Thus, there is a risk that funds may be expended contrary to donor restrictions. Each campus department is responsible for maintaining records that support expenditures and a general ledger summary of revenues and expenditures for each restricted account is available to the Foundation. To minimize this risk, the University should establish a formal monthly review process of transferred gift funds and supporting expenditures. This process should utilize the general ledger accounts established by the University. The University should assign appropriate responsibility at each campus to review monthly the restricted accounts. This responsibility should include monitoring of revenues and expenditures in the accounts as well as transfers made. Transfers should be monitored to ensure the transfer of funds does not violate donor restrictions. For significant transfers with complex donor restrictions, the University should also periodically examine supporting documentation at the department to ensure that all gifts were expended in accordance with donor restrictions.

In addition, we noted instances where monies were not timely requested from the Foundation to fund expenditures. Specifically, one department at Boulder incurred a deficit prior to requesting gift monies. Also, the Athletic Department at Colorado Springs did not request monies from the Foundation in a timely manner. Thus, these departments borrowed general resources of the University for the period between incurring the expenditures and receiving the gift transfer. To maximize the earnings realized by the University, the length and quantity of these borrowings should be minimized. The review process described above should be used to monitor the cash position of the gift activities. The review could identify departments that are not timely requesting gift transfers.

Recommendation No. 5:

The University of Colorado should establish a formal process for monitoring compliance with restrictions on gifts received from the Foundation and appropriateness of the timing of departmental requests for Foundation reimbursements of gift expenditures.

University of Colorado Response:

The University concurs. Demonstrating respect for the wishes of University benefactors is essential to increasing donor confidence and creating opportunities for further contributions. Given the magnitude of the University's annual gift expenditures, careful consideration needs to be given to determining how to cost effectively monitor compliance with donor intent and the timing of requests for funding. Over the next six months, an ad hoc committee will be convened to address both of these issues, led by the University Treasurer and involving the participation of the campus controllers and representatives from the Foundation and campus departments. The committee will: 1) gain an understanding as to the magnitude and nature of restricted gifts, 2) understand the current processes involved in monitoring compliance with gift restrictions and the timing of the draws from the Foundation, 3) assess whether there is significant risk of noncompliance with donor restrictions and lack of timeliness of draws on Foundation funds, and 4) devise solutions to mitigate any such risk. Implementation date is April 1999.

Procedures to Calculate Student Financial Aid Refunds at Boulder Should Be Followed and Monitored

The *Federal Student Financial Aid Handbook* (Code of Federal Regulations Title 34, Chapter IV, Section 668.22) states that every school participating in the federal student financial aid program must have a fair and equitable refund policy. Further, the school must compare the federal refund policy refund (which is set forth in the Handbook) with the refund amount under its own institutional refund policy. Then, the school must offer the larger amount calculated by either of these to students who receive Title IV aid and are not first-time students.

Currently, the Student Financial Aid department at the Boulder campus is only performing a calculation under their institutional policy and not under the federal policy as required by federal regulations. Thus, Boulder needs to ensure procedures, that include a calculation in accordance with the federal refund policy, are followed and monitored to ensure compliance with federal regulations and minimize the related exposures for noncompliance.

Recommendation No. 6:

The University of Colorado should ensure procedures to calculate student financial aid refunds in accordance with both the institutional and federal refund policies in accordance with federal regulations are followed and monitored.

University of Colorado at Boulder Response:

The University of Colorado at Boulder concurs. The Boulder Bursar's Office has completed a refund calculation for continuing students under the federal refund policy for Fiscal Year 1998. Under that calculation, an additional $1,737 in refund amounts were due to the federal government. To ensure the federal refund policy is considered in the future, the Bursar's Office has revised its refund worksheets to include the federal calculation for all continuing students. Implementation is October 1998.

The Compilation of Athletic Revenues and Expenses by the Colorado Springs Campus Should Be Refined

The Higher Education Act (Code of Federal Regulations Title 34, Chapter IV, Section 668.48) governs an institution's eligibility for Title IV Student Financial Aid funding. Further, the Act requires institutions offering athletically related student aid to annually compile the revenues derived and expenses incurred by the institution for the institution's intercollegiate athletics activities. The compilation should be completed within six months after the end of the institution's fiscal year and made available to the public, where allowable by State law.

The regulations define the revenues and expenses to be included in the compilation as well as the level of detail to be presented. The required revenues and expenses include both those flowing directly through the athletic department as well as those handled by other departments for the benefit of the athletic department. The compilation by Colorado Springs included revenues and expenses directly associated with the athletic department. However, the compilation did not include indirect items, such as gifts and other revenues earned by the athletic department and expenses made out of other accounts on behalf of the athletic department.

In order to provide a complete representation of the athletic department in accordance with federal regulations, Colorado Springs should modify its compilation of revenues and expenses of its intercollegiate athletics activities. The compilation should include all sources of revenues and expenses defined in the regulations.

Recommendation No. 7:

The University of Colorado at Colorado Springs should modify its compilation of athletic revenues and expenses to include all sources of revenues and expenses designated for athletics.

University of Colorado at Colorado Springs Response:

The University of Colorado at Colorado Springs. As required by CFR Title 34, Chapter IV, Section 668.48, total athletic related revenues and expenses for the Colorado Springs Campus will be reported by including data from all fund groups, as well as capturing indirect items. Implementation is June 30, 1999.

Disposition of Prior Audit Findings Recommendations

Following are the audit recommendations made by KPMG included in our report to the Legislative Audit Committee for the year ended June 30, 1997, and their disposition at October 16, 1998.

Recommendation	Disposition
1. The University should design a comprehensive plan for each campus to monitor the ACARD program and create a user group to facilitate the program.	Implemented.
2. The University of Colorado at Boulder and Health Sciences Center should improve procedures to ensure subrecipient reports are received in a timely manner.	Implemented.
3. The University should evaluate its review of affiliated organizations to determine their intended relationship under GASB Statement No. 14, *The Financial Reporting Entity*, is reflected in existing and future operating agreements.	Implemented.
4. The University of Colorado should review its procedures for estimating its compensated absences liability to ensure the methodology is reasonable and efficient as well as consistent amongst the campuses.	Partially implemented. The University will consider further automation of the estimation and leave tracking processes for all employees as part of the Administrative Streamlining Project. Implementation is planned to occur by Fiscal Year 2000.
5. The University of Colorado at Boulder should restrict programming staff from migrating programs from the test environment to the production environment.	Implemented.

Disposition of Prior Audit Findings and Recommendations, Continued

Recommendation	Disposition
6. The University of Colorado Denver should ensure all licensing fees for the shareware products in use are paid in a timely fashion or evaluate other freeware software options.	Implemented.
7. The University of Colorado should develop and test a comprehensive disaster recovery plan specific to each campus.	Partially implemented. The Boulder, Health Sciences Center and Denver campuses will complete testing by June 30, 1999. The Colorado Springs campuses is in the process of reviewing its plan prior to testing.
8. The University of Colorado should assess the risk of the Year 2000 and designate a central coordinator to disseminate information and to track the campuses' Year 2000 initiatives.	Partially implemented. See related Recommendation No. 1 in the current year report.
9. The University of Colorado at Denver, Colorado Springs and Health Sciences Center should perform assessment surveys of network security needs and implement the most appropriate type of network security solution to meet their needs.	Partially implemented. See related Recommendation No. 3 in the current year report.
10. The University of Colorado Health Sciences Center should administer Local Area Network servers centrally at the campus and develop standards for this administration.	Implemented.
11. The University of Colorado Health Sciences Center should state the maximum award for the Undergraduate Merit program in the campus' Institutional Plan, as well as include the disclosure in publications available to students.	Implemented.

KPMG Peat Marwick LLP

707 Seventeenth Street
Suite 2300
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying consolidated balance sheet of the University of Colorado (the University), a component unit of the State of Colorado, as of June 30, 1998, and the related consolidated statements of changes in fund balances and current funds expenditures for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 1998, and the changes in its fund balances and current funds expenditures for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the University has adopted the provisions of Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, effective July 1, 1997.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 1998 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

KPMG Peat Marwick LLP

October 16, 1998

Consolidated Balance Sheet

June 30, 1998 (in thousands)

	Current Funds		
	Unrestricted	Restricted	Student Loan Funds
ASSETS			
Cash and cash equivalents	$ 573	$ 169	$ -
Investments	187,784	38,349	3,395
Accounts receivable (less allowance for doubtful receivables of $ 18,023 in 1998 and $ 17,803 in 1997)	30,196	33,906	65
Inventories	7,091	-	-
Other assets	6,986	186	-
Notes and loans receivable (less allowance for doubtful receivables of $ 3,375 in 1998 and $ 3,187 in 1997)	-	-	32,420
Construction in progress	-	-	-
Fixed assets:			
Land and improvements	-	-	-
Buildings	-	-	-
Equipment	-	-	-
Due from other funds	1,024	1,145	-
Total Assets	$ 233,654	$ 73,755	$ 35,880
LIABILITIES			
Accounts payable and accrued expenses	$ 44,426	$ 22,063	$ 10
Accrued compensated absences	38,233	168	-
Unearned revenue	39,481	3,441	-
Note payable	-	-	-
Lease purchases payable	-	-	-
Revenue bonds payable	-	-	-
Risk financing related liabilities	33,579	-	-
Other liabilities	11,282	1,537	-
Due to other funds	4,045	1,950	-
Total liabilities	171,046	29,159	10
FUND BALANCES			
Unfunded compensated absences	(38,233)	(168)	-
Restricted or internally designated	100,841	44,764	35,870
Net investment in plant	-	-	-
Total fund balances	62,608	44,596	35,870
Total Liabilities and Fund Balances	$ 233,654	$ 73,755	$ 35,880

The accompanying summary of accounting policies and notes are an integral part of this statement.

Endowment and Similar Funds	Plant Funds: Unexpended	Plant Funds: Retirement of Indebtedness	Plant Funds: Investment in Plant	Totals (Memorandum Only): 1998	Totals (Memorandum Only): 1997
$ -	$ 16	$ -	$ -	$ 758	$ 461
49,646	124,355	10,794	-	414,323	374,004
8	130	71	-	64,376	60,640
-	-	-	-	7,091	7,140
-	628	5	-	7,805	7,527
-	-	-	-	32,420	31,478
-	31,310	-	-	31,310	46,375
4,135	-	-	74,502	78,637	65,016
-	-	-	644,519	644,519	589,984
-	-	-	338,380	338,380	342,448
-	7,638	133	-	9,940	6,799
$ 53,789	$ 164,077	$ 11,003	$ 1,057,401	$ 1,629,559	$ 1,531,872
$ -	$ 4,722	$ 778	$ -	$ 71,999	$ 65,571
-	-	-	-	38,401	31,384
-	-	-	-	42,922	40,741
-	-	-	415	415	443
-	21,810	-	49,068	70,878	61,127
-	700	-	113,015	113,715	118,945
-	-	-	-	33,579	32,705
-	86	190	-	13,095	14,722
1,730	-	-	2,215	9,940	6,799
1,730	27,318	968	164,713	394,944	372,437
-	-	-	-	(38,401)	(31,384)
52,059	136,759	10,035	-	380,328	371,090
-	-	-	892,688	892,688	819,729
52,059	136,759	10,035	892,688	1,234,615	1,159,435
$ 53,789	$ 164,077	$ 11,003	$ 1,057,401	$ 1,629,559	$ 1,531,872

Consolidated Statement of Changes in Fund Balances

Year ended June 30, 1998 (in thousands)

	Current Funds		
	Unrestricted	Restricted	Student Loan Funds
REVENUES AND OTHER ADDITIONS			
State of Colorado appropriations:			
Current operations	$ 179,899	$ 11,894	$ -
Health care fiscal oversight	1,321	-	-
Student tuition and fees	251,457	-	-
Investment and interest income	18,528	5,334	957
Federal grants, contracts and advances	-	397,378	480
State and local grants and contracts	-	17,167	-
Private and other gifts, grants and contracts	-	77,350	3
Sales and services of educational departments	56,983	-	-
Additions to plant facilities (including current funds expenditures)	-	-	-
Retirement of indebtedness	-	-	-
Gain (loss) on debt extinguishment	-	-	-
Auxiliary operating revenues	97,485	-	-
Hospitals and clinics	13,464	-	-
Other sources:			
Indirect cost reimbursement	63,005	-	-
Denver AHEC library funding	3,923	-	-
Other additions	34,279	250	200
Total Revenue and Other Additions	720,344	509,373	1,640
EXPENDITURES AND OTHER DEDUCTIONS			
Educational and general	556,756	440,693	-
Auxiliary operating expenditures	87,853	2,950	-
Hospitals and clinics	20,356	13	-
Health care fiscal oversight	1,321	-	-
Loan cancellations and administrative/collection costs	-	-	359
Expended for plant facilities	-	-	-
Retirement of indebtedness	-	-	-
Interest on indebtedness	-	-	-
Disposal of plant facilities	-	-	-
Other expenditures and deductions:			
Indirect costs	-	62,872	133
Capitalization of asset/debt	-	-	-
Other deductions	-	-	75
Total Expenditures and Other Deductions	666,286	506,528	567
TRANSFERS BETWEEN FUNDS–(additions) deductions			
Mandatory transfers:			
Education and General			
Principal and interest	1,769	78	-
Matching funds/other	95	171	(266)
Auxiliary enterprises			
Principal and interest	20,451	-	-
Renewals and replacements	268	-	-
Matching funds/other	12	(12)	-
Total mandatory transfers	22,595	237	(266)
Voluntary transfers	32,576	3,951	(138)
TOTAL EXPENDITURES, OTHER DEDUCTIONS AND TRANSFERS	721,457	510,716	163
Net increase (decrease)–fund balances	(1,113)	(1,343)	1,477
Fund Balances–beginning of year, as previously reported	63,773	44,975	34,411
Restatement adjustments	(52)	964	(18)
Fund Balances–beginning of year, as restated	63,721	45,939	34,393
Fund Balances–end of year	$ 62,608	$ 44,596	$ 35,870

The accompanying summary of accounting policies and notes are an integral part of this statement.

	Plant Funds		
Endowment and Similar Funds	Unexpended	Retirement of Indebtedness	Investment in Plant
$ 15	$ 18,565	$ -	$ -
-	-	-	-
-	-	-	-
5,974	8,721	1,655	-
-	1,278	-	-
-	22	-	-
567	3,182	-	3,341
-	-	-	-
-	-	-	101,570
-	2,718	-	14,677
-	-	-	(290)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
550	8,842	-	-
7,106	43,328	1,655	119,298
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	79,374	-	-
-	-	17,395	-
-	33	9,277	-
-	-	-	44,498
-	-	-	-
-	-	-	1,831
1,177	424	164	10
1,177	79,831	26,836	46,339
-	3,382	(5,229)	-
-	-	-	-
-	-	(20,451)	-
-	(268)	-	-
-	-	-	-
-	3,114	(25,680)	-
(145)	(37,216)	972	-
1,032	45,729	2,128	46,339
6,074	(2,401)	(473)	72,959
36,154	139,746	10,204	819,729
9,831	(586)	304	-
45,985	139,160	10,508	819,729
$ 52,059	$ 136,759	$ 10,035	$ 892,688

Consolidated Statement of Current Funds Expenditures

Years ended June 30, 1998 and 1997 (in thousands)

	1998			1997
	Unrestricted Funds	Restricted Funds	Total	Total
EXPENDITURES				
Educational and general				
Instruction	$ 282,778	$ 52,856	$ 335,634	$ 313,440
Research	17,471	233,473	250,944	214,165
Public service	17,519	22,057	39,576	34,726
Academic support	68,885	3,902	72,787	71,690
Student services	42,119	2,373	44,492	41,881
Institutional support	73,308	3,269	76,577	65,232
Operation of plant	42,450	70	42,520	39,296
Scholarships and fellowships	12,226	122,693	134,919	127,267
Auxiliary operating expenditures	87,853	2,950	90,803	88,366
Hospitals and clinics	20,356	13	20,369	20,005
Health care fiscal oversight	1,321	-	1,321	1,251
Total Expenditures	$ 666,286	$ 443,656	$ 1,109,942	$ 1,017,319

The accompanying summary of accounting policies and notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year ended June 30, 1998

1. Basis of Presentation & Summary of Significant Accounting Policies

GOVERNANCE

The University of Colorado (University) is governed by the University of Colorado Board of Regents (Regents). The Regents are elected by popular vote in the State's general elections and serve staggered terms of six years. Six of the Regents are elected by qualified electors in the State of Colorado's six congressional districts and three Regents are elected on an at-large basis.

BASIS OF PRESENTATION AND FINANCIAL REPORTING ENTITY

In accordance with Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity (GASB No. 14), the financial reporting entity of the University of Colorado includes the consolidated operations of the system offices, the campuses of the University and all related entities for which the University is financially accountable. As defined in GASB No. 14, 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, or its ability to access assets or its responsibility for debts of the related organization.

Accordingly, the accompanying consolidated financial statements contain the operations of the system offices and the following four campuses. All significant intercampus accounts and transactions have been eliminated in the consolidation.

- University of Colorado at Boulder (UCB)
- University of Colorado at Denver (UCD)
- University of Colorado at Colorado Springs (UCCS)
- University of Colorado Health Sciences Center (UCHSC)

In addition, the accompanying consolidated financial statements contain the financial position and results of operations of the following related entities for which the University is financially accountable:

- University of Colorado Insurance Pool (UCIP)
- The University Improvement Corporation (TUIC)
- University Technology Corporation (UTC)
- Buffalo Power Corporation
- University of Colorado Finance Corporation

University of Colorado Insurance Pool (UCIP), a public entity insurance pool operated for the benefit of the University and the University of Colorado Hospital Authority (Note 17), insures property, liability, and workers' compensation risks. UCIP operates under the regulatory authority of the Colorado Division of Insurance which requires an annual actuarial opinion and certification of reserve adequacy. After September 30, 1996, the University utilized a protected self-insurance program. The University assumes losses up to certain limits and purchases excess insurance for losses over those limits. 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.

The University Improvement Corporation (TUIC) was established in 1976 as a separate corporation to manage 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. Detailed financial information may be obtained directly from TUIC.

The University Technology Corporation (UTC) was established in 1992 as a separate corporation to further the transfer of newly created technologies from the University of Colorado to the private sector. Detailed financial information may be obtained directly from UTC.

Buffalo Power Corporation is a Colorado nonprofit corporation organized to facilitate the construction and financing of a cogeneration plant project. The project is designed to supply all of UCB's steam and electric power requirements for the next 40 years. Excess electricity produced by the project is sold to the Public Service Company of Colorado, Inc., an investor-owned utility. Buffalo Power Corporation's directors are appointed by the Board of Regents.

The University of Colorado Finance Corporation is a Colorado nonprofit corporation organized in 1998 to facilitate the acquisition of personal and real property for the University of Colorado. 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.

For financial reporting purposes, the University is considered to be a component unit of the State of Colorado.

TAX EXEMPT STATUS

The University is excluded from federal income taxes under Section 115 of the Internal Revenue Code.

RECLASSIFICATIONS AND RESTATEMENTS

Certain prior years' amounts have been reclassified to conform to the current year's presentation. In addition, the University now reports its investments at fair value whereas in all prior years these investments were reported at cost. This new method of accounting for investments was adopted to conform to the provisions in Governmental Accounting Standards Board Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools (GASB No. 31). Accordingly, the memorandum prior year column on the Consolidated Balance Sheet has been restated to retroactively apply the new method of accounting. The effect of this restatement at July 1, 1997 is an increase in both Investments and Fund Balances of $6,461,000. The prior year fund balance has also been restated to reflect an additional $3,982,000 of prior year realized gains on endowment funds held by the University of Colorado Foundation.

MEMORANDUM TOTALS

The total column on the Consolidated Balance Sheet is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present the financial position in conformity with the AICPA Industry Audit Guide for Colleges and Universities, as certain interfund borrowings have not been eliminated in the aggregation of this data.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 1998

BASIS OF ACCOUNTING

The financial statements have been prepared on the accrual basis of accounting and in accordance with the accounting guidance and reporting practices applicable to governmental colleges and universities as promulgated by Governmental Accounting Standards Board Statement No. 15, Governmental College and University Accounting and Financial Reporting Models (GASB No.15). The prescribed guidance and practices are outlined in the American Institute of Certified Public Accountants industry audit guide, *Audits of Colleges and Universities*, and the *Financial Accounting and Reporting Manual* published by the National Association of College and University Business Officers.

In compliance with the aforementioned literature, the Consolidated Statement of Current Funds Expenditures presents financial activities of operating funds by function related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as with a statement of income or a statement of revenues and expenses. To the extent that current operating funds are used to finance plant assets, amounts so provided are accounted for as: (1) expenditures, in the case of normal acquisition and/or replacement of movable equipment and library books, (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement, and (3) voluntary transfers for all other cases.

The significant accounting policies of the University are as follows:

Investments are reported at fair value, which is determined primarily based on quoted market prices at June 30, 1998. Amortized costs (which approximate fair value) are used for money market investments. Certain endowment funds are managed by the University of Colorado Foundation, Inc. (Notes 14 and 15). These funds are pooled for investment purposes and then invested in Securities and Exchange Commission (SEC) registered mutual funds, or funds regulated by the Office of the Comptroller of the Currency. These assets are stated at the proportionate fair value of the pool. In addition, the University invests in SEC registered funds and in two pooled funds regulated by the Office of the Comptroller of the Currency. Fair value of the position in these pools is the same as the value of the pool shares.

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

Summer session revenues and related direct instructional expenditures are reported within the fiscal year in which the summer session ends. Accordingly, only the tuition and fee revenues and instructional expenditures of the 1997 summer session are included in the Consolidated Statement of Changes in Fund Balances and the Consolidated Statement of Current Funds Expenditures. Tuition and fee revenues and related direct instructional expenditures for the 1998 summer session are deferred and are reported as unearned revenue and other assets, respectively, at June 30, 1998.

Land and improvements, buildings, and equipment, including library books, are stated at cost at the date of acquisition or fair value at the date of donation. In conformity with generally accepted accounting principles for public colleges and universities, the University does not provide for depreciation on plant assets. The minimum dollar amount of assets that must be capitalized is $5,000. During fiscal year 1998, the UCHSC changed to this higher capitalization threshold. All other campuses changed to the higher threshold in fiscal year 1997. This change resulted in a write off of $32,136,000 which is classified with disposal of plant facilities in the Consolidated Statement of Changes in Fund Balances.

Interfund borrowings are recorded in each fund as due to/due from other funds. Interfund borrowings are authorized in advance by the Regents or administrative action, typically have identifiable repayment schedules, provide needed working capital or cash advances for special projects, and, where appropriate, are interest bearing.

Internal service units are accounted for in the unrestricted current fund. Revenues and expenses of self-funded internal service units are recorded in the appropriate accounts of the operating units. To accommodate external financial reporting of these units, the internal revenues are netted against expenses to avoid duplicate reporting of the expenses. Examples of activities accounted for as internal service units are telecommunication operations, cogeneration operations, service departments, and storerooms.

FUND ACCOUNTING

To ensure the observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with the activities or objectives specified for the resources. Separate accounts are maintained for each fund; however, in the accompanying consolidated financial statements, funds with similar characteristics have been combined. Accordingly, all financial transactions have been recorded and reported by fund group.

The different fund groups used by the University are as follows:

Current Funds—used primarily to account for transactions that are expended in performing the primary and support objectives of the University; i.e., instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships, and auxiliary activities. Current funds are segregated into separately balanced fund groups as follows:

Unrestricted Fund—used to account for transactions related to the University's state general fund appropriated budget as approved by the state legislature and the Regents and for transactions of auxiliary enterprises and substantially self-supporting activities. Auxiliary enterprises include, but are not limited to, student housing, food services, the bookstore, and intercollegiate athletics. Self-supporting activities primarily provide services for students, faculty, and staff and are funded by fees, unrestricted gifts, and other income designated for specific purposes by the Regents.

UCHSC operates the Colorado Psychiatric Hospital, of which the related revenues and expenditures are reflected as Hospitals and Clinics in the accompanying Consolidated Statements of Changes in Fund Balances and Current Funds Expenditures.

Restricted Fund—used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

Restricted current fund revenues, principally grants and contracts, recognized as the related expenditures are incurred, were $443,656,000 in fiscal year 1998.

UCB and UCHSC 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 Department of Education performs these functions.

Previously, the federal government provided financial assistance to students through guaranteed or subsidized loans administered through banks. This distribution of loans by the federal government was not included in the University's accounts except as student payments on account when loan proceeds were received. Under the Direct Loan Program, however, the distribution of loans to students is processed through the University's accounts as additions from the federal grants and as student financial aid deductions when disbursed to the students. The amount of UCB Direct Loans during the fiscal years 1998 and 1997 were $76,643,000 and $72,561,000 respectively. The amount of UCHSC Direct Loans during the fiscal years 1998 and 1997 were $19,006,000 and $18,271,000 respectively.

Student Loan Funds—financed primarily by the federal government; used to account for loans to students.

Endowment and Similar Funds—consist of true endowment, term endowment, quasi-endowment, and life income funds. True endowment funds are subject to the restrictions of donor gift instruments requiring the principal be invested in perpetuity and only the income be spent. Term endowment funds provide that upon passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. Quasi-endowment funds have been established by the Regents to function as true endowment funds until the restrictions are lifted by the Regents. 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 upon the death of the designated beneficiary.

Plant Funds—used to account for the transactions relating to investment in University properties. Plant funds are segregated into separately balanced fund groups as follows:

Unexpended plant fund—comprised of amounts that have been appropriated or designated for maintenance, construction, equipment replacement reserves, or purchase of land, improvements, buildings, and equipment. Fund balances totaling $21,393,000 in the unexpended plant fund are considered to be restricted under existing revenue bond indentures and the remaining unexpended plant fund balances totaling $115,366,000 are unrestricted but have been internally designated by the individual campuses for construction, repair, and maintenance projects.

Retirement of indebtedness fund—funds accumulated to meet debt service charges, including interest and principal payments pursuant to the terms of bond indentures and other contractual agreements.

Investment in plant fund—represents the total of property, buildings, and equipment, and the related liabilities. Additions to plant facilities on the Consolidated Statement of Changes in Fund Balances includes $24,636,000 charged to current funds expenditures.

2. Legislative Appropriations

APPROPRIATED FUNDS

The Colorado State Legislature establishes spending authority for the University in its annual Long Appropriations Bill. Appropriated funds include an amount from the State of Colorado's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources, which are recognized in various revenue lines and funds, as appropriate, in the accompanying Consolidated Statement of Changes in Fund Balances.

For the year ended June 30, 1998, appropriated expenditures were within the authorized spending authority. The University had a total appropriation of $461,144,000. Actual appropriated revenues earned totaled $452,501,000 and actual appropriated expenditures and transfers totaled $450,606,000. The net increase in appropriated fund balances was $1,895,000.

NON-APPROPRIATED FUNDS

All other revenues and expenditures 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.

FINANCIAL STATEMENT PRESENTATION

The accompanying consolidated financial statements contain revenues and expenditures from both appropriated and non-appropriated funds. Appropriated and non-appropriated revenues and expenditures are included in each fund group based upon the principles of fund accounting.

3. Cash Balances

At June 30, 1998 and 1997, the University's cash balances, including deposits in transit, were $3,485,000 and $5,397,000, respectively. For financial reporting purposes at June 30, 1998 and 1997, petty cash and change funds totaling $758,000 and $461,000, respectively, have been reported as cash and cash equivalents and the remaining balances of $2,727,000 and $4,936,000 respectively, have been reported as investments. Corresponding bank balances were $328,000 and $332,000, respectively, and in accordance with Governmental Accounting Standards Board Statement No. 3, Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements (GASB No. 3), the following table provides information concerning the credit risk for the University's bank balances as of June 30, 1998 and 1997 (in thousands):

Category of credit risk	*1998*	*1997*
Insured or collateralized with securities held by the University or its agent in the University's name	$ 113	$ 104
Collateralized with securities held by the pledging institution in the University's name	22	51
Uninsured or uncollateralized	193	177
	$ 328	$ 332

4. Investments

In accordance with GASB No. 3, as amended by GASB No. 31, University investments have been categorized into the following three categories of credit risk:

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

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

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

A summary of the fair value of the University's investments at June 30, 1998, by category of credit risk described above, is as follows (in thousands):

	Category of credit risk			
	Category No. 1	*Category No. 2*	*Category No. 3*	*Fair value total*
U.S. Government securities	$ 174,021	$ —	$ —	$ 174,021
Corporate securities, commercial paper & bankers acceptance	68,351	—	—	68,351
Repurchase agreements	15,127	—	—	15,127
Subtotal	$ 257,499	$	$ —	257,499
Investments in trusts and pools managed by Others–uncategorized				156,824
Total investments				$ 414,323

An investment policy statement approved by the Regents directs the Treasurer of the University to meet the following investment objectives:

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

Generally, investments include direct obligations of the U.S. government and its agencies, bankers acceptances, commercial paper, money market funds, repurchase agreements, and equity mutual funds. With respect to these investments, as well as other investments within the University portfolio, the University is subject to market risk, which represents the exposure to changes in the market, such as a change in interest rates or a change in price or principal value of a security. Additionally, certain component units are exposed to credit risk associated with their investment portfolio. Credit risk is the exposure to the default of counterparties to investment transactions.

To the extent allowed by law, the University pools cash balances and other funds of all University entities for investment purposes. For financial statement purposes, investment income is allocated among funds based on month-end cash balances. For the year ended June 30, 1998, the gross investment return on this pool of funds was 6.03% on an average daily balance of $310,904,000. In addition, the University has non-pooled cash balances and other funds which are separately invested in accordance with bond fund resolutions, law, or Regent resolutions.

Investments in portfolios managed by others totaling $156,824,000 consist primarily of money market funds and bond and equity mutual funds. In addition, certain endowment fund investments are managed by the University of Colorado Foundation, Inc. (Note 14).

The University Treasurer, under the authority granted by the Regents, entered into an agreement with the trust department of its custodial bank to lend its U.S. government and agency 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 cash 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. If the fair value of an underlying security increases, the borrower is required to deliver additional collateral to the custodian to protect the University. The custodian invests the cash collateral for the open loans in a money market fund that holds only government securities and overnight repurchase agreements collateralized by government securities. The average maturity of this money market fund is typically less than five days. The cash collateral for the term loans is invested in government securities to match the term of each loan. At year end, the University had no securities on loan.

The custodian provides indemnification to protect against borrower failure. There were no significant violations of legal or contractual provisions and no borrower or custodian defaulted.

5. Notes Receivable

The University has accepted notes receivable from dentistry students pursuant to a state statute whereby the notes are forgiven when the student, after graduation, complies with certain service requirements within the State of Colorado. Most of the notes receivable are expected to be forgiven. As of June 30, 1998 and 1997, 69 and 82 performance bonds have been signed for a total potential forgiveness of $1,128,000 and $1,488,000, respectively. The statutes generally require the student to provide services to rural areas of the State of Colorado or to provide indigent or institutionalized patient care.

6. Long-Term Obligations

At June 30, 1998 and 1997, the University had long-term obligations totaling $185,008,000 and $180,515,000, respectively. Details of the long-term obligations are as follows (in thousands):

	Interest rates	*Final maturity*	*1998*	*1997*
Revenue Bonds:				
Auxiliary Facilities	5.10–6.40%	6/1/09	$ 3,985	$ 14,345
Recreation Facilities	6.95–7.25%	6/1/05	1,955	2,350
Research Building Revolving Fund	4.25–9.00%	6/1/12	39,400	41,730
Enterprise Auxiliary Facilities	3.80–6.60%	6/1/20	68,375	60,520
			113,715	118,945
Certificates of participation:				
Telecommunications project & cogeneration plant	4.20–5.10%	12/1/05	35,715	40,375
Master lease purchase	Various	6/1/01	6,600	8,450
Master lease purchase	Various	7/1/18	15,210	—
			57,525	48,825
Other capital lease obligations	Various	Various	13,353	12,302
Note payable	5.00%	12/31/09	415	443
Total long-term obligations			$ 185,008	$ 180,515

Revenue Bonds

The revenue bonds consist of multiple issues to finance construction, repair and enhancement of various auxiliary and research facilities of the University. 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 varying from 100% to 101% of the principal amount of the revenue bonds redeemed.

The Auxiliary Facilities and Recreation Facilities revenue bonds are secured by a pledge of all net revenues generated from certain auxiliary facilities. The Research Building Revolving Fund revenue bonds are secured by a pledge of rental revenues generated by the Research Buildings and, to the extent necessary, indirect cost recoveries received by the University on research grants and contracts performed by the University. The Enterprise Auxiliary Refunding Bonds are secured by a pledge of all net revenues of certain auxiliary facilities. The pledge of revenues for the Enterprise Facilities Refunding Bonds is subordinate to the Auxiliary Facilities Bonds with an outstanding balance of $3,985,000 and are also subordinate to the Series 1989 Recreation Facilities Bonds with an outstanding principal amount of $1,955,000 but are parity bonds with respect to one another.

The revenue bonds are special limited obligations of the Regents and are payable solely from the pledged revenues. The revenue bonds are not secured by any encumbrance, mortgage, or other pledge of property, except the Net Income of the facilities as defined in the Bond Resolution, and do not constitute general obligations of the Regents.

The revenue bonds contain provisions for debt service coverage (generally 125% or 200% of the current year's debt service) and also require the University to comply with various other covenants while the bonds are outstanding. Management of the University believes the University has met all debt service coverage ratios and has complied with all bond covenants.

CERTIFICATES OF PARTICIPATION

Certificates of participation have been issued to fund lease purchase agreements for a telecommunications system, cogeneration plant, and the acquisition and refinancing of equipment. The certificates are secured by the buildings or equipment acquired with the lease proceeds (capitalized asset cost of $78,786,000 and $63,658,000 at June 30, 1998 and 1997, respectively) and unexpended lease proceeds, and contain optional redemption provisions allowing the University to redeem at various dates, portions of the outstanding certificates at prices varying from 100% to 102% of the principal amount of the certificates redeemed. Interest on the certificates of participation is payable semiannually, and principal is payable annually or semiannually with a final maturity in 2018.

NOTE PAYABLE

The note payable is an existing contractual obligation resulting from the acquisition of land for the site of student housing known as Williams Village. The obligation requires future minimum annual payments of $50,000 through 2009. The entire obligation is payable from student housing revenue.

OTHER CAPITAL LEASES

In addition to the long-term obligations described above, the University had capital lease obligations in effect at June 30, 1998 and 1997, with a capitalized asset cost of $15,597,000 and $14,236,000 and a related outstanding liability of $13,353,000 and $12,302,000, respectively. Such contracts provide that any commitments for expenditures beyond the current year are contingent upon funds being appropriated for such purposes and consequently limit any liability.

MATURITIES OF LONG-TERM OBLIGATIONS

Payments of principal for long-term obligations for the five succeeding fiscal years and thereafter are as follows (in thousands):

Year ended June 30	*Revenue Bond obligations*	*Certificates of participation*	*Other capital leases and note payable*	*Total*
1999	$ 7,805	$ 6,225	$ 1,067	$ 15,097
2000	8,325	6,575	1,019	15,919
2001	6,920	8,280	919	16,119
2002	6,445	4,385	897	11,727
2003	6,740	4,575	887	12,202
Thereafter	77,480	27,485	8,979	113,944
	$ 113,715	$ 57,525	$ 13,768	$ 185,008

7. Extinguishment of Debt

On August 28, 1997 the University utilized proceeds totaling $10,395,000 from a new bond issue to refund one outstanding bond issue in the amount of $10,105,000. Although the current refunding resulted in the recognition of an accounting loss of $290,000 for the year ended June 30, 1998 (difference between the carrying amount of the old and new debt issues), the University in effect reduced its aggregate debt service payments by approximately $582,000 over the next eight years, and obtained an economic gain (difference between the present values of the old and new debt service payments) of $459,000.

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 Consolidated Balance Sheet. The amount of debt in this category, covered by assets placed in trust to be used solely for future payments, amounted to $84,610,000 and $92,140,000 as of June 30, 1998 and 1997, respectively.

8. Risk Financing Related Liabilities

The University has chosen to finance its risk-related liabilities through a variety of risk financing alternatives. Those alternatives include self-insurance programs, self-insurance pools, and self-insurance trusts.

As described in Note 1, the University established an insurance pool, UCIP, to insure its property, liability, and workers' compensation risks. UCIP operates under the regulatory authority of the Colorado Division of Insurance, which requires an annual actuarial opinion and certification of reserve adequacy. After September 30, 1996, the University utilized a protected self-insurance program. The University assumes losses up to certain limits and purchases excess insurance for losses over those limits. These limits range from $50,000 to $500,000. UCIP is responsible for claims covered under its policies. When all of UCIP's liabilities are discharged, UCIP will be legally dissolved. At June 30, 1998 and 1997, the reserves for unpaid claims held by UCIP and the protected self-insurance program totaled $16,918,000 and $19,329,000, respectively. These reserves are based upon the annual actuarial valuation and include reserves for incurred but not reported claims.

In addition, the University has established a self-insurance trust for the purpose of providing medical malpractice coverage for UCHSC and the University of Colorado Hospital Authority. Reserves for unpaid claims under this trust are actuarially reviewed and evaluated for adequacy each year. A separate self-insurance program has been established for health insurance for graduate medical students. As of June 30, 1998 and 1997, the University had reserves totaling $8,759,000 and $7,615,000 respectively, which represent the present value of unpaid claims including incurred but not reported claims.

As of June 30, 1998 and 1997, the University had a self-insurance reserve totaling $7,902,000 and $5,761,000, respectively, for the University's self-funded benefit plans. The reserve has been established for incurred but not reported claims related to medical, dental, and prescription services covered under the University's self-funded benefits plans. The reserves are established in accordance with reserve requirements recommended by the University's external benefits consultants.

Estimates of claims liabilities depend on many factors including 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 estimated claims liabilities for the year ended June 30, 1998, are as follows (in thousands):

	Liability at July 1, 1997	*Claims and changes in estimates*	*Claim payments*	*Liability at June 30, 1998*
Property, general liability and workers' compensation	$ 19,329	$ 3,666	$ 6,077	$ 16,918
University of Colorado Health Sciences Center medical malpractice	7,089	1,902	824	8,167
Housestaff health benefits	526	2,500	2,434	592
Medical benefits plan	5,761	30,957	28,816	7,902
	$ 32,705	$ 39,025	$ 38,151	$ 33,579

9. Compensated Absence Liability

University employees may accrue annual and sick leave based on length of service, but amounts paid upon termination are subject to certain limitations. The estimated cost of compensated absences for which employees are vested as of June 30, 1998 and 1997, is $38,401,000 and $31,384,000, respectively. The accrued annual leave includes the employer's share of the Public Employees' Retirement Association contribution.

The portion of the state-appropriated current unrestricted funds compensated absence liability relating to the current restricted fund is $13,009,000 and $ 8,844,000 at June 30, 1998 and 1997, respectively. Expenditures for the fiscal years ended June 30, 1998 and 1997, include $7,017,000 and $2,539,000, respectively, for the increase in the estimated compensated absence liability.

The recording of the liability for compensated absences may result in fund balance deficits that will be funded by state appropriations, federal funds, or other fund sources available in future years when the liability is paid.

10. 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 $13,524,000 and $14,425,000 as of June 30, 1998 and 1997, respectively. These additions will be funded or financed by donor contributions, appropriations from the State of Colorado, issuance of revenue bonds, and other borrowings. The amount of the authorized capital construction appropriations from the State of Colorado for these projects as of June 30, 1998 and 1997, was $8,714,000 and $10,393,000, respectively.

The University also leases various buildings and equipment under operating lease rental agreements. Total rental expense under these agreements was $3,567,000 and $3,276,000 for the fiscal years ended June 30, 1998 and 1997, respectively. Operating lease rental obligations for the five succeeding fiscal years in the aggregate annual amounts as follows (in thousands):

Years ended June 30	*Minimum lease Obligation*
1999	$ 3,389
2000	2,471
2001	2,060
2002	1,465
2003	849
	$ 10,234

The University has also entered into an operating sublease agreement with the Fitzsimons Redevelopment Authority (FRA) on behalf of the UCHSC. The FRA has leased from the United States Army certain buildings and equipment at the site of the former Fitzsimons Army Medical Center in Aurora, Colorado. The sublease is for an initial period of twelve years and includes an option to renew for another five years. The sublease does not create any future lease rental obligations. The sublease enables the UCHSC to occupy and use certain buildings and equipment at the Fitzsimons site. The campus has developed a Master Plan to relocate to the Fitzsimons site over the next fourteen years. The Master Plan includes development of approximately 2.2 million gross square feet of space at the Fitzsimons site.

On May 12, 1998, five parcels of land and land improvements were conveyed to the UCHSC. The estimated market value of the land was $6,410,000 and the value of the buildings was $2,218,000. The University expects to obtain title to the remaining land, buildings and equipment in a subsequent conveyance by 2027.

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 consolidated financial statements.

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.

11. Retirement Plans

Employees of the University eligible for retirement benefits participate in one of three retirement plans. Eligible student employees participate in a student retirement plan which 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 of Colorado. All other eligible employees of the University participate in one of the two additional plans, the Public Employees' Retirement Association (PERA) plan and the University's optional retirement plan.

The University's total payroll for the fiscal year ended June 30, 1998, was $596,056,000. The total payroll of employees covered by the PERA plan, the University's optional retirement plan, and the student retirement plan was $167,126,000, $281,709,000 and $8,310,000, respectively. The remaining employees were not eligible for participation in any of the University's retirement plans.

PERA DEFINED BENEFIT PENSION PLAN

Plan Description: The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by PERA. PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan, as well as the other divisions' plans, are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203.

Plan members vest after five years of service and are eligible for retirement benefits at age 55 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. 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 eligible children under the age of 18 (23 if a full time student) or their spouse are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy: Employees contribute 8% of their annual gross covered wages to an individual account in the plan. The University contributes 10.7% of the employee's gross covered wages. The annual gross covered wages subject to PERA is the gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

The University's contributions to PERA for the fiscal years ending June 30, 1998, 1997, and 1996 were $17,879,000, $17,721,000 and $17,269,000, respectively. These contributions were equal to the required contributions for each year.

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 of Colorado assigns the authority to establish and amend plan provisions to the University's Board of Regents. The contribution requirements of plan members and the University are established and may be amended by the Regents. The University's contribution to the defined contribution retirement plan is equal to 9.25% of covered payroll and the employee contribution is equal to 5% of covered payroll. The University's contribution under the optional retirement plan for the years ended June 30, 1998 and 1997, amounted to $26,058,000 and $23,779,000, respectively, and the employee's contribution under the optional retirement plan was $14,076,000 and $13,211,000, respectively.

Participants in the University's optional retirement plan choose to invest all contributions into one 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 require both the employer and the employee to contribute 6.2% of covered payroll.

HEALTH INSURANCE PROGRAMS

The University's contributions to the various health insurance programs were $23,424,000 and $23,324,000 for the years ended June 30, 1998 and 1997, respectively.

12. Post-Employment Benefits

UNIVERSITY POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE PLAN

In addition to providing pension benefits described in Note 11, 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 institution's employees may become eligible for those benefits if they reach normal retirement age while working for the University. Currently, 2,873 retirees meet 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 amounted to $1,826,000 and $1,759,000 for the years ended June 30, 1998 and 1997, respectively.

PERA POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

<u>Health Care Program</u>

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During 1997, the monthly subsidy was $115.00 for those with 20 years of service credit and reduced by $5.75 for each year under 20.

The PERA Health Care Fund is maintained by an employer's contribution of 0.8% of covered salary. During the year ended June 30, 1998, the University paid $1,337,000 into this Fund.

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit a retiree has. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans and with health maintenance organizations providing services within Colorado. During 1997, there were 37,388 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Rocky Mountain Life. Members may join one or both plans, and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction.

13. Common Facilities

The Auraria Higher Education Center (AHEC), established by legislation in 1974, is jointly utilized by UCD, the Community College of Denver, and Metropolitan State College of Denver. The institutions operate independently as educational institutions responsible to their own governing boards but share the costs of operating common plant and library facilities. Costs of common plant and library facilities are shared in accordance with an operating agreement between AHEC and the respective institutions.

14. Endowment and Similar Funds

True endowment funds are subject to the restriction of gift instruments which require that the principal be invested in perpetuity and only the income be spent for current and future needs. Quasi-endowment funds have been established by the Regents to function as true endowments until the restrictions are lifted by the Regents. A summary of endowment fund balances as of June 30, 1998 and 1997, is as follows (in thousands, at cost):

	1998	*1997*
True endowment	$ 25,756	$ 17,827
Quasi-endowment	24,039	16,065
Life income funds	84	82
Annuity funds	2,180	2,180
	$ 52,059	$ 36,154

The University has entrusted the management of investments (at fair value) of the majority of endowment funds and undistributed revenue of $51,142,000 and $45,791,000 as of June 30, 1998 and 1997, respectively, to the University of Colorado Foundation, Inc.

In addition, the University is income beneficiary of investments held by the University of Colorado Foundation, Inc. (see Note 15), with fair values of $307,069,000 and $258,232,000 as of June 30, 1998 and 1997, respectively. Since the University has neither possession nor control of endowments owned by the Foundation, the principal has not been included in the accompanying Consolidated Balance Sheet.

A summary of the combined endowment fund balances held by the University and those for which the University is income beneficiary, at fair value as of June 30. 1998. is as follows (in thousands):

	Owned by University		Owned by Foundation	Total
	Managed by University	*Managed by Foundation*		
True endowments	$ —	$ 25.427	$ 151.039	$ 176.466
Quasi-endowments	2.311	22.969	73.673	98.953
Life income funds	—	105	—	105
Annuity funds (at cost)	2.180	—	—	2.180
Undistributed revenue	—	2.641	—	2.641
	$ 4.491	$ 51.142	$ 224.712	$ 280.345

15. The University of Colorado Foundation, Inc.

The University of Colorado Foundation. Inc. (Foundation). an unconsolidated affiliated corporation. was established in 1967 as a separate corporation to solicit. collect. and invest donations for the University and for University Hospital. The Foundation is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. Certain members of the Regents serve as members of the Board of Directors and certain University administrative officials serve as members or are ex officio members of the Board of Directors. The Foundation is not considered a component unit of the University because the University is not financially accountable for the Foundation. In addition, the financial statements of the Foundation include the activities of the University Research Corporation (URC). URC. a wholly-owned subsidiary of the Foundation, was incorporated under the laws of the State of Colorado in October 1983. as a for-profit corporation to develop and market research discoveries and to invest in and operate business entities established to develop and market research discoveries. Operating activities began in October 1988.

Under an operating agreement between the Foundation and the University, the Foundation provides development services to the University in exchange for operating support. Distributions made by the Foundation to the University for the years ended June 30. 1998 and 1997 were $32.878.000 and $50,768,000, respectively. These amounts have been recorded as gift revenue in the accompanying financial statements.

Summarized audited financial statements for the years ended June 30, 1998 and 1997, are as follows (in thousands):

	1998	1997
Investments (at fair value)	$ 355,587	$ 301,491
Other assets	43,540	24,677
Total assets	399,127	326,168
University custodial funds	51,142	45,791
Other liabilities	36,193	31,673
Net assets	$ 311,792	$ 248,704
Net assets:		
Unrestricted	$ 18,105	$ 13,071
Temporarily restricted	182,570	137,668
Permanently restricted	111,117	97,965
Total net assets	$ 311,792	$ 248,704
Contributions and other revenues	$ 108,590	100,584
Distributions, other expenses and adjustments	45,502	100,159
Change in net assets	$ 63,088	$ 425

The University is the ultimate beneficiary of substantially all restricted and trust funds held by the Foundation and is income beneficiary of all endowment funds held by the Foundation. As described in Note 14, Foundation endowment funds include $51,142,000 (fair value) and $45,791,000 (fair value) as of June 30, 1998 and 1997, respectively, of investments and undistributed revenue of endowment, restricted, and trust funds managed on behalf of the University.

16. The Colorado Medical Services Foundation, Inc.

The Colorado Medical Services Foundation, Inc. (an unconsolidated affiliated corporation), a.k.a. University Physicians, Inc. (UPI), was established on July 1, 1982. UPI is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code and was established to support patient health care and to assist the University in achieving its primary mission in education, research, and public service. UPI collects patient and other revenues generated from professional activities by members of the faculty of the UCHSC School of Medicine. While certain University faculty and administrative officials are board members of UPI, UPI is not considered a component unit of the University because the University is not financially accountable for UPI.

UPI reimburses the University for UPI's estimated share of salaries, fringe benefits and other directly related operating costs of their members which are paid for by the University. The reimbursements are based upon estimated time devoted by its members to UPI activities. Reimbursements for these salaries and related expenses for the years ended June 30, 1998 and 1997, totaled approximately $65,285,000 and $65,075,000 and amounts provided as gift funds to the University totaled $5,639,000 and $4,760,000, respectively. In addition, for the years ended June 30, 1998 and 1997, UPI reimbursed the University approximately $637,000 and $664,000, respectively, for professional liability insurance and other administrative costs.

Summarized audited financial statements for the years ended June 30. 1998 and 1997 are as follows (in thousands):

	1998	*1997*
Assets	$ 63,102	$ 56,958
Liabilities	6,642	6,487
Fund balances	$ 56,460	$ 50,471
Revenues, primarily patient revenues	$ 106,956	$ 100,271
Expenses, primarily salaries and benefits	100,967	96,173
Excess of revenues over expenses	$ 5,989	$ 4,098

17. University of Colorado Hospital Authority

In accordance with 1991 state legislation , the University of Colorado Hospital Authority (Hospital Authority) is a separate and distinct entity The University does not control the appointment of staff nor does it assume responsibility for the debts of the Hospital Authority. Accordingly, the Hospital Authority is not considered a component unit of the University because the University is not financially accountable for the Hospital Authority. Detailed financial information may be obtained directly from the Hospital Authority.

UCHSC has several types of financial transactions with the University of Colorado Hospital Authority. On an annual basis, UCHSC and the Hospital Authority enter into agreements specifying the fees to be charged for services and the allocation of expenses between the two enterprises. In certain circumstances. UCHSC 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 UCHSC 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 UCHSC or the Hospital Authority.

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

18. Subsequent Event

Subsequent to June 30, 1998, the University entered into a lease purchase agreement on behalf of UCD. The purchase agreement includes a 166,445 square foot building referred to as Lawrence Street Center in downtown Denver. The Auraria Foundation will issue approximately $6.7 million in tax-exempt revenue bonds and $14.0 million in taxable revenue bonds to finance this purchase. The Auraria Foundation will lease all of the Lawrence Street Center to the University of Colorado over the thirty year period of the lease. The University will occupy a portion of the Lawrence Street Center and will sublease the remaining portion to other entities. The University will make lease payments to the Auraria Foundation equivalent to the debt service payments plus, the University will pay the other building related expenses.

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

Members of the Legislative Audit Committee:

We have audited the consolidated financial statements of the University of Colorado (the University), a component unit of the State of Colorado, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 16, 1998. Our report included an explanatory paragraph stating that the University adopted the provisions of Government Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, effective July 1, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's consolidated 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 consolidated 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*.

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 opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the 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 consolidated 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 the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

KPMG Peat Marwick LLP

October 15, 1998

The University of Colorado is a state-supported institution of higher education with campuses at four locations: University of Colorado at Boulder, University of Colorado Health Sciences Center, University of Colorado at Denver, and University of Colorado at Colorado Springs.

The financial and compliance audit of the state-funded student financial assistance programs at the four University campuses for the fiscal year ended June 30, 1998, was directed toward the objectives and criteria set forth in the *Colorado Handbook for State-funded Student Assistance Programs*, issued by the Colorado Commission on Higher Education (CCHE), 1998 revision.

State-funded Student Financial Assistance Programs

The state-funded student financial assistance programs at the University campuses include the Colorado Student Grant program, Colorado Graduate Grant program, Extended Studies Grant program, need based Diversity Grant program, Part-Time Student Grant program, Colorado Work-Study program, Undergraduate Merit program, Colorado Graduate Fellowship program, merit based Diversity Grant program, Perkins (formerly NDSL) Loan Matching and Health Professions Student Loan Matching programs, Student Incentive Grant program, and the Colorado Nursing Grant program.

The state-funded student financial assistance expenditures made by the four campuses were $12,012,269 during the fiscal year ended June 30,1998. Of this amount, state-funded matching funds of $265,620 for the fiscal year ended June 30,1998 were transferred to the Perkins Loan and Health Professions Student Loan Funds.

The Director of Financial Aid at each campus is responsible for administration of these programs. This responsibility includes application processing, elgibility determination, and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the University in federal and state financial assistance programs. The Finance Office at each campus is responsible for the programs' financial management, general ledger accounting, payments, and collections.

During the fiscal year ended June 30,1998, the University obtained authorizations to award federal student financial aid funds of $10,828,539 in the Pell Grant program, $95,649,631 in the Direct Loan program, $1,402,303 in the Supplemental Educational Opportunity Grant program, $2,844,070 in the College Work-Study program, and $376,064 of new federal capital contributions in the Perkins Student Loan program.

During the year ended June 30,1998, the University obtained authorizations to award Colorado student financial aid funds of $4,106,183 in the Colorado Student Grant program, $1,141,527 in the Colorado Graduate Grant program, $8,714 in the Extended Studies Grant program, $928,614 in the need based Diversity Grants program, $119,613 in the Part-Time Student Grant program, $2,380,558 in the Colorado Work-Study program, $1,524,851 in the Undergraduate Merit program, $610,437 in the Colorado Graduate Fellowship program, $475,747 in the merit based Diversity Grant program, $265,620 in the Perkins (formerly NDSL) Loan Matching and Health Professions Student Loan Matching programs, $354,381 in the Colorado Student Incentive Grant program, and $96,024 in the Colorado Nursing Grant program.

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Independent Auditor's 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, 1998. The Statement is the responsibility of the University's management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes 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 Handbook for State-Funded Student Financial Assistance Programs* issued by the Colorado Commission on Higher Education (CCHE), 1998 revision. The Statement is a summary of cash activity of the state-funded student financial assistance programs with the exception of the Perkins Loan and Colorado Work-Study programs, 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 generally accepted accounting principles. Accordingly, the accompanying Statement is not intended to present the financial position or changes in fund balances of the University in conformity with generally accepted accounting principles.

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, 1998, in conformity with the provisions of the CCHE *Colorado Handbook for State-Funded Student Financial Assistance Programs,* as described in note 1 to the Statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 1998 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Regents, University management, the Colorado Commission on Higher Education and the Office of the State Auditor, State of Colorado and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and upon release by the Legislative Audit Committee its distribution is not limited.

KPMG Peat Marwick LLP

October 16, 1998

UNIVERSITY OF COLORADO

State Funded Student Financial Assistance Programs

STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS

Year Ended June 30, 1998

		Need Based Grants						Merit Based Grants					
	Total Financial Aid	Colorado Student Grant	Colorado Graduate Grant	Extended Studies Grant	Diversity Grants	Part-Time Student Grant	Colorado Work-Study	Under-Graduate Merit	Colorado Graduate Fellowship	Diversity Grants	Loan Match	Student Incentive Grant	Colorado Nursing Grant
Boulder Campus													
Appropriations:													
Original Official Allocation Notice	$ 6,581,623	$3,107,647	$ 216,774	$ 8,714	$ -	$ 24,898	$1,306,314	$1,175,975	$ 514,885	$ -	$ -	$ 226,416	$ -
Additional funds reallocated by CCHE	33,259	5,391	-	-	-	-	19,552	8,316	-	-	-	-	-
Funds released to CCHE	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers from other programs	731,846	-	-	-	389,172	-	-	-	-	342,674	-	-	-
Transfers to other programs	(731,846)	(389,172)	-	-	-	-	-	(342,674)	-	-	-	-	-
Total available	6,614,882	2,723,866	216,774	8,714	389,172	24,898	1,325,866	841,617	514,885	342,674	-	226,416	-
Total expenditures	6,614,882	2,723,866	216,774	8,714	389,172	24,898	1,325,866	841,617	514,885	342,674	-	226,416	-
Reversion	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Denver Campus													
Appropriations:													
Original Official Allocation Notice	$ 2,443,786	$1,318,291	$ 65,665	$ -	$ -	$ 50,825	$ 513,312	$ 405,307	$ 30,560	$ -	$ -	$ 59,826	$ -
Additional funds reallocated by CCHE	67,811	-	-	-	-	-	38,283	2,664	-	-	26,864	-	-
Funds released to CCHE	(71,807)	(58,524)	-	-	-	(13,283)	-	-	-	-	-	-	-
Transfers from other programs	752,611	-	333,136	-	414,650	-	-	-	-	4,825	-	-	-
Transfers to other programs	(752,611)	(747,786)	-	-	-	-	-	(3,209)	(1,616)	-	-	-	-
Total available	2,439,790	511,981	398,801	-	414,650	37,542	551,595	404,762	28,944	4,825	26,864	59,826	-
Total expenditures	2,439,790	511,981	398,801	-	414,650	37,542	551,595	404,762	28,944	4,825	26,864	59,826	-
Reversion	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

UNIVERSITY OF COLORADO

State Funded Student Financial Assistance Programs

STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS

Year Ended June 30, 1998

	Total Financial Aid	Need Based Grants: Colorado Student Grant	Need Based Grants: Colorado Graduate Grant	Need Based Grants: Extended Studies Grant	Need Based Grants: Diversity Grants	Part-Time Student Grant	Colorado Work-Study	Merit Based Grants: Under-Graduate Merit	Merit Based Grants: Colorado Graduate Fellowship	Merit Based Grants: Diversity Grants	Loan Match	Student Incentive Grant	Colorado Nursing Grant
Colorado Springs Campus													
Appropriations:													
Original Official Allocation Notice	$ 1,656,277	$ 822,752	$ 27,366	$ -	$ -	$ 55,550	$ 414,742	$ 277,221	$ 5,000	$ -	$ -	$ 53,646	$ -
Additional funds reallocated by CCHE	63,981	34,082	-	-	-	-	-	288	-	-	29,611	-	-
Funds released to CCHE	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers from other programs	202,900	-	26,463	-	124,792	-	-	-	-	51,645	-	-	-
Transfers to other programs	(202,900)	(151,255)	-	-	-	-	-	(51,645)	-	-	-	-	-
Total available	1,720,258	705,579	53,829	-	124,792	55,550	414,742	225,864	5,000	51,645	29,611	53,646	-
Total expenditures	1,720,258	705,579	53,829	-	124,792	55,550	414,742	225,864	5,000	51,645	29,611	53,646	-
Reversion	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Health Sciences Center													
Appropriations:													
Original Official Allocation Notice	$ 1,018,630	$ 391,449	$ 244,222	$ -	$ -	$ 1,623	$ 80,000	$ 129,211	$ 61,608	$ -	$ -	$ 14,493	$ 96,024
Additional funds reallocated by CCHE	218,709	1,209	-	-	-	-	8,355	-	-	-	209,145	-	-
Funds released to CCHE	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers from other programs	304,504	-	227,901	-	-	-	-	-	-	76,603	-	-	-
Transfers to other programs	(304,504)	(227,901)	-	-	-	-	-	(76,603)	-	-	-	-	-
Total available	1,237,339	164,757	472,123	-	-	1,623	88,355	52,608	61,608	76,603	209,145	14,493	96,024
Total expenditures	1,237,339	164,757	472,123	-	-	1,623	88,355	52,608	61,608	76,603	209,145	14,493	96,024
Reversion	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

1. Basis of Presentation and Accounting

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 set forth in the Colorado Commission on Higher Education (CCHE) publication, *Colorado Handbook for State-funded Student Assistance Programs.* The purpose of the Statement is to present, in summary form, the state-funded student financial assistance activities of the University's four campuses for the fiscal year ended June 30, 1998.

The University's accounting system is structured and administered in accordance with the accounting principles promulgated by the American Institute of Certified Public Accountant's Industry audit guide, *Audits of Colleges and Universities* and the National Association of College and University Business Officers (NACUBO) in their revised publication, *Financial Accounting and Reporting Manual.* The accounts related to the state-funded student financial assistance are included in the University's current restricted fund.

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 expense when the services are performed.

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 fund balances of the University.

2. Student Incentive Grants

Student incentive grants consist of non-federal state funds and federal funds. The state must match 50 percent of the federal funds. The amount shown in the Statement is a combined total of non-federal and federal funds.

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Independent Accountants' Report on the Application of Agreed-Upon Procedures to the Records of the University of Colorado and to its Internal Control Related to the Intercollegiate Athletics Program

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) and the Office of the State Auditor, State of Colorado, solely to assist in evaluating (1) whether the Statement of Revenues and Expenditures of the Intercollegiate Athletics Department of the University is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 6.2.3.1. for the year ended June 30, 1998 and (2) the effectiveness of the University Intercollegiate Athletics Department's internal control over financial reporting as of June 30, 1998. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this 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.

Procedures Related to the Statement of Revenues and Expenditures

a. We obtained the statement of revenues and expenditures for the year ended June 30, 1998, as prepared by management and shown in the accompanying statement herein. We recalculated the summations of amounts on this statement, traced amounts on the statement to management's worksheets, reviewed for reasonableness the nature of reconciling adjustments to general ledger amounts on management's worksheets, and agreed general ledger amounts on management's worksheets to the University's general ledger.

   We noted no exceptions as a result of these procedures.

b. We compared the total dollar amount of current restricted fund gifts revenues per the University's general ledger to the corresponding total dollar amount in the accompanying statement. We confirmed the related total amount of cash contributions received by the University's Intercollegiate Athletics Department during the year ended June 30, 1998 directly with the University of Colorado Foundation, Inc. (the Foundation).

   We found such amounts to be in agreement.

c. We obtained the reconciliation of football ticket sales between the general ledger and the PACIOLAN System, which is used to track ticket sales, for the year ended June 30, 1998, as prepared by the University's Intercollegiate Athletics Department staff. We compared the revenue on the reconciliation to the corresponding amount on the accompanying statement. We traced ten items on the reconciliation to the supporting ticket batch documentation.

   We found such amounts to be in agreement.

d. We compared the dollar amount of Conference Distribution revenue in the accompanying statement to the corresponding sum of amounts per copies of the checks and related correspondence received by the University from the NCAA.

   We found such amounts to be in agreement.

e. We performed a reasonableness test of student activity fees compared to student enrollments.

   We found such amounts to be reasonable.

f. We compared current year revenue reported by the University's Intercollegiate Athletics Department with prior year revenue for the year ended June 30, 1998. We discussed variances with the University's Intercollegiate Athletics Department staff.

   We noted no exceptions as a result of these procedures.

g. We compared actual expenditures reported by the University's Intercollegiate Athletics Department with amounts budgeted for the year ended June 30, 1998. We discussed variances with the University's Intercollegiate Athletics Department staff.

   We noted no exceptions as a result of these procedures.

Procedures Related to Internal Control over Financial Reporting

a. We obtained the Athletics Department cash receipts worksheets for the year ended June 30, 1998, as prepared by management. From these worksheets, we selected five daily total cash receipts and performed the following procedures:

   (i) For all items, we traced the receipt to the University-prepared cash receipt form, the cash log records, and the daily validated deposit slip.

   (ii) The daily cash receipt was traced to the monthly summary report and the monthly summary report was traced to the general ledger.

   (iii) For four of the items (all of which were applicable), we traced the cash receipt to the supporting documentation prepared by the external payor.

   (iv) For three of the items (all of which were applicable), we traced the cash receipt to the recorded receivable amount per University records.

   (v) For three of the items (all of which were applicable), we traced the cash receipt to the cashier's report prepared by the ticket office of the University's Intercollegiate Athletics Department, noting that both the cashier and the supervisor had approved the report. We traced the cashier's report to the batch report. We traced the batch report to the PACIOLAN System, which is used to track ticket sales. We verified that the related daily validated deposit slip was within twenty-four hours of the transaction date.

We found no exceptions as a result of these procedures.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the Statement of Revenues and Expenditures of the Intercollegiate Athletics Department of the University or the effectiveness of the University's Intercollegiate Athletics Department internal control over financial reporting as of June 30, 1998. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Legislative Audit Committee, the Board of Regents, University management and the Office of the State Auditor, State Colorado and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

October 16, 1998

UNIVERSITY OF COLORADO
INTERCOLLEGIATE ATHLETICS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
YEAR ENDED JUNE 30, 1998

	Football	Men's Basketball	Women's Basketball	Other Men's Sports	Other Women's Sports	Non-Program Specific	Total
perating Revenue:							
icket Sales	$ 7,610,686	$ 643,987	$ 186,968	$ 160	$ 27,833	$ -	$8,469,634
iuarantees Received	250,000	60,000	-	3,000	3,000	-	316,000
owl Game Proceeds	123,000	-	-	-	-	-	123,000
onference Distribution	-	-	-	-	-	4,735,464	4,735,464
rograms	40,083	1,500	-	-	-	5,191	46,774
ovelties	12,304	-	-	-	-	9,979	22,283
icensing	-	-	-	-	-	380,000	380,000
adio & TV	531,328	202,223	120,664	-	-	-	854,215
ignage	-	-	-	-	-	496,087	496,087
orporate Sponsor Days	70,260	37,560	11,431	-	2,050	-	121,301
like Contract	259,033	60,981	62,073	88,013	134,868	505,369	1,110,337
oncessions	129,745	45,067	14,819	-	3,819	22,905	216,355
arking	49,090	-	-	-	-	5,721	54,811
tudent Fees	-	-	-	-	1,273,370	-	1,273,370
ki Club	-	-	-	21,575	21,575	-	43,150
acility Rentals	-	-	-	-	-	155,370	155,370
liscellaneous Income	-	-	-	-	-	102,219	102,219
ifts:							
Restricted	750,500	-	11,500	5,013	7,012	1,866,210	2,640,235
ivestment Income:							
Restricted	-	-	-	-	-	9,038	9,038
inancial Aid Support:							
CCHE	54,170	-	12,041	70,978	50,811	-	188,000
Boulder Campus	703,213	44,524	35,513	39,225	106,525	-	929,000
resident's Support	-	-	-	-	-	800,004	800,004
hancellor's ECC Support	-	-	-	-	-	142,925	142,925
Total Operating Revenue	10,583,412	1,095,842	455,009	227,964	1,630,863	9,236,482	23,229,572

(cont.)

UNIVERSITY OF COLORADO
INTERCOLLEGIATE ATHLETICS DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
YEAR ENDED JUNE 30, 1998

	Football	Men's Basketball	Women's Basketball	Other Men's Sports	Other Women's Sports	Non-Program Specific	Total
Operating Expenditures:							
Coaches Salaries	1,277,664	513,609	365,840	268,059	456,402	-	2,881,574
Other Salaries	280,175	77,976	70,919	32,866	84,347	3,357,049	3,903,332
Compensated Absences	-	-	-	-	-	(5,086)	(5,086
Guarantees Paid	525,000	158,000	11,600	500	6,000	-	701,100
Contractual Services	529,233	170,608	137,959	3,544	31,593	251,675	1,124,612
Film/Videotape/Photography	6,577	3,227	2,049	434	634	56,539	69,460
Travel:							
Team/Individual	359,880	228,724	174,983	173,051	287,145	81,233	1,305,016
Recruiting	258,284	109,818	90,538	10,361	46,649	-	515,650
Motor Vehicle Rental	14,630	464	-	21,763	29,425	1,759	68,041
Financial Aid	1,941,433	418,887	239,579	407,140	940,679	4,028	3,951,746
Maint & General Admin	71,032	2,344	2,460	1,998	3,344	1,075,202	1,156,380
Equipment Purchases	457,697	70,610	74,083	136,951	194,728	495,953	1,430,022
Publicity	151,568	77,133	57,461	1,289	5,244	329,785	622,480
Insurance	-	-	-	-	753	230,939	231,692
Telephone	87,629	32,179	18,881	14,171	22,208	149,114	324,182
Entertainment	165,554	71,983	34,204	10,672	24,451	168,453	475,317
Training Table	131,049	24,142	18,158	3,058	23,084	22,776	222,267
Local Food/Lodging	184,053	24,398	11,443	1,123	20,576	1,504	243,097
Medical	201,032	18,882	38,544	21,318	40,417	34,847	355,040
Postage	32,324	9,089	6,287	2,572	4,638	83,064	137,974
Building & Equipment Rent	68,556	2,332	2,770	13,651	15,612	77,762	180,683
Gifts/Awards	14,761	269	15,512	2,839	6,789	74,960	115,130
Fees/Licenses/Registrations	277	1,595	1,468	565	1,848	86,768	92,521
General Admin Recharge	8	-	95	1,211	2,312	735,189	738,815
Band Support	-	-	-	-	-	53,700	53,700
Foundation Costs	-	-	-	-	-	664,736	664,736
Miscellaneous Expense	95,259	13,846	9,101	5,540	12,841	180,758	317,345
Debt Service	-	-	-	-	-	375,100	375,100
Capital Fund	-	-	-	-	-	961,214	961,214
Total Operating Expenses	6,853,675	2,030,115	1,383,934	1,134,676	2,261,719	9,549,021	23,213,140
Excess/(Deficiency)	$ 3,729,737	$ (934,273)	$ (928,925)	$ (906,712)	$ (630,856)	$ (312,539)	$ 16,432

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

Members of the Legislative Audit Committee:

We have applied the procedures, enumerated below, which were agreed to by the management of the University of Colorado (the University), and the Office of the State Auditor, the State of Colorado, to the accounting records of the University and the related booster organizations as reported to us by the University of Colorado Foundation, Inc. (the Foundation), in connection with activities of the Intercollegiate Athletics Program of the University. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this 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.

In determining the financial activities of these booster organizations, we relied upon information supplied to us by the Foundation. We did not confirm directly with the officers of the booster organizations the financial activities of those organizations. Our procedures were as follows:

a. We obtained a list of booster organizations and the related financial activities for the year ended June 30, 1998, from the Foundation. The following is a summary of the list obtained. Endowments, trusts, and other gifts have been summarized for this report.

Organization	Fund Balance July 1, 1997	Gifts and Other Additions	Distributions to the University	Other Deductions	Fund Balance June 30, 1998
Buff Club	$ 1,681,200	2,346,447	(1,816,976)	(1,832,200)	378,471
Flatirons	457,201	754,953	(720,000)	(11,044)	481,110
Endowments	2,639,073	2,169,385	(40,268)	-	4,768,190
Trusts	756,306	62,654	-	(67,637)	751,323
Other	829,151	1,582,399	(240,297)	(158,011)	2,013,242
Total	$ 6,362,931	6,915,838	(2,817,541)	(2,068,892)	8,392,336

b. We reconciled the total amount of distributions made to the University on behalf of intercollegiate athletics, as reported by the Foundation, to the amount of restricted gift revenues reported by the University's Intercollegiate Athletics Department as follows:

Total Distributions to the University (see above)	$ 2,817,541
Gifts-in-kind	(177,306)
Total Restricted Gifts per the Statement of Revenues and Expenditures of the University's Intercollegiate Athletics Department	$ 2,640,235

c. We reviewed the audited financial statements of the Foundation for the year ended June 30,1998, which had been examined by other auditors who expressed an unqualified opinion on those statements.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Legislative Audit Committee, the Board of Regents, University management and the Office of the State Auditor, State of Colorado, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

October 16, 1998

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