AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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Financial and Compliance Audit

Report Summary

Year ended June 30, 2009

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Auraria Higher Education Center (the Center) for the year ended June 30, 2009. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We conducted the related fieldwork from April 2009 to October 2009.

The purpose and scope of our audit was to:

- Express opinion on the basic financial statements of the Center as of and for the year ended June 30, 2009. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate the Center's compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior audit findings and recommendations.

Audit Opinions and Reports

We expressed an unqualified opinion on the Center's basic financial statements as of and for the year ended June 30, 2009.

Six audit adjustments were proposed and made to the basic financial statements with a net effect of $(103,929), which is approximately 0.06% of current year ending net assets. Three audit adjustments were not made to the basic financial statements with a net effect of $(2,875,317), which is approximately 1.78% of current year ending net assets. These passed differences are not considered material to the Center's basic financial statements.

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

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Report Summary

Year ended June 30, 2009

Summary of Key Findings

Accounting for Capital Assets (Significant Deficiency in Internal Control)

The Center maintains and manages the facilities on the Auraria campus. Capital assets as of June 30, 2009 totaled approximately $220.2 million, net. During the year, the Center records its capital asset expenditures in the general ledger. At year-end, the Center analyzes capital expenses and reclassifies capital-related items from expense to capital assets. During our audit, we identified inappropriately capitalized items and noted that the center's process for recording capital expenditures may misrepresent monthly financial reporting.

Improving Timeliness and Internal Control over Financial Reporting (Significant Deficiency in Internal Control)

On an annual basis, the Center prepares financial statements for purposes of providing its financial results to the State of Colorado (State). In addition, quarterly financial reporting is provided to the Center's Board of Directors. As part of preparing these statements, the State provides a fiscal procedures manual and expects each agency to record all significant accruals and adjustments. In addition to amounts reported quarterly in the Colorado Financial Reporting System (COFRS), the Center prepares stand-alone financial statements from their general ledger on an annual basis. We identified certain conditions wherein supervisory reviews and other financial reporting procedures were insufficient to ensure the financial statements are accurate, complete, and prepared in a timely manner. These conditions were partially caused by insufficient or inexperienced resources within the accounting and financial reporting function at the Center.

Facility Arrangements with Constituent Institutions (Deficiency in Internal Control)

The Center maintains and manages the facilities of the Auraria campus. The campus is jointly shared by the Metropolitan State College of Denver (Metro), the University of Colorado Denver (UCD), and the Community College of Denver (CCD) (the constituent institutions). Operations of the campus are funded by the Center's auxiliary services and payments from the constituent institutions, which totaled approximately $17 million for fiscal year 2009.

During our audit of the Center, we noted that agreements between the Center and the constituent institutions for general facility use and other services, including leasehold improvements, do not formally address the general financial terms and the rights and obligations of both the Center and the constituent institutions. With the exception of lease agreements for the Tivoli Student Union, agreements between the Center and the constituent institutions for the use of campus facilities and leasehold improvements are not formalized at a sufficient level to clarify the financial responsibilities and obligations of the Center and the constituent institutions. Documentation surrounding these arrangements is generally limited to a high-level discussion in State statute and the State's long bill for general facility use or through invoices from the Center to the constituent institutions for facility improvements. Consequently, it is unclear the extent of each party's rights, responsibilities, and obligations. This condition is highlighted even more as the Center and the constituent institutions continue to make substantial capital improvements to the Auraria campus. The lack of sufficient, formalized agreements between the Center and the constituent institutions makes it difficult for the Center and the constituent institutions to properly address, and consistently handle, the related accounting implications of these capital projects.

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AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Report Summary

Year ended June 30, 2009

Recommendations and the Center's Responses

Our recommendations and responses from the Center can be found in the Recommendation Locator section of this report.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2008 included three recommendations. The disposition of these audit recommendations as of December 18, 2009 was as follows.

Implemented	2
Partially implemented	1
Cannot assess until 2010 audit	—
Total	3

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2009

Rec. no.	Page no.	Recommendation summary	Agency response	Implementation date
1	7	Strengthen existing policies and procedures over accounting for capital expenditures.	Agree	February 2010
2	9	Improve internal controls over financial reporting to ensure that accurate and complete financial statements are prepared in a timely manner.	Agree	October 2010
3	10	Work with the constituent institutions to formalize the general facility use arrangements and leasehold improvement agreements to ensure financial terms, responsibilities, and obligations are properly understood, documented, and approved by all parties.	Agree	July 2010

Organization

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

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

We have audited the basic financial statements of the Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2009 and have issued our report thereon, dated December 18, 2009. The accompanying financial statements of the Center as of and for the year ended June 30, 2008 were audited by other auditors whose report thereon dated October 23, 2008 expressed an unqualified opinion on those statements. In planning and performing our audit of the basic financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion of the Center's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated December 18, 2009 on our consideration of the Center's internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since December 18, 2009. We did not audit the financial statements of the discretely presented component unit discussed in note 1 to the basic financial statements. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards*, and included an explanatory paragraph about the discretely presented component unit's ability to continue as a going concern.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider Recommendations No. 1 and 2 to be significant deficiencies in internal control.

The Center's responses to the findings identified are described in the Findings and Recommendations section of this report. We did not audit the Center's responses, and accordingly, we express no opinion on them.

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

Accounting for Capital Assets (Significant Deficiency in Internal Control)

The Center maintains and manages the facilities of the Auraria campus. Capital assets as of June 30, 2009 totaled approximately $220.2 million, net of accumulated depreciation. During the year, the Center records its capital asset expenditures in the general ledger. At year-end, the Center analyzes capital expenses and reclassifies capital-related items from expense to capital assets.

During our audit, the following conditions were identified:

1. Management identified that in the prior year approximately $3.0 million in expenses were inappropriately capitalized to construction in progress, thus overstating capital assets and understating operational expenses. The expenditures related to State appropriations for controlled maintenance of capital assets; however, because they were funded from the State of Colorado (the State) capital appropriations, management assumed the expenditures were for acquisitions of capital assets. Although the exception was identified by management through their internal control reviews, the controls were not sufficient to prevent or timely detect the exception.

2. As noted above, the Center performs a reclassification of expenditures related to capital assets on an annual basis. However, management does make certain adjustments to its quarterly reporting to the Center's Board of Directors for material capital asset transactions. These adjustments are not formally recorded on the Center's accounting records; thus, monthly financial information may be misrepresented, reflecting an overstatement to expenses and an understatement of capital assets.

Recommendation No. 1

The Center should strengthen its existing policies and procedures over accounting for capital expenditures to include a more thorough review of transactions coded as capital acquisitions to ensure proper classification. The Center should also make periodic journal entries to record capital asset activity throughout the year as expenditures are incurred rather than capitalizing assets only at year-end.

The Center's Response

Agree. The Center has reviewed its existing policies over accounting for capital expenditures and has made modifications as needed to ensure proper classification. The account coding structure has been modified to differentiate account codes assigned to capital construction projects from controlled or deferred maintenance projects. The Center has also reinstated its prior practice of reclassifying expenses to construction in progress and recording depreciation on a monthly basis. This practice had been temporarily suspended because the fixed assets module the new financial system was not implemented until April 2009. During that timeframe, top-side entries were done to ensure financial reporting was accurate. Now that the module is implemented, monthly entries are once again being processed. The anticipated implementation date is February 2010.

Improving Timeliness and Internal Control over Financial Reporting (Significant Deficiency in Internal Control)

On an annual basis, the Center prepares financial statements for purposes of providing its financial results to the State. As part of preparing these statements, the State Controller provides a fiscal procedures manual and expects each agency to record all significant accruals and adjustments. In addition to amounts reported quarterly in the

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Colorado Financial Reporting System (COFRS), the Center prepares stand-alone financial statements from its general ledger on an annual basis. In the prior year audit, Recommendation No. 3 stated "The Center needs to ensure that the financial information transferred from Fundware to COFRS is accurate, reliable, and easily accessible by improving the structure and reporting modules of the accounting system to facilitate reconciliation reports; reconciling COFRS to Fundware on a monthly basis; and establishing supervisory review procedures to ensure that the work of all staff members is accurate and reliable." While we did not identify control deficiencies regarding the reconciliation of Fundware to COFRS during our fiscal year 2009 audit, we did identify certain conditions wherein supervisory reviews and other financial reporting procedures were insufficient to ensure the year-end financial statements are accurate, complete, and prepared in a timely manner. These conditions were partially caused by insufficient or inexperienced resources within the accounting and financial reporting function at the Center.

During our audit, we identified the following conditions relating to Center's financial reporting:

1. The Center was not able to prepare its annual financial statements in a timely manner. A complete draft of the fiscal year 2009 financial statements was not available until October 15, 2009, several weeks after the established due-date.

2. In addition, the Center was not able to prepare accurate financial statements for fiscal year 2009. The draft financial statements included the following errors:

   - Certain balances disclosed in the notes did not agree to amounts reported in the financial statements (these differences ranged from $2,400 to $530,000);
   - Capital and operating lease disclosures for the new science building and land purchase agreement were incomplete;
   - Certain noncash transactions were not properly reflected on the statement of cash flows (these transactions ranged from approximately $249,000 to $22.2 million); and
   - Certain reclassifications in the statements of revenues, expenses, and changes in net assets were not made, including $909,000 in bad debts from operating expenses to operating revenue and $1.2 million in revenue from constituent institutions from investment income to operating income.

3. The Center maintains approximately $118.5 million in long-term debt, consisting entirely of various revenue bond series. For financial reporting purposes, the current portion of the debt is reclassified from long-term. As of June 30, 2009, we noted that $3.2 million was not properly reclassified as short-term debt in the Center's stand-alone draft financial statements. However, the current portion was properly stated within COFRS. In addition, deferred financing costs and unamortized premiums/discounts on long-term debt totaling $295,000 were inappropriately classified as depreciation expense on the statement of revenues, expenses, and changes in net assets. We proposed and management recorded entries to reclassify these amounts as interest expense within nonoperating activities in accordance with Governmental Accounting Standards Board Codification D.20.108.

   In addition, the Center is required to comply with debt covenant provisions associated with its Series 2003, 2004, and 2006 parking bonds as well as its Series 2003 and 2006 student fee bonds. Although management concluded and we concurred that the Center is in material compliance with its various covenant provisions, management does not have a sufficient, documented process and related controls in place to monitor and ensure satisfactory compliance with the covenants.

Improved financial reporting will help provide appropriate accountability over the Center's operations, demonstrate fiscal stewardship of the Center's limited resources, and ensure compliance with State fiscal rules.

Recommendation No. 2

The Center should improve its internal controls over financial reporting to ensure that accurate and complete financial statements are prepared in a timely manner. Supervisory reviews and internal control procedures should ensure that reclassifications of the current portion of long-term debt are made, note disclosures agree to the financial statements, appropriate disclosures for lease agreements are made, noncash transactions are properly reflected on the statement of cash flows, and compliance with debt covenants is documented and monitored.

The Center's Response

Agree. The Center is committed to ensuring the accurate and timely financial reporting and to ensuring all required reclassifications and disclosures are made. The Center is also committed to working with the auditors to ensure expectations related to due dates and timelines are agreed upon. The anticipated implementation date is October 2010.

Facility Arrangements with Constituent Institutions (Deficiency in Internal Control)

The Center maintains and manages the facilities of the Auraria campus. The campus is jointly shared by the Metropolitan State College of Denver (Metro), the University of Colorado Denver (UCD), and the Community College of Denver (CCD) (the constituent institutions). Operations of the campus are funded by the Center's auxiliary services and payments from the constituent institutions, which totaled approximately $17 million for fiscal year 2009.

During our audit of the Center, we noted that agreements between the Center and the constituent institutions for general facility use and other services, including leasehold improvements, do not formally address the general financial terms and the rights and obligations of both the Center and the constituent institutions. With the exception of lease agreements for the Tivoli Student Union, agreements between the Center and the constituent institutions for the use of campus facilities and leasehold improvements are not formalized at a sufficient level to clarify the financial responsibilities and obligations of the Center and the constituent institutions. Documentation surrounding these arrangements is generally limited to a high-level discussion in the State's long bill for general facility use or through invoices from the Center to the constituent institutions for facility improvements. Consequently, it is unclear the extent of each party's rights, responsibilities, and obligations. This condition is highlighted even more as the Center and the constituent institutions continue to make substantial capital improvements to the Auraria campus. The lack of sufficient, formalized agreements between the Center and the constituent institutions makes it difficult for the Center and the constituent institutions to properly address, and consistently handle, the related accounting implications of these capital projects.

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For example, the Center constructed approximately $300,000 of leasehold improvements for a constituent institution's use of a computer lab in the Tivoli Student Union. Although the constituent institution reimbursed the Center for its costs, no formal agreement existed that captured the nature of the costs and the impact on the underlying lease agreement. As a result, both the Center and the constituent institution expensed the related costs resulting in an understatement of capital assets and an overstatement of capital expenditures at the Statewide level. Although no adjustments were required by the Center, the constituent institution subsequently identified an additional $800,000 in current year expenses and $2.3 million in prior year transactions that were inappropriately expensed in the institution's financial statements.

In addition, the general facility use agreement between the Center and the constituent institutions contains no financial terms or definitions of the rights, responsibilities, and obligations of the parties.

Recommendation No. 3

The Center should work with the constituent institutions to formalize the general facility use arrangements and leasehold improvements to ensure financial terms, rights, responsibilities, and obligations are properly understood, documented, and approved by all parties. In addition, the Center should continue to work with the accounting personnel from the constituent institutions to enhance the process for understanding and documenting the facility arrangements and discuss consistent accounting treatment for similar arrangements.

The Center's Response

Agree. The Center is committed to working with the constituent institutions to consider the development of more formal general facility use arrangements. The Center is also committed to working collaboratively with the constituent institutions to discuss the treatment of financial transactions between the Center and the constituent institutions. The anticipated implementation date is July 2010.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2009

Following are the audit recommendations made for the year ended June 30, 2008 and their disposition as of December 18, 2009.

Recommendation	Disposition
Recommendation No. 1	
The Center should ensure that reconciliations between COFRS and Fundware are performed timely, accurately, and at the account level.	Implemented.
Recommendation No. 2	
The Center should establish policies requiring monthly reconciliations of subsidiary ledgers to the general ledger and should expand the current operating cash account reconciliation to include reconciling the ending book balance to the ending bank balance.	Implemented.
Recommendation No. 3	
The Center needs to ensure that the financial information transferred from Fundware to COFRS is accurate, reliable, and easily accessible, by: a. Improving the structure and reporting modules of the accounting system to facilitate reconciliation reports; b. Reconciling COFRS to Fundware on a monthly basis; and c. Establishing supervisory review procedures to ensure that the work of all staff members is accurate and reliable.	Partially implemented. See Recommendation No. 2.

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Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Auraria Higher Education Center (the Center), a component unit of the State of Colorado, as of and for the year ended June 30, 2009, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit. The accompanying financial statements of the Center as of and for the year ended June 30, 2008 were audited by other auditors whose report thereon dated October 23, 2008, expressed an unqualified opinion on those statements. We also did not audit the financial statements of the discretely presented component unit discussed in note 1 to the basic financial statements. Those financial statements were audited by other auditors whose report thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

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

The financial statements of the discretely presented component unit were prepared assuming that the Inn at Auraria LLC will continue as a going concern. As discussed in note 1 to the basic financial statements of the discretely presented component unit, the Inn at Auraria LLC has incurred operating losses, has a net capital deficiency, and is in default under Series 2005 Revenue Bond agreements, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are discussed in note 1 to the basic financial statements of the discretely presented component unit.

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

The financial statements of the discretely presented component unit do not include any adjustments to reflect the possible future effects of the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

KPMG LLP

December 18, 2009

This section of the Auraria Higher Education Center's (the Center) basic financial statements presents discussion and analysis, prepared by the Center's management, of the Center's financial performance during the fiscal years ended June 30, 2009 and 2008 with comparative information for 2007. The purpose of this section is to provide an objective and easily readable analysis of the Center's financial position and results of operations based on currently known facts, decisions, and opinions. It should be read in conjunction with the basic financial statements and the related footnotes.

Understanding the Comparative Financial Report

The financial statements of the Center are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Effective June 30, 2004, the Center adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Accordingly, the financial statements of the Auraria Foundation are included with the Center's financial statements and discussed in more detail in note 6 to the basic financial statements.

This report contains three basic financial statements: the statements of net assets; the statements of revenues, expenses, and changes in net assets; and the statements of cash flows. The statements report on all of the Center's activities including services provided to Community College of Denver, Metropolitan State College of Denver, and University of Colorado Denver (the constituent institutions), parking operations, and student fee operations.

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

Statements of Net Assets

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

Total net assets increased approximately $51.3 million between fiscal years 2008 and 2009 and approximately $11.1 million between fiscal years 2007 and 2008, for a total increase of approximately $62.4 million since June 30, 2007. Although the Center continues to fund a portion of operating and nonoperating expenses using student auxiliary reserves, total net assets increased as a result of approximately $79.1 million of state capital appropriations, gifts, and grants during the same three-year period. Of this total, approximately $55.2 million is directly related to the Science Building project. This project will provide approximately an additional 196,000 gross square feet of academic space, critically needed to help meet a portion of the space needs of the growing student population. These funds increase net assets when received; net assets will be reduced over the useful life of the building as depreciation expense is recorded.

During fiscal years 2007, 2008, and 2009, the Center used resources totaling approximately $8.7 million from parking, student, and vending activities to support operating requirements, including approximately $3.0 million in 2009. The 2009 budget was the first budget since 2005 to see a reduction in the amount of funding from auxiliary activities used to support general operations.

Condensed Statements of Net Assets

		June 30	
	2009	2008	2007
		(In thousands)	
Assets:			
Current assets	$ 44,694	19,467	17,776
Capital assets, net	220,301	175,240	166,104
Other noncurrent assets	29,483	10,801	10,929
Total assets	294,478	205,508	194,809
Liabilities:			
Current liabilities	17,998	12,041	9,754
Noncurrent liabilities	114,777	83,105	85,786
Total liabilities	132,775	95,146	95,540
Net assets:			
Invested in capital assets, net of related debt	144,236	91,254	79,747
Restricted for expendable purposes	8,833	8,089	7,978
Unrestricted	8,635	11,020	11,544
Total net assets	$ 161,704	110,363	99,269

Statements of Revenues, Expenses, and Changes in Net Assets

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

The Center's operating loss increased approximately $400,000 between fiscal year 2007 and 2008 and approximately $1.5 million between fiscal years 2008 and 2009 for a total operating loss of approximately $4.0 million for fiscal year 2009. This change is primarily the result of increased personnel and benefit costs, as well as the growth of the campus requiring additional staff positions in several support areas including Campus Police, Facilities Management, and Campus Planning and Development. Support from the three constituent institutions increased approximately $1.7 million from 2008 to 2009 and approximately $400,000 from 2007 to 2008. Of the $1.7 million increase for 2009, the constituent institutions provided approximately $1.2 million for debt service payments on land purchased in December 2008 and payments on the finance leases related to the Science Building project. In 2009, approximately $3.0 million of auxiliary revenue and auxiliary reserves were used to support general operating costs.

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

		Year ended June 30	
	2009	2008	2007
		(In thousands)	
Operating revenues:			
Auxiliary enterprises	$ 36,572	34,728	32,112
Revenue from constituent institutions	17,789	16,051	15,623
Student fees	5,020	4,747	4,680
Other operating revenues	250	91	376
Total operating revenues	59,631	55,617	52,791
Operating expenses:			
Auxiliary enterprises	35,952	32,530	30,461
Operation and maintenance of plant	13,467	12,253	11,901
Institutional support	3,849	3,347	1,846
Academic support	1,327	1,297	1,365
Public service	97	68	56
Depreciation	8,951	8,656	9,271
Total operating expenses	63,643	58,151	54,900
Operating loss	(4,012)	(2,534)	(2,109)
Nonoperating revenues (expenses):			
Investment income	948	891	953
Interest expense on capital debt	(5,237)	(3,953)	(3,819)
Gain on disposal of capital assets	563	35	—
Other nonoperating income	—	—	1
Total nonoperating expenses	(3,726)	(3,027)	(2,865)
Capital contributions, grants, and gifts	59,079	16,655	3,389
Increase (decrease) in net assets	51,341	11,094	(1,585)
Net assets, beginning of year	110,363	99,269	100,854
Net assets, end of year	$ 161,704	110,363	99,269

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions showed an average increase between Fall of 2007 and Fall of 2008 of 1.8%. However, estimates for Fall 2009 predict very strong enrollment growth, averaging 8.0% to 10.0% higher than Fall 2008. The student population trend is showing a slight increase, of 1.0% to 3.0%, in the number of students under the age of 25, which indicates the continuing trend of the Auraria Campus (the Campus) migrating from an entirely commuter campus to include residential campus life.

Capital Assets

At June 30, 2009, the Center had approximately $220.3 million invested in capital assets, net of accumulated depreciation of approximately $143.8 million. For the year ended June 30, 2009, depreciation expense was approximately $9.0 million.

Capital Assets, Net

		June 30		
		2009	**2008**	**2007**
Land	$	28,253	11,753	11,753
Land improvements		9,793	10,697	11,176
Buildings and improvements		125,099	132,452	136,634
Equipment		1,646	1,264	1,589
Construction in progress		55,510	19,074	4,952
Total capital assets, net	$	220,301	175,240	166,104

Construction in progress increased approximately $36.4 million during 2009 relating to the Science Building renovation and addition project, largely resulting from approximately $32.3 million in funding received from the State of Colorado (the State) in prior years for phases 1 and 2 of the Science Building project. During fiscal year 2009, the State also approved funding of approximately $83.8 million from State-issued Certificates of Participation for the final phase of the project for which the State is funding approximately $63.7 million and the Center is responsible for approximately $20.1 million. In addition, the Auraria Foundation committed $3.0 million, the constituent institutions are providing $21.4 million, and the Center is providing an additional $875,000. The 360,000 square foot renovation and expansion project, currently estimated at approximately $121.1 million, is scheduled to be completed by January 2011. The completion of the Science Building project will provide a portion of the square footage critically needed to meet the demands of a growing student population. The Science Building project will provide approximately 196,000 additional gross square feet of academic space. The Center is continuing to explore the use of additional modular units and leasing space off campus to meet the space needs of the growing student population.

The Center purchased a parcel of land adjacent to campus, increasing the acreage of the campus by 13.54 acres. The value of the new parcel is approximately $16.5 million, and plans for development are being incorporated into the overall master planning effort for the Campus.

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

Bonds and Capital Leases

At June 30, 2009, the Center had approximately $118.5 million of bond and capital lease obligations outstanding. The table below summarizes this debt by type. In December 2008, the Center entered into an agreement to finance the acquisition of approximately 13.54 acres with the issuance of Certificate of Participation Series 2008 Land Acquisition Certificates in the amount of approximately $16.5 million. In connection with the Science Building renovation and expansion project, the Center is required to repay approximately $20.1 million of the

State-issued Certificates of Participation issued in November 2008. The constituent institutions share in the cost of debt service.

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

Long-Term Debt

		June 30		
		2009	**2008**	**2007**
Auxiliary enterprise revenue bonds	$	67,803	69,941	71,825
Capital lease obligations		50,734	15,557	16,146
Total long-term debt	$	118,537	85,498	87,971

Economic Outlook

Revenue limitations resulting from the Taxpayer's Bill of Rights Amendment to the Colorado Constitution (TABOR) have resulted in serious funding reductions to the constituent institutions for operating revenue and to the Center for funding deferred maintenance needs of the campus facilities. Referendum C enabled TABOR revenue restrictions to be suspended for five years ending with the fiscal year 2010 budget. During fiscal year 2009, this enabled the constituent institutions to increase their allocation to fund the Center's general operations by 7.1% from approximately $15.5 million to approximately $16.6 million. However, due to the economic downturn, the Center's budget for fiscal year 2010 reflects an overall reduction of 7.71%. This comprises a 10.0% reduction to the base budget offset by additional funding related to the maintenance required during fiscal year 2010 for the additional square footage in the Science Building addition. Due to the decrease in parking revenue and reserves, the Center can no longer rely on unrestricted parking reserves to fund small projects and controlled maintenance needs. The constituent institutions are working together with the Center to assess critical needs as they arise and to identify funding solutions. The 2009 fiscal budget continued the trend started in 2007 to reduce the amount of parking reserves used to support the general fund. The 2009 budget was also the first year since 2005 to see a reduction in total reserves used to support the general fund. The 2010 budget maintains funding from the reserves at the same level as was achieved in 2009.

The Center's auxiliary enterprise facilities are funded with student fees and user charges. These revenues are currently sufficient to maintain adequate levels of maintenance for the Tivoli Student Union, the recreation center, the child care center, and all parking facilities. However, these fees and charges are not sufficient to cover the ongoing maintenance needs of the general classroom facilities built approximately 31 years ago. The Campus has one of the highest classroom utilization rates in the nation. Although State funding for controlled maintenance has increased in the past few years, the economic outlook does not appear favorable and there may not be enough funding to cover the backlog of needs at the Center. The Center and the constituent institutions are studying various options for funding the increasing maintenance needs of these aging facilities.

An extensive master plan study for the entire campus has been completed and provides direction on how to develop the Campus over the next 20 years. Included in the study was an analysis on how public/private partnerships might assist in funding academic and administrative buildings to ease the Campus's critical space shortage. The constituent institutions are also formulating plans to fund and build institution-specific buildings versus relying on State funding. One of the institutions is moving forward with plans to build two facilities on the Campus over the next several years. The campus now houses a total of 20 modular units to help address the classroom shortage issue. Discussions continue about whether additional modular units or leasing space off campus will be necessary to accommodate the growing student population. The Center will continue to work with the constituent institutions to explore creative solutions to the space limitations.

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

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Net Assets

June 30, 2009 and 2008

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	14,322,685	12,676,930
Accounts receivable, net		4,036,223	3,158,227
Notes receivable		22,830,121	—
Short-term investments		669,123	665,503
Inventories		2,738,191	2,877,826
Prepaid expenses		97,867	88,127
Total current assets		44,694,210	19,466,613
Noncurrent assets:			
Restricted cash and cash equivalents		1,726,956	1,554,035
Bond proceeds restricted to investment in capital projects		1,120,299	985,884
Deferred debt issuance costs		1,521,460	1,511,682
Restricted investments		6,994,320	6,750,019
Notes receivable		18,120,182	—
Capital assets, net		220,300,776	175,240,197
Total noncurrent assets		249,783,993	186,041,817
Total assets	$	294,478,203	205,508,430
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	$	11,023,105	7,057,020
Interest payable		695,293	529,885
Deposits held for others		650,142	455,722
Deferred revenue		466,951	258,180
Long-term debt, current portion		5,067,481	3,662,674
Compensated absences liability, current portion		94,648	77,414
Total current liabilities		17,997,620	12,040,895
Noncurrent liabilities:			
Long-term debt		113,469,495	81,835,194
Compensated absences liability		1,307,549	1,269,557
Total noncurrent liabilities		114,777,044	83,104,751
Total liabilities	$	132,774,664	95,145,646
Net Assets			
Net assets:			
Invested in capital assets, net of related debt	$	144,235,563	91,254,009
Restricted for expendable purposes		8,833,231	8,088,873
Unrestricted		8,634,745	11,019,902
Total net assets	$	161,703,539	110,362,784

See accompanying notes to basic financial statements.

AURARIA HIGHER EDUCATION CENTER

Discretely Presented Component Unit

Statements of Financial Position

June 30, 2009 and 2008

		2009			2008		
Assets		**Inn at Auraria LLC**	**The Auraria Foundation**	**Total**	**Inn at Auraria LLC**	**The Auraria Foundation**	**Total**
Cash and cash equivalents	$	154,635	1,582,739	1,737,374	19,480	3,619,559	3,639,039
Investments		—	4,698,663	4,698,663	—	4,327,634	4,327,634
Accounts receivable, net of allowance for doubtful accounts of $204,000 and $166,000, respectively		140,122	—	140,122	128,461	—	128,461
Trustee-held cash limited as to use		1,154,741	—	1,154,741	1,157,563	—	1,157,563
Trustee-held guaranteed investment contracts limited as to use		1,293,517	—	1,293,517	2,048,643	—	2,048,643
Prepaid expenses and other		32,710	9,310	42,020	41,066	9,230	50,296
Advance to Inn at Auraria LLC		—	583,594	583,594	—	444,173	444,173
Property and equipment, net		30,225,185	854,628	31,079,813	31,134,995	893,655	32,028,650
Bond issuance costs, net		703,760	—	703,760	725,084	—	725,084
Eliminations of intercompany balances		—	—	—	—	—	—
Total assets	$	33,704,670	7,728,934	41,433,604	35,255,292	9,294,251	44,549,543
Liabilities and Net Assets							
Liabilities:							
Accounts payable	$	202,906	23,131	226,037	203,561	316,999	520,560
Accrued expenses and other		158,967	—	158,967	174,041	—	174,041
Deferred revenue		114,918	—	114,918	83,519	—	83,519
Interest payable		1,107,534	—	1,107,534	1,107,534	—	1,107,534
Grants payable		—	3,157,724	3,157,724	—	3,250,000	3,250,000
Due to The Auraria Foundation		583,594	—	583,594	444,173	—	444,173
Bonds payable in default		37,280,000	—	37,280,000	37,280,000	—	37,280,000
Eliminations of intercompany balances		—	—	—	—	—	—
Total liabilities		39,447,919	3,180,855	42,628,774	39,292,828	3,566,999	42,859,827
Unrestricted net assets		(5,743,249)	4,548,079	(1,195,170)	(4,037,536)	5,727,252	1,689,716
Total liabilities and net assets	$	33,704,670	7,728,934	41,433,604	35,255,292	9,294,251	44,549,543

See accompanying notes to basic financial statements.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Auxiliary enterprises	$ 36,572,013	34,728,379
Revenue from constituent institutions	17,789,420	16,050,521
Student fees	5,019,480	4,747,199
Other operating revenues	249,860	90,704
Total operating revenues	59,630,773	55,616,803
Operating expenses:		
Auxiliary enterprises	35,951,824	32,530,347
Operation and maintenance of plant	13,466,711	12,253,257
Institutional support	3,849,171	3,346,710
Academic support	1,327,385	1,296,847
Public service	96,701	67,862
Depreciation	8,950,664	8,656,556
Total operating expenses	63,642,456	58,151,579
Operating loss	(4,011,683)	(2,534,776)
Nonoperating revenues (expenses):		
Investment income	948,028	891,141
Interest expense on capital debt	(5,237,580)	(3,953,294)
Gain on disposal of capital assets	563,199	35,000
Net nonoperating expenses	(3,726,353)	(3,027,153)
Loss before other revenues, expenses, gains, or losses	(7,738,036)	(5,561,929)
Other revenues, expenses, gains, or losses:		
State capital contributions	57,787,350	15,838,042
Capital grants and gifts	1,291,441	817,345
Increase in net assets	51,340,755	11,093,458
Net assets, beginning of year	110,362,784	99,269,326
Net assets, end of year	$ 161,703,539	110,362,784

See accompanying notes to basic financial statements.

AURARIA HIGHER EDUCATION CENTER

Discretely Presented Component Unit

Statements of Activities

Years ended June 30, 2009 and 2008

	2009			2008		
	Inn at Auraria LLC	**The Auraria Foundation**	**Total**	**Inn at Auraria LLC**	**The Auraria Foundation**	**Total**
Revenues and other support:						
Contributions	$ —	—	—	—	200	200
Rental income	2,677,453	38,625	2,716,078	2,464,331	38,625	2,502,956
Management fees	—	25,000	25,000	—	25,000	25,000
Investment income (loss)	90,251	(773,946)	(683,695)	129,149	(89,237)	39,912
Miscellaneous income	215,019	—	215,019	114,395	—	114,395
Total revenues and other support	2,982,723	(710,321)	2,272,402	2,707,875	(25,412)	2,682,463
Expenses:						
Inn at Auraria LLC operations	4,414,977	—	4,414,977	4,384,619	—	4,384,619
St. Francis program expense	—	68,111	68,111	—	64,959	64,959
Donations to AHEC and other Auraria institutions	—	45,615	45,615	—	9,970	9,970
General and administrative	270,963	105,126	376,089	206,606	91,635	298,241
Total expenses	4,685,940	218,852	4,904,792	4,591,225	166,564	4,757,789
Other nonoperating expenses	2,496	—	2,496	2,500	—	2,500
AHEC grants	—	250,000	250,000	—	250,000	250,000
Change in net assets	(1,705,713)	(1,179,173)	(2,884,886)	(1,885,850)	(441,976)	(2,327,826)
Net assets (deficit), beginning of year	(4,037,536)	5,727,252	1,689,716	(2,151,686)	6,169,228	4,017,542
Net assets (deficit), end of year	$ (5,743,249)	4,548,079	(1,195,170)	(4,037,536)	5,727,252	1,689,716

See accompanying notes to basic financial statements.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Cash received:			
Student fees	$	5,017,735	4,817,406
Revenue from constituent institutions		17,789,320	16,073,842
Sales of products and services		37,789,786	34,407,100
Cash payments:			
Payments for employees		(21,456,478)	(19,267,631)
Payments to suppliers		(31,117,467)	(28,846,203)
Net cash provided by operating activities		8,022,896	7,184,514
Cash flows from capital and related financing activities:			
Capital grants and gifts		1,291,441	817,345
Acquisition and construction of capital assets		(487,410)	(1,919,731)
Disposal of capital assets		577,333	—
Principal received on notes receivable		535,640	—
Principal paid on long-term debt		(4,625,763)	(2,657,992)
Interest paid on long-term debt		(4,061,155)	(3,715,972)
Net cash used in capital and related financing activities		(6,769,914)	(7,476,350)
Cash flows from investing activities:			
Net (purchases) sales of investments		(382,335)	322,440
Investment income		948,029	776,130
Net cash provided by investing activities		565,694	1,098,570
Net increase in cash and cash equivalents		1,818,676	806,734
Cash and cash equivalents, beginning of year		14,230,965	13,424,231
Cash and cash equivalents, end of year	$	16,049,641	14,230,965

(Continued)

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(4,011,683)	(2,534,776)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		8,950,664	8,656,556
Bad debt expense		336,423	45,571
Write-off of noncapitalizable items		2,681,857	—
Decrease (increase) in assets:			
Accounts receivable		(1,214,419)	106,420
Inventories		139,635	(1,268,248)
Prepaid expenses		(9,740)	50,885
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities		691,742	2,408,203
Deferred revenues		208,771	31,553
Compensated absences liability		55,226	118,319
Other liabilities		194,420	(429,969)
Net cash provided by operating activities	$	8,022,896	7,184,514
Noncash operating and capital activities:			
Acquisitions under capital lease arrangements:			
Capital assets:			
Land	$	16,500,000	—
Equipment		334,800	—
Reduction of construction in progress relating to direct financing leases with constituent institutions		(18,024,057)	—
Accounts payable		(3,328,468)	—
Capital lease obligations		(37,085,818)	—
Notes receivable		41,485,943	—
Deferred debt issuance costs		117,600	—
State capital contributions		57,787,350	15,838,042
Acquisition and construction of capital assets using State capital contributions		(57,787,350)	(15,838,042)
Supplemental cash flow information:			
Accounts payable related to capital asset purchases	$	54,125	424,584

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Operations

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

(b) Basis of Accounting and Presentation

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

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

Effective June 30, 2004, the Center adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Accordingly, the financial statements of the Auraria Foundation (the Foundation) are included with the Center's financial statements. The Foundation is the sole member of the Inn at Auraria, LLC (the Inn), that is a limited liability corporation that is legally, financially, and operationally independent of the Foundation. For financial reporting purposes, the Inn is consolidated into the Foundation's reporting entity. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Center's financial reporting entity for these differences. A complete copy of the Foundation's financial statements can be obtained by contacting: Auraria Foundation, Box 173361 Campus Box A, Denver, Colorado 80217-3361.

(c) Use of Estimates

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

(d) Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 financial statement presentation.

(e) Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009 and 2008, cash and cash equivalents and restricted cash and cash equivalents consisted primarily of U.S. Treasury money market funds, certificates of deposit, cash on hand, and amounts on deposit with the Colorado State Treasurer (the Treasurer).

(f) Investments and Investment Income

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

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

(g) Restricted Cash and Cash Equivalents and Restricted Investments

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

(h) Accounts Receivable, Net

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

		2009	2008
Constituent institutions	$	1,112,506	1,231,531
State of Colorado central collections		477,816	379,178
Book Center credit memos due from vendors		452,590	299,303
Auxiliary enterprises		417,408	972,517
Interest receivable		164,586	—
Auraria Foundation		1,701,910	650,285
Other		266,813	95,366
		4,593,629	3,628,180
Less allowance for doubtful accounts		(557,406)	(469,953)
Accounts receivable, net	$	4,036,223	3,158,227

(Continued)

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

(i) Notes Receivable

In 2009, the Center entered into capital lease arrangements with the constituent institutions to lease space in the Science Building, which remained under construction as of June 30, 2009. The proceeds of these capital lease arrangements will be used by the Center to fund the $20,133,417 due to the State as required under the State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 (refer to note 4 for more details).

Notes receivable consist of the following at June 30:

		2009	2008
Science Building – receivable from constituent institutions, current	$	602,595	—
Science Building – receivable from State Treasurer, current		22,227,526	—
Notes receivable, current		22,830,121	—
Science Building – receivable from constituent institutions, long-term		18,120,182	—
Total notes receivable	$	40,950,303	—

The notes receivable balances are considered to be fully collectible as of June 30, 2009. The $22,227,526 receivable from the Treasurer represents cash obtained under the State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008, and held by the Treasurer to be utilized by the Center for the construction of the Science Building.

(j) Inventories

The Auraria campus provides an academic bookstore utilized by the three constituent institutions, consisting of new and used textbooks, insignia items, apparel, and other supplies. The Center is responsible for managing and maintaining the bookstore, and carries the inventory at the lower of the retail method or cost. Provisions are made for obsolete inventory on a periodic basis. Provisions recorded for the years ended June 30, 2009 and 2008 totaled $415,265 and $482,652, respectively.

(k) Deferred Debt Issue Costs

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

(Continued)

(l) Capital Assets, Net

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

Land improvements	20 years
Buildings and improvements	27.5 – 40 years
Equipment	3 – 10 years

The following is the capitalization threshold used by the Center:

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

Capital leases consist of lease-purchase contracts. Such contracts provide that commitments beyond the current year are contingent upon funds being appropriated for such purposes. Refer to note 4 for further discussion. In addition, the Center is the lessor in direct financing leases with the constituent institutions in relation to the Science Building. As of June 30, 2009, construction costs related to the Science Building included in construction in progress totaled $73,221,089. The Center has reduced the cost of the related capital asset by $18,024,057, reflecting the constituent institution's portion of the completed building under capital lease.

The Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. As of June 30, 2009 and 2008, capitalized interest included in construction in progress totaled $1,417,356 and $0, respectively.

(m) Accrued Salaries

State Senate Bill 03-197 requires monthly and certain biweekly salaries that would normally be paid at the end of June to be paid in July. This resulted in an accrual of $1,929,832 and $1,611,375 that was included in accounts payable and accrued liabilities at June 30, 2009 and 2008, respectively.

(n) Compensated Absences

Center employees may accrue annual and sick leave based on length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested at June 30, 2009 and 2008 is $1,402,197 and $1,346,971, respectively. Operating expenses for the years ended June 30, 2009 and 2008 include $55,226 and $118,319, respectively, representing the increase in the estimated compensated absence liability.

(o) Deferred Revenue

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

		2009	2008
Student fees for the summer semester	$	182,264	169,621
Childcare tuition collected in advance		16,887	5,813
Early Learning Center grants		58,800	47,628
Lot I build out fee		209,000	—
Advance rent for Tivoli Student Union space		—	35,118
	$	466,951	258,180

(p) Classification of Revenues

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

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

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

(q) Concentrations of Credit Risk

Operating revenues consist of revenue from the constituent institutions for services and facilities provided by the Center. These revenues currently, and for the past several years, do not cover the costs of operating the campus. As a result, the Center has had to draw on reserves to fund operations and critical maintenance needs.

(r) Functional Allocation of Expenses

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

(s) Income Taxes

As a state agency, the income of the Center is excluded from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of State law. However, income not earned in exercise of the Center's essential government function would be subject to income tax. The Center had no unrelated business income tax liabilities in fiscal years 2009 or 2008.

(2) Deposits, Investments, and Investment Return

(a) Deposits and Cash Equivalents

At June 30, 2009 and 2008, the carrying value of the Center's deposits was $14,322,685 and $12,676,930, respectively. Balances consist of deposits with the State Treasurer, as described below, $1,294,562 and $1,875,493 in bank deposits, and $53,778 and $67,628 of cash on hand, respectively. The bank balance classified by custodial credit risk category is covered by $250,000 of federal depository insurance and by collateral held by the pledging institutions' trust departments in the name of the State public deposit pool as required by the Public Deposit Protection Act.

(b) Investments

The Center deposits its cash with the Treasurer as required by Colorado Revised Statutes (CRS). The Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, CRS. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited with the Treasurer are invested until the cash is needed. Earnings are allocated in proportion to the average daily cash balance for all participants in the pool. At June 30, 2009 and 2008, the Center had cash on deposit with the Treasurer of $12,974,345 and $10,733,809, respectively, which represented approximately 0.23% of the total $5,742.1 million and 0.17% of the total $6,304.1 million, respectively, in deposits in the State Treasurer's Pool (Pool).

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

For the Center's deposits with the State Treasury, the net unrealized gain for fiscal year 2009 was $319,635 and the net unrealized gain for fiscal year 2008 was $115,013. These unrealized gains and losses are included in cash and cash equivalents on the statements of net assets.

(c) Custodial Credit Risk

Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in either the Center's or the State's name, and are held by either the counterparty to the investment purchase or are held by the counterparty's trust department or agency but not held in the Center's or

(Continued)

the State's name. As of June 30, 2009 and 2008, the Center has no investments that are subject to custodial risk.

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

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. The State requires two ratings with the rating level set by the investment portfolio and investment type. Based on these parameters, as of June 30, 2009 and 2008, approximately 92.6% and 91.5%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for $46,976,250 and $14,782,450 in 2009 and 2008, respectively, of corporate bonds rated lower-medium, and $38,237,320 of corporate bonds rated as speculative, these investments are rated from upper-medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

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

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. The weighted average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in terms of years, weighted to reflect the dollar size of individual investments within an investment type. The overall portfolio weighted average maturity is derived by dollar-weighting the WAM for each investment type. The State has selected WAM as the primary method for reporting interest rate risk. As of June 30, 2009, the WAM of investments in the Pool is 0.08 years for commercial paper (1.8% of the Pool), 0.01 years for money market funds (7.1% of the Pool), 1.14 years for U.S. government securities (67.2% of the Pool), 1.55 years for asset-backed securities (16.7% of the Pool), and 2.01 years for corporate bonds (7.2% of the Pool). As of June 30, 2008, the WAM of investments in the Pool is 0.10 years for commercial paper (16.6% of the Pool), 0.10 years for money market funds (6.2% of the Pool), 0.97 years for U.S. government securities (50.8% of the Pool), 1.90 years for asset-backed securities (18.6% of the Pool), and 2.10 years for corporate bonds (7.8% of the Pool).

The following table lists the Center's investments, by investment type, as of June 30, 2009 and 2008 for those investments not part of the Pool. The fair value amount is shown along with the credit quality rating and weighted average maturity.

Investment type		Fair value amount	Credit rating	Weighted average maturity
June 30, 2009:				
U.S. government agencies – explicitly guaranteed	$	5,663,799	Not rated	Not applicable
Commercial paper		1,999,644	Highest	25 year(s)
Total investments	$	7,663,443		
June 30, 2008:				
U.S. government agencies – explicitly guaranteed	$	5,451,937	Not rated	Not applicable
Commercial paper		1,963,585	Gilt edge	25 year(s)
Total investments	$	7,415,522		

(f) Investment Income

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

		2009	2008
Interest and dividend income	$	628,393	776,128
Net increase in fair value of investments		319,635	115,013
	$	948,028	891,141

(3) Capital Assets

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

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

As of June 30, 2009 and 2008, construction in progress primarily consists of costs incurred relating to the Science Building. The Center has reduced construction in progress by $18,024,057 for the direct financing leases discussed in note 1.

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

	Beginning balance	Additions	Disposals	Transfers	Ending balance
Land	$ 11,752,961	—	—	—	11,752,961
Land improvements	24,601,886	—	—	416,036	25,017,922
Buildings and improvements	246,223,071	—	—	2,951,083	249,174,154
Equipment	5,430,384	349,767	(137,500)	—	5,642,651
Construction in progress	4,951,446	17,490,162	—	(3,367,119)	19,074,489
Total capital assets	292,959,748	17,839,929	(137,500)	—	310,662,177
Less accumulated depreciation:					
Land improvements	13,425,615	895,511	—	—	14,321,126
Buildings and improvements	109,588,772	7,133,631	—	—	116,722,403
Equipment	3,841,380	627,414	(90,343)	—	4,378,451
Total accumulated depreciation	126,855,767	8,656,556	(90,343)	—	135,421,980
Total capital assets, net	$ 166,103,981	9,183,373	(47,157)	—	175,240,197

(4) Long-Term Debt

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

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

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

		Beginning balance	Additions	Deductions	Ending balance	Current portion
Revenue bonds payable:						
Series 2003 parking	$	8,319,432	72,114	(1,630,000)	6,761,546	1,675,000
Series 2003 student fee		19,982,613	4,855	(895,000)	19,092,468	925,000
Series 2004 parking		21,537,593	688,321	—	22,225,914	—
Series 2006 parking		7,091,456	25,256	—	7,116,712	—
Series 2006 student fee		14,893,620	30,461	(180,000)	14,744,081	390,000
Total revenue bonds payable		71,824,714	821,007	(2,705,000)	69,940,721	2,990,000
Capital lease obligations:						
Administration facility series 2005		15,724,842	48,164	(540,000)	15,233,006	565,000
Equipment		421,368	—	(97,227)	324,141	107,674
Total capital lease obligations		16,146,210	48,164	(637,227)	15,557,147	672,674
Total long-term debt	$	87,970,924	869,171	(3,342,227)	85,497,868	3,662,674

(a) Revenue Bonds Payable

The Center had the following bonds outstanding at June 30, 2009:

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

(b) Series 2003 Parking Bonds

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

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

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

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

At June 30, 2009 and 2008, the Series 2003 Parking Bonds are shown net of unamortized premium of $28,956 and $38,608, respectively, and unamortized deferred loss on refinancing of $245,298 and $327,063, respectively, and have related unamortized issue costs of $62,033 and $82,710, respectively.

(c) Series 2003 Student Fee Bonds

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

At June 30, 2009 and 2008, the Series 2003 Student Fee Bonds are shown net of a discount of $77,677 and $82,532, respectively, and have related unamortized issue costs of $235,368 and $250,078, respectively.

(d) Series 2004 Parking Bonds

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

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

The Series 2004A and 2004B Parking Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2009 and 2008, the Series 2004 Parking Bonds are shown net of a discount of $75,923 and $80,008, respectively, and have related unamortized issue costs of $395,743 and $415,866, respectively.

(e) Series 2006 Parking Bonds

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

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

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

At June 30, 2009 and 2008, the Series 2006 Bonds are shown net of a premium of $7,291 and $7,727, respectively, and unamortized deferred loss on refinancing of $430,324 and $456,015, respectively, and have related unamortized issue costs of $194,969 and $206,690, respectively.

(f) Series 2006 Student Fee Bonds

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

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

The Series 2006 Bonds are payable in semiannual installments with annual principal payments ranging from $180,000 to $1,575,000 and interest ranging from 3.5% to 4.1%. The final installment is due April 1, 2021. The Series 2006 Student Bonds are collateralized by revenues from student fees assessed for student facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2009 and 2008, the Series 2006 Bonds are shown net of a discount of $20,381 and $22,104, respectively, and unamortized deferred loss on refinancing of $340,073 and $368,814, respectively, and have related unamortized issue costs of $225,854 and $244,941, respectively.

(g) Bond Maturity Schedule

Debt service to maturity for all bonds as of June 30, 2009 is as follows:

	Principal	Interest	Total
Year ending June 30:			
2010	$ 3,310,000	2,168,484	5,478,484
2011	3,430,000	2,047,808	5,477,808
2012	5,090,000	1,923,859	7,013,859
2013	3,735,000	1,789,053	5,524,053
2014	3,820,000	1,705,815	5,525,815
2015 – 2019	19,955,000	7,175,325	27,130,325
2020 – 2024	22,650,000	4,488,811	27,138,811
2025 – 2029	16,780,000	1,612,935	18,392,935
	78,770,000	22,912,090	101,682,090
Less unaccreted principal on Series 2004 Parking Bonds	(9,813,404)	—	(9,813,404)
Less unamortized discount/premium and deferred loss on refinancing	(1,153,429)	—	(1,153,429)
	$ 67,803,167	22,912,090	90,715,257

Reserve balances and requirements for outstanding bond issues at June 30, 2009 are as follows:

		Reserve balance	Required reserve
Series 2003, Series 2004, and Series 2006 Parking Bonds:			
Debt service reserve	$	4,365,963	4,068,289
Repair and replacement reserve		671,507	671,507
Series 2003 and 2006 student fee bonds:			
Repair, replacement, and operation and maintenance reserve	$	350,000	350,000

As of June 30, 2009 and 2008, the Center was in compliance with all bond covenants and related reserve requirements.

(h) Capital Lease Obligations

The Center is obligated under leases accounted for as capital leases. Assets under capital leases are included in the statements of net assets at June 30, 2009 and 2008 as follows:

		Cost	Accumulated depreciation	Carrying value
June 30, 2009:				
Administrative building	$	15,518,172	5,372,279	10,145,893
Equipment		334,800	33,480	301,320
Land		16,500,000	—	16,500,000
Total capital lease obligation	$	32,352,972	5,405,759	26,947,213
June 30, 2008:				
Administration building	$	15,518,172	4,806,169	10,712,003
Equipment		703,848	633,463	70,385
	$	16,222,020	5,439,632	10,782,388

(i) Administrative Facility Series 2005

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

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

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

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

At June 30, 2009 and 2008, the Administrative Facility Certificates are shown net of an unamortized discount of $25,311 and $26,655, respectively, unamortized deferred loss on refinancing of $901,291 and $948,112, respectively, and unamortized issue costs of $295,773 and $311,478, respectively.

(j) Land Acquisition Series 2008

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

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

At June 30, 2009, the Series 2008 Land Acquisition Certificates had an issuance premium of $47,427 and unamortized issuance costs of $111,720.

State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008:

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

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

(k) Equipment Lease

The Center also entered into a lease-purchase contract for copier equipment during the year. The interest rate on the lease was 8.0% in fiscal year 2009.

(l) Future Minimum Lease Payments

The following is a schedule of future minimum lease payments under all capital leases for the year ended June 30, 2009:

	Principal	Interest	Total
Year ending June 30:			
2010	$ 1,757,481	2,628,864	4,386,345
2011	1,844,415	2,547,495	4,391,910
2012	1,933,080	2,455,030	4,388,110
2013	2,023,483	2,365,697	4,389,180
2014	2,039,043	2,269,745	4,308,788
2015 – 2019	11,787,648	9,745,353	21,533,001
2020 – 2024	15,097,606	6,428,407	21,526,013
2025 – 2029	15,225,085	1,995,740	17,220,825
	51,707,841	30,436,331	82,144,172
Less unamortized discount/premium and deferred loss on refinancing	(974,032)	—	(974,032)
	$ 50,733,809	30,436,331	81,170,140

(5) State Contributions and Allocations from Other State Agencies

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

For the year ended June 30, 2009, appropriated current fund expenditures were within the authorized spending authority. The Center had total current funds appropriations of $16,627,252, for which the constituent institutions funded $16,625,772. The constituent institutions also provided additional nonappropriated funding of $511,209 to fund a portion of the debt service payments on the additional 13 acres of land purchased in December 2008 as well as an additional $652,439 provided by Metropolitan State College of Denver and the University of Colorado Denver in lease payments related to the financed portion of the Science Building project.

For the year ended June 30, 2008, appropriated current fund expenditures were within the authorized spending authority. The Center had a total current funds appropriation of $15,686,087, for which the constituent institutions funded $15,538,104. The constituent institutions also contributed $512,417 in one-time current funding. The additional funding included $19,060 for accessibility improvements, $65,580 toward the purchase of two new Steinway grand pianos, $290,987 to cover modular classrooms, and $136,790 toward Metropolitan State College of Denver's master plan study.

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

(6) The Auraria Foundation and Inn at Auraria LLC

(a) The Auraria Foundation

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

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

The Foundation, in conjunction with the Colorado Postsecondary Educational Facilities Authority and the Colorado Educational and Cultural Facilities Authority (CECFA), issued tax-exempt bonds for the purchase of buildings that were leased to one of the Center's constituent institutions, the University of Colorado Denver. In June 2006, the Foundation sold certain buildings to the University of Colorado Denver and pledged $3,000,000 from the proceeds to the Center to be used toward the costs of the Science Building addition/renovation project and $500,000 to the Center for safety projects including night lighting and emergency phones. At June 30, 2009, the Center incurred and billed expenses of $1,123,001 to the Foundation on the Science Building project, all of which is included in accounts receivable at year-end. In July 2007, the Foundation pledged a grant to the Center for a roof over the kiln in the foundry area of the Arts Building. At June 30, 2009, $560,000 is included in receivables for the kiln roof.

At June 30, 2008, the Center incurred and billed expenses of $342,276 on the Science Building addition/renovation project and $306,630 on safety projects, all of which were included in accounts receivables at year-end.

The Foundation has a contract with the Center under which the Center provides staff for the management of the Foundation. Under that agreement, the Foundation paid the Center $20,000 each year for the years ended June 30, 2009 and 2008. In addition, the Foundation paid the Center $2,696 and $6,277 during fiscal years 2009 and 2008, respectively, for room rentals and reimbursements. Under that agreement, the Center is also required to pay the Foundation for the Foundation's services in obtaining financing for construction of the administration facility. For the years ended June 30, 2009 and 2008, the Center paid the Foundation $25,000 and $20,000, respectively, for these services.

The Foundation owns the St. Francis Center and leases it to the Center to provide office space for campus activities and for conferences. The lease requires the Center to pay an annual lease payment and the operating costs of the building. During the years ended June 30, 2009 and 2008, the Center paid the Foundation $38,625 for the use of the St. Francis Center. In addition, the Center billed the Foundation $18,809 for the fire system during fiscal year 2009 and $6,576 for new doors and to trim trees in the St. Francis Center during fiscal year 2008.

(b) Inn at Auraria LLC

The Inn is a limited liability corporation that is legally, financially, and operationally independent of the Foundation and the Center. The Foundation is the sole member of the Inn. The Inn was created to provide housing for the students of the Auraria institutions. In July 2005, the Inn received a $37,280,000 loan from the Colorado Educational and Cultural Facilities Authority through the issuance of long-term serial bonds and purchased the top 14 floors (floors 17 through 30) of the former Executive Tower Inn building to create 125 apartment-style units to provide housing for 439 students. The Executive Tower Inn was built in 1972 and is located in downtown Denver, Colorado, a few blocks from the Auraria Campus. The facility opened to student residents on August 19, 2006. The Executive Tower Inn building is condominiumized between the Inn and the remainder of the building. A condominium association provides common building services, such as elevator maintenance and exterior street level maintenance, to the Inn's portion of the building as well as making a portion of the building's underground parking and athletic facilities available to students on a monthly rental basis. The Inn has engaged American Campus Communities to provide administrative and residential management services under an agreement expiring in August 2016. As of the fiscal year ended June 30, 2009, the Inn is reporting a net loss of $1,705,713 and has a net capital deficiency of $5,743,249. In the planning for this project, it was anticipated that the Inn's first years of operation would be difficult because the Inn represented the addition of student housing to a campus, which has historically been a nonresidential "commuter" campus.

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

		Principal	Interest	Total
Year ending June 30:				
2010	$	180,000	2,208,044	2,388,044
2011		205,000	2,198,759	2,403,759
2012		285,000	2,185,591	2,470,591
2013		375,000	2,167,853	2,542,853
2014		475,000	2,145,009	2,620,009
Thereafter		35,760,000	39,343,122	75,103,122
	$	37,280,000	50,248,378	87,528,378

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

(7) Pension Plan

(a) Plan Description

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

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

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

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

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

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

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15% increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5%, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3% or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lesser of 3% or the actual increase in the national Consumer Price Index, limited to a 10% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by one percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

(Continued)

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

(b) Funding Policy

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

Most employees contribute 8.0% of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2008, to December 31, 2008, the State contributed 12.05% of the employee's salary. From January 1, 2009, through June 30, 2009, the State contributed 12.95%. During all of fiscal year 2008-09, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2008, the division of PERA in which the State participates was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

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

In the 2006 legislative session, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to State employees' salaries, and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100%.

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

The Center's contributions to PERA and the State defined contribution plan for the fiscal year ended June 30, 2009, 2008, and 2007 were $1,844,737, $1,438,374, and $1,258,815, respectively. These contributions met the contribution requirements for each year.

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(8) Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan and, beginning on July 1, 2009, will administer the 457 deferred compensation plan previously administered by the State. The Center offers a tax-sheltered 403(b) plan, which covers substantially all employees. The Center did not contribute to the 403(b) plan and, as such, does not incur any expense with regards to the plan.

(9) Other Postemployment Benefits and Life Insurance

(a) Health Care Plan

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

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

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in note 7. Beginning July 1, 2004, State agencies/institutions are required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The Center contributed $145,365, $138,611, and $126,782 as required by statute in fiscal years 2009, 2008, and 2007, respectively. In each year the amount contributed was 100% of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2008, there were 45,888 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2008, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.11 billion, a funded ratio of 18.7%, and a 39-year amortization period.

(b) Other Programs

Nonclassified administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for post employment health coverage until the retiree is eligible for Medicare. For fiscal year 2009, the Center has no retiree participants under CHEIBA.

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

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

(10) Risk Management

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

The State Division of Risk Management is deemed to be a public entity risk pool; therefore, under the Governmental Immunity Act, the Center is protected from claims by the Doctrine of Sovereign Immunity except under certain circumstances in which immunity is waived.

(11) Litigation

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

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

(a) The Auraria Foundation

The Auraria Foundation (the Foundation) is a not-for-profit corporation formed in June 1983. Its purpose is to receive, hold, invest and administer property and to make donations, gifts and expenditures for the direct benefit of the Auraria Higher Education Center (AHEC).

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

(b) Inn at Auraria LLC

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

The Executive Tower Inn building is condominiumized between Inn and the remainder of the building. A condominium association provides common building services, such as elevator maintenance and exterior street level maintenance, to Inn's portion of the building as well as making a portion of the building's underground parking and athletic facilities available to students on a monthly rental basis. Inn has engaged American Campus Communities to provide administrative and residential management services under an agreement expiring in August 2016.

As of the fiscal year ended June 30, 2009, Inn is reporting a net loss of $1,705,713 and has a net capital deficiency of $5,743,249. In the planning for this project, it was anticipated that Inn's first years of operation would be difficult because Inn represented the addition of student housing to a campus which has historically been a nonresidential "commuter" campus.

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

In addition, Inn failed to meet certain principal payment obligations due on July 1, 2009 under the Series 2005 Revenue Bonds.

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

(c) Consolidated Financial Statements

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

In July 2005, when Inn obtained funding for the housing project, the Foundation loaned Inn $250,000 to enable Inn to make the "borrower contribution" required. Through the payment of utilities bills, property taxes and other expenses which could not be paid from the Inn's current operating budget, the Foundation made additional loans to the Inn of $143,671 and $189,923 during the year ended June 30, 2009 and 2008, respectively.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Financial Statement Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted; neither the Foundation nor Inn have any temporarily or permanently restricted net assets at June 30, 2009 or 2008.

(c) Contributions

The Foundation follows the requirements of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor restricted support is reported as an increase in unrestricted, temporarily restricted or permanently restricted net assets depending on the nature of the restriction. When a restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions whose restrictions are met in the same period in which the related contributions are received are reported as unrestricted support.

(d) Pledges Receivable

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

(e) Unrestricted Cash and Cash Equivalents

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

(f) Unrestricted Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the statement of activities.

(g) Property and Equipment

Property and equipment are recorded at cost. Repairs and maintenance of property and equipment are charged to operations. Depreciation is recorded using the straight line method over the estimated useful lives of the respective assets, ranging from 40 years for buildings, 7 to 25 years for building improvements and 3 to 7 years for furniture and equipment. Upon retirement, sale, or other dispositions of property and equipment, the cost and related accumulated depreciation are removed from the related accounts and the resulting gains or losses are included in operations.

(h) Long-Lived Assets

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* requires that long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of June 30, 2009 and 2008, management believes the carrying values of all long-lived assets are recoverable.

(i) Bond Issuance Costs

In connection with the issuance of the Series 2005A tax exempt bonds and the Series 2005B taxable bonds by the Issuer and the note agreement between the Issuer and Inn, Inn was obligated to pay the Issuer fees and expenses for such issuance. These bond issuance costs are being deferred and amortized over the terms of the bonds using the straight-line method, which approximates the interest method. Any unamortized costs would be charged to earnings upon repayment of or in connection with a material change in the terms of the underlying debt agreement. Amortization of bond issuance costs was $21,324 for the years ended June 30, 2009 and 2008.

(j) Student Housing Revenues and Related Receivables

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

(Continued)

(k) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, provision for doubtful accounts, useful lives of property and equipment, accrued expenses, and contingencies and litigation, among others. Actual results could differ from those estimates.

(l) Contributed Property and Services

Contributed property and equipment are recorded at fair value on the date received. If donors stipulate how long the assets must be used, the contributions are initially recorded as restricted support. In the absence of such restrictions, contributions of property and equipment are recorded as unrestricted support.

The Foundation benefits from the services of many individuals who volunteer their time and perform a variety of tasks that assist the Foundation with specific programs. No amounts have been reflected in the financial statements for these donated services because they do not meet the criteria for recognition under SFAS No. 116.

(m) Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents in excess of Federal Deposit Insurance Corporation (FDIC) limits, publicly traded corporate securities and U.S. Treasury and Agency securities. The Foundation places its cash and cash equivalents with creditworthy, high-quality, financial institutions. The Foundation's investments in marketable securities are managed and monitored by reputable investment advisors in accordance with the Foundation's investment policy which requires diversification of investments.

(n) Fair Value of Financial Instruments

SFAS No. 157, *Fair Value Measurements* defines fair value, establishes a framework for measuring fair value in accordance with generally accepted principles and expands disclosures about fair value measurements. SFAS No. 157 became effective for fiscal years beginning after November 15, 2007. Although the adoption of SFAS No. 157 has not materially impacted its financial position and results of operations, the Foundation and Inn are now required to provide additional disclosures as part of the consolidated financial statements. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Effective July 1, 2008, the Foundation and Inn adopted SFAS No. 157 for financial assets and liabilities. The carrying amounts of the Foundation's financial instruments, including cash and cash

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equivalents, investments, accounts receivable and payable, and accrued expenses, approximate their fair values. The carrying amounts of Inn's financial instruments, including cash and cash equivalents, trustee held cash and guaranteed investment contracts limited as to use, accounts receivable and payable, accrued expenses, tenant security deposits, deferred revenue and bonds payable approximate their fair values.

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

(o) Income Tax Status

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

(p) Reclassifications

Certain prior year balances have been reclassified to conform to current year presentations.

(q) Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, effective for fiscal years beginning after November 15, 2007. SFAS No. 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option are required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. Neither the Foundation nor Inn has elected the fair value option for financial assets and liabilities as allowed under SFAS No. 159.

In February 2008, the FASB issued FASB Staff Position (FOP) No. 157-2, *Effective Date of FASB Statement No. 157*. FSP No. 157-2 amends SFAS No. 157 to defer the mandatory effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Foundation and Inn are currently evaluating the effect that the adoption of SFAS No. 157-2 will have on their financial position and results of operations.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, effective for interim and annual periods ending after June 15, 2009. SFAS No. 165 sets forth: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Foundation and Inn adopted SFAS No. 165 as of June 30, 2009 with no impact to the consolidated financial results. The Foundation and Inn have evaluated subsequent events up to October 2, 2009, the date of the issued consolidated financial statements, and there were no subsequent events that meet the requirements under SFAS No. 165.

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(3) Inn at Auraria LLC Accounts

(a) Fair Value Measurements

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

(b) Property and Equipment

Property and equipment at June 30 consisted of the following:

		2009	2008
Building and improvements	$	31,887,315	31,822,022
Furniture and equipment		1,020,625	1,020,367
Equipment under capital lease		109,952	109,952
Total property and equipment		33,017,892	32,952,341
Less accumulated depreciation		(2,792,707)	(1,817,346)
Net property and equipment	$	30,225,185	31,134,995

(c) Commitments and Contingencies

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

Future minimum lease payments required under the capital lease as of June 30, 2009 are as follows:

2010	$	29,139
2011		29,139
2012		1,506
2013		—
Total minimum lease payments		59,784
Less amount representing interest		(8,599)
Present value often minimum lease payments	$	51,185

(d) Bonds Payable in Default

In July of 2005, Inn received a loan from the Colorado Educational and Cultural Facilities Authority pursuant to the issuance of Series 2005A tax exempt bonds in the amount of $37,180,000 and Series 2005B taxable bonds in the amount of $100,000. Interest on the Series 2005A bonds is payable semiannually at increasing rates ranging from 5.375% to 6%. Principal is payable annually from July 1, 2009 through July 1, 2042 at increasing amounts. Interest on the Series 2005B bonds is payable semiannually at 6.5%. The loan is collateralized by a mortgage on Inn's facility, Inn's revenues from the facility and restricted cash and investment accounts. Under the terms of the bond agreement, the Foundation has no obligation for payment of bond principal or interest. Inn is required to maintain rental rates at a level which will provide income available for debt service at least equal to 120% of the principal and interest due in each year on all outstanding bonds. Inn has failed to meet this requirement for the years ending June 30, 2009 and 2008.

As discussed in note 1 of these financial statements, Inn has been issued a Notice of Material Event and Event of Default in fiscal 2009 on these Series 2005 Revenue Bonds.

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

	Principal	Interest	Total
2010	$ 180,000	2,208,044	2,388,044
2011	205,000	2,198,759	2,403,759
2012	285,000	2,185,591	2,470,591
2013	375,000	2,167,853	2,542,853
2014	475,000	2,145,009	2,620,009
Thereafter	35,760,000	39,343,122	75,103,122
	$ 37,280,000	50,248,378	87,528,378

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

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

Debt Service Reserve Fund

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

Revenue Fund

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

Operating Expense Fund

Amounts on deposit in the Revenue Fund are transferred to this fund up to the amount specified in the annual budget. The Trustee is authorized to withdraw amounts in this fund to pay to the manager

(Continued)

the operating expenses for the corresponding month in the fiscal year in the amount set forth in the annual budget.

Bond Fund

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

Repair and Replacement Fund

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

Operating Reserve Fund

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

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

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

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

	June 30, 2008			
		Money market accounts	**Guaranteed investment contracts**	**Total**
Debt service reserve	$	—	2,048,643	2,048,643
Revenue fund		49,941	—	49,941
Operating expense fund		42	—	42
Interest accounts:				
A bonds		1,105,603	—	1,105,603
B bonds		1,931	—	1,931
Principal fund:				
A bonds		46	—	46
Totals	$	1,157,563	2,048,643	3,206,206

(4) The Auraria Foundation Accounts

(a) Fair Value Measurements

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

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

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

The Foundation's financial assets are, for the most part, designated by the Board of Directors for payment of the grants discussed in the "Grants to Auraria Higher Education Center" note below or as an endowment to fund future grants and projects. Status of these accounts at June 30, 2009 and 2008 is as follows:

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

June 30, 2008		Cash	Investments
Assets designated for payment of current grants:			
Money market fund	$	3,606,622	—
Assets designated for future grants and projects:			
Managed investments		—	4,327,634
Operating checking account		12,937	—
Totals	$	3,619,559	4,327,634

In December 2006 and January 2007, the Foundation transferred $4,700,000 to managed investment accounts. The investment managers have the authority to buy and sell investment securities within the limits prescribed by Foundation's investment policy. As of June 30, 2009 and 2008, these amounts are invested in fixed income, equities, mutual funds and other assets. Status of these accounts at June 30, 2009 and 2008 is as follows:

Investment manager		Market value June 30, 2008	Withdrawals	Market value June 30, 2009	Realized and unrealized loss
Denver investments	$	2,245,112	125,000	1,739,504	(380,608)
UBS		2,082,522	125,000	1,493,823	(463,699)
	$	4,327,634	250,000	3,233,327	(844,307)

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

(c) Property and Equipment

Property and equipment at June 30 consisted of the following:

		2009	2008
St. Francis Center:			
Land	$	299,423	299,423
Building and improvements		1,472,843	1,472,843
Furniture and equipment		61,067	61,067
Total property and equipment		1,833,333	1,833,333
Less accumulated depreciation		(978,705)	(939,678)
Net property and equipment	$	854,628	893,655

(d) Grants to Auraria Higher Education Center

In fiscal 2006, the Foundation agreed to provide funding for two major campus projects. The Foundation will reimburse AHEC up to $3,000,000 for costs of the Science Building, Addition/Renovation project (Science Building) and up to $500,000 for the Night Lighting and Emergency Phones project (Night Lighting). The Night Lighting project was completed and the grant has been paid as of June 30, 2009. The Foundation authorized a $250,000 grant to AHEC in fiscal 2008 and an additional $250,000 in fiscal 2009 for the construction of a roof over the foundry/kiln area of the Arts Building (Kiln Roof). These grants were considered to be unconditional, and therefore, the expenses and corresponding payables were recorded in fiscal 2009, 2008 and 2006 in accordance with Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*.

At June 30, 2009, the unpaid balances of the Science Building and Kiln Roof grants are $2,657,724 and $500,000, respectively. It is expected these grants will be paid over the next few years.

The Foundation has set aside funds in a money market account and FDIC insured certificates of deposit to provide for nature payments on these grants. At June 30, 2009, the amount set aside is $3,025,052. Management expects to pay these amounts over the next several years and no discount has been applied.

(e) Related Party Transactions

The Foundation contracted with AHEC to provide staff for management of the Foundation’s affairs. The contract cost to the Foundation was $20,000 annually in 2009 and 2008.

The contract also provides for the lease of the Saint Francis Center to AHEC for use as a conference center and office space for campus activities. The lease requires AHEC to pay an annual lease payment and the operating costs of the building. The Foundation is responsible for insurance and for the cost of major repairs to the building. AHEC paid the Foundation $38,625 annually in 2009 and 2008 for the lease of the building.

(Continued)

In addition, the contract requires AHEC to pay an annual fee to the Foundation for the Foundation's services in obtaining financing for the construction of the Administration Building. The Foundation received $25,000 annually in 2009 and 2008.

During 2009 and 2008, the Foundation contributed $45,615 and $7,920, respectively, to various activities of AHEC. In addition, in 2008 the Foundation made contributions of $1,950 to CCD.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Auraria Higher Education Center (the Center), a component unit of the State of Colorado, as of and for the year ended June 30, 2009 and have issued our report thereon, dated December 18, 2009. Our report was modified to include a reference to the report of other auditors of the financial statements of the Center's discretely presented component unit. Those financial statements included an explanatory paragraph about the discretely presented component unit's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the Center, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider Recommendations No. 1 and No. 2, included in the Findings and Recommendations section, to be significant deficiencies in internal control.

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

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Compliance and Other Matters

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

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

KPMG LLP

December 18, 2009

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

December 18, 2009

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2009 and have issued our report thereon, dated December 18, 2009. Our report was modified to include a reference to the report of other auditors of the financial statements of the Center's discretely presented component unit for 2009 and the Center and its discretely presented component unit for 2008. The financial statements of the discretely presented component unit included an explanatory paragraph about the discretely presented component unit's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility under Professional Standards

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

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Other Information in Documents Containing Audited Financial Statements

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

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member firm of KPMG International, a Swiss cooperative.

Significant Accounting Policies

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

Management Judgments and Accounting Estimates

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

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

Uncorrected and Corrected Misstatements

In connection with our audit of the Center's basic financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the Center's books and records as of and for the year ended June 30, 2009. We have reported such misstatements to management on a Summary of Unadjusted Differences and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. Included is a copy of the summary that has been provided to, and discussed with, management.

There were six financial statement misstatements with a net effect of $(103,929) identified by us that were discussed with and corrected by the Center.

Disagreements with Management

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

Management's Consultation with Other Accountants

To the best of our knowledge, management has neither consulted with nor obtained opinions, written or oral, from other independent accountants during the past year that are subject to the requirements of AU 625, *Reports on the Application of Accounting Principles*.

Major Issues Discussed with the Audit Committee and Management Prior to Retention

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

Material Written Communications

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

1. Management representation letter

2. Management letter (findings and recommendations included in this report)

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit except for the delays in receiving the draft financial statements. During our audit, our draft reports to the Office of the State Auditor were delayed by the untimely receipt of draft financial statements from the Center's management.

Independence

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

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

Confirmation of Audit Independence

We hereby confirm that, as of December 18, 2009, we are independent accountants with respect to the Center under all relevant professional and regulatory standards.

* * * * * * *

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

Very truly yours,

KPMG LLP

AURARIA HIGHER EDUCATION CENTER

Summary of Unadjusted Audit Differences

Year ended June 30, 2009

		Adjustments of financial statement captions					
		Change in net assets unadjusted audit differences arising in			Statement of net assets		
Adj no.	**Description**	**Current period**	**Prior period**	**Total**	**Net assets**	**Assets**	**Liabilities**
1	Investment income	$ 130,682	—	130,682	130,682	—	—
	Cash and cash equivalent	—	—	—	—	(130,682)	—
	(To reduce the allocation of unrealized gains from the Treasurer's pool)						
2	Operating revenue	908,850	—	908,850	908,850	—	—
	Bad debt expense	(908,850)	—	(908,850)	(908,850)	—	—
	(To reclassify bad debt expenses from operating expenses to operating revenues)						
3	Net assets	—	—	—	(3,005,999)	—	—
	Operation and maintenance of plant expense	(3,005,999)	—	(3,005,999)	(3,005,999)	—	—
	(To correct the impact of previously capitalized maintenance costs expensed in the current year)						

See accompanying independent auditors' report.

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December 18, 2009

KPMG LLP
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Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the business-type activities and the aggregate discretely presented component units of Auraria Higher Education Center (the Center), a component of the State of Colorado, as of and for the year ended June 30, 2009, for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the Center, and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of net assets, revenues, expenses, and changes in net assets, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting. We understand KPMG LLP did not audit the financials statements of the Center as of and for the year ended June 30, 2008. We also understand that KPMG LLP did not audit the financial statements of the aggregate discretely presented component units of the Center as of June 30, 2009 and 2008 and for the years then ended.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit(s):

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.

2. We have made available to you:

   a. All financial records and related data.

   b. All minutes of the meetings of the board of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no:

   a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

   b. Unasserted claims or assessments that are probably of assertion and must be disclosed as a loss contingency as defined below.

   c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed. We understand that a gain or loss contingency refers to an existing condition or set of circumstances involving uncertainty as to possible gain or loss to the Center that will be resolved in the future by the occurrence, or lack of occurrence, of one or more events. Resolution of the uncertainty may confirm the loss or impairment of an asset, the incurrence of a liability, the acquisition of an asset, or the reduction of a liability. Such contingencies do not include the normal accounting estimates required in the financial statements for the ongoing and recurring activities of the Center such as accruals for compensated absences and depreciation of capital assets.

   d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.

   e. Events that have occurred subsequent to the date of the statement of net assets and through the date of this letter that would require adjustment to or disclosure in the financial statements.

5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

    a. Management

    b. Employees who have significant roles in internal control over financial reporting, or

    c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

9. The Center has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

10. We have no knowledge of any officer or member of the board of directors of the Center, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.

11. The following have been properly recorded or disclosed in the financial statements:

    a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

    b. Guarantees, whether written or oral, under which the Center is contingently liable.

c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.

d. Changes in accounting principle affecting consistency.

e. The existence of and transactions with joint ventures and other related organizations.

12. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated. Appropriate useful lives have been assigned to depreciable assets. There are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the notes to the financial statements.

13. The Center has complied, in all material respects, with applicable laws, regulations, contracts, and grants that could have a material effect on the financial statements in the event of noncompliance.

14. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Center. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

15. The Center has identified and properly accounted for all nonexchange transactions.

16. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Center's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*.

17. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.

18. The State of Colorado is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The amounts reported represent the Center's best estimate of fair value of investments required to be reported under the Statement. The Center also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.

19. We believe that all material expenditures that have been deferred to future periods will be recoverable.

20. Deposits and investment securities are properly classified and reported.

21. The Center has no commitments for the purchase or sale of services or assets at prices involving material probable loss.

22. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

23. Revenues are appropriately classified in the statement of activities within student fees, auxiliary enterprises, revenue from constituent institutions, gifts and grants, and other operating revenues. The Center has properly classified revenue as exempt versus non-exempt revenue in COFRS.

24. No matters exist of which we are aware that would impact the Center's ability to continue as a going concern. The Center is not legally, contractually or morally obligated to make, or assist in making, debt-service payments related to the Inn at Auraria LLC. The events of default of the debt of the Inn at Auraria LLC have been properly disclosed.

25. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.

26. The Center has been recognized as exempt from federal income taxes under Section 115(a) of the internal Revenue Code and a similar provision of State law. The Center did not have any unrelated business taxable income in fiscal years 2009 or 2008.

27. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles (GAAP). We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the Center's current period financial statements and our assessment of internal control over financial reporting, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements and our assessment of internal control over financial reporting is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

28. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.

29. The Center's reporting entity includes two entities that are presented as an aggregate component unit of the Center. This component unit has been properly presented as discrete.

30. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

31. The Center has complied with all applicable laws and regulations in adopting, approving and amending budgets.

32. Except as disclosed in the Center's financial statements for the Inn at Auraria LLC, the Center is in compliance with all debt covenants and related reserve requirements. Required reserves are appropriately presented in the footnotes to the financial statements.

33. The Center is not obligated for environmental remediation liabilities related to the demolition of existing facilities and structures in connection with the acquisition of land as defined in the Real Estate Purchase and Sale Agreement dated December 30, 2008 between the Center and Landers Auraria Partners, LLC. In accordance with this

Agreement, any potential newly identified environmental remediation matters identified after the demolition of existing facilities and structures would be the responsibility of the Center. As of June 30, 2009, there are no newly identified environmental remediation matters nor have there been any obligating events that require accrual or disclosure by the Center for environmental remediation liabilities.

34. The lease agreements related to the Science Building project are properly recorded and adequately disclosed in the notes to the financial statements.

35. There have been no changes to the Center's enterprise designation, nor have there been any corrections to prior year TABOR revenue designations.

36. The Center is in compliance with State rule 24-30-1404, CRS, with regards to state capital construction.

Very truly yours,

Auraria Higher Education Center

Barb Weiske

Barb Weiske
Interim Executive Vice President for Administration

Fiftwo Baldwin

Fiftwo Baldwin
Director of Business Services

Sue McMurdo
Assistant Controller

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