KPMG

UNIVERSITY OF COLORADO

Financial and Compliance Audit

Year ended June 30, 2004

(With Independent Auditors' Reports, Thereon)

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Year ended June 30, 2004

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UNIVERSITY OF COLORADO

Report Summary

Year ended June 30, 2004

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the University of Colorado (the University) for the year ended June 30, 2004. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from May 10, 2004 to December 15, 2004.

The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of the University of Colorado as of and for the year ended June 30, 2004. This includes a report on internal control over financial reporting and compliance as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards.*
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the University of Colorado for the year ended June 30, 2004.
- Perform certain agreed-upon procedures regarding the records and internal control related to the University of Colorado at Boulder's Intercollegiate Athletics Program and the statements and records of outside organizations' expenses for or on behalf of the University of Colorado at Boulder's Intercollegiate Athletics Program. These procedures were performed to assist the University in complying with the provisions of the National Collegiate Athletic Association (NCAA) bylaws.
- Evaluate progress in implementing prior audit findings and recommendations.

In addition, a separate independent auditors' report will be issued by KPMG LLP for the University of Colorado to express an opinion on the University of Colorado's Research Building Revolving Revenue Bond Fund financial statements for the year ended June 30, 2004. The financial statements and audit opinion on the bond fund financial statements of the University are contained in a separate report.

The University's schedule of expenditures of federal awards and applicable opinions thereon by the Office of the State Auditor, State of Colorado, are included in the June 30, 2004 Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on the University's basic financial statements and the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs for the year ended June 30, 2004.

Two audit adjustments were proposed and made to the basic financial statements which had no impact on the net assets of the University. Four additional audit adjustments were proposed and not made to the basic financial statements which would have increased beginning net assets by approximately $135,000 and increased ending net assets by approximately $928,000. These passed differences are not considered material in relation to the University’s basic financial statements.

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

We issued a report detailing our performance of agreed-upon procedures related to the University of Colorado at Boulder’s Intercollegiate Athletics Program in accordance with NCAA guidelines. Our report disclosed two exceptions as a result of our procedures including a $30 error in ticket revenue recorded and the omission in the reporting of the Dear Old CU in-kind contribution of equipment for $1,500.

Summary of Findings

KEY FINANCIAL CONTROLS

Improvement Needed in Process to Identify Organizations That Directly or Indirectly Benefit the University

The University benefits from its relationships with many organizations. The University should improve its entity-wide process for considering, quantitatively and qualitatively, all organizations and their financial activity that directly or indirectly support the institution, and appropriately document them in the University’s financial reporting analysis. In addition, the University should ensure its Athletic Department National Collegiate Athletic Association (NCAA) statement of outside organizations’ expenses is accurate and complete.

Journal Entry Approval

Best practices in today’s business environment related to strong internal controls require that a segregation of duties be established between creating and approving journal entries. A secondary approval assists in ensuring the propriety and accuracy of entries posted to the general ledger. The University should implement policies to require approval by a knowledgeable individual other than the creator, of all journal entries or at least those entries over a minimum determined amount to ensure proper and accurate recording of journal entries made to the general ledger.

Internal Controls Over Data Change Procedures

Data change requests for the financial and human resources systems are not formally communicated to the University Management Systems (UMS). Additionally, all developers use the ‘sysadm’ account to make requested data changes, which reduces accountability for any changes made using this account. The password to the ‘sysadm’ account used to make data changes is not changed on a periodic basis or when an employee separates from the University. The University should develop and implement formal data change procedures, including documented approval from the users, and management should monitor compliance with these procedures. The University should also explore options to better secure the ‘sysadm’ account.

OTHER FINANCIAL CONTROLS AND OPERATIONAL MATTERS

Procedures Regarding Scholarship Allowance

Three of the four campuses did not consistently follow the University's policies for recording the scholarship allowance related to the summer terms. The University should formalize and strengthen procedures to ensure consistency in recording the scholarship allowance in the financial statements.

Summer School Deferred Revenue Calculated Using Prorated Days

The accrual basis of accounting requires that tuition and fee revenue related to courses or sessions conducted over two fiscal years be prorated between the fiscal years. The Denver campus did not allocate summer school revenue based on the number of days in the session, but rather, split the tuition 50% for the period prior to June 30 and 50% to the period after year-end for both the 2004 and 2003 summer school terms. The University should implement policies to ensure the calculation of deferred revenue is consistent across campuses and is, at a minimum, based on actual days of the session occurring in each fiscal year.

Reconciliation of Warrant Table to the General Ledger

As of June 30, 2004, amounts recorded for outstanding warrants per the detailed warrant table in the financial system were greater than the general ledger amounts for outstanding warrants by approximately $2 million. These amounts should agree. This difference cannot be specifically identified without resources dedicated to completing the reconciliation between the warrant table detail and the general ledger. The University should ensure that the warrant table is fully reconciled to the general ledger over the next 12 months, and establish a process to ensure continuous agreement of the detailed warrant table and the general ledger.

Controls Over Updating Housing Rates

The University charges students for housing rentals through an automated calculation in its student billing system. At the Colorado Springs campus, students were charged 2003 housing rates in 2004 because the housing rate table had not been updated with the 2004 fiscal year rates. As a result, approximately $210,000 of revenue was foregone by the University. The University should ensure monitoring policies are properly in place and operating to ensure housing tables are accurately and timely updated each year.

Revenue Recognition for Grants and Contracts

The University receives thousands of federal, state, and local grants each year. Each of these grants must be analyzed as to whether these qualify as exchange/exchange-like or nonexchange transactions in order to appropriately account for the transactions in the financial records of the University. The University should improve its revenue recognition process for grants and contracts by establishing a written evaluation policy and formalizing the grant review process to ensure proper recording with the accounting standards.

(Continued)

Return of Title IV Funds

The University must determine a student's withdrawal date for unofficial withdrawals within 30 calendar days after the end of the earlier of the payment or enrollment period, the academic year, or the student's educational program. Subsequently, the University must return all unearned funds for which it is responsible within 30 days of that determination. The Boulder campus did not meet the mandated timeframe for Fall 2003 unofficial withdrawals and, subsequently, did not return the funds within 30 days of when those determinations were made. The University should establish procedures to ensure that return of Title IV Funds is calculated within the required timeframes and, subsequently, refunded timely, as applicable.

Reporting for Federal and State Student Financial Aid

The University must complete and submit reports and schedules to support the receipt and use of funds used for federal and state funded student financial aid. The data submitted for these reports should be adequately supported by the underlying records, reconciling any differences noted, as appropriate. The University should implement reconciliation procedures to verify that the information on the various reports is accurate prior to submission and is consistently reported across campuses.

Offering Federal Direct Lending (FDL) Loans

The University offered $5 less than the maximum annual limit of FDL loans for all students who are eligible. By not offering the maximum amount of subsidized FDL for which they are eligible, students may, in turn, borrow equally greater amounts of unsubsidized FDL loans. The University should strengthen procedures to ensure that the maximum annual limits of subsidized FDL funds are offered to all eligible students, through additional monitoring of the original parameters set up during the award determination process, or alternatively seek waivers for offering lesser amounts to accommodate system limitations.

Cash Management for Federal Direct Lending (FDL) Draws

The University is responsible for establishing and maintaining internal control processes that promote sound and timely cash management related to federal programs. The Boulder campus does not have timely controls in place such that errors would be detected in requests for funds prior to them actually being made in the federal direct lending program in the Federal Student Assistance Cluster. The University should strengthen procedures to provide timely supervisory reviews of the calculation for FDL draws prior to their submittal.

Recommendations and the University's Responses

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

(Continued)

UNIVERSITY OF COLORADO

Report Summary

Year ended June 30, 2004

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2003 included four recommendations. The disposition of these audit recommendations as of December 15, 2004 was as follows:

Implemented	1
Partially implemented/in progress	3
Not implemented	—
	4

UNIVERSITY OF COLORADO

Recommendation Locator

Year ended June 30, 2004

Rec. No.	Page No.	Recommendation summary	University response	Implementation date
1	13	Improve the entity-wide process for identifying and reporting, as appropriate, all organizations and related financial activity that directly or indirectly support the institution. Appropriate oversight and monitoring of the process should be incorporated to ensure the University has knowledge of, and an adequate understanding of, both quantitatively and qualitatively, its relationship and financial transactions with each respective organization.	Agree	June 2005
2	14	Implement procedures to require that a knowledgeable individual, other than the creator, approve all journal entries prior to being posted to the general ledger. Alternatively, the University may consider setting a minimum amount over which journal entries should be approved, thus minimizing the chance that a material error could be posted in the general ledger.	Agree	June 2006
3	15	Develop and implement formal data change procedures including documented approval from the users, and monitoring compliance with the procedures. In addition, explore options to better secure the critical 'sysadm' account to minimize the associated risks, by considering the feasibility of the following: a) Restricting the 'sysadm' account to the Database Administrators (DBAs) b) Requiring the 'sysadm' account password comply with existing University password policies, including changing the password every 90 days	Agree	March 2005

(Continued)

UNIVERSITY OF COLORADO

Recommendation Locator

Year ended June 30, 2004

Rec. No.	Page No.	Recommendation summary	University response	Implementation date
		c) Giving developers database level access only on an as-needed, temporary basis d) Assigning a unique and individually identifiable account for each individual who requires this level of access e) Logging and reviewing the activity for appropriateness		
4	16	Formalize and strengthen procedures to ensure consistency in the recording of scholarship allowances by requiring all campuses to recognize the scholarship expense, in accordance with its internal policy, based on the prior year summer term. This process should be clearly documented and communicated to all campuses.	Agree	June 2005
5	17	Implement policies to ensure the calculation of deferred revenue from summer school sessions is consistent across all campuses and the deferral method is based on actual days of the session.	Agree	June 2005
6	17	Ensure that the detailed warrant table is fully reconciled to the general ledger over the next 12 months, and establish a process to ensure continuous agreement of the detailed warrant table and the general ledger.	Agree	December 2005
7	18	Ensure monitoring policies are properly in place and operating to ensure housing tables are accurately updated in a timely manner each year.	Agree	December 2004

UNIVERSITY OF COLORADO

Recommendation Locator

Year ended June 30, 2004

Rec. No.	Page No.	Recommendation summary	University response	Implementation date
8	19	Establish a written evaluation policy and formalize the grant review process. This should include documenting examination of its grants and contracts agreements to determine the appropriate accounting considering the criteria set forth in GASB Statement No. 33.	Agree with finding and recommendation but disagree as to amount of the error	June 2005
9	21	Establish procedures to ensure that the withdrawal dates for those students who withdraw without providing notification are made within the federally mandated timeframe as well as to ensure that the University's portion of withdrawn students' unearned aid is returned within the federally mandated timeframe. Also establish procedures to ensure that a Return of Title IV Funds calculation is performed for students who withdraw beyond the 60% point of the term.	Agree	September 2004
10	24	Implement procedures to ensure all elements of the FISAP, SURDS, and Schedule K reports are accurate. Such procedures should include a formal review that agrees amounts reported to supporting documentation. Additionally, implement reconciliation procedures in order to verify that the information is accurate prior to submission and is consistently reported across campuses, when applicable.	Partially Agree	September 2005

(Continued)

UNIVERSITY OF COLORADO

Recommendation Locator

Year ended June 30, 2004

Rec. No.	Page No.	Recommendation summary	University response	Implementation date
11	26	Strengthen procedures to ensure that the maximum annual limits of subsidized FDL funds are offered to all students, through additional monitoring of the original parameters set up during the award determination process. Alternatively, if system limitations restrict the University from establishing award levels that are compliant with federal guidelines, waivers should be obtained from the applicable awarding agency.	Agree	February 2005
12	28	Strengthen procedures to provide more timely supervisory review of the calculation of federal direct lending draws, prior to the submittal to the federal Department of Education.	Disagree	Not Applicable

Organization and Administration

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

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

- Boulder
- Colorado Springs
- Denver
- Health Sciences Center

The four campuses comprise 28 schools and colleges which offer more than 114 fields of study at the undergraduate level and 192 fields at the graduate level. Approximately 227 bachelors and masters degrees along with 71 doctorates are offered.

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

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

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

Full-Time Equivalent (FTE) Student Enrollment

	Undergraduate		Graduate		
Fiscal year	**Resident**	**Nonresident**	**Resident**	**Nonresident**	**Total**
2003-2004	26,647	8,642	7,209	1,265	43,763
2002-2003	25,122	8,396	6,699	1,412	41,629
2001-2002	23,561	8,041	6,344	1,359	39,305

Full-Time Faculty and Staff

Fiscal year	Instructional Faculty	Other Faculty and Staff	Total
2003-2004	2,782	3,211	5,993
2002-2003	2,793	3,434	6,227
2001-2002	2,821	3,243	6,064

Discretely Presented Component Units

During the 2004 fiscal year, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*. As a result, the University's reporting entity includes The University of Colorado Foundation (CU Foundation), the Coleman Colorado Foundation, and the University of Colorado Real Estate Foundation (CUREF). The majority of the resources, or income thereon, that the supporting organizations hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by the supporting organizations can only be used by, or for the benefit of, the University, the supporting organizations are considered discretely presented component units of the University.

UNIVERSITY OF COLORADO

Findings and Recommendations

Year ended June 30, 2004

We have audited the basic financial statements of the University of Colorado (the University) as of and for the year ended June 30, 2004, and have issued our report thereon, dated December 15, 2004. Our report included an explanatory paragraph discussing the University's implementation of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organization Are Component Units,* an amendment to GASB Statement No. 14, *The Financial Reporting Entity,* as of July 1, 2002. In planning and performing our audit of the basic financial statements, we considered the University's internal control solely to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated December 15, 2004 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since December 2004. We did not audit the financial statements of the University of Colorado Real Estate Foundation (CUREF), a discretely presented component unit. In addition, we did not audit the financial statements of the University Physicians, Inc. (UPI), a blended component unit. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards.*

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

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

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

KEY FINANCIAL CONTROLS

Improvement Needed in Process to Identify Organizations That Directly or Indirectly Benefit the University

As the largest university in the state, the University of Colorado is a complex, geographically dispersed entity that has over 52,000 students, and over 24,000 full-time and part-time faculty and staff that support 28 schools and colleges which offer more than 114 fields of study at the undergraduate level and 192 fields at the graduate level. Approximately 227 bachelors and masters degrees along with 71 doctorates are offered. The University had over $2.3 billion of assets at June 30, 2004 and generated over $1.7 billion of revenue in fiscal year 2004. Accordingly, with an entity of this size that has a significant number of alumni and stakeholders, many individuals and organizations have an interest in supporting the University.

In fiscal year 2004, public institutions of higher education were required to implement Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*. As a result of the adoption of this standard, the University's financial reporting entity now includes the University of Colorado Foundation (CU Foundation), the Coleman Colorado Foundation, and the University of Colorado Real Estate Foundation. In addition, the National Collegiate Athletic Association (NCAA) requires all Division 1-A schools to report, as well as be subject to audit, all outside organizations that directly or indirectly support the University's athletics department. These requirements, along with the increased demand for transparency from public university stakeholders, make it imperative for the University of Colorado to have a robust process to identify and understand the financial activity of each organization that benefits the University.

During our fiscal year 2004 audit, as a result of discussions with University management, Office of the State Auditor officials, and review of related documentation, it came to our attention that several organizations that benefit the University (specifically Dear Old CU; High Hopes 95 d/b/a Buffalo Football Technique School; and the Colorado Prevention Center) were not adequately documented in the University's original financial reporting entity analysis. The University subsequently revised its financial reporting analysis to document its original decision that these entities should not be included in its financial statements. In addition, the University represented to us subsequent to the completion of our initial test work, but prior to the release of our report, that approximately $1,500 of noncash donations from the Dear Old CU organization were not included in its Boulder campus' Athletic Department NCAA statement of outside organizations' expenses.

Recommendation No. 1

The University should improve its entity-wide process for identifying and reporting, as appropriate, all organizations and related financial activity that directly or indirectly support the institution. Appropriate oversight and monitoring of the process should be incorporated to ensure the University has knowledge of, and an adequate understanding of, both quantitatively and qualitatively, its relationship and financial transactions with each respective organization. In addition, the University should ensure its Athletic Department National Collegiate Athletic Association (NCAA) statement of outside organizations' expenses is accurate and complete.

University of Colorado Response

Agree. The Office of University Controller will centralize the process to identify and report organizations that materially provide either direct or indirect support to the University, including broadening the collection of such information from the University officers of the administration. Written policies and procedures will be developed to include an appropriate level of oversight and monitoring of the process throughout the University by June 30, 2005.

Journal Entry Approval

Through discussions with staff and review of journal entries processed at each campus, we noted that the creator of a given entry could also approve that same entry. The creator and approver ID were the same in the financial system in these instances, and no other manual approval was subsequently obtained. If a manual approval was subsequently obtained by an individual other than the creator, it was not considered an exception. These journal entries included both recurring and one-time entries. We noted instances whereby the creator of a given journal entry was also the approver and there was no manual approval at the Boulder campus (9 of 11 tested), the Health Sciences Center campus (1 of 12 tested), and the system office (2 of 20 tested). Of the 20 entries tested for the system office, 5 entries were automatic reversing entries that did not require a formal approval, and thus were not considered exceptions. Additionally, 1 entry was tested at the Denver campus and separate approval of the entry was made. It should be noted that each of the campuses has mitigating controls in place in which financial activity, including budget-to-actual comparisons, is reviewed each month after period-end entries are reported.

Best practices in today's business environment related to strong internal controls set forth a segregation of duties regarding journal entry creation and approval. The risk to the University is that an entry could be recorded that is inaccurate, or does not represent a valid business transaction.

Recommendation No. 2

The University should implement procedures to require that a knowledgeable individual, other than the creator, approve all journal entries prior to being posted to the general ledger. Alternatively, the University may consider setting a minimum amount over which journal entries should be approved, thus minimizing the chance that a material error could be posted in the general ledger.

University of Colorado Response

Agree. The University will supplement its current mitigating controls with additional procedures to further minimize the risk of its decentralized financial management environment. First, the finance system access process will be modified to annually require user and supervisor verification of compensating controls if an individual is granted access for both creation and approval of journal entries. Second, monthly, the campus controller offices will review for appropriateness and accuracy all journal entries created and approved by a single individual where the journal line item is greater than an established threshold. The new procedures will be initiated with the finance system upgrade scheduled for March 2005 and fully implemented by June 2006.

Internal Controls over Data Change Procedures

During our audit of the University of Colorado, we noted the following ineffective internal controls over data changes at the database level in the University's financial and human resource (HR) systems.

a. Data change requests for the human resources and finance databases are not formally communicated to University Management Systems (UMS). Requests can come either verbally or via email, and formal documentation of the request and authorized approval is not retained. Informal procedures require the developers to log the change request, indicate who requested the change, and the location of any saved documentation, in a spreadsheet. However compliance to these procedures is not monitored.

b. All developers use the 'sysadm' account to make requested data changes, which reduces accountability for any changes made using this account. In addition, logs of any actions performed by this account are not created and reviewed, which leaves no audit trail for any changes to data or the database.

c. The password to the 'sysadm' account used by developers to make data changes is not changed on a periodic basis or when an employee separates from the University. The University estimates that approximately 11 employees have knowledge of the password to this account.

The complexity and necessity of the account presents certain obstacles when trying to secure the account in a traditional manner, and the recommendations that follow may not be feasible individually or in aggregate. However, the highly privileged nature of the 'sysadm' account requires that management fully investigate all options to arrive at a solution that properly minimizes the associated risk.

Recommendation No. 3

a. The University should:

   i. Have UMS develop and implement formal data change procedures including documented approval from the users.

   ii. Have management monitor compliance with these procedures.

b. The University should also have management explore options to better secure the critical 'sysadm' account. The University should consider the following procedures as to whether they are feasible and to properly minimize the associated risks:

   i. Restricting the 'sysadm' account to the Database Administrators (DBAs).

   ii. Requiring the 'sysadm' account password comply with existing University password policies, including changing the password every 90 days.

   iii. Giving developers database level access only on an as-needed, temporary basis.

   iv. Assigning a unique and individually identifiable account for each individual who requires this level of access.

   v. Logging and reviewing the activity for appropriateness.

University of Colorado Response

Agree. The University has developed and implemented more formal data change procedures. Management is monitoring compliance with these new procedures. Additionally, we have created a less-privileged account that has database update capability, without having the full set of capabilities available of the 'sysadm' account. This new account is used to perform activities such as the ability to create tables and run Structured Query Report Writer (no update capability) at the database level in the production environment by developers on an as-needed, temporary basis. These changes were implemented in September 2004.

Additionally, it is anticipated that changes will be made that enable us to restrict the number of people who know the 'sysadm' password to DBA staff only and to change the password on a regular schedule. These changes will be implemented in both the human resources and finance databases as part of the finance system upgrade, which is currently scheduled for March 2005.

Finally, the University has taken steps to minimize the need to perform updates/modifications at the database level, thereby minimizing the need for developers to use the new account to make changes in our production environment. These include creating new application-level programs to apply changes to the database using standard application controls. Several of these changes have already been implemented with additional improvements forthcoming as a part of our previously referred finance system upgrade, which is currently scheduled for March 2005.

OTHER FINANCIAL CONTROLS AND OPERATIONAL MATTERS

Procedures Regarding Scholarship Allowances

The fiscal year 2002 implementation of GASB Statement Nos. 34/35 requires the University to record a scholarship allowance as the difference between the stated charge for goods and services provided by the institution and the amount that is paid by students and/or third parties making payments on behalf of students. This recognition effectively reduces tuition revenue to eliminate the double counting of these revenues.

It is the University's policy to record the scholarship allowance from the prior summer term and not the current summer term. This method is considered reasonable because there is more accurate data for the entire prior summer term than the data for the partial current summer term. Also, there is an immaterial difference between using this method and actual days in the current fiscal year.

During our scholarship allowance testing, we noticed the campuses at the Health Sciences Center, Denver, and Colorado Springs were not following the University's policy. Instead of basing the scholarship allowance adjustment on the total prior summer amounts only, the campuses also recorded an allowance related to the partial summer term for the current summer session. This resulted in the scholarship allowance being overstated university-wide by approximately $718,000, therefore understating TABOR tuition revenue. The risk is that TABOR tuition revenue will not be properly reported. The University subsequently recorded the approximate amount of $718,000 to properly adjust the scholarship allowance for financial statement reporting and for reporting of TABOR revenue.

Recommendation No. 4

The University should formalize and strengthen procedures to ensure consistency in the recording of scholarship allowances by requiring all campuses to recognize the scholarship expense, in accordance with its internal policy, based on the prior year summer term. This process should be clearly documented and communicated to all campuses.

University of Colorado Response

Agree. The Office of University Controller (OUC) has drafted an OUC Directive formalizing the scholarship allowance process. The revised scholarship allowance process was new with the implementation of GASB Statement Nos. 34/35 at the end of fiscal year 2002. The new OUC Directive will be finalized by June 30, 2005.

Summer School Deferred Revenue Calculated Using Prorated Days

The fiscal year 2002 implementation of GASB Statement Nos. 34/35 requiring the full accrual basis of accounting provides that tuition and fee revenue be recognized when earned and that expenses be recognized when incurred. Some courses or sessions, however, such as summer sessions, are conducted over two fiscal years and the related tuition and fees charged for these courses or sessions are often charged at the beginning of the session. As a result, the tuition and fee revenues for these special sessions must be prorated between the fiscal years in which they are earned. The State of Colorado Higher Education Accounting Standards and the National Association of College and University Business Officers specify that, at a minimum, revenue should be accrued by the number of actual days or portion of time before and after June 30 for the whole session. Additional delineation may be applied, as appropriate, in cases where a number of variable sessions cross two fiscal periods.

The Denver campus is using a 50/50 allocation for deferred revenue for summer school sessions, such that 50% of the revenue is recognized for the period prior to June 30 and 50% of the revenue is deferred to the following fiscal year. The remaining three campuses base the deferrals on actual days before and after June 30. For the Denver campus, the difference between using 50/50 and prorated days is an understatement of deferred revenue and overstatement of TABOR tuition revenue of approximately $564,000 for the 2004 summer session and approximately $135,000 as an overstatement of TABOR tuition revenue which had been deferred into 2004 related to the 2003 summer session. The total impact for the 2004 fiscal year is that TABOR tuition revenue is overstated by $699,000, which remains uncorrected in the University's financial statements. The adjustment was, however, made for statewide reporting of TABOR tuition revenue.

Recommendation No. 5

The University should implement policies to ensure the calculation of deferred revenue from summer school is consistent across all campuses and the deferral method is based on actual days of the session.

University of Colorado Response

Agree. The Office of University Controller (OUC) has drafted an OUC Directive formalizing the tuition deferral process. The revised deferral process was significantly modified with the implementation of GASB Statement Nos. 34/35 at the end of fiscal year 2002. The new OUC Directive will be finalized by June 30, 2005. Further, the OUC ensured that all tuition deferrals for first quarter of fiscal year 2005 were properly calculated using days as the allocation basis.

Reconciliation of Warrant Table to the General Ledger

As part of the financial statement audit, we tested the University's bank (cash and investment) reconciliation process. In reviewing the bank reconciliations' reconciling items, we noted that the outstanding warrants per the detailed warrant table in the finance system was greater than the general ledger balance by approximately $2 million. These amounts should agree. Accordingly, the difference between the cashbook balance in the financial statements compared to the bank balance cannot be directly and completely supported by the warrant table detail, as intended. Management has represented that this unreconciled difference has been outstanding for five years, is monitored on a regular basis, and is primarily related to checks still recorded in the detail warrant table which have been cancelled and reissued, as properly recorded in the general ledger. Further, management attests that the variance has not increased, but the variance is difficult to reconcile and has not been completed due to a lack of available resources to dedicate to this task. As long as the difference remains, the control benefit of the detailed warrant table is reduced and a cancelled warrant may be erroneously honored by the University.

Recommendation No. 6

The University should ensure that the detailed warrant table is fully reconciled to the general ledger over the next 12 months, and establish a process to ensure continuous agreement of the detailed warrant table and the general ledger.

University of Colorado Response

Agree. The Office of University Controller identified this problem in fiscal year 2002. In fiscal year 2002, the finance systems and subsystems were modified to ensure that no further discrepancies between the tables were created. Then, a monthly review process was implemented (and is still in place) to ensure that the discrepancies between the tables were not continually growing. In addition, a project was initiated to manually identify and eliminate the incorrect items on the detail warrant table. This correction process is manually intensive and resources have been redirected to more critical processes, such as GASB implementation, financial reporting, and system upgrades. However, the office has made significant process in reconciling the tables with an initial discrepancy of approximately $5,000,000 reduced to $600,000 at September 2004. Resources are dedicated as available to the project, and the project should be completed by December 31, 2005.

Controls Over Updating Housing Rates

The University charges students for housing rentals through an automated calculation in its finance system. The housing fee charged to the student is calculated from various rate tables within the student billing system. As part of the audit process, tuition and housing fees were recalculated for all campuses. At the Colorado Springs campus, we noted that students were being charged in accordance with prior year housing rates because the housing rate table had not been properly updated with 2004 fiscal year rates. This resulted in approximately $210,000 of foregone housing revenue that was never billed. The risk to the University is that the amount charged to students for housing may not be accurate and the University could forego revenues rightfully due to the University.

Recommendation No. 7

The University should ensure monitoring policies are properly in place and operating to ensure housing tables are accurately updated in a timely manner each year.

University of Colorado at Colorado Springs Response

Agree. The University immediately implemented interim procedures to ensure the fiscal year 2005 tables were properly established. The University will develop formal procedures to monitor that housing tables are accurately and timely updated each year. The formal procedures will be finalized by December 31, 2004.

Revenue Recognition for Grants and Contracts

The University received over 12,000 federal, state, and local grants and contracts totaling approximately $526 million in revenue for fiscal year 2004. Grants and contracts revenue transactions can be either (1) exchange revenue transactions or exchange-like transactions or (2) nonexchange revenue transactions. To be considered an exchange transaction, the entity must receive equal value in return. If an entity receives the right (future benefit) to profit from research results (may apply for a patent), it would be an exchange transaction. Further, if an organization retains the right of first refusal to benefit from the research results, this may indicate part is exchange and part is nonexchange. In an exchange-like transaction, there is an identifiable exchange between the reporting government and another party, but the values exchanged may not be quite equal or the direct benefits of the exchange may not be exclusively for the parties to the exchange. Exchange-like transactions should be accounted for in the same way as "pure" exchange revenue transactions, whereby revenue recognition is determined by the guidance set forth in Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In a nonexchange transaction, an entity gives (or receives) value without directly receiving (or giving) equal value in return. If funds are advanced under nonexchange transactions, the corresponding revenue may be deferred if eligibility requirements for the monies received have not been met. Purpose restrictions for monies received do not qualify as eligibility restrictions and will only result in the restriction of cash until the monies are spent for the purpose intended; they do not impact the timing of revenue recognition.

The evaluation and determination of the applicability of GASB Statement No. 33 on advanced funds requires professional judgment. During our test work over grants and contracts, we selected a sample of 21 grants and contracts that were advanced-funded during the year in which the University had deferred the related revenue. During this test work, we noted 6 instances in which grants and contracts revenue appeared to be incorrectly deferred. In these instances, the grants and contracts monies were advanced to the University. During their year-end grant review process, each campus either considered these grants and contracts exchange transactions or believed there were unmet eligibility requirements; thus, the University deferred the revenue under the premise that the revenue had not yet been earned. We obtained copies of these grant documents and concluded that these agreements were actually nonexchange transactions (versus exchange transactions) and did not have any unmet eligibility requirements. In accordance with the guidance of GASB Statement No. 33, we concluded that these revenues should have been recognized rather than deferred. An audit adjustment was proposed and passed in the amount of $1.5 million to reverse the deferred revenue and to recognize the revenue.

Recommendation No. 8

The University should improve its revenue recognition process for grants and contracts by establishing a written evaluation policy and formalizing the grant review process. This should include documenting the examination of its grants and contracts agreements to determine the appropriate accounting considering the criteria set forth in GASB Statement No. 33.

University of Colorado Response

Agree with finding and recommendation but disagree as to the amount of the error. The University believes that its current processes resulted in an immaterial error of approximately $500,000 rather than $1,500,000. The Office of University Controller will prepare an Administrative Policy Statement formalizing the evaluation process to be used to ensure that revenue from grants and contracts is properly recorded in the University's financial statements in accordance with the criteria of GASB Statement No. 33 by June 30, 2005.

Auditors' Addendum

During the audit process we presented our findings as related to the specific grants for which the conclusion reached indicated it was appropriate to recognize revenues in the current period rather than record deferrals. We believe based on the information provided, additional discussions with the University, and our understanding of the processes in place over the grant review process, that the finding is accurate as presented above.

FEDERAL AWARDS

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

- Research and Development Cluster
- Student Financial Assistance Cluster

For fiscal year 2004, the University received approximately $418 million and $154 million of federal awards for the Research and Development and Student Financial Assistance Clusters, respectively. The four findings and recommendations presented below result from this work and are presented in the format required under OMB Circular A-133 and *Government Auditing Standards.*

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

Federal Student Aid Cluster – Special Tests for Return of Title IV Funds

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

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

For a student who withdraws after the 60% point of the semester, a return will not be required. However, a school must still complete a return calculation in order to determine whether the student is eligible for a post-withdrawal disbursement. *(2003-2004 Federal Student Aid Handbook Volume 2 Institutional Eligibility and Participation Chapter 6 Return of Title IV Funds)*

Condition: The University determined the withdrawal date beyond the federally mandated timeframe for four Fall 2003 unofficial withdrawals, which represents 100% of the Fall 2003 unofficial withdrawals in our sample of 30 withdrawals during the 2004 fiscal year at the Boulder Campus. The University determined these students' withdrawal dates three, four, and eight days beyond the 30-day period after the end of the payment period.

The University returned the unearned funds for which it was responsible for these four students 198 days beyond the last day the University was allowed to determine the students' withdrawal dates. As a result, the University did not make returns for any of the Fall 2003 unofficial withdrawals for which they owed returns within the mandated timeframe.

In addition, in a sample of 30 withdrawals, nine students withdrew beyond the 60% point of the semester. The University did not perform a Return of Title IV Funds calculation for one of these students.

Questioned Costs: Unknown (See management representation for amount not timely refunded in the context section below.)

Context: The withdrawal dates of Fall 2003 unofficial withdrawals were not determined in a timely manner and the University's portion of the returns was not made in a timely manner. The lack of a return calculation for the one student who withdrew beyond the 60% point of the semester, however, appears to be an isolated incident. The University calculated and represented that it owed $45,785 for all of the Fall 2003 unofficial withdrawals, including the four in the sample, and indicated that the University made these returns in August and September 2004 without interest.

Effect: The University is not in compliance with federal Return of Title IV Funds regulations concerning the timeliness of the determination of the withdrawal date for unofficial withdrawals, the timeliness of returning its portion of unofficial withdrawals' unearned aid, and for performing a return calculation for one student who withdrew beyond the 60% point of the term.

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

Recommendation No. 9

The University should review the federal regulations surrounding the return of Title IV Funds and the related compliance requirements. Procedures should be established accordingly to ensure that the withdrawal dates for those students who withdraw without providing notification are made within the federally mandated timeframe as well as to ensure that the University's portion of withdrawn students' unearned aid is returned within the federally mandated timeframe. The University should also establish procedures to ensure that a Return of Title IV Funds calculation is performed for students who withdraw beyond the 60% point of the term.

University of Colorado Response

Agree. The University of Colorado at Boulder Office of Student Financial Aid identified an error in interpretation of the regulations with an employment change in its Fiscal Operations Assistant Director. Proper interpretation was made and a revised policy and procedure was implemented in the spring of 2004. In addition, in September 2004, the University identified the students, programs, and amounts affected for the Fall 2003 and have sent the funds back to the Title IV programs, as required.

Federal Student Aid Cluster, State Student Financial Assistance – Reporting

Criteria: To apply for and receive funds for the campus-based Federal Student Aid programs (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant), schools must complete and submit a Fiscal Operations Report and Application to Participate (FISAP) by October 1 of each year. The FISAP that was due on October 1, 2004 reported on the University's campus-based program participation for 2003-2004 and applied for campus-based program funding for 2005-2006. The FISAP must contain accurate data and the school must retain accurate and verifiable records for program review and audit purposes. (*Department of Education FISAP Instructions)* Additionally, Universities must submit other reports to the State of Colorado during the year, including the Student Unit Record Data System (SURDS) and Schedule K (used by the State for the compilation of the state-wide Schedule of Expenditures of Federal Awards (SEFA)). Data submitted for these reports should be adequately supported by the underlying records within the financial management system and adequate supporting documentation outside the system for reconciliation purposes, as needed.

Condition: Adequate procedures are not in place at each University campus to ensure that accurate data is reported and reported consistently among campuses and that the reports appropriately reconcile to one another as well as the underlying data in the general ledger (GL).

Questioned Costs: None.

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

Boulder

Federal: Schedule K and FISAP

- Schedule K Federal Work Study (FWS) expenditures include the transfer of $340,000 from FWS to Federal Supplemental Educational Opportunity Grant Program (FSEOG) which is also reported as expenditures for FSEOG.
- Schedule K Perkins cancellations were incorrectly reported under CFDA 84.038 Federal Perkins Loans (Perkins or FPL), rather than the correct CFDA 84.037 (Perkins Cancellations).
- The change in the cumulative amount of principal and interest collected for Perkins loans less the prior year cumulative amount of principal and interest on the FISAP does not equal the current year collection of principal and interest because the amount recorded for the current year was from the loan servicer and not the GL. The amount of the error was $65,900.
- Schedule K Federal Direct Student Loans (FDL) and Parent Loans for Undergraduate Students (Plus) do not agree to the GL expenses by $57,456.

State SURDS

- Expenditures related to Perkins are understated by $8,804.
- Federal Direct Student Loans are overstated by $60,047.
- FWS does not include an amount for institutionally funded amounts, which is inconsistent with other campuses.

HSC

Federal: Schedule K and FISAP

- FSEOG was overstated by the institutional match in the amount of $31,696 on the Schedule K because these funds are commingled on the GL.

- The FISAP overreported the fiscal year 2003-2004 carryforward to the fiscal year 2004-2005 year by $1,125.

- Schedule K Federal Work Study (FWS) expenditures include the transfer of $63,500 from FWS to Federal Supplemental Educational Opportunity Grant Program (FSEOG) which is also reported as expenditures for FSEOG.

- Schedule K had $47,183 of FWS expenditures that were incorrectly reported under CFDA 84.003 rather than the correct CFDA 84.033 (FWS).

- Schedule K doubled counted transfers in the amount of $4,873.

- Perkins cancellations in the amount of $67,152 were not included on the Schedule K under the correct CFDA 84.037.

- The FISAP reported $14,417 in assignments due to liquidation, but the correct number was $16,517.

- The FISAP's cumulative loans receivable is $5,087,384 and does not agree to the GL and Campus Partner system for the net receivables of the NDL program of $5,196,439, a difference of $109,055.

State SURDS

- The "Other Federal" line for reporting Federal Nursing and Health Professional loans is understated by $1,800.

- FDL was understated by $116,632.

UCCS

Federal: Schedule K and FISAP

- Indirect costs in the amount of $2,963 were reported as direct costs for FSEOG.

- The FWS expenditures were overstated by $33,416.

- Schedule K Perkins expenditures include the transfer of $14,505 from Perkins to Federal Supplemental Educational Opportunity Grant Program (FSEOG) which is also reported as expenditures for FSEOG.

- The University may claim up to $5/Pell student for an administrative cost allowance (ACA); however, the campus is not properly reporting these Pell administrative costs. Expenditures for these costs are being reported on the Schedule K as direct costs only when the reimbursed funds are subsequently received and spent ($4,873 for fiscal year 2004). The ACA should be recognized as indirect costs and reported only when claimed (incurred and earned).

State SURDS

- FWS expenditures were incorrect by $599.

UCD

Federal: Schedule K and FISAP

- Schedule K Perkins expenditures include the transfer of $13,871 from Perkins to Federal Supplemental Educational Opportunity Grant Program (FSEOG) which is also reported as expenditures for FSEOG.

- On the FISAP, the change in the cumulative amount of principal and interest collected for Perkins less the prior year cumulative amount of principal and interest did not equal the current year collection of principal and interest because the amount recorded for the current year was from the loan servicer and not the GL. The amount of the error was $6,051.

- The FISAP Pell expenditures were $4,318,095 but should have been $4,317,845.

- The University may claim up to $5/Pell student for an administrative cost allowance (ACA); however, the campus is not properly reporting these Pell administrative costs. Expenditures for these costs are being reported on the Schedule K as direct costs only when the reimbursed funds are subsequently received and spent ($18,555 for 2004). The ACA should be recognized as indirect costs and reported only when claimed (incurred and earned).

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

Cause: The University does not adequately reconcile each of the reports to the underlying data, prior to submission, to prevent or minimize errors from being reported. In addition, there are inconsistencies between campuses related to reporting federal and state financial assistance.

Recommendation No. 10

The University should implement procedures to ensure that all elements of the FISAP, SURDS, and Schedule K reports are accurate. Such procedures should include a formal review that agrees amounts reported to supporting documentation. Additionally, the University should implement reconciliation procedures in order to verify that the information is accurate prior to submission and is consistently reported across campuses, when applicable.

University of Colorado Response

Partially agree. After careful analysis of the cause of this reporting condition, the University has concluded that two types of actions are needed to prevent its recurrence. First, the University believes that is has reported information on the State's Exhibit K in accordance with the State's instructions. In January 2005, the University will request the State to modify the Exhibit K instructions used in future years. Second, the primary cause for the other exceptions is due to the timing of the three reports and reconciling timing differences of available information. Therefore, the Office of University Controller will work with the campus Controller and Student Financial Aid offices to improve written procedures for preparation and reconciliation of all Student Financial Aid reporting to ensure accuracy, consistency, and adequate reconciliation documentation. These new procedures will be in place for fiscal year 2005 reporting or September 2005.

Auditors' Addendum

During the audit process, we validated with the State that the primary source of data from the University used by the State to compile the State-wide Schedule of Expenditures of Federal Awards is the Schedule K. We believe based on the information provided and our understanding of the reporting controls required to be in place under OMB Circular A-133 and State guidelines, that the finding is only, in part, related to interpretation of instructions for State Schedule K preparation and timing differences, and is accurate as presented above.

Federal Student Aid Cluster, Federal Direct Student Loans (FDL) (84.268) – Eligibility

Criteria: In the case of an undergraduate student who has not successfully completed the first year of a program of undergraduate education, the total amount the student may borrow for any academic year of study under the subsidized FDL program may not exceed $2,625 for a program of study of at least a full academic year in length. The total amount an undergraduate student who has not successfully completed the first year of a program of undergraduate education may borrow for any academic year of study under the unsubsidized FDL program is also $2,625 less any amount received under the subsidized FDL program. An independent undergraduate student and certain dependent undergraduate students may borrow amounts under the unsubsidized FDL program in addition to the amount discussed above. The additional eligibility for the unsubsidized FDL program in the case of a student who has not successfully completed the first year of a program of undergraduate education is $4,000 for a program of study of at least a full academic year in length. There are also maximum subsidized and unsubsidized FDL amounts that other levels of students are eligible to borrow.

In no case may a subsidized FDL or an unsubsidized FDL exceed the student's estimated cost of attendance for the period of enrollment for which the loan is intended, less the student's estimated financial assistance for that period and, in the case of a subsidized FDL, the borrower's expected family contribution for that period.

A subsidized FDL borrower is eligible for a deferment during which periodic installments of principal and interest need not be paid. An unsubsidized FDL borrower is eligible for a deferment during which periodic installments of principal need not be paid but interest does accrue and is capitalized or paid by the borrower. (*34 CFR 685.203)*

Condition: The University offered subsidized FDL of $2,620 to all freshmen students eligible for the maximum annual limit of $2,625. Additionally, the University does not always offer students the full amount of subsidized FDL for which they are eligible. In these instances, the University offers an amount within $10 less than the amount for which the student is eligible. Per representation from the University, this occurs as a result of system limitations that only allow $10-incremented amounts to be awarded; thus, amounts are rounded down to the nearest $10.

Questioned Costs: None.

Context: In a sample of 30 students, there were five freshmen eligible for the maximum annual limit of $2,625 in subsidized FDL. Of these five, all received $2,620 in subsidized FDL and one also borrowed an unsubsidized loan. In the same sample of 30 students, there were four other students eligible for subsidized FDL greater than the subsidized FDL the University offered them. The loans offered ranged from $1 – $5 less than the amount for which the students were eligible. One of these students also borrowed an unsubsidized loan. This finding represents a systemic problem in that otherwise eligible students are not offered the maximum annual limit of subsidized FDL. This error may potentially be extrapolated to as many as the 1,110 students who received $2,620 in subsidized FDL in fiscal year 2004. It is unknown how many other students did not receive the full amount of subsidized FDL for which they were eligible.

Effect: Otherwise eligible students are entitled to the maximum annual limit of subsidized FDL. By not offering them the full amount for which they are eligible, they may, in turn, borrow greater amounts of unsubsidized FDL.

Cause: The University of Colorado does not have processes in place to ensure FDL awards offered are in compliance with federal award levels or that, if system limitations do not allow for compliance, the necessary waivers were not obtained from the federal awarding agency.

Recommendation No. 11

The University should strengthen procedures to ensure that the maximum annual limits of subsidized FDL funds are offered to all students, through additional monitoring of the original parameters set up during the award determination process. Alternatively, if system limitations restrict the University from establishing award levels that are compliant with federal guidelines, waivers should be obtained from the applicable awarding agency.

University of Colorado Response

Agree. As noted, the University rounded its award packaging loan amounts to accommodate its system limitations without obtaining any waivers, as the rounding was perceived to be insignificant. After recent analysis of the system, the University now believes there is a system solution that will result in proper loan limits in the award packages. We are investing programming time to adjust the awards for the 2005-20006 award year. In addition, procedures were modified to ensure all loans manually awarded for spring 2005 and future periods reflect the full amount of Subsidized Stafford eligibility before Unsubsidized Stafford consideration. By

December 31, 2004, we will initiate a request for waiver for the 2004-2005 award year. Full implementation will be achieved by February 2005 (for 2005-2006 award year).

Federal Student Aid Cluster, Federal Direct Student Loans (FDL) (84.268) – Cash Management

Criteria: A school is responsible for establishing and maintaining internal control processes that promote sound cash management of Title IV program funds. (*34 CFR 668.161(a))*

Condition: One person calculates the amount of FDL funds to request from the government without supervisory review of the draws prior to submittal. The University has periodic review controls of the FDL program account; however, these controls are not timely enough to detect if FDL funds are drawn in excess of immediate need, are held too long before being disbursed to students, or are drawn in amounts less than immediate need.

Questioned Costs: None.

Context: In our sample of 25 FDL draws, there were 3 draw amounts that were miscalculated. Two of the draws resulted in the University drawing $2,632 and $43,501 less than immediate need, respectively. This represents less than optimum cash management from the perspective that the University was funding disbursements with institutional funds longer than necessary. One of the draws resulted in the University drawing $1,187,949 in excess of the immediate need. Due to the timing of other disbursements and draws during the immediate period surrounding this overdraw, no cash management regulations were violated. However, the University potentially could have been holding excess cash before the periodic review controls would have detected the situation. There was no review documented that indicated these errors had been detected or addressed, even though the daily draw amount was emailed to the Assistant Director. The University does not have adequate controls over the calculation of FDL draws to prevent this occurrence.

Effect: Lack of adequate controls over the calculation of FDL draws could result in the University holding excess cash, which must be returned immediately to the U.S. Department of Education along with interest. Lack of adequate controls resulted in the University using institutional funds unnecessarily.

Cause: The University of Colorado does not have processes in place which are carried out timely enough to ensure that the cash draws are made in compliance with federal guidelines and do not result in overdrawing of funds.

Recommendation No. 12

The University should strengthen procedures to provide timely supervisory reviews of the calculation of FDL draws prior to their submittal.

University of Colorado Response

Disagree. Consistent with best practices, in designing its internal control structure, the University performs a risk assessment and cost-benefit analysis of possible controls. The University performed such analysis in designing the controls over its FDL draws. In response to this recommendation, the University reperformed such analysis to determine if it was assuming more risk than it had intended or if alternative controls would be as cost-beneficial. The University still believes that its process design represents the best cost-benefit alternative with an acceptable level of risk. Our designed process includes factors about the aid cycle’s inherent peak periods and provides for more timely review during these peak periods and provides for a cushion in that we are attempting to forecast need as allowed for in the federal cash management rules. Given that we have not had any instances of noncompliance and the amounts that we underdraw would not have any impact on our investment earnings, the cost of implementing the recommended reviews is not considered to be necessary from a benefit or risk analysis.

Auditors’ Addendum

During the audit process, we validated our findings as related to timing and effectiveness of reviews being conducted and believe based on the information provided and our understanding of the cash management controls required to be in place under OMB Circular A-133, that the finding is accurate as presented above.

Following are the audit recommendations for the year ended June 30, 2003, and their disposition as of December 15, 2004:

Recommendation	Disposition
2003 – Recommendation No. 1 The University of Colorado at Denver should report the questioned costs identified in the Internal Audit Department's report to the appropriate federal sponsors and refund the amounts owed.	Implemented. The federal sponsors subject to overcharges identified in this report have been contacted and apprised of the amount owed as follows: • For Education and Human Resources – A letter was written to the sponsoring agency and the amount owed was returned. • For Vocational and Educational Counseling – The actual amount owed to the agency was determined to be $4,697 and was returned to the sponsor. • For Child Care Apprentice Program – The amount owed was returned. • For Special Education Grants – The funds not expended were refunded to the grantor agency.
2003 – Recommendation No. 2 The University of Colorado at Denver should establish adequate controls over sponsored programs by: a. Conducting a comprehensive review of its sponsored program processes, controls, and competencies. b. Clearly identifying respective responsibilities, authorities, and procedures that will fully comply with federal and state requirements, and developing guidance that reflects the same. c. Conducting training to ensure all parties involved in sponsored program financial compliance are adequately equipped to carry out their responsibilities.	Partially implemented. a. Implemented. UCD has leveraged the internal audit function and continued the assessment of its program processes, controls, and competencies. An action plan of enhancements was developed by management and has been fully implemented. b. Implemented. A checklist (working set of procedures) has been developed outlining the responsibilities and authorizations required of Pre- vs. Post-Award Offices. c. In progress. Finalization of the HSC on-line training for Principal Investigators was delayed until July 2005. A training schedule for all Denver Campus research faculty and administrative staff is currently being developed with a planned final implementation date of June 30, 2005.

(Continued)

Recommendation	Disposition
2003 – Recommendation No. 3 The University of Colorado should strengthen controls over finance and human resources management system access by: a. Determining which users have access to sensitive PeopleTools including Application Designer and Maintain Security and restricting the number of 'Super users' under these PeopleTools to approximately five. If others need such access periodically, develop a policy and approval process for enabling such access on a temporary basis (for a period of hours) and then removing such access. b. Reviewing custom built Correction Action audit trails/logs periodically. Management should set a policy assigning responsibility for reviewing these audit logs and a regular schedule for doing so.	Partially implemented. a. Implemented. The University reviewed the number of users who have access to sensitive PeopleTools including Application Designer and Maintain Security. Based on the specifics of the University's operating environment, the number of system users, and desired service levels, the University has reduced access appropriately. b. In progress. The Office of the University Controller and System Operations will develop the policies and procedures for reviewing Correction Action audit trails/logs by December 31, 2004.
2003 – Recommendation No. 4 The University of Colorado should strengthen controls over capital assets and related accounts by: a. Reviewing existing policies and procedures regarding the recording of purchases of capital assets and related accounts to ensure that all aspects of recognition are addressed. b. Providing additional training to campus personnel regarding these policies. c. Periodically reviewing controls over capital assets to ensure that they are in place and functioning as intended. The University should ensure that capital assets policies and procedures specifically address the search for unrecorded liabilities at year-end, as there were two audit adjustments in 2004 which required an increase of approximately $2.3 million in accounts payable and construction in progress.	Partially implemented. The Office of University Controller, in coordination with the campus controllers, will refine existing policies and procedures regarding the recording of capital assets and related accounts. The University will ensure the revised policies and procedures address the entire capital asset cycle, including year-end cut-off procedures. Training and monitoring procedures will be incorporated into the new policies and procedures. Revised policies and procedures will be developed by December 31, 2004.

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Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the University of Colorado (the University), a blended component unit of the State of Colorado, and its aggregate discretely presented component units as of and for the year ended June 30, 2004, as shown on pages 37 through 42. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the 2004 financial statements of University Physicians, Inc. (UPI), a blended component unit, which represents 5%, 5%, and 11%, respectively, for 2004, of the assets, net assets, and revenues of the University. In addition, we did not audit the 2004 financial statements of the University of Colorado Real Estate Foundation (CUREF), which represents 2%, 3%, and 10%, respectively, for 2004, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those 2004 financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for UPI and CUREF, are based on the reports of the other auditors. The accompanying financial statements of the University as of and for the year ended June 30, 2003 were audited by other auditors whose report thereon dated November 24, 2003, expressed an unqualified opinion on those statements. In addition, we audited the financial statements of UPI and the aggregate discretely presented component units as of and for the year ended June 30, 2003, except for CUREF, which was audited by other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of CUREF, the University of Colorado Foundation (CU Foundation), and the Coleman Colorado Foundation (Coleman Foundation), discretely presented component units, and UPI, a blended component unit, were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

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

As discussed in notes 1 and 12, in fiscal year 2004, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* an amendment to GASB Statement No. 14, *The Financial Reporting Entity,* as of July 1, 2002.

The management's discussion and analysis on pages 33 to 44 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 15, 2004

We are pleased to present this financial discussion and analysis of the University of Colorado (the University). It is intended to make the University's financial statements easier to understand and communicate our financial situation in an open and accountable manner. It provides an objective analysis of the University's financial position and results of operations as of and for the years ended June 30, 2004 and 2003 (Fiscal Year 2004 and 2003, respectively), with comparative information for Fiscal Year 2002.

UNDERSTANDING THE UNIVERSITY

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

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

With more than 52,000 students and 2,780 full-time instructional faculty, the University is the largest institution of higher education in Colorado providing a comprehensive baccalaureate and graduate education. As discussed in Note 1, each of the four campuses bring a unique quality to the institution in order to meet the specialized needs of its communities.

In addition, the University has three supporting foundations which are not included in the University's primary financial reporting entity, but are included as discretely presented component units in the University's financial statements (Notes 1, 12, and 20).

UNDERSTANDING THE FINANCIAL STATEMENTS

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

- ***Report of Independent Auditors*** presents an unqualified opinion prepared by our auditors (an independent certified public accounting firm, KPMG LLP, for Fiscal Year 2004) on the fairness (in all material respects) of our financial statements.
- ***Statement of Net Assets*** presents the assets, liabilities, and net assets of the University at a point in time (at June 30, 2004 and 2003). Its purpose is to present a financial snapshot of the University. It aids readers in determining the assets available to continue the University's operations, how much the University owes to vendors, investors, and lending institutions, and a picture of net assets and their availability for expenditure in the University.
- ***Statement of Revenues, Expenses, and Changes in Net Assets*** presents the total revenues earned and expenses incurred by the University for operating, nonoperating, and other related activities during a period of time (the years ended June 30, 2004 and 2003). Its purpose is to assess the University's operating results.
- ***Statement of Cash Flows*** presents cash receipts and payments of the University during a period of time (the years ended June 30, 2004 and 2003). Its purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.
- ***Notes to the Financial Statements*** present additional information to support the financial statements and are commonly referred to as Note(s). Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to provide details of the financial highlights.

We suggest that you combine this financial analysis with relevant nonfinancial indicators, to assess the overall health of the University. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, building condition, and campus safety. Information about nonfinancial indicators is not included in this analysis, but may be obtained from the University's Office of Information and Analysis (see www.cu.edu/system_info).

FINANCIAL HIGHLIGHTS

Sustained increases in net assets over time are one indicator of financial health. During Fiscal Years 2004, 2003, and 2002, Net Assets have increased due to additions of property, plant and equipment and balanced operations. As of June 30, 2004 and 2003, the University's net assets increased by approximately $193,766,000 and $103,798,000, respectively. This increase is primarily attributable to the increase in our capital assets of approximately $146,773,000 and $189,506,000 for Fiscal Years 2004 and 2003, respectively, as offset by the utilization of our cash resources and lease financing. For Fiscal Years 2004 and 2003, the University's income before other revenues is $120,554,000 and $68,197,000, respectively, an increase of approximately $52,357,000 and $42,098,000, respectively, over the prior year amount. In Fiscal Year 2004, this increase is the direct result of several factors: technology transfer settlement, investment revenues, capital (equipment) contributions, cost management activities, and continued programmatic growth, including enroll-

While the University has grown overall, the mix of assets, liabilities, and net assets is basically unchanged over the past three fiscal years.

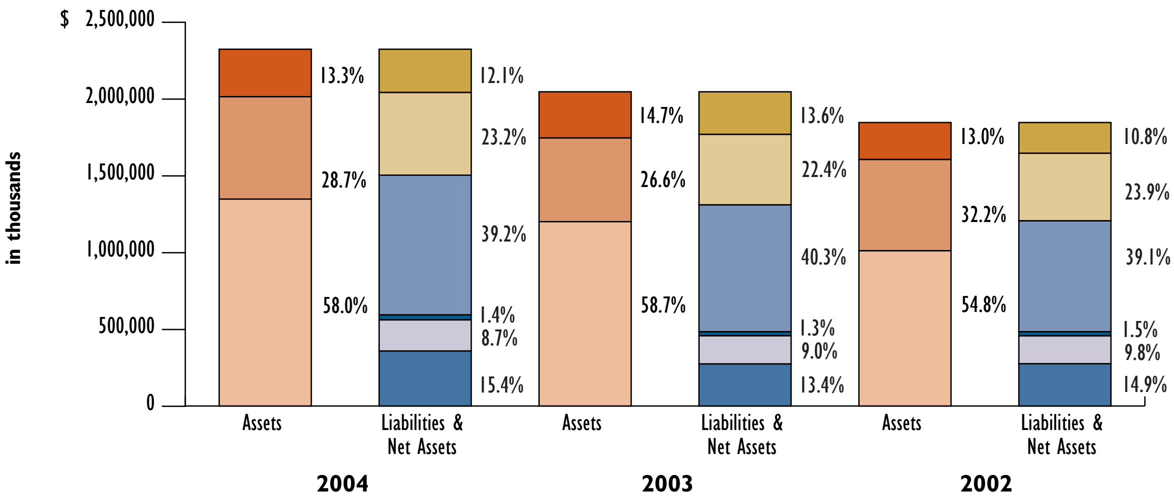

Figure 1. Summary of Assets, Liabilities, and Net Assets as of June 30, 2004, 2003 and 2002 *(all dollars in thousands)*

	2004	2003	2002	Increase (Decrease) 2004 vs 2003 Amount	2004 vs 2003 Percent	2003 vs 2002 Amount	2003 vs 2002 Percent
Assets							
Current Assets	$ 309,239	300,836	240,831	$ 8,403	2.8%	$ 60,005	24.9%
Noncurrent, Noncapital Assets	666,618	544,686	594,077	121,932	22.4%	(49,391)	(8.3%)
Net Capital Assets	1,346,896	1,200,123	1,010,617	146,773	12.2%	189,506	18.8%
Total Assets	$ 2,322,753	2,045,645	1,845,525	$ 277,108	13.5%	$ 200,120	10.8%
Liabilities							
Current Liabilities	$ 281,805	277,614	200,083	$ 4,191	1.5%	$ 77,531	38.7%
Noncurrent Liabilities	538,072	458,921	440,130	79,151	17.2%	18,791	4.3%
Total Liabilities	$ 819,877	736,535	640,213	$ 83,342	11.3%	$ 96,322	15.0%
Net Assets							
Invested in Capital Assets, Net of Related Debt	$ 910,007	825,653	721,706	$ 84,354	10.2%	$ 103,947	14.4%
Restricted for Nonexpendable Purposes	32,484	26,442	27,209	6,042	22.9%	(767)	(2.8%)
Restricted for Expendable Purposes	202,515	183,441	181,306	19,074	10.4%	2,135	1.2%
Unrestricted	357,870	273,574	275,091	84,296	30.8%	(1,517)	(0.6%)
Total Net Assets	$ 1,502,876	1,309,110	1,205,312	$ 193,766	14.8%	$ 103,798	8.6%

ment, research and health services. In Fiscal Year 2003, this increase is the direct result of two primary factors: investment revenues and cost management activities. The following sections provide further explanation of these factors and other aspects of the University's financial health.

STATEMENT OF NET ASSETS

Figure 1 illustrates the University's condensed statement of net assets and demonstrates the mix of assets, liabilities, and net assets is basically unchanged over the past three fiscal years. Analysis of the University's capital assets and related debt is included in the section Capital Asset and Debt Management, whereas this section provides analysis of the University's non-capital assets and other liabilities.

In analyzing the University's assets, the majority (approximately 80 percent) of the University's non-capital assets are investments, with a balance of $777,538,000 and $667,682,000 at the end of Fiscal Year 2004 and 2003, respectively. The University maximizes earnings through an internal pooling program and targeted rates of returns. Given current market conditions, the University has leveraged the investment portfolio and earning power, while ensuring safety and liquidity requirements are also met.

The University's other (non-debt) liabilities are 43 and 47 percent, respectively, of total liabilities with $353,917,000 and $349,117,000 of liabilities at June 30, 2004 and 2003, respectively. These liabilities are comprised of amounts due to vendors and others as categorized in Figure 2. Other liabilities, which have increased by 1 percent in Fiscal Year 2004, are not increasing at a rate faster than overall University growth, which was 5 percent in Fiscal Year 2004 (based on expenses).

The three largest categories of other liabilities are accrued salaries and benefits, accrued compensated absences, and deferred revenue. Accrued salaries and benefits represent amounts earned by University employees but not paid at fiscal year end. The increase in Fiscal Year 2003 of approximately 104 percent is attributable to (then) new State legislation, which delayed the payment of June payroll to the first business day in July. The increase in Fiscal Year 2004 was minor (6 percent) as a result of the University's overall growth. Accrued compensated absences estimate the amount payable to employees in the future for their vested rights under the University's various leave programs. This estimate is based on personnel policies that define the amount of vacation and sick leave to which each employee is entitled. Deferred revenue repre-

The categories and mix of other liabilities has remained stable over the last two years, with a change from Fiscal Year 2002 to Fiscal Year 2003 as a result of new state law that deferred employee payroll from June 30 to July 1.

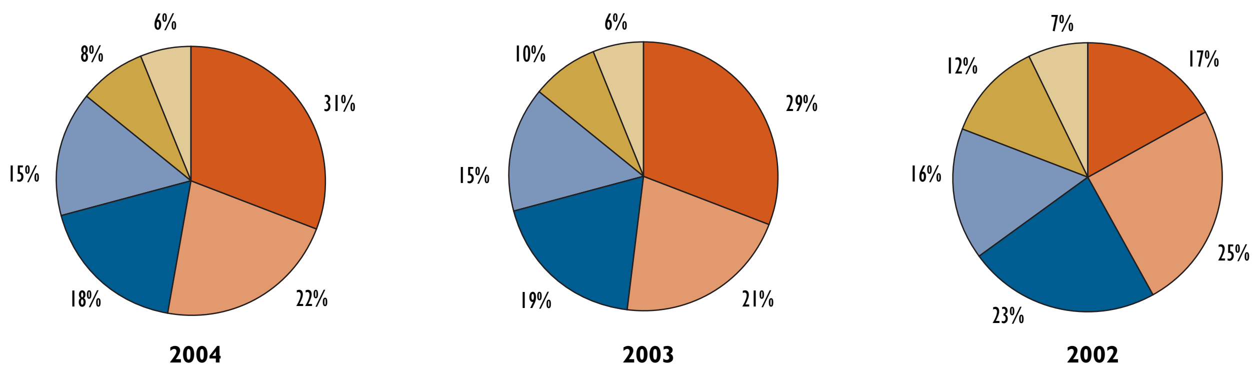

Figure 2. Composition of Other Liabilities as of June 30, 2004, 2003, and 2002 *(all dollars in thousands)*

				Increase (Decrease)			
				2004 vs 2003		2003 vs 2002	
	2004	2003	2002	Amount	Percent	Amount	Percent
Accrued Salaries and Benefits	$ 106,774	100,317	49,072	$ 6,457	6.4%	$ 51,245	104.4%
Accrued Compensated Absences	78,384	74,320	71,517	4,064	5.5%	2,803	3.9%
Deferred Revenue	64,258	67,236	66,257	(2,978)	(4.4%)	979	1.5%
Accounts Payable to Vendors	54,147	51,419	46,425	2,728	5.3%	4,994	10.8%
Miscellaneous Liabilities	29,063	34,244	32,996	(5,181)	(15.1%)	1,248	3.8%
Risk Financing Related	21,291	21,581	19,263	(290)	(1.3%)	2,318	12.0%
Total Other Liabilities	$ 353,917	349,117	285,530	$ 4,800	1.4%	$ 63,587	22.3%

sents amounts prepaid by students, auxiliary enterprise customers, grantors and contractors (or amounts received before the University met all of its requirements for earning the amounts). These amounts will be recognized as revenue in future periods after all conditions have been satisfied. Changes between Fiscal Years for both accrued compensated absences and deferred revenue were also minor (no more than 5 percent) and resulted from normal operations.

Net assets may have restrictions imposed by external parties, such as donors, or by their nature are invested in capital assets (property, plant, and equipment). The University's net assets have four categories, as displayed in Figure 1. In Fiscal Year 2004, total assets grew by a greater margin than total liabilities (2 percent) with the University's net assets increasing by 15 percent overall, with growth in all categories. In Fiscal Year 2003, the change in net assets of 9 percent was primarily attributable to the invested in capital assets category only.

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Figure 3 shows the University's condensed statement of revenues, expenses, and changes in net assets. A key component of this statement is the differentiation of operating and nonoperating activities. Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are paid to acquire or produce goods and services provided in return for operating revenues, and to carry out the mission of the University. Nonoperating revenues are received when goods and services are not provided. Thus, State appropriations are nonoperating because they are provided by the State without the State directly receiving goods and services. For similar reasons, most gifts and investment income are also nonoperating revenues.

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

Operating revenues have grown at a faster rate than operating expenses due to management cost containment efforts. Nonoperating revenues have experienced favorable increases as a result of our investment strategies. Other revenues have grown as the University invests in its capital assets through governmental and private resources.

Figure 3. Summary of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2004, 2003, and 2002 *(all dollars in thousands)*

				Increase (Decrease)			
				2004 vs 2003		2003 vs 2002	
	2004	2003	2002	Amount	Percent	Amount	Percent
Operating revenues	$ 1,421,580	1,294,429	1,195,157	$ 127,151	9.8%	$ 99,272	8.3%
Operating expenses	1,569,395	1,491,562	1,429,912	77,833	5.2%	61,650	4.3%
Operating Loss	(147,815)	(197,133)	(234,755)	49,318	(25.0%)	37,622	(16.0%)
Nonoperating revenues (net of expenses)	268,369	265,330	260,854	3,039	1.1%	4,476	1.7%
Income before Other Revenues	120,554	68,197	26,099	52,357	76.8%	42,098	161.3%
Other revenues	73,212	35,601	53,894	37,611	105.6%	(18,293)	(33.9%)
Increase in Net Assets	193,766	103,798	79,993	89,968	86.7%	23,805	29.8%
Net assets, beginning of year	1,309,110	1,205,312	1,125,319	103,798	8.6%	79,993	7.1%
Net Assets, end of year	$ 1,502,876	1,309,110	1,205,312	$ 193,766	14.8%	$ 103,798	8.6%

universities) experienced an operating loss; the University's operating loss totaled $147,815,000 and $197,133,000 in Fiscal Years 2004 and 2003, respectively. The downtrend in the operating loss (37 percent from Fiscal Year 2004 to Fiscal Year 2002) is reflective of the State's declining support to the University.

This classification creates a need to consider not just the operating loss but also the net income before other revenues in determining the University's overall financial health. For Fiscal Years 2004 and 2003, a net income before other revenues of $120,554,000 and $68,197,000, respectively, presents the complete picture of educational and research activities of the University. It provides a full match between the source of revenues and the related expenses.

Figure 4 provides a graphic display of operating and nonoperating revenues by major sources. These sources include both State-appropriated and non-appropriated funds (Note 13). Appropriated funds include both state appropriations and certain cash funds, including tuition. The ability of the Regents to increase tuition rates is limited by the State. However, increases in tuition revenue due to student growth are not directly restricted.

As illustrated in Figure 4, the University experienced increases in most operating revenue sources, specifically tuition and fees, grants and contracts, and health services,

The University has experienced steady growth in all categories of operating revenues and investment income whereas state appropriations have been significantly reduced over the last three fiscal years.

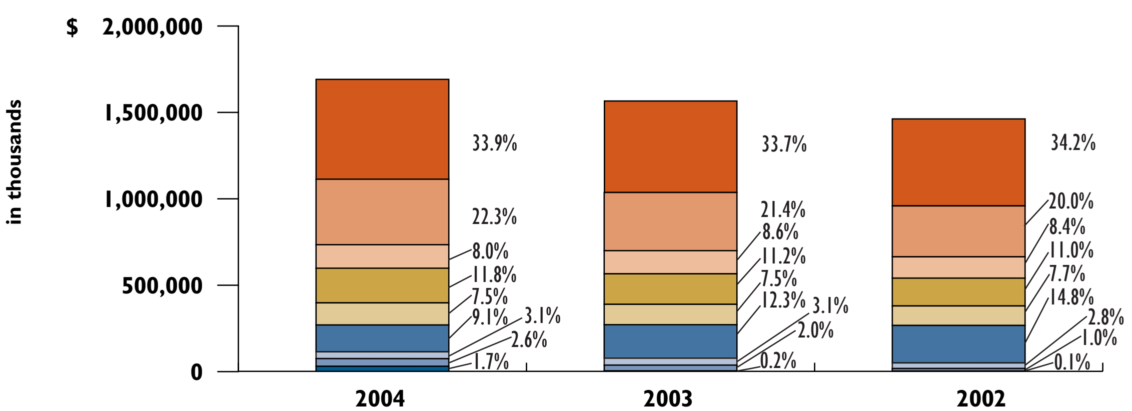

Figure 4. Operating and Nonoperating Revenues for years ended June 30, 2004, 2003, and 2002 *(all dollars in thousands)*

				Increase (Decrease)			
				2004 vs 2003		2003 vs 2002	
	2004	2003	2002	Amount	Percent	Amount	Percent
Operating Revenues							
Grants and contracts	$ 577,672	529,408	503,343	$ 48,264	9.1%	$ 26,065	5.2%
Student tuition and fees, net	379,103	336,321	294,560	42,782	12.7%	41,761	14.2%
Other operating	135,851	133,878	123,385	1,973	1.5%	10,493	8.5%
Health services	200,819	176,500	160,978	24,319	13.8%	15,522	9.6%
Auxiliary enterprises, net	128,135	118,322	112,891	9,813	8.3%	5,431	4.8%
Total Operating Revenues	1,421,580	1,294,429	1,195,157	127,151	9.8%	99,272	8.3%
Nonoperating Revenues							
State appropriations	155,173	193,628	216,884	(38,455)	(19.9%)	(23,256)	(10.7%)
Gifts	51,983	48,715	41,188	3,268	6.7%	7,527	18.3%
Investment income, net	44,383	33,500	14,695	10,883	32.5%	18,805	128.0%
Other nonoperating, net	29,513	2,528	1,646	26,985	1,067.4%	882	53.6%
Total Nonoperating Reveues	281,052	278,371	274,413	2,681	1.0%	3,958	1.5%
Total Revenues (noncapital)	$ 1,702,632	1,572,800	1,469,570	$ 129,832	8.3%	$ 103,230	7.0%

in Fiscal Years 2004 and 2003. The increase in tuition and fees revenues reflects both enrollment and approved rate increases. (Trend analysis of both factors are included in Figures 13 and 14 toward the end of this discussion.) Consistent with the University's goal to increase its focus and national role as a research institution, the University increased grants and contracts revenue by 9 and 5 percent in Fiscal Years 2004 and 2003, respectively. The University achieved a ranking (in 2004) as the sixth and first highest in federal expenditures among research institutions in the nation from the National Science Foundation and National Aeronautics Space Administration, respectively. The majority of health services represents medical practice plan revenues earned through the blended component unit University Physicians, Incorporated (Note 1). The practice plan growth results from renegotiated payer fees and additional service contracts in Fiscal Year 2004.

The majority of nonoperating revenues are comprised of three sources: State appropriations, gift revenue, and investment income. In Fiscal Years 2004 and 2003, the University experienced decreases in State appropriations of $38,455,000 and $23,256,000, respectively, or 20 and 11 percent, respectively. This decrease was the third cut of State appropriations experienced in the last three fiscal years as the State is challenged with an economic downturn. The decrease resulted in the Fiscal Year 2004 State appropriations being approximately equal to the amount received by the University in 1989 (on a constant dollar basis). As a result of concluding a major campaign in Fiscal Year 2003, the University saw an increase of noncapital gift revenues of approximately 18 percent or $7,527,000. The increased levels of gifts were maintained in Fiscal Year 2004. Investment income increased by $10,883,000 and $18,805,000 or 33 percent and 128 percent in Fiscal Years 2004 and 2003, respectively. In Fiscal Year 2004, the investment income increase was comprised of unrealized gains whereas in Fiscal Year 2003, the increase was realized gains that were a recovery of the previous year's unrealized losses (incurred due to the nation's economic downturn). In addition to these three components, in Fiscal Year 2004 the University recognized a (one-time, net) technology transfer settlement of approximately $28,306,000 as non-operating revenues. The technology transfer settlement provided compensation to the University for third-party use of a University developed and owned patent for the past two decades (or reimbursed the University for past unpaid patent fees).

In addition to operating and nonoperating revenues, the University had capital revenues in the amounts depicted in Figure 5. The University experienced a 34 percent decrease in Fiscal Year 2003. This decrease is attributable to the completion of privately funded construction projects at UCHSC's Fitzsimons campus (see completed projects in Figure 8 in the following section). Approximately $10,000,000 of the increase in Fiscal Year 2004 was attributable to additional Fitzsimons projects. The largest factor contributing to the University's Fiscal Year 2004 growth in capital revenues was the receipt of equipment related to a federal-sponsored research program valued at approximately $50,108,000. Offsetting the increase in capital grants and gifts, there has been a steady decline in capital appropriations over the last three fiscal years, similar to State appropriations for operations.

The programmatic uses of expenses are displayed in Figure 6, which demonstrates the programmatic focus is basically unchanged over the past three fiscal years while the programs overall have grown. Due to decreasing State support, management implemented cost management measures in Fiscal Year 2003 and continued these efforts in Fiscal Year 2004. The objectives of such measures were to expand programmatic costs to meet increased demand for services, while limiting increases in support services costs. As a result, in Fiscal Years 2004 and 2003, the University experienced a general increase in total operating expenses approximating 5 and 4 percent, respectively, which is primarily attributable to the expansion of the

The University received a one-time contribution of equipment related to a federal-sponsored research program in Fiscal Year 2004, which is the primary factor contributing to the capital revenue increase. Similar to state appropriations for operations, the capital appropriations have been significantly reduced over the last three fiscal years.

Figure 5. Capital Revenues for years ended June 30, 2004, 2003, and 2002 *(all dollars in thousands)*

					Increase (Decrease)			
					2004 vs 2003		2003 vs 2002	
		2004	2003	2002	Amount	Percent	Amount	Percent
Grants and gifts	$	70,451	25,806	41,541	$ 44,645	173.0%	$ (15,735)	(37.9%)
Appropriations		2,744	9,734	12,344	(6,990)	(71.8%)	(2,610)	(21.1%)
Total Capital Revenues	**$**	**73,195**	**35,540**	**53,885**	**$ 37,655**	**106.0%**	**$ (18,345)**	**(34.0%)**

University's research and health services programs. Consistent with the growth in research revenue, research expenses grew at a rate of 11 and 7 percent in Fiscal Years 2004 and 2003, respectively, which is a faster rate than other programs. Health services expenses grew consistent with the corresponding revenues reflecting the increased faculty effort on these clinical programs.

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

CAPITAL ASSET AND DEBT MANAGEMENT

The University had $2,092,867,000 and $1,874,008,000 of plant, property, and equipment at June 30, 2004 and 2003, respectively, offset by accumulated depreciation of $745,971,000 and $673,885,000, respectively. The major categories of plant, property, and equipment at June 30, 2004 and 2003 are displayed in Figure 7. Related depreciation charges of $88,535,000 and $68,380,000, were recognized in the Fiscal Years 2004 and 2003, respectively. Detailed financial activity related to the changes in Capital Assets is presented in Note 5.

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

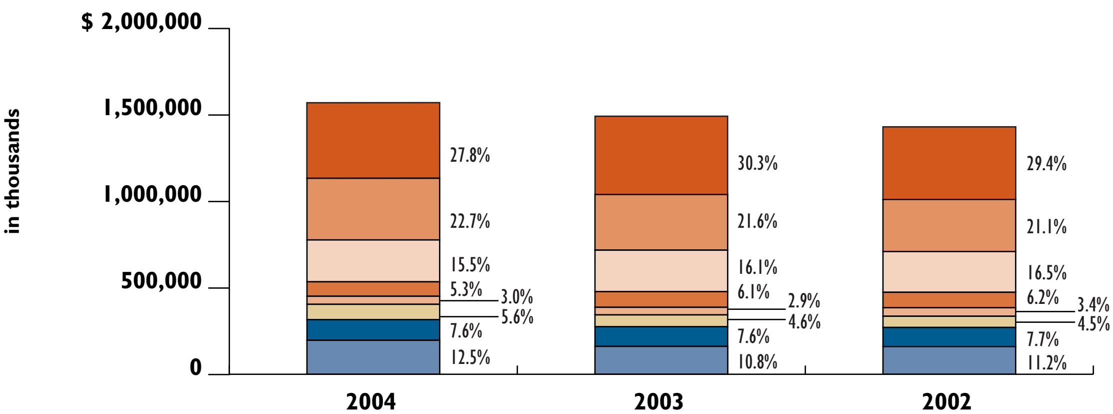

Figure 6. Expense Program Categories for years ended June 30, 2004, 2003 and 2002 *(all dollars in thousands)*

	2004	2003	2002	Increase (Decrease) 2004 vs 2003 Amount	2004 vs 2003 Percent	2003 vs 2002 Amount	2003 vs 2002 Percent
Instruction	$ 436,598	452,457	419,561	$ (15,859)	(3.5%)	$ 32,896	7.8%
Research	356,280	321,743	301,326	34,537	10.7%	20,417	6.8%
Academic, Institutional, and Plant Support	242,129	239,656	235,346	2,473	1.0%	4,310	1.8%
Student Aid and Other Services	83,439	90,670	89,343	(7,231)	(8.0%)	1,327	1.5%
Public Service	46,568	43,764	49,244	2,804	6.4%	(5,480)	(11.1%)
Total Education and General	1,165,014	1,148,290	1,094,820	16,724	1.5%	53,470	4.9%
Depreciation	88,535	68,380	64,737	20,155	29.5%	3,643	5.6%
Auxiliary enterprises	119,453	113,818	110,530	5,635	5.0%	3,288	3.0%
Health services	196,372	161,014	160,095	35,358	22.0%	919	0.6%
Miscellaneous	21	60	(270)	(39)	(65.0%)	330	122.2%
Total Operating Expenses	**$ 1,569,395**	**1,491,562**	**1,429,912**	**$ 77,833**	**5.2%**	**$ 61,650**	**4.3%**

In Fiscal Years 2004 and 2003, the University put into service capital construction projects of $336,918,000 and $154,695,000, respectively. In addition, another $68,302,000 and $266,091,000 of construction activity was in progress at June 30, 2004 and 2003, respectively. Major projects are detailed in Figure 8.

The University plans to continue its investment in property, plant and equipment with an approved Fiscal Year 2005 capital projects budget of $225,446,000 (excluding the UCHSC Fitzsimons Campus Academic Expansion described below). Of this budget amount, $29,244,000 is related to continuing projects (described in Figure 8). New projects included in the Fiscal Year 2005 budget are detailed in Figure 9. There is no State support available for construction projects. Therefore, all of these projects will be funded by existing resources of the campuses or through additional financing to be issued in Fiscal Year 2005.

In addition to the authorized budget above, the Regents have authorized the construction of educational buildings at the UCHSC Fitzsimons campus, detailed in Figure 10. The financing for these buildings will be provided by the State. In Fiscal Year 2003, the State (not the University) received legislative authorization for the issuance of a lease-purchase agreement not to exceed $202,876,000, which will be collaterized by these University's buildings. The target issuance date is the last quarter of Fiscal Year 2005, pending the resolution of certain legal challenges. The construction project schedules have various completion dates through Fiscal Year 2008.

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

As a result of the University's efforts to identify alternative financing sources for its capital improvements to offset the lack of State capital support, the University financed the capital projects detailed in Figure 11 during the Fiscal Years 2004 and 2003.

The University's completed significant construction projects in Fiscal Year 2004 continue its trend of physical facility investment.

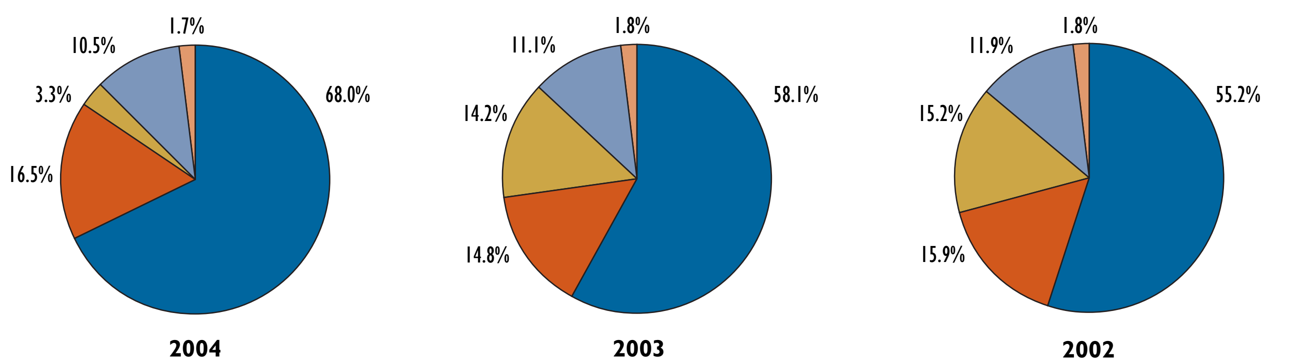

Figure 7. Capital Asset Categories (before depreciation) for years ended June 30, 2004, 2003, and 2002
(all dollars in thousands)

				Increase (Decrease)			
				2004 vs 2003		2003 vs 2002	
	2004	2003	2002	Amount	Percent	Amount	Percent
Buildings and Improvements	$ 1,422,943	1,088,366	901,540	$ 334,577	30.7%	$ 186,826	20.7%
Equipment	345,047	276,933	259,368	68,114	24.6%	17,565	6.8%
Construction in progress	68,302	266,091	249,200	(197,789)	(74.3%)	16,891	6.8%
Library and other collections	220,061	208,697	194,949	11,364	5.4%	13,748	7.1%
Land	36,514	33,921	29,205	2,593	7.6%	4,716	16.1%
	$ 2,092,867	1,874,008	1,634,262	$ 218,859	11.7%	$ 239,746	14.7%

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

Campus/Project Description	Fiscal Year Completed	Financing Sources	Value*
CU-Boulder:			
• Improvement to its student union (University Memorial Center), which increased space for the bookstore and dining facilities, and provides student offices and meeting space as well as conference facilities.	2003	Bond proceeds	$ 29,218
• Renovation to the Porter Biosciences building to update the facility.	2003	State appropriations and campus resources	18,638
• Construction of the Discovery Learning Center to create an integrated instructional laboratory for the Engineering Department.	2003	State appropriations and private gifts	16,503
• An extensive renovation to student housing centers, which has been segregated into the following phases:		Bond proceeds and campus cash resources	
– Phase I	2003		14,857
– Phase II	2004		5,704
– Future Phases	In progress		35,500
• Folsom Stadium improvements to enlarge the east side of the stadium, add a first floor concourse and facilities management shop space, resulting in increased seating capacity.	2004	Bond proceeds	45,574
• CU-Boulder purchase of the Center for Innovation and Creativity, a new research laboratory building	2004	Bond proceeds	8,200
UCHSC:			
• The Nighthorse Campbell Native Health Building, the first completed University-owned facility at Fitzsimons.	2003	Primarily federal grants	10,367
• Central Utility Plant for the Fitzsimons campus.	2003	Capital lease	27,805
• State-of-the art biomedical research facilities with research laboratory modules, lab support space, research offices, and academic auditorium space:		Bond proceeds, federal awards, gift and campus cash resources	
– Research Complex I	2004		214,688
– Research Complex II	In Progress		205,970
• Administration building for University Physicians, Inc.	2004	Bond proceeds	20,500
• Oral Health Building (Fitzsimons) to provide space for patient care and instruction.	In progress	Private resources and Certificates of Participation (COP) proceeds	34,400
• Barbara Davis Center for Childhood Diabetes (Fitzsimons) providing clinical, research, and educational space.	In progress	Private donations, federal grants, and bond proceeds	34,432
CU-Colorado Springs:			
• Library addition to provide expanded capacity and updated resources.	2003	State appropriations	26,912
• Complete renovation project of buildings providing student support and administrative space. This project was state funded and was temporarily suspended in Fiscal Year 2002 due to State budget shortfalls. In Fiscal Year 2003, the buildings were separated into two distinct projects:		State appropriations supplemented with the following:	
– Main Hall	2003	Campus resources	12,449
– Cragmor	2004	COP proceeds	3,500
• University Hall, new building providing additional office, educational, and laboratory space primarily for the nursing and engineering programs.	2004	COP proceeds	7,925
• Additional housing facilities to address the campus's growing student housing needs.	In progress	Campus cash resources	17,184
• Parking facility to address the campus's growing needs, with office space for the campus public safety office.	In Progress	Bond proceeds	6,829

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

At June 30, 2004 and 2003, the University had debt (or similar long-term obligations) of $465,960,000 and $387,418,000, respectively, in the categories illustrated in Figure 12 (excludes notes payable which represent less than 1 percent). More detail about the University's debt is included in Note 9.

The University Board of Regents (the Regents) has adopted a debt management policy that includes limitations on the use of external debt. A component of this policy is debt capacity, which is the calculated ratio of our debt service requirement as compared to certain unrestricted revenues. The University was able to minimize financing costs due to current market conditions and by maintaining a bond rating of AA- and Aa3 (Standard & Poors and Moody's, respectively). The University increased its outstanding debt by approximately 20 and 9 percent in Fiscal Years 2004 and 2003, respectively, while maintaining its debt capacity limits.

WHERE DO WE GO FROM HERE?

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Three legal events occurred in (calendar year) 2004 that should affect the University's future: Enterprise Status, College Opportunity Fund, and the CU-Denver and UCHSC campuses consolidation.

State legislation (passed in Fiscal Year 2004) provided higher education institutions in the State of Colorado the ability to designate themselves as Enterprises under the State's Constitution Section 20, commonly referred to as Taxpayer's Bill of Rights (TABOR), given the institution met the stated qualifications. The University qualified as an Enterprise, because it is a government-owned business with legal authority to issue revenue bonds. In addition, the University was required to receive (and expect to continue to receive) less than 10 percent (in relation to total revenues) in support from the State. In Fiscal Years 2004 and 2005, the University received (based on actuals) or is

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

Figure 9. Fiscal Year 2005 Planned Capital Projects *(in thousands)*

CU-Boulder addition to the Laboratory for Atmospheric and Space Physics Space Technology Research Center	$	13,022
CU-Boulder Wolf Law Building		46,350
CU-Boulder Alliance for Teaching, Learning, and Society (ATLAS) Center		29,995
CU-Colorado Springs new building for Science and Engineering (Phase I)		23,200
UCHSC Fitzsimons renovations and infrastructure		14,358
UCHSC Fitzsimons parking facility		23,000

Figure 10. UCHSC Fitzsimons Campus Academic Expansion *(in thousands)*

Academic Office Facilities	$	71,319
Education Facility II and Bridge		46,464
Fitzsimons Library		34,999
Education Facility 1B		32,581
Facility Support		15,707
Environmental Health and Safety II		1,806
Total cost to be financed with State of Colorado Lease Purchase Agreements	**$**	**202,876**

Figure 11. Capital Projects Financed by Debt *(in thousands)*

Issuance Description	Construction Project (See Figure 8 for Project Description)		Allocated Proceeds
2004 Revenue Bonds:			
• UCHSC Research Complex I		$	31,660
• CU-Boulder Center for Innovation and Creativity			6,600
• CU-Colorado Springs Parking			6,000
• UCHSC Barbara Davis Center for Childhood Diabetes			20,000
	Total 2004 Revenue Bonds issuance		64,260
2003 Revenue Bonds:			
• UPI Administration Building			20,500
2004 Certificates of Participation:			
• UCHSC Oral Health Building			25,000
• CU-Colorado Springs University Hall			7,925
• CU-Colorado Springs Cragmor Building			2,550
	Total 2004 Certificates of Participation Issuance		35,475
2003 Capital Leases:			
• UCHSC Central Utility Plant			27,805

The University's overall bonds and lease obligations have grown over the last three years as the University has financed its capital investments, resulting in a more even distribution mix within the types of bonds and lease obligations.

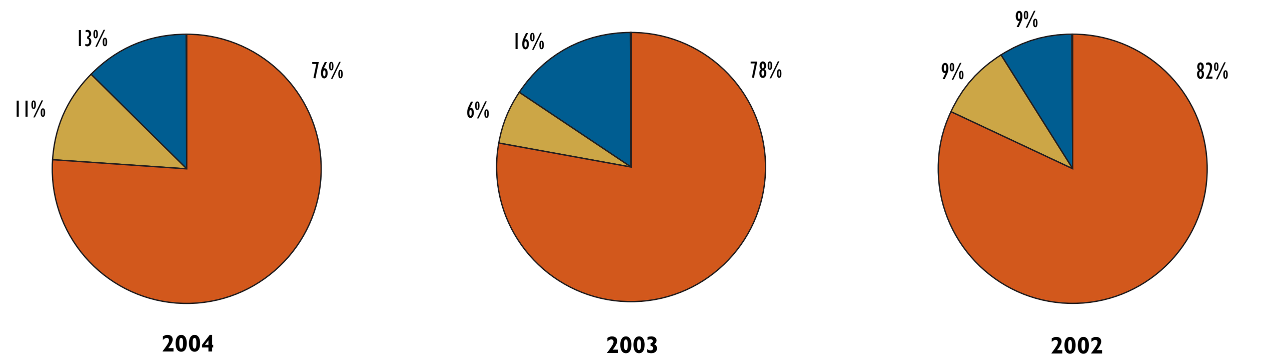

Figure 12. Debt Categories for years ended June 30, 2004, 2003 and 2002 *(all dollars in thousands)*

				Increase (Decrease)			
				2004 vs 2003		2003 vs 2002	
	2004	2003	2002	Amount	Percent	Amount	Percent
Revenue Bonds	$ 354,517	301,627	290,655	$ 52,890	17.5%	$ 10,972	3.8%
Certificates of Participation	52,725	25,240	32,175	27,485	108.9%	(6,935)	(21.6%)
Other Capital Lease Obligations	58,386	60,204	31,453	(1,818)	(3.0%)	28,751	91.4%
Notes Payable	332	347	400	(15)	(4.3%)	(53)	(13.3%)
Total Long-term Debt	$ 465,960	387,418	354,683	$ 78,542	20.3%	$ 32,735	9.2%

expected to receive (based on budget) approximately 9 and 8 percent, respectively, in State support. The Regents approved the Enterprise designation for Fiscal Year 2005 and future years in July 2004 and received validation of its status from the State's Legislative Audit Committee in August 2004 (pending final determination at end of Fiscal Year 2005). The future benefit to be received from the Enterprise designation is greater management flexibility. The immediate benefit is the exclusion of tuition revenue from the State's TABOR spending limits, thus providing greater flexibility to the State Legislature and the Regents in establishing the University's tuition rates.

The same 2004 legislation provided for a change in the funding mechanism of higher education institutions beginning in July 2005. The State will no longer provide State appropriations directly to public institutions of higher education. The College Opportunity Fund has been established by the State to provide funding via stipends to qualified undergraduate students; the receiving students will then use the stipends to pay a portion of their tuition. In addition, the State's Commission on Higher Education (CCHE) will purchase certain educational services, including graduate and specialized education such as law and medicine, from public higher education institutions. The State's current projections (models prepared by CCHE) estimate that these funding mechanism changes will have a neutral impact on the University's future funding.

To be eligible for participation in either the College Opportunity Fund or the educational service contracts with CCHE, the University will be required to negotiate a performance contract with CCHE. The purpose of the performance contract is to increase the accountability of the University to its constituents. The University began negotiating the performance contract with CCHE during the fall of 2004.

Effective July 1, 2004, the Regents approved the consolidation of the CU-Denver and UCHSC into a single major urban research university. The new campus, UCDHSC, will maintain separate facilities in the Denver/Aurora Metropolitan area (or the Downtown Denver, Fitzsimons, and 9th Avenue campuses). The primary goal is to open collaborations in education, research, and community partnerships while increasing access for students and offering innovative opportunities across various disciplines.

All three events will shape the University's future and need to be monitored closely to ensure positive outcomes. However, except in relation to tuition, these events are not expected to have a direct impact on the University's financial position in Fiscal Year 2005.

Figure 13. Average Tuition and Fees Rate Increases*

	2005	2004	2003
Residents	8.7%	10.3%	8.4%
Non-Residents	7.0%	6.0%*	6.2%

*Actual tuition rate increases varied by campus and school.

Due to the Enterprise designation, the State Legislature established the University's tuition rates at a higher level than the rest of the public institutions in the State. Figure 13 depicts the three-year trend of tuition and fee rates increases.

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

For the third year, the State has experienced limited economic growth with no reduction in demand for services. The current economic projections do not forecast a substantially different trend for the near future. However, after two years of double-digit reductions in State appropriations to the University, the Fiscal Year 2005 appropriation is almost equal to the Fiscal Year 2004 appropriation. The State appropriations (for operations) for Fiscal Year 2005 are currently set at approximately $150,673,000, a decrease of $4,500,000 from Fiscal Year 2004. The decrease in appropriation was the direct result of the Enterprise designation.

In addition, no new capital (State-funded) appropriations were made for Fiscal Year 2005 (except for the lease purchase agreements rental payments related to Fitzsimons).

The University continues to wrestle with the implications of a slow economic recovery in the State and reduced State funding. However, the University had an increase in net assets of $193,766,000 over the last fiscal year, despite the current economic environment. To date in Fiscal Year 2005, the University continues to have growth in research (13 percent) and receive a larger number of students applying than can be accepted (46 percent). The University has budgeted for Fiscal Year 2005 to continue its prudent use of resources, alternative financing for capital projects, and cost containment strategies. The 15 and 9 percent growth in net assets in Fiscal Years 2004 and 2003, respectively, (both of which were periods of declining State support and economic weakness) illustrates the University's financial position. As demonstrated by the University's financial monitoring processes, management will continue to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues and maintain this financial position.

The University's overall student enrollment has been steadily increasing over the last three years. Therefore, CU-Boulder limited its enrollment in Fall 2004 to ensure enrollment did not exceed its capacity for quality services.

Figure 14. Fall Enrollment Figures

	2004 Estimated	2003 Actual	2002 Actual	Increase '03–'04	Increase '02–'03	Two-Year Increase
CU-Boulder	29,780	29,830	28,650	(0.2%)	4.1%	3.9%
UC-HSC	2,630	2,570	2,480	2.3%	3.6%	6.0%
CU-Denver	12,080	11,970	11,760	0.9%	1.8%	2.7%
CU-Colorado Springs	7,810	7,650	7,410	2.1%	3.2%	5.4%
Total CU	52,300	52,020	50,300	0.5%	3.4%	3.9%

UNIVERSITY OF COLORADO
FINANCIAL STATEMENTS
June 30, 2004 and 2003

UNIVERSITY OF COLORADO
STATEMENTS OF NET ASSETS
June 30, 2004 and 2003 (*in thousands*)

	2004		2003	
	University	Component Units	University	Component Units
Assets				
Current Assets				
Cash and cash equivalents	$ 12,263	11,553	12,899	9,074
Investments	151,244	364	160,778	277
Accounts, contributions, and loans receivable, net	134,214	21,143	114,414	14,646
Inventories	7,540	–	7,762	–
Other assets	3,978	445	4,983	218
Total Current Assets	**309,239**	**33,505**	**300,836**	**24,215**
Noncurrent Assets				
Investments	626,294	614,169	506,904	539,057
Accounts, contributions, and loans receivable, net	33,481	49,635	32,345	65,781
Other assets	6,843	1,462	5,437	1,515
Capital assets, net	1,346,896	83,582	1,200,123	62,385
Total Noncurrent Assets	**2,013,514**	**748,848**	**1,744,809**	**668,738**
Total Assets	**$ 2,322,753**	**782,353**	**2,045,645**	**692,953**
Liabilities				
Current Liabilities				
Accounts payable	$ 54,147	3,855	51,419	3,831
Accrued expenses	109,112	–	108,492	–
Accrued compensated absences	5,487	–	6,175	–
Deferred revenue	57,169	1,024	59,861	853
Bonds, notes, and leases payable	22,404	301	18,921	287
Split-interest agreements	–	3,249	–	2,978
Custodial funds	–	3,697	–	4,549
Other liabilities	33,486	765	32,746	588
Total Current Liabilities	**281,805**	**12,891**	**277,614**	**13,086**
Noncurrent Liabilities				
Accrued compensated absences	72,897	–	68,145	–
Deferred revenue	7,089	873	7,375	1,070
Bonds, notes, and leases payable	443,556	75,233	368,497	75,539
Split-interest agreements	–	27,361	–	31,440
Custodial funds	–	74,909	–	52,200
Other liabilities	14,530	4,414	14,904	8,581
Total Noncurrent Liabilities	**538,072**	**182,790**	**458,921**	**168,830**
Total Liabilities	**$ 819,877**	**195,681**	**736,535**	**181,916**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF NET ASSETS

June 30, 2004 and 2003 (*in thousands*)

	2004		2003	
	University	*Component Units*	*University*	*Component Units*
Net Assets				
Invested in capital assets, net of related debt	$ 910,007	8,048	825,653	(13,441)
Restricted for nonexpendable purposes (endowments)				
Instruction	–	82,339	–	73,982
Research	3,049	14,150	1,253	13,796
Academic support	12,653	16,627	8,420	15,438
Capital and other	2,965	7,652	5,941	8,671
Scholarships and fellowships	13,817	55,837	10,828	60,000
Total restricted for nonexpendable purposes	32,484	176,605	26,442	171,887
Restricted for expendable purposes				
Instruction	14,701	123,351	13,687	105,625
Research	12,461	49,754	17,954	42,049
Academic support	5,164	33,871	8,138	32,784
Student loans and services	40,481	–	40,984	–
Capital	11,830	68,090	8,027	75,424
Scholarships and fellowships	11,189	86,551	9,636	64,463
Auxiliary enterprises	97,201	–	70,496	–
Other	9,488	3,826	14,519	3,665
Total restricted for expendable purposes	202,515	365,443	183,441	324,010
Unrestricted	357,870	36,576	273,574	28,581
Total Net Assets	**$ 1,502,876**	**586,672**	**1,309,110**	**511,037**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2004 and 2003 (*in thousands*)

	2004		*2003*	
	University	*Component Units*	*University*	*Component Units*
Operating Revenues				
Student tuition (net of scholarship allowances of $43,093 in 2004 and $41,756 in 2003)	$ 342,428	–	303,247	–
Student fees (net of scholarship allowances of $5,088 in 2004 and $4,437 in 2003; pledged revenues of $4,457 in 2004 and $2,156 in 2003)	36,675	–	33,074	–
Federal grants and contracts (pledged revenues of $100,638 in 2004 and $91,465 in 2003)	502,627	–	458,963	–
State and local grants and contracts (pledged revenues of $4,130 in 2004 and $3,832 in 2003)	24,478	–	27,061	–
Nongovernmental grants and contracts	50,567	–	43,384	–
Sales and services of educational departments (pledged revenues of $6,065 in 2004 and $3,485 in 2003)	96,120	–	91,158	–
Auxiliary enterprises (net of scholarship allowances of $1,941 in 2004 and $2,126 in 2003; pledged revenues of $30,133 in 2004 and $13,971 in 2003)	128,135	–	118,322	–
Health services (pledged revenues of $178 in 2004)	200,819	–	176,500	–
Contributions	–	86,296	–	76,839
Other operating revenues (pledged revenues of $1,910 in 2004 and $2,156 in 2003 for University)	39,731	20,254	42,720	10,896
Total Operating Revenues	**1,421,580**	**106,550**	**1,294,429**	**87,735**
Operating Expenses				
Education and General				
Instruction	436,598	–	452,457	–
Research	356,280	–	321,743	–
Public service	46,568	–	43,764	–
Academic support	83,264	–	85,589	–
Student services	57,801	–	60,524	–
Institutional support	76,504	98,723	77,418	96,890
Operation and maintenance of plant	82,361	–	76,649	–
Student aid	25,638	–	30,146	–
Total Education and General expenses	1,165,014	98,723	1,148,290	96,890
Depreciation	88,535	2,024	68,380	1,213
Auxiliary enterprises	119,453	–	113,818	–
Health services, net	196,372	–	161,014	–
Other operating expenses	21	–	60	–
Total Operating Expenses	**1,569,395**	**100,747**	**1,491,562**	**98,103**
Operating Income (Loss)	**$ (147,815)**	**5,803**	**(197,133)**	**(10,368)**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2004 and 2003 (*in thousands*)

	2004		*2003*	
	University	*Component Units*	*University*	*Component Units*
Nonoperating Revenues (Expenses)				
State appropriations	$ 155,173	–	193,628	–
Gifts	51,983	–	48,715	–
Investment income (net of investment expenses of $5,258 in 2004 and $3,106 in 2003; pledged revenues of $125 in 2004 and $47 in 2003 for the University)	44,383	73,732	33,500	16,166
Gain (loss) on disposal of capital assets	258	–	(4,411)	–
Interest expense on capital asset related debt	(12,941)	(3,900)	(8,630)	(3,954)
Other nonoperating revenues (net of expenses of $35,283 in 2004 and $4,063 in 2003; pledged revenues of $15 in 2003)	29,513	–	2,528	–
Net Nonoperating Revenues	**268,369**	**69,832**	**265,330**	**12,212**
Income Before Other Revenues	**120,554**	**75,635**	**68,197**	**1,844**
Capital appropriations	2,744	–	9,734	–
Capital grants and gifts	70,451	–	25,806	–
Additions to permanent endowments	17	–	61	–
Total Other Revenues	**73,212**	**–**	**35,601**	**–**
Increase in Net Assets	**193,766**	**75,635**	**103,798**	**1,844**
Net Assets, beginning of year	1,309,110	511,037	1,205,312	509,193
Net Assets, end of year	**$ 1,502,876**	**586,672**	**1,309,110**	**511,037**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2004 and 2003 (*in thousands*)

	2004	2003
	University	
Cash Flows from Operating Activities		
Tuition and fees	$ 382,295	335,315
Grants and contracts	556,797	520,792
Payments to suppliers	(385,476)	(356,359)
Payments for utilities	(37,899)	(31,852)
Payments to employees	(858,066)	(790,768)
Payments for benefits	(165,305)	(160,553)
Payments for scholarships and fellowships	(24,268)	(28,854)
Loans issued to students and employees	(10,164)	(7,052)
Collection of loans to students and employees	9,470	9,517
Auxiliary enterprise charges	123,268	171,607
Sales and services of educational departments	96,254	91,734
Patient services	199,540	129,653
Other receipts	68,060	47,027
Total Cash Flows Used by Operating Activities	**(45,494)**	**(69,793)**
Cash Flows from Noncapital Financing Activities		
State appropriations	155,173	193,628
Gifts and grants for other than capital purposes	52,666	48,531
Endowment additions	17	61
William D. Ford direct lending receipts	90,420	82,434
William D. Ford direct lending disbursements	(90,393)	(82,506)
PLUS loans receipts	39,402	32,191
PLUS loans disbursements	(39,371)	(32,188)
Agency transactions	313	1,105
Other payments	–	(557)
Total Cash Flows Provided by Noncapital Financing Activities	**208,227**	**242,699**
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	101,709	20,500
Capital grants and gifts received	70,451	25,806
Proceeds from sale of capital assets	6,096	536
Purchases and construction of capital assets	(166,911)	(183,267)
Principal paid on capital debt	(23,319)	(18,211)
Interest paid on capital debt	(21,410)	(20,211)
Total Cash Flows Used by Capital and Related Financing Activities	**(33,384)**	**(174,847)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	3,373,034	2,299,845
Interest on investments	17,651	33,103
Investment management fees paid	(5,258)	(3,106)
Purchase of investments	(3,515,412)	(2,328,952)
Total Cash Flows Provided (Used) by Investing Activities	**(129,985)**	**890**
Net Decrease in Cash and Cash Equivalents	(636)	(1,051)
Cash and Cash Equivalents, beginning of year	12,899	13,950
Cash and Cash Equivalents, end of year	**$ 12,263**	**12,899**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2004 and 2003 (*in thousands*)

		2004	2003
		University	
Reconciliation of net operating loss to net cash used by operating activities:			
Operating loss	$	(147,815)	(197,133)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation expense		88,535	68,380
Provision for doubtful receivables		2,116	367
Receipts of items classified as nonoperating revenues		30,109	4,244
Changes in assets and liabilities			
Receivables		(21,564)	(986)
Loans to students and employees		(1,626)	1,616
Inventories		222	363
Other assets		512	(960)
Accounts payable		2,645	1,034
Accrued expenses		794	47,670
Deferred revenue		(2,979)	979
Accrued compensated absences		4,064	2,658
Other liabilities		(507)	1,975
Net Cash Used by Operating Activities	**$**	**(45,494)**	**(69,793)**

Noncash Transactions			
Donations, lease-financed acquisitions, or state funded acquisitions of capital assets	$	55,991	49,396

See accompanying notes to financial statements.

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

GOVERNANCE

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

- University of Colorado at Boulder (CU-Boulder)

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

  Established in 1883, UCHSC offers specialized baccalaureate, first-professional, master's, and doctoral degree programs in health-related disciplines and professions.
- University of Colorado at Denver (CU-Denver)

  Established as a separate campus in 1974, CU-Denver is an urban comprehensive undergraduate and graduate research university (with selective admission standards) serving the needs of the Denver metropolitan area.
- University of Colorado at Colorado Springs (CU-Colorado Springs)

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

To accomplish these roles, the University's 2,780 full-time instructional faculty serve more than 52,000 students through more than 200 degree programs in 30 schools and colleges. Additionally, the University offers more than 250 online courses and a variety of continuing education classes.

BASIS OF PRESENTATION AND FINANCIAL REPORTING ENTITY

Blended Component Units

In accordance with Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity* (GASB Statement No. 14), the University's financial reporting entity includes the consolidated operations of the University and all related entities for which the University is financially accountable, referred to as blended component units. As defined in GASB Statement No. 14, financial accountability may stem from the University's ability to appoint a majority of the governing board of the related organization, its ability to impose its will on the related organization, its ability to access assets or its responsibility for debts of the related organization. The University has the following blended component units:

- Buffalo Power Corporation

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

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

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

  Established in 1976 by the University, TUIC is a separate corporation managing real estate investments for the sole benefit of the University. TUIC is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. At June 30, 2004, a majority of the assets of TUIC were transferred to The University of Colorado Real Estate Foundation (CUREF), a discretely presented component unit of the University. Detailed financial information may be obtained directly from TUIC at 4740 Walnut Street, Boulder, Colorado 80301.

- University License Equity Holding, Inc. (ULEHI)

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

- University Physicians, Inc. (UPI)

  Established on July 1, 1982, UPI performs the billing, collection, and disbursement services for the professional services rendered as authorized in Section 23-20-114, Colorado Revised Statutes. UPI is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code and was established to support patient health care and to assist the University in achieving its primary mission in education, research, and public service. UPI collects patient and other revenues generated from professional activities by over 940 member physicians of the faculty of the UCHSC School of Medicine. Medical care is provided to patients throughout the Rocky Mountain region through a statewide and regional network of services with over 160 sites of practice. In 1997, UPI acquired a 30 percent interest in the University of Colorado Hospital Authority's investment in TriWest Healthcare Alliance Corp. (TriWest). TriWest was formed to deliver health care services to eligible beneficiaries of the Civilian Health and Medical Program of the Uniformed Services within certain specified geographic regions. UPI accounts for its participation in TriWest on the cost basis. Detailed financial information may be obtained directly from UPI at P.O. Box 876, Aurora, Colorado 80040.

Discretely Presented Component Units

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB Statement No. 39), the University's financial statements include certain supporting organizations as discretely presented component units (DPCU) of the University (labeled component units). The majority of the resources, or income thereon, that the supporting organizations hold and invest are restricted to the activities of the University by the donors. Because the University is not financially accountable for these organizations and the restricted resources held by the supporting organizations can only be used by, or for the benefit of, the University, the following supporting organizations are considered discretely presented component units of the University:

- Coleman Colorado Foundation (Coleman Foundation)

  Established on August 21, 2001, the Coleman Foundation is a nonprofit entity under Sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code and was established to support the University's operational unit, the University of Colorado Coleman Institute for Cognitive Disabilities, and related activities and professorships. A five member board of directors governs the Coleman Foundation. One of the board members, the Treasurer, is the spouse of the University President.

- University of Colorado Foundation (CU Foundation)

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

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

  In June 2002, the CU Foundation established Bear Creek, a Colorado limited liability company, whose sole member is the CU Foundation. Bear Creek was established for the purpose of financing and developing a student housing facility and related facilities on land located at the University's Williams Village property in Boulder, Colorado.

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

- The University of Colorado Real Estate Foundation (CUREF)

  Established in August 2002 as a separate corporation by third parties, CUREF solicits and manages real estate investments for the sole benefit of the University. CUREF is a nonprofit entity under Section 509(a)(3) of the Internal Revenue Code. CUREF has a 14-member board of directors, of which 9 are voting members unrelated to the University and 5 are non-voting, ex-officio members who are University employees. Under an operating agreement, CUREF provided management services to TUIC in exchange for a nominal fee. At June 30, 2004, the University transferred the majority of the assets of TUIC to CUREF. Detailed financial information may be obtained directly from CUREF at 4740 Walnut Street, Boulder, Colorado 80301.

Related Organizations and Joint Ventures

The University has association with the following organizations for which it is not financially accountable. Accordingly, these organizations have not been included in the University's financial statements. Information regarding the nature of the relationship is included in Note 21.

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

Relationship to State of Colorado

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

TAX EXEMPT STATUS

The income generated by the University, as an instrumentality of the State, is generally excluded from federal income taxes under Section 115(a) of the Internal Revenue Code. The University also has a determination letter from the Internal Revenue Service stating it is exempt under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Income generated from activities unrelated to the University's exempt purpose is subject to tax under Internal Revenue Code Section 511(a)(2)(B). There was no unrelated taxable business income for 2004 or 2003.

BASIS OF ACCOUNTING

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

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

ACCOUNTING POLICIES

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

Investments reported in the accompanying financial statements are at fair value, which is determined primarily based on quoted market prices as of June 30, 2004 and 2003. Amortized costs (which approximate fair value) are used for money market investments.

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

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

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

Endowments are pooled to the extent possible under gift agreements. The CU Foundation manages certain of these endowments for the University.

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

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

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

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

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

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

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

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

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

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

TABLE 1 Asset Useful Lives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Nonoperating Expenses are all expenses not deemed to be operating.

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

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

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

Donor Restricted Endowment disbursements of the net appreciation (realized and unrealized) of investments of endowment gifts are permitted by State law, except where a donor has specified otherwise. The amount of earnings and net appreciation available for spending by the University and the CU Foundation is based on a spending rate set by the Regents on an annual basis. For the years ended June 30, 2004 and 2003, the authorized spending rate was equal to the greater of 4 percent of the prior month's market value or 4.5 percent of the average market value of endowment investments at the end of the previous three years. Earnings in excess of the amount authorized for spending are available in future years and are included in the value of the related investment. Earnings authorized to be spent are recognized in the University's financial statements as investment or gift revenue for University or CU Foundation-owned endowments, respectively.

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

Use of Estimates are made in order to prepare financial statements in conformity with accounting principles generally accepted in the United States of America. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ significantly from those estimates.

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

NOTE 2 – CASH AND CASH EQUIVALENTS

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

Deposits with the State Treasurer represent amounts placed in the State Treasurer's cash management program, which acts as the bank for all State agencies, except the University.

Deposits with U.S. and foreign financial institutions are made in accordance with University and State policy, including the Public Deposit Protection Act (PDPA). PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal insurance. Deposits collateralized under the PDPA are considered to be collateralized with securities held by the pledging institution in the University's name per Governmental Accounting Standards Board Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements* (GASB Statement No. 3). Deposits with foreign financial institutions are not considered to be PDPA-eligible deposits and must be separately authorized as allowable depositories by the State. During the years ended June 30, 2004 and 2003, all deposits with foreign financial institutions were authorized.

Table 2.2, University Deposit Bank Balances, provides information concerning the custodial credit risk for the University's bank balances for the deposits with U.S. and foreign financial institutions as of June 30, 2004 and 2003. The difference between book balances and bank balances are due to outstanding warrants and deposits in transit at year end. Custodial credit risk categories are not available for the DPCU.

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

Type	*2004*	*2003*
University		
Cash on hand (petty cash and change funds)	$ 272	279
Deposits with the State treasurer	–	19
Deposits with U.S. and foreign financial institutions	11,991	12,601
Total Cash and Cash Equivalents – University	**$12,263**	**12,899**
Discretely Presented Component Units		
Deposits with University Treasurer	$ 664	–
Deposits with U.S. financial institutions	10,889	9,074
Total Cash and Cash Equivalents – DPCU	**$11,553**	**9,074**

TABLE 2.2 University Deposit Bank Balances *(in thousands)*

Category of credit risk	*2004*	*2003*
Insured or collateralized with securities held by the University or its agent in the University's name	$ 200	314
Collateralized with securities held by the pledging institution in the University's name	13,805	16,861
Uninsured or uncollateralized deposits with foreign financial institutions	49	82
Total Deposit Bank Balances	**$ 14,054**	**17,257**

NOTE 3 – INVESTMENTS

The investments generally include direct obligations of the U.S. Government and its agencies, commercial paper, corporate bonds, asset backed securities, mortgage-backed securities, money market funds, commingled and mutual funds, repurchase agreements, guaranteed investment contracts, and equities. With respect to investments reported in the accompanying financial statements, the University and DPCU are subject to market risk, which represents the exposure to changes in the market, such as changes in interest rates or a change in price or principal value of a security. In addition, these investments are exposed to custodial credit risk except for those backed by the full faith and credit of the U.S. Government. Custodial credit risk is the exposure to the default of counterparties to investment transactions.

In accordance with GASB Statement No. 3, as amended by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the University's investments have been categorized into the following three categories of custodial credit risk:

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

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

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

Mutual funds and certain other investments, including trusts, are not categorized as to custodial credit risk because ownership is not evidenced by a security. Custodial credit risk categories are not available for the DPCU.

A summary of the fair value of the investments as of June 30, 2004 and 2003 is shown in Table 3.1, Investments.

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

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

TABLE 3.1 Investments *(in thousands)*

Investment Type	*2004*	*2003*
University		
Category of Risk No. 1		
U.S. government and agency securities	$ 123,773	68,233
Corporate securities and commercial paper	101,921	100,068
Repurchase agreements	41,397	3,410
Certificates of deposit	6,146	6,777
Subtotal Category of Risk No. 1	273,237	178,488
Uncategorized	504,301	489,194
Total Investments – University	**$ 777,538**	**667,682**
Discretely Presented Component Units		
Equity securities		
Domestic	$ 247,906	206,978
International	86,592	72,469
Fixed income securities	99,159	72,026
Alternative non-equity securities	180,512	187,584
Mutual funds	364	277
Total Investments – DPCU	**$ 614,533**	**539,334**

For financial statement purposes, investment income is reported on a total return basis and is allocated among operational units based on average daily balances, using amortized costs. Average daily balances approximated $547,105,000 and $482,129,000 for the years ended June 30, 2004 and 2003, respectively. The total return on this pool was 5.6 percent and 5.4 percent for the years ended June 30, 2004 and 2003, respectively.

SECURITY LENDING

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

The custodian, acting as lending agent, lends the University's securities for collateral of 102 percent to broker-dealers and other entities (borrowers) with a simultaneous agreement to return the collateral for the same security in the future. Acceptable forms of collateral are cash, irrevocable standby letters of credit, and obligations issued or guaranteed by the U.S. Government or its agencies. If the fair value of a loaned security increases, the borrower is required to deliver additional collateral to the custodian to protect the University. For both term and open loans collateralized by cash from the borrower, the collateral is invested in high-quality, U.S. dollar-denominated, short-term money market instruments that can have fixed, variable, or floating rates of interest. Collateral is invested in diversified instruments to provide adequate liquidity and to avoid concentration by issuer or industry except that no concentration limits are set for obligations of the U.S. Government or its agencies. The University does not have the ability to pledge or sell securities under a security lending agreement unless the borrower defaults. As of June 30, 2004 and 2003, the University had no securities on loan.

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

SPLIT-INTEREST AGREEMENTS

Assets held by the DPCU under split-interest agreements are included in investments and consisted of the types shown in Table 3.2, DPCU Investments Held Under Split-Interest Agreements.

For years ended June 30, 2004 and 2003, $438,000 and $180,000, respectively, was included as contributions revenue attributable to split-interest agreements and $3,977,000 and ($2,122,000), respectively, was included as contribution revenue (loss) resulting from the change in value of the split interest agreements.

TABLE 3.2 DPCU Investments Held Under Split-Interest Agreements *(in thousands)*

Type	*2004*	*2003*
Charitable unitrusts and other life income	$ 42,841	37,509
Charitable annuity trusts	4,974	5,756
Charitable gift annuities and pooled income funds	892	1,040
Total Investments Held Under Split-Interest Agreements	**$ 48,707**	**44,305**

NOTE 4 – ACCOUNTS, CONTRIBUTIONS, AND LOANS RECEIVABLE

Table 4.1, Accounts , Contributions, and Loans Receivable, segregates receivables as of June 30, 2004 and 2003 by type.

CONCENTRATION OF CREDIT RISK

UPI grants credit without collateral to its patients. The mix of gross receivables from patients and third-party payers as of June 30, 2004 and 2003 is detailed in Table 4.2, UPI Concentration of Credit Risk.

During previous years, the CU Foundation recorded contributions receivable as of June 30, 2004 and 2003 from a single donor totaling $65,000,000 and $55,000,000, respectively, that are expected to be received over a five-year period. In 2001, the Coleman Foundation received a pledge from another single donor of $250,000,000 (Note 20). As of June 30, 2004 and 2003, the DCPU have collected approximately $47,700,000 and $36,000,000, respectively, of the pledges. The remaining net balances of approximately $27,300,000 and $29,000,000 comprise approximately 39 percent and 36 percent of net contributions receivable at June 30, 2004 and 2003, respectively.

TABLE 4.2 UPI Concentration of Credit Risk

Category	*2004*	*2003*
Managed care	41.2%	48.6
Medicare	13.4	11.9
Medicaid	16.9	12.8
Other third-party payers	17.6	16.3
Self-pay	10.9	10.4
Total Concentration	**100.0%**	**100.0**

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

		2004			
Type of Receivable		*Gross Receivables*	*Allowances*	*Net Receivables*	*Net Current Portion*
University					
Student accounts	$	23,529	8,149	15,380	15,375
Federal government		40,651	–	40,651	40,582
Other governments		7,692	–	7,692	7,692
Private sponsors		25,578	–	25,578	25,476
Patient accounts		29,701	5,635	24,066	24,066
DPCU		3,765	–	3,765	3,765
Interest		2,128	–	2,128	2,128
Other		15,871	1,441	14,430	14,430
Total Accounts Receivable		148,915	15,225	133,690	133,514
Student loans		36,381	3,076	33,305	–
Other loans receivable		700	–	700	700
Total Loans Receivable		37,081	3,076	34,005	700
Total Receivable–University	$	**185,996**	**18,301**	**167,695**	**134,214**
Discretely Presented Component Units					
Contributions*	$	325,096	254,731	70,365	20,730
Interest		92	–	92	92
Other		321	–	321	321
Total Receivable–DPCU	$	**325,509**	**254,731**	**70,778**	**21,143**

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

		2003			
Type of Receivable		*Gross Receivables*	*Allowances*	*Net Receivables*	*Net Current Portion*
University					
Student accounts	$	22,706	7,308	15,398	15,398
Federal government		35,622	–	35,622	35,622
Other governments		6,935	–	6,935	6,935
Private sponsors		16,479	–	16,479	16,479
Patient accounts		28,421	5,296	23,125	23,125
DPCU		4,549	–	4,549	4,549
Interest		1,981	–	1,981	1,981
Other		11,192	950	10,242	10,125
Total Accounts Receivable		127,885	13,554	114,331	114,214
Student loans		35,342	3,114	32,228	–
Other loans receivable		200	–	200	200
Total Loans Receivable		35,542	3,114	32,428	200
Total Receivable–University	**$**	**163,427**	**16,668**	**146,759**	**114,414**
Discretely Presented Component Units					
Contributions*	$	336,971	257,178	79,793	14,012
Interest		131	–	131	131
Other		503	–	503	503
Total Receivable–DPCU	**$**	**337,605**	**257,178**	**80,427**	**14,646**

*The allowance on the contributions receivable is comprised of uncollectible and unamortized discount of $249,139,000 and $5,592,000 as of June 30, 2004, respectively, and $251,989,000 and $5,189,000 as of June 30, 2003, respectively.

NOTE 5 – CAPITAL ASSETS

Table 5, Capital Assets, presents changes in capital assets and accumulated depreciation by major asset category for the years ended June 30, 2004 and 2003.

The total interest expense related to capital asset debt incurred by the University during the years ended June 30, 2004 and 2003 approximated $21,235,000 and $23,858,000, respectively. Of this amount, approximately $7,615,000 and $9,916,000, respectively, was capitalized as part of the value of construction in progress. Interest expense incurred by the DPCU and capitalized for the years ended June 30, 2004 and 2003 was $2,554,000 and $890,000 respectively.

TABLE 5 Capital Assets *(in thousands)*

Category		*Balance 2003*	*Additions*	*Retirements*	*Transfers*	*Balance 2004*
University						
Nondepreciable Capital Assets						
Land	$	33,921	2,854	263	2	36,514
Construction in progress		266,091	139,205	76	(336,918)	68,302
Collections		7,246	569	–	32	7,847
Total Nondepreciable Capital Assets		307,258	142,628	339	(336,884)	112,663
Depreciable Capital Assets						
Buildings		1,002,307	7,164	4,810	322,900	1,327,561
Improvements other than buildings		86,059	1,685	3,358	10,996	95,382
Equipment		276,933	79,502	14,376	2,988	345,047
Library and other collections		201,451	11,480	717	–	212,214
Total Depreciable Capital Assets		1,566,750	99,831	23,261	336,884	1,980,204
Less Accumulated Depreciation						
Buildings		335,724	42,622	3,482	–	374,864
Improvements other than buildings		33,004	4,864	576	–	37,292
Equipment		186,877	30,235	11,674	–	205,438
Library and other collections		118,280	10,814	717	–	128,377
Total Accumulated Depreciation		673,885	88,535	16,449	–	745,971
Net Depreciable Capital Assets		892,865	11,296	6,812	336,884	1,234,233
Total Net Capital Assets – University	**$**	**1,200,123**	**153,924**	**7,151**	**–**	**1,346,896**
Discretely Presented Component Units						
Nondepreciable Capital Assets						
Land	$	1,274	12,341	1,242	–	12,373
Construction in progress		46,117	17,489	855	(62,268)	483
Total Nondepreciable Capital Assets		47,391	29,830	2,097	(62,268)	12,856
Depreciable Capital Assets						
Buildings		13,209	2,853	7,041	60,455	69,476
Improvements other than buildings		592	–	–	–	592
Equipment		4,877	144	945	1,813	5,889
Total Depreciable Capital Assets		18,678	2,997	7,986	62,268	75,957
Less Accumulated Depreciation						
Buildings		1,690	1,157	–	–	2,847
Improvements other than buildings		99	47	–	–	146
Equipment		1,895	820	477	–	2,238
Total Accumulated Depreciation		3,684	2,024	477	–	5,231
Net Depreciable Capital Assets		14,994	973	7,509	62,268	70,726
Total Net Capital Assets – DPCU	**$**	**62,385**	**30,803**	**9,606**	**–**	**83,582**

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

Category		*Balance 2002*	*Additions*	*Retirements*	*Transfers*	*Balance 2003*
University						
Nondepreciable Capital Assets						
Land	$	29,205	4,712	–	4	33,921
Construction in progress		249,200	171,594	8	(154,695)	266,091
Collections		6,187	1,059	–	–	7,246
Total Nondepreciable Capital Assets		284,592	177,365	8	(154,691)	307,258
Depreciable Capital Assets						
Buildings		819,880	35,203	3,180	150,404	1,002,307
Improvements other than buildings		81,660	112	–	4,287	86,059
Equipment		259,368	36,989	19,424	–	276,933
Library and other collections		188,762	13,629	940	–	201,451
Total Depreciable Capital Assets		1,349,670	85,933	23,544	154,691	1,566,750
Less Accumulated Depreciation						
Buildings		308,013	30,826	3,115	–	335,724
Improvements other than buildings		29,378	3,626	–	–	33,004
Equipment		175,338	25,974	14,435	–	186,877
Library and other collections		110,916	7,954	590	–	118,280
Total Accumulated Depreciation		623,645	68,380	18,140	–	673,885
Net Depreciable Capital Assets		726,025	17,553	5,404	154,691	892,865
Total Net Capital Assets–University	**$**	**1,010,617**	**194,918**	**5,412**	**–**	**1,200,123**
Discretely Presented Component Units						
Nondepreciable Capital Assets						
Land	$	32	1,242	–	–	1,274
Construction in progress		–	46,117	–	–	46,117
Total Nondepreciable Capital Assets		32	47,359	–	–	47,391
Depreciable Capital Assets						
Buildings		6,168	7,041	–	–	13,209
Improvements other than buildings		421	171	–	–	592
Equipment		4,182	949	254	–	4,877
Total Depreciable Capital Assets		10,771	8,161	254	–	18,678
Less Accumulated Depreciation						
Buildings		1,284	406	–	–	1,690
Improvements other than buildings		53	46	–	–	99
Equipment		1,388	761	254	–	1,895
Total Accumulated Depreciation		2,725	1,213	254	–	3,684
Net Depreciable Capital Assets		8,046	6,948	–	–	14,994
Total Net Capital Assets–DPCU	**$**	**8,078**	**54,307**	**–**	**–**	**62,385**

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Table 6.1, Accounts Payable and Accrued Expenses, details the accounts payable and accrued expenses as of June 30, 2004 and 2003 by type.

OPERATING LEASES

The University leases various buildings and equipment under operating lease rental agreements. Operating leases do not give rise to property rights or meet other capital lease criteria and, therefore, the related asset and liabilities are not recorded in the accompanying financial statements. For the years ended June 30, 2004 and 2003, total rental expense under these agreements approximated $6,983,000 and $7,527,000 for the University, respectively. Future minimum payments for these operating leases are shown in Table 6.2, University Operating Leases Minimum Lease Obligations.

NOTE 7 – ACCRUED COMPENSATED ABSENCES

Table 7, University Accrued Compensated Absences, presents changes in the University's accrued compensated absences for the years ended June 30, 2004 and 2003.

NOTE 8 – DEFERRED REVENUE

As of June 30, 2004 and 2003, the types and amounts of deferred revenue are shown in Table 8, Deferred Revenue.

TABLE 6.1 Accounts Payable and Accrued Expenses
(in thousands)

Type	*2004*	*2003*
University		
Accounts payable vendors	$ 54,147	51,419
Accrued salaries and benefits	106,774	100,317
Accrued interest payable	1,365	1,540
Other accrued expenses	973	6,635
Total Accounts Payable and Accrued Expenses – University	**$ 163,259**	**159,911**
Discretely Presented Component Units		
Accounts payable vendors	$ 3,855	3,831

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

Years Ending June 30	*Minimum Lease Obligation*
2005	$ 5,359
2006	4,163
2007	2,972
2008	2,335
2009	1,888
2010 – 2014	4,085
Total Operating Lease Obligations	**$ 20,802**

TABLE 8 Deferred Revenue *(in thousands)*

	2004		*2003*	
Type	*Total*	*Current Portion*	*Total*	*Current Portion*
University				
Tuition and fees	$ 11,258	11,258	11,975	11,975
Auxiliary enterprises	17,844	10,755	19,652	12,277
Grants and contracts	28,862	28,862	31,333	31,333
Miscellaneous	6,294	6,294	4,276	4,276
Total Deferred Revenue – University	**$ 64,258**	**57,169**	**67,236**	**59,861**
Discretely Presented Component Units				
Miscellaneous	$ 1,897	1,024	1,923	853
Total Deferred Revenue – DPCU	**$ 1,897**	**1,024**	**1,923**	**853**

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

Balance 2002	*Additions*	*Adjustments/Reductions*	*Balance 2003*	*Additions*	*Adjustments/Reductions*	*Balance 2004*
$ 71,517	57,004	54,201	74,320	59,907	55,843	78,384

NOTE 9 – BONDS, NOTES, AND LEASES PAYABLE

As of June 30, 2004 and 2003, the categories of long-term obligations are detailed in Table 9.1, Bonds, Notes, and Leases Payable.

Table 9.2, Changes in Bonds, Notes, and Leases Payable, presents changes in bonds, notes, and leases payable for the years ended June 30, 2004 and 2003.

REVENUE BONDS

A general description of each revenue bond issue, original issuance amount, and the amount outstanding as of June 30, 2004 and 2003 is detailed in Table 9.3, Revenue Bonds Detail.

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

The Enterprise System Revenue Bonds are secured by a pledge of all net revenues of certain auxiliary enterprise facilities and further secured by a subordinate pledge of RBRF net revenues as defined below. As of June 30, 2004 and 2003, total net pledged revenues, including the subordinate pledge, approximate $147,636,000 and $117,127,000, respectively.

The RBRF revenue bonds (Note 19) are secured by a pledge of net revenues of the Research Building Support Services Enterprise, including: all rents and charges generated from buildings and facilities, net of applicable operating expenses; allocated investment earnings on balances in the RBRF; and to the extent necessary, indirect cost recoveries received by the University on grants and contracts performed by the University. As of June 30, 2004 and 2003, net pledged revenues for RBRF approximate $111,579,000 and $98,967,000, respectively.

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

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

Type	*Interest Rates*	*Final Maturity*	*Balance 2004*	*Balance 2003*
University				
Revenue Bonds				
Research Building Revolving Fund (RBRF)	4.5 – 6.0%	6/1/12	$ 2,865	4,050
UPI Variable Demand Bonds	3.5%*	1/1/25	20,500	20,500
Enterprise System (including premium of $4,442 in 2004 and $2,867 in 2003)	3.5 – 5.8%	6/1/28	331,152	277,077
Total Revenue Bonds			354,517	301,627
Certificates of Participation				
Cogeneration Plant Series 1996	4.6 – 6.0%	12/1/05	11,440	15,195
Master Lease Purchase Series 1998A	3.9 – 5.3%*	7/1/18	6,555	10,045
Master Lease Purchase Series 2003A and 2003B	2.0 – 4.1%	6/1/14	34,730	–
Total Certificates of Participation			52,725	25,240
Other Capital Lease Obligations				
Central Utility Plant	6.0%	12/31/22	27,025	27,805
Other Lease Obligations	2.9 – 13.9%	Various	31,361	32,399
Total Other Capital Lease Obligations			58,386	60,204
Notes Payable	5.0 – 6.0%	Various	332	347
Total Bonds, Notes, and Leases Payable – University			**$ 465,960**	**387,418**
Discretely Presented Component Units				
Revenue Bonds				
Student Housing (including premium of $151 in 2004 and $156 in 2003)	2.5 – 5.375%	7/1/32	$ 69,241	69,246
Capital Leases	7.5%	9/1/14	6,293	6,580
Total Bonds, Notes, and Leases Payable – DPCU			**$ 75,534**	**75,826**

*Interest on the UPI Variable Rate Demand Bonds and the Master Lease Purchase Certificates of Participation is set at an adjustable rate as discussed below under Revenue Bonds and Certificates of Participation, respectively; the rates reflected in this table are as of June 30, 2004.

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

Type		*Balance 2003*	*Additions*	*Retirements*	*Balance 2004*	*Current Portion*
University						
Revenue Bonds	$	298,760	64,260	12,945	350,075	14,120
Plus Unamortized Premiums		2,867	1,974	399	4,442	468
Net Revenue Bonds		301,627	66,234	13,344	354,517	14,588
Certificates of Participation		25,240	35,475	7,990	52,725	5,370
Other Capital Lease Obligations		60,204	508	2,326	58,386	2,352
Notes Payable		347	43	58	332	94
Total Bonds, Notes, and Leases Payable – University	**$**	**387,418**	**102,260**	**23,718**	**465,960**	**22,404**
Discretely Presented Component Units						
Revenue Bonds	$	69,090	–	–	69,090	–
Plus Unamortized Premium		156	–	5	151	–
Net Revenue Bonds		69,246	–	5	69,241	–
Capital Leases		6,580	–	287	6,293	301
Total Bonds, Notes, and Leases Payable – DPCU	**$**	**75,826**	**–**	**292**	**75,534**	**301**

Type		*Balance 2002*	*Additions*	*Retirements*	*Balance 2003*	*Current Portion*
University						
Revenue Bonds	$	287,425	20,500	9,165	298,760	11,535
Plus Unamortized Premiums		3,230	–	363	2,867	369
Net Revenue Bonds		290,655	20,500	9,528	301,627	11,904
Certificates of Participation		32,175	–	6,935	25,240	4,745
Other Capital Lease Obligations		31,453	30,809	2,058	60,204	2,217
Notes Payable		400	–	53	347	55
Total Bonds, Notes, and Leases Payable – University	**$**	**354,683**	**51,309**	**18,574**	**387,418**	**18,921**
Discretely Presented Component Units						
Revenue Bonds	$	69,090	–	–	69,090	–
Plus Unamortized Premium		162	–	6	156	–
Net Revenue Bonds		69,252	–	6	69,246	–
Capital Leases		6,828	–	248	6,580	287
Total Bonds, Notes, and Leases Payable – DPCU	**$**	**76,080**	**–**	**254**	**75,826**	**287**

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

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

Colorado Educational and Cultural Facilities Authority (the Authority) issued $69,090,000 of Series 2002 Student Housing Revenue Bonds. The Authority then loaned the proceeds of the bonds to Bear Creek. The Student Housing revenue bonds are special limited obligations of the Authority and are payable solely from (1) revenue payable under the Loan Agreement dated as of June 1, 2002 (the Loan Agreement), between the Authority and Bear Creek, including certain Net Pledged Revenues, as defined, as evidenced

TABLE 9.3 Revenue Bonds Detail *(in thousands)*

Issuance Description	*Original Issuance Amount*	*Outstanding Balance 2004*	*Outstanding Balance 2003*
University			
Enterprise System Revenue Bonds			
Refunding Series 1995A –			
Used to refund all of the Refunding Series 1986, 1989, 1990 and 1992B	$ 32,940	23,075	24,415
Refunding and Improvement Series 1997 –			
Used to refund all of the Series 1986 and fund capital improvements at CU-Boulder and CU-Colorado Springs	12,760	2,045	2,775
Refunding Series 1999A –			
Used to refund all of the Adjustable Tender Series 1996A	22,495	21,420	21,745
Refunding Series 2001A –			
Used to refund all of the Student Recreation Center and Refunding Series 1989, Auxiliary Facilities System Refunding Series 1992A, RBRF Series 1989 (Note 19), and RBRF Series 1992 (Note 19) and a portion of the Enterprise System Tax Exempt Commercial Paper	34,840	25,567	29,435
Refunding and Improvement Series 2001B –			
Used to refund all of the Tax Exempt Commercial Paper and fund capital improvements at CU-Boulder (includes premium)	51,320	50,692	52,249
Series 2002A –			
Used to fund capital improvements at UCHSC (includes premium)	101,875	98,179	100,577
Series 2002B –			
Used to fund capital improvements at CU-Boulder (includes premium)	40,055	40,107	40,110
Series 2002C –			
Used to fund capital improvements at CU-Boulder (includes premium)	5,670	5,242	5,771
Series 2003A –			
Used to finance capital improvements at CU-Boulder, CU-Colorado Springs and UCHSC	64,260	64,825	–
Total Enterprise System Revenue Bonds		331,152	277,077
Research Building Revolving Fund (RBRF) Revenue Bonds			
Refunding Series 1995 –			
Used to refund a portion of the Series 1986 and all of Series 1990 (Note 19)	11,055	2,865	4,050
UPI Variable Rate Demand Bonds –			
Used to finance construction of UPI's administrative office building	20,500	20,500	20,500
Total Revenue Bonds		354,517	301,627
Less Premium		4,442	2,867
Total Outstanding Revenue Bond Principal – University		**$ 350,075**	**298,760**
Discretely Presented Component Units			
Student Housing Series 2002 –			
Used to finance Williams Village student housing	$ 69,090	69,241	69,246
Less Premium		151	156
Total Outstanding Revenue Bond Principal – DPCU		**$ 69,090**	**69,090**

by a separate promissory note dated the date of issuance of the Student Housing revenue bonds, (2) funds held by the trustee of the Student Housing revenue bonds pursuant to the loan agreement, and (3) in certain events, monies derived under a Commitment of Support entered into by and between the CU Foundation and the Authority and assigned to the trustee of the Student Housing revenue bonds. The CU Foundation entered into a Commitment of Support with the Authority pursuant to which the CU Foundation agrees that as long as any of the Student Housing revenue bonds are outstanding, it will contribute such amount as may be necessary to make up any deficiency in the Student Housing revenue bonds on the business day preceding any date on which a payment is due on the Student Housing revenue bonds. The Loan Agreement and other agreements contain certain financial and nonfinancial covenants which include the generation of revenue in each fiscal year that the student housing facility is in operation in an amount at least equal to 120 percent of the actual annual debt service.

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

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

CERTIFICATES OF PARTICIPATION

Certificates of participation have been issued to finance lease purchase agreements for a cogeneration plant (1996 Series), the acquisition and refinancing of equipment (1998A Series) and finance capital improvements and acquisitions (2003A and 2003B Series). The certificates are secured by the buildings or equipment acquired with the lease proceeds and any unexpended lease proceeds. Annual lease payments are subject to annual appropriations by the Regents. The underlying capitalized assets have a gross cost of approximately $68,213,000 and $51,758,000 as of June 30, 2004 and 2003, respectively. The certificates contain optional redemption provisions allowing the University to redeem, at various dates, portions of the outstanding certificates at prices varying from 100 to 102 percent of the principal amount of the certificates redeemed.

At any time, the certificates for the 1998A Series bear interest at adjustable rates equal to comparable rates for tax-exempt obligations (market-rate). The interest is payable monthly and may be reset at the following four defined periods as elected by the University: daily, weekly, short-term (more than weekly and less than semi-annually), or long term (more than semi-annually and less than the maturity period). The interest rate period during the years ended June 30, 2004 and 2003 was weekly. Principal is payable annually or semiannually subject to annual appropriation by the Regents. Future minimum payments for certificates of participation are detailed in Table 9.5, Certificates of Participation.

TABLE 9.5 Certificates of Participation *(in thousands)*

Years Ending June 30	*Principal*	*Interest*	*Total*
2005	$ 5,370	2,475	7,845
2006	9,195	2,086	11,281
2007	1,750	1,792	3,542
2008	1,820	1,716	3,536
2009	1,900	1,633	3,533
2010 – 2014	5,895	7,237	13,132
2015 – 2019	5,485	6,113	11,598
2020 – 2024	7,005	4,598	11,603
2025 – 2029	8,260	2,661	10,921
2030 – 2034	6,045	665	6,710
Total	**$ 52,725**	**30,976**	**83,701**

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

	University			*Discretely Presented Component Units*		
Years Ending June 30	*Principal*	*Interest*	*Total*	*Principal*	*Interest*	*Total*
2005	$ 14,120	16,238	30,358	–	3,324	3,324
2006	14,365	15,467	29,832	1,200	3,309	4,509
2007	15,130	14,860	29,990	1,000	3,279	4,279
2008	15,750	14,237	29,987	1,200	3,247	4,447
2009	14,190	13,534	27,724	1,445	3,204	4,649
2010 – 2014	67,645	58,161	125,806	8,035	15,163	23,198
2015 – 2019	68,300	42,281	110,581	10,030	13,059	23,089
2020 – 2024	84,625	24,661	109,286	12,985	10,031	23,016
2025 – 2029	55,950	5,771	61,721	16,635	6,301	22,936
2030 – 2033	–	–	–	16,560	1,707	18,267
Total	**$ 350,075**	**205,210**	**555,285**	**69,090**	**62,624**	**131,714**

TABLE 9.6 Capital Leases *(in thousands)*

	University			Discretely Presented Component Units		
Years Ending June 30	*Principal*	*Interest*	*Total*	*Principal*	*Interest*	*Total*
2005	$ 2,352	3,352	5,704	301	464	765
2006	2,447	3,220	5,667	351	440	791
2007	2,117	3,082	5,199	408	412	820
2008	1,999	2,972	4,971	469	379	848
2009	1,964	2,864	4,828	536	342	878
2010 – 2014	11,347	12,479	23,826	3,967	905	4,872
2015 – 2019	15,215	8,584	23,799	261	5	266
2020 – 2024	14,165	3,586	17,751	–	–	–
2025 – 2029	6,780	846	7,626	–	–	–
Total	**$ 58,386**	**40,985**	**99,371**	**6,293**	**2,947**	**9,240**

OTHER CAPITAL LEASES

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

During the year ended June 20, 2003, the University effectively entered into a capital lease agreement to lease-purchase a central utility plant (CUP) to deliver steam and chilled water to the UCHSC Fitzsimons campus. As of June 30, 2004 and 2003, the CUP capital lease had an outstanding liability approximating $27,025,000 and $27,805,000, respectively, with underlying gross capitalized asset cost approximating $28,545,000. The CUP capital lease agreement provides for biannual payments through December 2022 with an effective interest rate of 6 percent. Beginning in 2011, the University has the ability to purchase the CUP from the lessor in accordance with an established purchase price schedule.

As of June 30, 2004 and 2003, the University had an outstanding liability for all other capital leases approximating $31,361,000 and $32,399,000, respectively, with underlying gross capitalized asset cost approximating $34,744,000 and $35,477,000, respectively. At June 30, 2004 and 2003, the DPCU had an outstanding liability for capital leases approximating $6,293,000 and $6,580,000, respectively, with underlying gross capitalized asset cost approximating $5,750,000.

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

NOTES PAYABLE

As of June 30, 2004 and 2003, the University had two notes payable issued for general purposes and with amounts outstanding detailed in Table 9.7, University Notes Payable. Future minimum payments of the notes payable are detailed in Table 9.8, University Notes Payable Future Minimum Payments.

EXTINGUISHMENT OF DEBT

Previous revenue bond issues and certificates of participation, considered to be extinguished through in-substance defeasance under generally accepted accounting principles, are not included in the accompanying financial statements. The amount of debt in this category, covered by assets placed in trust to be used solely for future payments, amounted to approximately $4,396,000 and $14,735,000 as of June 30, 2004 and 2003, respectively.

TABLE 9.7 University Notes Payable *(in thousands)*

Issuance Description	*2004*	*2003*
Issued for the acquisition of land for the site of student housing known as Williams Village at CU-Boulder; payable from student housing revenue	$ 216	254
Issued for the acquisition of a property known as the Bennett Property contiguous to the CU-Colorado Springs campus; payable by general campus resources	73	83
Issued for the acquisition of the UPI automobile and medical equipment	43	10
Total Notes Payable	**$ 332**	**347**

TABLE 9.8 University Notes Payable Future Minimum Payments *(in thousands)*

Years Ending June 30	*Principal*	*Interest*	*Total*
2005	$ 94	31	125
2006	53	12	65
2007	56	10	66
2008	59	7	66
2009	62	3	65
2010 – 2014	8	–	8
Total	**$ 332**	**63**	**395**

NOTE 10 – OTHER LIABILITIES

Table 10.1, Other Liabilities, details other liabilities as of June 30, 2004 and 2003.

RISK FINANCING RELATED LIABILITIES

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

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

All self-insurance programs assume losses up to certain limits and purchase a defined amount of excess insurance for losses over those limits. These limits range from $125,000 to $6,000,000 per occurrence and from $4,675,000 to $8,000,000 in annual aggregate per program.

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

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

Changes in the balances of risk-financing related liabilities for the years ended June 30, 2004 and 2003 are presented in Table 10.2, University Risk Financing Related Liabilities.

TABLE 10.1 Other Liabilities *(in thousands)*

	2004		*2003*	
Type	*Total*	*Current Portion*	*Total*	*Current Portion*
University				
Risk financing	$ 21,291	7,521	21,581	7,161
Construction contract retainage	11,660	11,660	11,158	11,158
Funds held for others	14,210	14,210	13,840	13,840
Miscellaneous	855	95	1,071	587
Total Other Liabilities – University	**$ 48,016**	**33,486**	**47,650**	**32,746**
Discretely Presented Component Units				
Funds held for others	$ 3,529	765	1,904	588
Miscellaneous	1,650	–	7,265	–
Total Other Liabilities – DPCU	**$ 5,179**	**765**	**9,169**	**588**

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

	Property, general liability and workers' compensation	*UCHSC professional liability*	*Graduate medical students' health benefits*	*Total*
Balance 2002	**$ 10,887**	**7,707**	**669**	**19,263**
Fiscal Year 2003				
Claims and changes in estimates	4,769	2,147	4,485	11,401
Claim payments	3,622	1,095	4,366	9,083
Balance 2003	**$ 12,034**	**8,759**	**788**	**21,581**
Fiscal Year 2004				
Claims and changes in estimates	7,025	149	4,135	11,309
Claim payments	6,217	1,270	4,112	11,599
Balance 2004	**$ 12,842**	**7,638**	**811**	**21,291**

DIRECT LENDING

CU-Boulder and UCHSC participate in the federal government's Direct Loan Program. This program provides loans from the federal government to qualifying students and their families for educational purposes. While the University helps students obtain these loans, the University is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers, as the U.S. Department of Education performs these functions. The amount of direct loans during the years ended June 30, 2004 and 2003 is detailed by campus in Table 10.3, University Direct Lending.

NOTE 11 – UNRESTRICTED NET ASSETS

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

As of June 30, 2004 and 2003, all of the University's unrestricted net assets have been designated or reserved by management for the following purposes and amounts detailed in Table 11, University Designations of Unrestricted Net Assets.

TABLE 10.3 University Direct Lending *(in thousands)*

Campus	*2004*	*2003*
CU-Boulder	$ 98,614	87,411
UCHSC	31,150	27,283
Total Direct Lending	**$ 129,764**	**114,694**

TABLE 11 University Designations of Unrestricted Net Assets *(in thousands)*

Designation Description	*2004*	*2003*
Accounts receivable	$ 50,656	52,044
Accumulated unrealized gain on investments	16,891	–
Auxiliary facilities operating reserves	3,915	5,253
Campus operating reserves	23,374	12,619
Capital related activities	98,721	52,561
Faculty start-up and research initiatives	38,080	37,900
Inventories and prepaids	9,939	10,803
Investment pool	10,942	24,218
Purchase commitments	6,938	7,084
Quasi-endowments	19,432	3,239
Risk financing activities	12,780	15,883
Service center reserves	6,943	4,562
Technology transfer office investment pool	6,422	–
University Physicians, Inc.	52,837	47,408
Total Designated Unrestricted Net Assets	**$ 357,870**	**273,574**

NOTE 12 – CHANGES IN ACCOUNTING ESTIMATE AND REPORTING

CHANGE IN DEPRECIABLE LIVES

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

CHANGE IN REPORTING ENTITY

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

NOTE 13 – LEGISLATIVE APPROPRIATIONS

The accompanying financial statements contain revenues and expenses from both appropriated and non-appropriated funds.

Appropriated funds include the State appropriation from the State's General Fund, as well as certain cash funds, as established by the Colorado State Legislature in its annual appropriations bill. Cash funds include tuition, certain fees, and certain other revenue sources, which are recognized in various revenue lines, as appropriate, in the accompanying financial statements. The University's appropriated revenues are limited to the amount established by the State.

TABLE 13 University Appropriated Funds *(in thousands)*

Description	*2004*	*2003*
Total appropriation	$ 594,838	567,608
Actual appropriated revenues	542,151	537,620
Actual appropriated expenditures and transfers	537,005	535,861
Net increase in appropriated net assets	5,146	1,759

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

For the years ended June 30, 2004 and 2003, appropriated expenses were within the authorized spending authority. Table 13, University Appropriated Funds, details the related activities for the years ended June 30, 2004 and 2003.

NOTE 14 – SCHOLARSHIP ALLOWANCES

During the years ended June 30, 2004 and 2003, scholarship allowances were provided by the following funding sources in amounts detailed in Table 14, University Scholarship Allowances.

NOTE 15 – HEALTH SERVICES REVENUE

Health services revenue is recorded net of contractual adjustments of $196,992,000 and $174,369,000 and net of bad debt expense on uncollectable patient account receivables amounting to $7,921,000 and $7,036,000 as of June 30, 2004 and 2003, respectively. Charity care provided during the years ended June 30, 2004 and 2003, for which no reimbursement was received, measured at established rates, totaled approximately $13,300,000 and $13,700,000, respectively.

NOTE 16 – ON-BEHALF PAYMENTS

On-behalf payments occur when a third party, instead of the University, pays the salary and benefits (or portion thereof) for a University employee. The University receives on-behalf payments from the Hospital Authority and other sponsors. On-behalf payments for University faculty salaries and benefits during the years ended June 30, 2004 and 2003 were approximately $4,100,000 and $4,963,000, respectively.

NOTE 17 – RETIREMENT PLANS AND INSURANCE PROGRAMS

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

PERA DEFINED BENEFIT PENSION PLAN

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

TABLE 14 University Scholarship Allowances *(in thousands)*

Funding Source Description	*Tuition and Fees*	*Auxiliary Enterprise Revenues*	*Total 2004*	*Tuition and Fees*	*Auxiliary Enterprise Revenues*	*Total 2003*
University general resources	$ 10,100	474	10,574	8,441	466	8,907
University auxiliary resources	3,413	238	3,651	2,851	241	3,092
Colorado Commission on Higher Education financial aid program	6,957	201	7,158	9,726	328	10,054
Federal programs, including Pell grants	21,160	788	21,948	19,480	827	20,307
Other State of Colorado programs	640	8	648	666	2	668
Private programs	2,074	17	2,091	5,029	262	5,291
Gift Fund	3,837	215	4,052	–	–	–
Total Scholarship Allowances	**$ 48,181**	**1,941**	**50,122**	**46,193**	**2,126**	**48,319**

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

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

The total payroll of employees covered by PERA was $208,913,000 and $221,103,000 for the years ended June 30, 2004 and 2003, respectively. Employees contribute 8 percent of their gross covered wages to an individual account in the plan. During the years ended June 30, 2004, 2003, and 2002, the University contributed a total of 10.15 percent, 9.9 percent, and 9.9 percent, respectively, of the employee's gross covered wages to PERA in accordance with the following allocations and amounts detailed in Table 17, University Contributions to PERA. These contributions met the contribution requirement for each year.

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

VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

On January 1, 2001, the Matchmaker Program established a State match for PERA members' voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month. For calendar year 2003, the match was 100 percent of up to 2 percent of the employee's gross covered wages paid during the month. For calendar year 2004 through May 31, 2004, the match was 100 percent of up to 1 percent of the employee's gross covered wages paid during the month. The PERA Board sets the level of the match annually, based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus 50 percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. While the plan was not overfunded in the current year, the maximum one year change in the match rate is statutorily limited to 1 percent, and therefore, the match changed from 2 percent to 1 percent at January 1, 2004. Legislation passed in the 2004 session of the General Assembly terminated the match for pay periods ending after May 31, 2004. The match will resume when the actuarial value of the defined benefit plan assets are 110 percent of actuarially accrued plan liabilities.

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer a 403(b) plan. Members who contribute to any of these plans also receive the State match.

UNIVERSITY OPTIONAL RETIREMENT PLAN

Under the University's optional retirement plan, certain members of the University participate in a defined contribution retirement plan administered by the University for the benefit of full-time faculty and unclassified staff members. The Constitution of the State assigns the authority to establish and amend plan provisions to the Regents. The contribution requirements of plan members and the University are established and may be amended by the Regents. For the years

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

Program	*Basis*	*2004*	*2003*	*2002*
Health Care Trust Fund	1.1 percent after January 1, 2003; 1.64 between December 31, 2002 and January 1, 2002; and 1.42 percent before January 1, 2002	$ 2,298	3,037	3,278
Matchmaker Program (see Voluntary Tax Deferred Retirement Plans below)	Through May 31, 2004, the amount needed to meet the match requirement established by the PERA Board	1,690	3,184	3,572
Defined Benefit Plan	The balance remaining	17,217	15,978	14,355
Total University Contribution		**$ 21,205**	**22,199**	**21,205**

ended June 30, 2004 and 2003, the University's contribution to the defined contribution retirement plan was equal to 10 percent of covered payroll and the employee contribution was equal to 5 percent of covered payroll. The University's contribution under the optional retirement plan during the years ended June 30, 2004 and 2003 approximated $44,388,000 and $43,001,000, respectively. The employees' contribution under the optional retirement plan approximated $21,877,000 and $21,234,000 during the years ended June 30, 2004 and 2003, respectively.

Participants in the University's optional retirement plan choose to invest all contributions with one or more of three designated vendors. In addition, participants in the University's optional retirement plan are covered under federal Social Security (FICA). Federal Social Security regulations required both the employer and employee to contribute 6.2 percent of covered payroll to the plan during the years ended June 30, 2004 and 2003.

UPI RETIREMENT PLAN

UPI sponsors a defined contribution retirement plan for its permanent employees that is administered by the Teachers Insurance Annuities Association's College Retirement Equities Fund. The board of directors for UPI has the authority to amend plan provisions. Employees are eligible for participation in the plan after completing one year of service. UPI contributed an amount equal to 7 percent of eligible employees' salaries for the years ended June 30, 2004 and 2003. UPI's contributions to the retirement plan for the years ended June 30, 2004 and 2003 approximated $1,101,000 and $1,070,000, respectively.

CU FOUNDATION RETIREMENT PLAN

Prior to January 1, 2003, CU Foundation had an employee benefit plan governed by Section 403(b) of the Internal Revenue Code. This plan was replaced with a new Section 401(k) plan on January 1, 2003. Under the 401(k) plan, the CU Foundation matches employee contributions up to 6 percent of the employee's salary. The CU Foundation matched employee contributions at a rate of 5 percent to 9 percent under the 403(b) plan. For the years ended June 30, 2004 and 2003, the CU Foundation's matching contributions approximated $448,000 and $661,000, respectively.

HEALTH INSURANCE PROGRAMS

The University's contributions to the various health insurance programs approximated $30,379,000 and $23,510,000 during the years ended June 30, 2004 and 2003, respectively.

NOTE 18 – POST-EMPLOYMENT BENEFITS

UNIVERSITY POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE PLAN

The University provides certain post-retirement health care and life insurance benefits for retired employees in accordance with the Regents' authority. Substantially all of the University's employees may become eligible for those benefits if they reach normal retirement age while working for the University. During the years ended June 30, 2004 and 2003, approximately 3,051 and 3,750 retirees, respectively, met the eligibility requirements and are receiving benefits. Under this program, the University subsidizes a portion of health care and life insurance premiums by charging them as a current expense. These costs approximated $3,275,000 and $2,321,000 during the years ended June 30, 2004 and 2003, respectively.

PERA POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERACare (formerly know as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the PERACare and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the years ended June 30, 2004 and 2003, the premium subsidy was $115 for those with twenty years of service credit ($230 for members under age sixty-five), and it was reduced by five percent for each year of service fewer than twenty. Medicare eligibility also affects the premium subsidy.

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

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2003, there were approximately 37,100 enrollees in the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Members may join one or both plans, and they may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

NOTE 19 – SEGMENT INFORMATION

The University has two segments, the Research Building Revolving Fund (RBRF) and UPI.

The RBRF has identifiable activities for which Refunding Series 1995 and a portion of the Refunding Series 2001A revenue bonds approximating $18,207,000 and $21,723,000 are outstanding as of June 30, 2004 and 2003, respectively. The activities supported by this segment include research operations and related support.

UPI has identifiable activities for which UPI Variable Rate Demand bonds approximating $20,500,000 are outstanding as of June 30, 2004 and 2003. The activities of this segment include the UCHSC's School of Medicine's faculty practice plan.

Summary financial information as of and for the years ended June 30, 2004 and 2003, respectively, is presented in Table 19, Segment Financial Information.

NOTE 20 – DISCRETELY PRESENTED COMPONENT UNITS

Summary financial information as of and for the years ended June 30, 2004 and 2003, respectively, for the University's DPCU are presented in Table 20, DPCU Summary Financial Statements.

UNIVERSITY OF COLORADO FOUNDATION

Distributions made by the CU Foundation to the University during the years ended June 30, 2004 and 2003 were approximately $62,522,000 and $59,757,000, respectively. This amount has been recorded as University gift revenue and DPCU operating expense in the accompanying financial statements, and does not include undistributed income on University endowments. At June 30, 2004 and 2003, the CU Foundation recorded an accounts payable to the University and the University has recorded an equal accounts receivable from the CU Foundation of $3,765,000 and $4,549,000, respectively.

The University is the ultimate beneficiary of substantially all restricted and trust funds held by the CU Foundation and is income beneficiary of a significant portion of endowment funds held by the CU Foundation. The University has endowments held by the CU Foundation totaling $76,634,000 and $55,069,000 at June 30, 2004 and 2003, respectively.

In 1996, the University of Colorado Real Estate Council (the Council) was created as a division of the CU Foundation to provide resources for the development of a real estate curriculum at the University, as well as to advise the CU Foundation in real estate holdings, research park development, potential investments, and real estate gifts to the University. In November 2003, the board of directors of the CU Foundation approved the dissolution of the Council's status as a division of the CU Foundation and authorized the transfer of the Council's ongoing activities, operations, and applicable funds and other assets to CUREF. During the year ended June 30, 2003, the CU Foundation distributed $756,000 of pledges to CUREF.

Williams Village Housing Project

During the year ended June 30, 2002, CU-Boulder and the CU Foundation entered into an operating agreement whereby the CU Foundation would construct and operate a student residence center on certain campus land, commonly referred to as Williams Village. The housing project is available for occupancy as of August 2004. The terms of the operating agreement provide the CU Foundation with the use of the University's land in exchange for net cash flow of the housing project as defined in the agreement. No related revenues were recognized by the University during the year ended June 30, 2003. During the year ended June 30, 2004, the University recognized related revenue of $1,300,000.

COLEMAN COLORADO FOUNDATION

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

Distributions made by the Coleman Foundation to the University during the years June 30, 2004 and 2003 were $1,830,000 and $1,298,000, respectively. All contributions have been recorded as University gift revenue and DPCU operating expense in the accompanying financial statements. The CU Foundation received a partial pledge contribution, which created an endowment fund. As of June 30, 2004 and 2003, this related endowment was valued at $9,692,000 and $8,704,000, respectively.

TABLE 19 Segment Financial Information *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2004	
	RBRF	*UPI*
Assets		
Cash, cash equivalents, and equity in pooled cash and investments	$ 27,649	32,799
Other current assets	–	26,739
Total current assets	27,649	59,538
Investments	–	34,476
Capital assets, net	49,542	19,850
Other noncurrent assets	–	1,869
Total noncurrent assets	49,542	56,195
Total Assets	**$ 77,191**	**115,733**
Liabilities		
Accounts payable and accrued expenses	225	13,273
Bonds, notes, and leases payable	3,041	732
Other current liabilities	85	–
Total current liabilities	3,351	14,005
Bonds, notes, and leases payable	15,165	20,303
Other noncurrent liabilities	38	–
Total noncurrent liabilities	15,203	20,303
Total Liabilities	**$ 18,554**	**34,308**
Net Assets		
Invested in capital assets, net of related debt	$ 32,196	497
Unrestricted	26,441	80,928
Total Net Assets	**$ 58,637**	**81,425**
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues	$ 11,639	194,761
Depreciation expense	(3,509)	(1,196)
Other operating expenses	(5,465)	(187,636)
Operating Income	2,665	5,929
Nonoperating Revenues (Expenses)		
Investment income	1,145	279
Interest expense on capital asset related debt	(936)	(143)
Other nonoperating expenses	–	(634)
Total Nonoperating Revenues (Expenses)	209	(498)
Income Before Other Revenues and Transfers	**2,874**	**5,431**
Transfers in from other University funds	214	–
Increase in Net Assets	**3,088**	**5,431**
Net Assets, beginning of year	55,549	75,994
Net Assets, end of year	**$ 58,637**	**81,425**
Condensed Statement of Cash Flows		
Net Cash Flows Provided by (Used for)		
Operating activities	$ 6,537	9,704
Non-capital financing activities	215	(646)
Capital and related financing activities	(6,152)	(13,250)
Investing activities	(600)	4,087
Net Decrease in Cash and Cash Equivalents	**–**	**(105)**
Cash and Cash Equivalents, beginning of year	–	12,049
Cash and Cash Equivalents, end of year	**$ –**	**11,944**

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

Condensed Statement of Net Assets	As of and for the year ended June 30, 2003	
	RBRF	*UPI*
Assets		
Cash, cash equivalents, and equity in pooled cash and investments	$ 26,030	24,179
Due from other operational units	261	–
Other current assets	–	26,017
Total current assets	26,291	50,196
Investments	–	47,010
Capital assets, net	51,237	7,800
Other noncurrent assets	–	1,866
Total noncurrent assets	51,237	56,676
Total Assets	**77,528**	**106,872**
Liabilities		
Accounts payable and accrued expenses	140	9,972
Bonds, notes, and leases payable	3,510	130
Other current liabilities	22	–
Total current liabilities	3,672	10,102
Bonds, notes, and leases payable	18,213	20,776
Other noncurrent liabilities	94	–
Total noncurrent liabilities	18,307	20,776
Total Liabilities	**21,979**	**30,878**
Net Assets		
Invested in capital assets, net of related debt	29,514	1,480
Unrestricted	26,035	74,514
Total Net Assets	**$ 55,549**	**75,994**
Condensed Statement of Revenues, Expenses and Changes in Net Assets		
Operating revenues	$ 11,673	169,981
Depreciation expense	(3,637)	(939)
Other operating expenses	(5,734)	(168,670)
Operating Income	2,302	372
Nonoperating Revenues (Expenses)		
Investment income	354	3,086
Interest expense on capital asset related debt	(1,103)	(41)
Other nonoperating revenues (expenses)	87	(371)
Total Nonoperating Revenue (Expenses)	(662)	2,674
Income Before Other Revenues and Transfers	**1,640**	**3,046**
Capital gifts	248	–
Transfers in from other University funds	1,813	–
Increase in Net Assets	**3,701**	**3,046**
Net Assets, beginning of year	51,848	72,948
Net Assets, end of year	**$ 55,549**	**75,994**
Condensed Statement of Cash Flows		
Net Cash Flows Provided by (Used for)		
Operating activities	$ 6,031	(2,418)
Non-capital financing activities	1,813	(857)
Capital and related financing activities	(5,321)	13,549
Investing activities	(2,523)	(10,483)
Net Decrease in Cash and Cash Equivalents	**–**	**(209)**
Cash and Cash Equivalents, beginning of year	–	12,258
Cash and Cash Equivalents, end of year	**$ –**	**12,049**

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

Condensed Statement of Net Assets	**As of and for the year ended June 30, 2004**			
	Coleman Foundation	*CU Foundation*	*CUREF*	*Total*
Assets				
Cash, cash equivalents, and investments	$ 389	10,488	1,040	11,917
Accounts and contributions receivable, net	–	20,866	277	21,143
Other assets	–	445	–	445
Total current assets	389	31,799	1,317	33,505
Investments	–	614,169	–	614,169
Contributions receivable, net	–	49,356	279	49,635
Other assets	–	1,462	–	1,462
Capital assets, net	–	68,454	15,128	83,582
Total noncurrent assets	–	733,441	15,407	748,848
Total Assets	$ 389	765,240	16,724	782,353
Liabilities				
Accounts payable	$ –	3,554	301	3,855
Deferred revenue	–	990	34	1,024
Leases payable	–	301	–	301
Split-interest agreements	–	3,249	–	3,249
Custodial funds	–	3,697	–	3,697
Other liabilities	–	765	–	765
Total current liabilities	–	12,556	335	12,891
Deferred revenue	–	873	–	873
Bonds and leases payable	–	75,233	–	75,233
Split-interest agreements	–	27,361	–	27,361
Custodial funds	–	74,909	–	74,909
Other liabilities	–	4,414	–	4,414
Total noncurrent liabilities	–	182,790	–	182,790
Total Liabilities	$ –	195,346	335	195,681
Net Assets				
Invested in capital assets, net of related debt	–	(7,080)	15,128	8,048
Restricted for nonexpendable purposes	–	176,605	–	176,605
Restricted for expendable purposes	389	364,539	515	365,443
Unrestricted	–	35,830	746	36,576
Total Net Assets	$ 389	569,894	16,389	586,672
Condensed Statements of Revenue, Expenses, and Changes in Net Assets				
Operating Revenues				
Contributions	$ 1,810	67,409	17,077	86,296
University support	–	8,146	–	8,146
Other revenue	–	11,663	445	12,108
Total operating revenues	1,810	87,218	17,522	106,550
Operating Expenses				
Institutional Support				
Gifts and income distributed to University and related parties	1,830	75,985	–	77,815
Other program services	–	6,987	861	7,848
Support services	11	12,848	201	13,060
Depreciation	–	1,957	67	2,024
Total operating expenses	1,841	97,777	1,129	100,747
Operating Income (loss)	**(31)**	**(10,559)**	**16,393**	**5,803**
Nonoperating Revenues (Expenses)				
Investment income	137	73,593	2	73,732
Interest expense on capital asset related debt	–	(3,900)	–	(3,900)
Increase in Net Assets	**106**	**59,134**	**16,395**	**75,635**
Net Assets, beginning of year	283	510,760	(6)	511,037
Net Assets, end of year	**$ 389**	**569,894**	**16,389**	**586,672**

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

Condensed Statement of Net Assets	**As of and for the year ended June 30, 2003**			
	Coleman Foundation	*CU Foundation*	*CUREF*	*Total*
Assets				
Cash, cash equivalents, and investments	$ 283	9,066	2	9,351
Accounts and contributions receivable, net	–	14,646	–	14,646
Other assets	–	218	–	218
Total current assets	283	23,930	2	24,215
Investments	–	539,057	–	539,057
Contributions receivable, net	–	65,781	–	65,781
Other assets	–	1,515	–	1,515
Capital assets, net	–	62,385	–	62,385
Total noncurrent assets	–	668,738	–	668,738
Total Assets	**283**	**692,668**	**2**	**692,953**
Liabilities				
Accounts payable	–	3,823	8	3,831
Deferred revenue	–	853	–	853
Leases payable	–	287	–	287
Split-interest agreements	–	2,978	–	2,978
Custodial funds	–	4,549	–	4,549
Other current liabilities	–	588	–	588
Total current liabilities	–	13,078	8	13,086
Deferred revenue	–	1,070	–	1,070
Bonds and lease payable	–	75,539	–	75,539
Split-interest agreements	–	31,440	–	31,440
Custodial funds	–	52,200	–	52,200
Other noncurrent liabilities	–	8,581	–	8,581
Total noncurrent liabilities	–	168,830	–	168,830
Total Liabilities	**–**	**181,908**	**8**	**181,916**
Net Assets				
Invested in capital assets, net of related debt	–	(13,441)	–	(13,441)
Restricted for nonexpendable purposes	–	171,887	–	171,887
Restricted for expendable purposes	283	323,727	–	324,010
Unrestricted	–	28,587	(6)	28,581
Total Net Assets	**$ 283**	**510,760**	**(6)**	**511,037**
Condensed Statement of Revenue, Expenses, and Changes in Net Assets				
Operating Revenues				
Contributions	$ 1,530	75,307	2	76,839
University support	–	8,308	16	8,324
Other revenue	–	2,572	–	2,572
Total operating revenues	1,530	86,187	18	87,735
Operating Expenses				
Institutional Support				
Gifts and income distributed to University and related parties	1,298	76,363	–	77,661
Other program services	–	4,122	–	4,122
Supporting services		15,083	24	15,107
Depreciation	–	1,213	–	1,213
Total operating expenses	1,298	96,781	24	98,103
Operating Income (loss)	**232**	**(10,594)**	**(6)**	**(10,368)**
Nonoperating Revenues (Expenses)				
Investment income	51	16,115	–	16,166
Interest expense on capital asset related debt	–	(3,954)	–	(3,954)
Increase (Decrease) in Net Assets	**283**	**1,567**	**(6)**	**1,844**
Net Assets, beginning of year	–	509,193	–	509,193
Net Assets, end of year	**$ 283**	**510,760**	**(6)**	**511,037**

THE UNIVERSITY OF COLORADO REAL ESTATE FOUNDATION

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

CUREF has a long-term agreement with the University to rent portions of the building owned by CUREF. For the year ended June 30, 2004, the University paid $179,000 in rent to CUREF, which recognized an equal amount of other operating revenues for the year ended June 30, 2004. Future minimum base rents to be paid by the University total $6,492,000 at June 30, 2004.

NOTE 21 – RELATED ORGANIZATIONS AND JOINT VENTURES

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

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

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

Total payments issued by the Hospital Authority to the UCHSC approximated $30,000,000 and $29,034,000 for years ended June 30, 2004 and 2003, respectively. Total payments issued by the UCHSC to the Hospital Authority for the years ended June 30, 2004 and 2003 approximated $7,222,000 and $7,664,000, respectively.

During the years ended June 30, 2004 and 2003, UPI recognized approximately $14,462,000 and $12,231,000, respectively, in health services revenue from the Hospital Authority in support of clinical and academic missions. Additionally, during the years ended June 30, 2004 and 2003, the Hospital Authority reimbursed UPI approximately $936,000 and $494,000, respectively, for joint patient care administrative functions performed by UPI. UPI also received approximately $17,752,000 and $7,849,000 during the years ended June 30, 2004 and 2003, respectively, from the Hospital Authority for amounts earned for services performed by UPI faculty members but are required to be processed through the Hospital Authority (such as State of Colorado medically indigent program, Ryan White, and other miscellaneous programs).

In 1997, UPI assumed a 30 percent participation in the Hospital Authority's investment in TriWest Healthcare Alliance Corp. (TriWest) for $994,000. The Hospital Authority purchased the minority interest in TriWest for approximately $3,300,000. UPI received $1,022,000 and $29,000 in dividends during the years ended June 30, 2004 and 2003, respectively.

UPI has also signed an agreement to assume the Hospital Authority's network management commitment to TriWest for a fee and has also signed a provider service agreement with TriWest.

The Hospital Authority is relocating to the Fitzsimons Campus in Aurora, Colorado. The new Fitzsimons site will require substantial infrastructure improvements to support the current and future buildings. The Hospital Authority and UCHSC are sharing in the costs of the infrastructure projects based on estimates of future usage. An agreement governs the sharing of infrastructure costs between the two parties.

The UCHSC is responsible for managing the infrastructure improvement projects and is then reimbursed by the Hospital Authority for its share under the agreement.

AURARIA HIGHER EDUCATION CENTER

The Auraria Higher Education Center (AHEC), established by legislation in 1974, is jointly governed and utilized by CU-Denver, the Community College of Denver, and Metropolitan State College of Denver. The institutions share the costs of operating common educational, library, and other auxiliary facilities. Costs of the common facilities are shared in accordance with an operating agreement between AHEC and the respective institutions. During the years ended June 30, 2004 and 2003, the University incurred expenses related to instructional facilities of $4,678,000 and $5,520,000, respectively, for payments to AHEC.

NOTE 22 – COMMITMENTS AND CONTINGENCIES

Contracts have been entered into for the purpose of planning, acquiring, constructing, and equipping certain building additions and other projects with outstanding amounts totaling approximately $69,992,000 and $67,938,000 as of June 30, 2004 and 2003, respectively. These additions will be funded or financed by donor contributions, appropriations from the State, issuance of revenue bonds, and other financings. As of June 30, 2004 and 2003, the amount of capital construction appropriations authorized from the State for these projects approximated $870,286 and $5,387,000, respectively.

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

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

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

NOTE 23 – SUBSEQUENT EVENTS

On November 30, 2004, the University issued $24,360,000 of Enterprise System Revenue Bonds, Series 2004. The proceeds of the bonds will be used to finance capital improvements and acquisitions for student housing at CU-Boulder and CU-Colorado Springs. The revenue bonds bear interest rates from 2.5 to 5.0 percent with final maturity in 2035. The revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the University to redeem, at various dates, portions of the outstanding revenue bonds at prices equal to 100 percent of the principal amount of the revenue bonds redeemed.

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KPMG

KPMG LLP
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Denver, CO 80202

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

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the University of Colorado (the University), a blended component unit of the State of Colorado, as of and for the year ended June 30, 2004, and have issued our report thereon, dated December 15, 2004. We did not audit the 2004 financial statements of University Physicians, Inc. (UPI), a blended component unit, or the 2004 financial statements of the University of Colorado Real Estate Foundation (CUREF), a discretely presented component unit. Those 2004 financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for UPI and CUREF, are based on the reports of the other auditors. Our report includes an explanatory paragraph discussing the University's implementation of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment to Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. 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 University Physicians, Inc., a blended component unit, and the University of Colorado Real Estate Foundation, the University of Colorado Foundation, and the Colorado Coleman Foundation, the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards.*

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the State Auditor, the University of Colorado Board of Regents, and the University of Colorado's management in the Findings and Recommendations section of this report dated December 15, 2004.

Compliance and Other Matters

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

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

KPMG LLP

December 15, 2004

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KPMG LLP
Suite 2700
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December 15, 2004

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the University of Colorado (the University) as of and for the year ended June 30, 2004, and have issued our report thereon, dated December 15, 2004, which includes an explanatory paragraph discussing the University's implementation of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. Under our professional standards, we are providing you with the following information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We have a responsibility to conduct our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the basic financial statements are detected.

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

Significant Accounting Policies

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

As described in notes 1 and 12, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* This statement is effective for the year ended June 30, 2004. Under this statement, the University was required to evaluate certain criteria for related organizations, such as its foundations, to determine whether these organizations should be included in the financial reporting entity of the University. Implementation of this statement resulted in significant changes to the University's financial reporting entity. As a result of the adoption of this statement, the University now includes three component unit foundations discretely presented in aggregate as part of its financial reporting entity.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the University to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The significant accounting estimates included in the University's basic financial statements are the allowance for uncollectible receivables, the period to depreciate capital assets owned by the University, the incurred but not reported self-insured liability, scholarship allowances, accrued compensated absences, the reserve for uncollectible accounts receivable, contractual allowances under third-party reimbursement programs, and net patient service revenue. We and other auditors evaluated the key factors and assumptions in determining that these estimates are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments and Uncorrected Misstatements

Audit Adjustments

We proposed, and the University made, two audit adjustments to the basic financial statements that had no impact on the net assets of the University. The significant audit adjustments proposed by KPMG and made to the 2004 basic financial statements included the following:

- Recognize approximately $2,300,000 in construction in progress and current liabilities that was erroneously recognized in fiscal year 2005.
- Reduce scholarship allowances by approximately $718,000 due to the duplicate elimination of revenues recognized for a portion of the summer school terms.

Uncorrected Misstatements

In connection with our audit of the University's basic financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the University's books and records as of and for the year ended June 30, 2004. Four adjustments were not made to the basic financial statements, which would have increased beginning net assets by approximately $135,000, and increased ending net assets by approximately $928,000. We have reported such misstatements to management on a Summary of Uncorrected Misstatements and have received written representations from management that management believes these misstatements are immaterial.

Other Information in Documents Containing Audited Financial Statements

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

Disagreements with Management

There were no disagreements with management on significant financial accounting and reporting matters. However, management disagrees with three of our findings and recommendations. Those disagreements were as follows:

Revenue Recognition for Grants and Contract – Management believes the process in place for assessing federal grants for proper recognition under Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* is in place, but informal in nature. KPMG is unable to determine whether each University campus currently analyzes grants as exchange/exchange-like and nonexchange transactions as diligently as is needed and believes the University does not document its conclusions in those instances that require professional judgment to make a final determination. After much discussion, the University agrees with the finding and recommendation but disagrees as to the amount of the error.

Cash Management over Federal Direct Student Loans (FDL) – Management believes the process in place for assessing cash needs for the FDL program and the subsequent review of draws made on a periodic basis provides for an acceptable level of risk for compliance with federal requirements with respect to drawing funds. KPMG believes that federal guidelines require that such a control be in place prior to draws being made to be effective and adequately prevent, as well as detect, potential overdraws before they occur. After much discussion, the University has formally disagreed with the finding and expressed its reasons for doing so in the Findings and Recommendations section of this report.

Federal Student Aid Cluster, State Student Financial Assistance – Reporting – Management believes that 1) the reporting errors in the Schedule K primarily resulted from inconsistencies between the State instructions for completing the Schedule K and federal requirements for completing the schedule of federal awards, and 2) the reporting errors on the FISAP and SURDS reports are the result of timing differences between the completion of the reports and reconciling timing differences of available information. KPMG believes the errors resulted from differences that had not been detected or identified by the University at the time of submission.

Consultation with Other Accountants

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

Major Issues Discussed with Management Prior to Retention

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

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit, other than the additional time and effort required to resolve disagreements over certain findings as noted above.

Material Written Communications

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

1) Engagement letter;

2) Management representation letter; and

3) Management letter (findings and recommendations).

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all independence-related relationships between our firm and the University and provide confirmation that we are independent accountants with respect to the University. We are not aware of any independence-related relationships between our firm and the University.

Confirmation of Audit Independence

We hereby confirm that as of December 15, 2004, we are independent accountants with respect to the University under all relevant professional and regulatory standards.

* * * * * * *

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

Very truly yours,

KPMG LLP

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2004

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

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

Our financial and compliance examination of the various state-funded student financial assistance programs at the University for the year ended June 30, 2004 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHE) Financial Aid Policy, adopted April 2002. The state-funded student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2004.

State-Funded Student Financial Assistance Programs

The University's various state-funded student financial assistance programs are campus-based and include the following:

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

(Continued)

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2004

The total state-funded student financial assistance expenditures made by the University were $13,466,021 during the year ended June 30, 2004. Of this amount, state-funded matching funds of $105,869 were transferred to the Perkins Loan and Health Professions Student Loan Funds during the year ended June 30, 2004.

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

During the audit period ended June 30, 2004, the University obtained authorizations to award federal student financial aid funds as follows:

- Supplemental Educational Opportunity Grant – $1,439,707
- College Work Study – $3,383,384
- Loan Matching for Perkins Loan and Health Professions Student Loan Programs – new capital contributions of $292,627

In addition to these programs, the University also received student financial aid funding through the Pell Grant Program in the amount of $18,901,201, the Direct Loan Program in the amount of $129,821,902, and the Federal Family Education Loans in the amount of $582,313. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

Authorizations and expenditures for state-funded student financial aid funds are detailed by program in the accompanying statements of appropriations, expenditures, transfers, and reversions for each campus for the year ended June 30, 2004.

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

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance Programs (the Statement) of the University of Colorado (the University), a blended component unit of the State of Colorado, for the year ended June 30, 2004. The Statement is the responsibility of the University of Colorado's management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the Statement, the Statement was prepared in accordance with the format set forth and last revised November 1998 in the Colorado Commission on Higher Education (CCHE) Audit Guide, and in conformity with the provisions of the CCHE Financial Aid Policy, adopted April 2002. The Statement is a summary of cash activity of the state-funded student financial assistance programs with the exception of the Colorado Work-Study Program and Perkins Loan Program, and does not present certain transactions that would be included in the statement of the state-funded student financial assistance programs if it was presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America.

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

In our opinion, the Statement referred to above presents fairly the appropriations, expenditures, transfers, and reversions of the state-funded student financial assistance programs of the University for the year ended June 30, 2004, in accordance with the format set forth and last revised November 1998 in the Colorado Commission on Higher Education (CCHE) Audit Guide, and in conformity with the provisions of the CCHE Financial Aid Policy, adopted April 2002, as described in note 1 to the Statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Statement in accordance with the format set forth and last revised November 1998 in the CCHE Audit Guide, and in conformity with the provisions of the CCHE Financial Aid Policy, adopted April 2002. The accompanying schedules of appropriations, expenditures, transfers, and reversions of the University by campus (the Schedules) are presented for purposes of additional analysis and are not a required part of the Statement. The Schedules have been subjected to the auditing procedures applied in the audit of the Statement and, in our opinion, are fairly stated, in all material respects, in relation to the Statement taken as a whole.

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

KPMG LLP

December 15, 2004

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2004

		Total Financial Aid	Colorado Need-Based Grants	CLEAP	SLEAP	Colorado Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarships	Loan Matching
Appropriations:									
Original official allocation notice	$	13,313,164	7,011,097	307,677	189,857	1,713,498	2,512,681	1,473,844	104,510
Additional funds reallocated by CCHE		168,053	—	—	—	23,474	50,094	90,930	3,555
Funds released to CCHE		(15,196)	—	—	—	—	(13,000)	—	(2,196)
Total appropriations		13,466,021	7,011,097	307,677	189,857	1,736,972	2,549,775	1,564,774	105,869
Total expenditures		13,466,021	7,011,097	307,677	189,857	1,736,972	2,549,775	1,564,774	105,869
Reversions	$	—	—	—	—	—	—	—	—

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

(1) Basis of Presentation

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

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

The accompanying statement of appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs by campus (the Statement) has been prepared in accordance with the format set forth and last revised November 1998 in the Colorado Commission on Higher Education (CCHE) Audit Guide, and in conformity with the provisions of the CCHE Financial Aid Policy, adopted April 2002. The purpose of the Statement is to present, in summary form, the state-funded student financial assistance activities of the University for the year ended June 30, 2004. The accompanying schedules present the state-funded financial assistance of each campus.

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

(2) Basis of Accounting

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

The Colorado Leveraging Educational Assistance Partnership (CLEAP) and Supplemental Leveraging Assistance Partnership (SLEAP) consist of state funds and federal funds. The amounts shown in the Statement are the combined totals.

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2004

	Total Financial Aid	Colorado Need-Based Grants	CLEAP	SLEAP	Colorado Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarships	Colorado Nursing Grants	Loan Matching
CU-Boulder:									
Appropriations:									
Original official allocation notice	$ 6,016,642	3,071,707	197,462	110,842	948,538	1,338,331	332,344	—	17,418
Additional funds reallocated by CCHE	83,156	—	—	—	23,474	25,936	31,189	—	2,557
Funds released to CCHE	—	—	—	—	—	—	—	—	—
Total appropriations	6,099,798	3,071,707	197,462	110,842	972,012	1,364,267	363,533	—	19,975
Total expenditures	6,099,798	3,071,707	197,462	110,842	972,012	1,364,267	363,533	—	19,975
Reversions	$ —	—	—	—	—	—	—	—	—
UCHSC:									
Appropriations:									
Original official allocation notice	$ 1,044,392	852,620	12,838	—	91,045	38,293	—	—	49,596
Additional funds reallocated by CCHE	—	—	—	—	—	—	—	—	—
Funds released to CCHE	(15,196)	—	—	—	—	(13,000)	—	—	(2,196)
Total appropriations	1,029,196	852,620	12,838	—	91,045	25,293	—	—	47,400
Total expenditures	1,029,196	852,620	12,838	—	91,045	25,293	—	—	47,400
Reversions	$ —	—	—	—	—	—	—	—	—

(Continued)

UNIVERSITY OF COLORADO

State-Funded Student Financial Assistance Programs

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

Year ended June 30, 2004

		Total Financial Aid	Colorado Need-Based Grants	CLEAP	SLEAP	Colorado Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarships	Colorado Nursing Grants	Loan Matching
CU-Denver:										
Appropriations:										
Original official allocation notice	$	3,572,079	1,881,927	51,602	57,824	406,223	610,129	546,217	—	18,157
Additional funds reallocated by CCHE		26,876	—	—	—	—	12,673	13,205	—	998
Funds released to CCHE		—	—	—	—	—	—	—	—	—
Total appropriations		3,598,955	1,881,927	51,602	57,824	406,223	622,802	559,422	—	19,155
Total expenditures		3,598,955	1,881,927	51,602	57,824	406,223	622,802	559,422	—	19,155
Reversions	$	—	—	—	—	—	—	—	—	—
CU-Colorado Springs:										
Appropriations:										
Original official allocation notice	$	2,680,051	1,204,843	45,775	21,191	267,692	525,928	595,283	—	19,339
Additional funds reallocated by CCHE		58,021	—	—	—	—	11,485	46,536	—	—
Funds released to CCHE		—	—	—	—	—	—	—	—	—
Total appropriations		2,738,072	1,204,843	45,775	21,191	267,692	537,413	641,819	—	19,339
Total expenditures		2,738,072	1,204,843	45,775	21,191	267,692	537,413	641,819	—	19,339
Reversions	$	—	—	—	—	—	—	—	—	—

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

Please see recommendation No. 10 at pages 21-25 of this report for audit comments and recommendations related to the state-funded student financial assistance programs.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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

Members of the Legislative Audit Committee:

We have performed the procedures enumerated below, which were agreed to by the management of the University of Colorado (the University) solely to assist in evaluating whether the statement of revenue and expenses (the Statement) of the Intercollegiate Athletics Department of the University of Colorado at Boulder (CU-Boulder), an auxiliary enterprise of the University, is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 6.2.3.1. for the year ended June 30, 2004, and to evaluate the effectiveness of CU-Boulder's Intercollegiate Athletics Department's internal control over financial reporting as of June 30, 2004. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

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

1. We obtained the statement of revenues and expenses for the CU-Boulder Intercollegiate Athletics Department (Statement) for the year ended June 30, 2004 as prepared by University management, recalculated the addition of the amounts on the Statement, and compared the amounts on each line on the Statement to the corresponding amounts on management's reconciliation between the University's general ledger and the amounts on the Statement. We noted no differences between the amounts on the reconciliation and the amounts on the Statement.

2. We compared actual revenues and expenses reported on the Statement for the year ended June 30, 2004 to those for the year ended June 30, 2003 and obtained explanations for variances exceeding $270,000 and 20% of the prior year balance. We obtained these explanations through inquiry with management:

   Bowl Game Proceeds – The decrease is due to the football team not going to a bowl game in 2004.

   Restricted Gifts – The increase is due to the donation program associated with the suite and club seat additions at Folsom Field.

Chancellor Support – The increase was due to an internal campus payment that was received to fund the recruiting investigation.

Contractual Services – The increase was due to the recruiting investigation.

Travel (Team and Individual) – The decrease in travel is due to the football team not playing in the Big XII Championship or a bowl game in fiscal year 2004.

Maintenance and General Administration – The increase is due to utility costs for the new addition to the stadium.

Debt Service Expense – The increase is due to the commencement of debt service payments related to the stadium additions.

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

3. We made inquiries of management as to whether there were any individual intercollegiate athletics contributions greater than $680,000, which represents 10% of total gift and fundraising revenue on the Statement. Management of the CU-Boulder Intercollegiate Athletics Department informed us that there were no individual contributions greater than $680,000. We reviewed a list of gifts and contributions for the year ended June 30, 2004, provided by the University, for additional individual intercollegiate athletics gifts and contributions greater than $680,000 and noted none.

4. For the ten largest donations made directly from outside organizations not under the University's accounting control (e.g., University of Colorado Foundation, other booster clubs), we compared the name of the donor and amount of the gift to the corresponding information on the gift documentation included in the files maintained by the CU-Boulder Intercollegiate Athletics Department and verified the gift documentation indicated that the contribution was intended for the CU-Boulder intercollegiate athletics program. We noted no differences between the gift amount and the supporting documentation.

Date of donation	**Gift amount**
10/13/03	$ 31,457
11/26/03	78,840
02/23/04	617,150
03/29/04	1,698,925
03/29/04	285,050
04/05/04	2,494,550
04/28/04	117,000
06/07/04	50,000
12/05/03	29,993
12/05/03	81,690

5. We recalculated ticket revenue for the Colorado State University, University of California at Los Angeles, and University of Oklahoma football games and the University of Kansas and Texas Tech University men's basketball games by using detailed ticket sales and ticket price information from season ticket price reports provided by the CU-Boulder Intercollegiate Athletics Department. All ticket revenues were recalculated without exception, except for the Texas Tech University basketball game in the amount of $30. We discussed the problem with management and noted that the ticket price reports used to recalculate ticket revenues are not linked to the general ledger, and ticket revenue is recorded in a separate process. We were able to reconcile the adjusted ticket price reports to the general ledger without exception.

6. We selected five student athletes from a list of athletes who received financial aid during the fiscal year and obtained their financial aid awards. We agreed the amounts of financial aid per CU-Boulder's Intercollegiate Athletics Department to the student's file per the University's Student Information System (online). We found such information to be in agreement. The five students selected were as follows:

Sample	**Student ID**
1	XXXXX3467
2	XXXXX8700
3	XXXXX1249
4	XXXXX9876
5	XXXXX4965

7. We selected 25 days during the fiscal year ended June 30, 2004. For each date selected, we obtained the Daily Cash Receipts Log, and selected one batch transaction. We agreed the selected batch transaction information to the daily deposit slip, bank statement, and general ledger. We found such information to be in agreement. The 25 days selected were as follows:

Selected days	**Daily batch log number**	**Amount of deposit slip**
07/10/03	20,377	$ 85,730
07/25/03	20,515	3,284
08/05/03	20,579	430
08/27/03	20,731	250,339
09/03/03	20,774	5,742
09/09/03	20,832	21,551
09/19/03	20,953	3,628
10/17/03	21,160	10,757
10/29/03	21,242	23,447
11/12/03	21,411	3,817
11/20/03	21,526	41,674
12/03/03	21,641	2,500
12/17/03	21,744	510
01/08/04	21,931	372
01/28/04	22,087	748

Selected days	Daily batch log number		Amount of deposit slip
02/03/04	22,121	$	168
02/27/04	22,314		497,052
03/01/04	22,324		970
03/31/04	22,497		58,399
04/09/04	22,571		139,548
04/13/04	22,593		83,767
05/12/04	22,803		17,891
05/21/04	22,834		15,981
06/03/04	22,870		13,179
06/08/04	22,882		2,630

8. We confirmed outside organization contributions greater than 10% of total gift and fundraising revenue included in the Statement, and year-end receivables. The University of Colorado Foundation was the only outside organization with contributions greater than 10% of total gift and fundraising revenue and, therefore, the only one confirmed. We found such information to be in agreement. See procedure 11 below.

9. We obtained check advices and check explanations related to the CU-Boulder Intercollegiate Athletics Department for the conference distributions from the general ledger and agreed the amounts to bank deposits for amounts greater than $100,000. We found such information to be in agreement. The four items tested were as follows:

Date		Amount	Check description
12/12/03	$	1,000,000	Big XII FB TV
04/27/04		2,000,000	Big XII Distribution
06/29/04		3,690,758	Big XII - June Distribution
Various		435,874	NCAA Distributions
	$	7,126,632	Total Distributions Tested
	$	7,194,382	Total Conference Distributions

10. We obtained any independent reviews performed during the year for the CU-Boulder Intercollegiate Athletics Department, including the Football Recruiting audit conducted by the University's Internal Audit Department. Any violations noted in the review were reported to the NCAA in a letter dated March 19, 2004.

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

    Currently, the Office of the State Auditor is conducting a performance audit of the University of Colorado, including procedures related to athletics. The performance audit is ongoing and it incorporates areas other than those included in this agreed upon procedures report. Therefore, there may be findings as a result of the performance audit that are not included herein.

Subsequent to the completion of our procedures as of December 15, 2004, the University determined that it incorrectly excluded $1,500 of donated equipment received from the Dear Old CU Fund for reporting of outside entity activity. The University represented to us that it considered the $1,500 of donated equipment to be immaterial, and the University did not revise the Statement.

Subsequent to the completion of our procedures as of March 31, 2005, the University determined that its assistant football coaches' children's tuition was paid for by the football camp and improperly excluded from the assistant coaches' disclosure of outside income. The University represented to us that it self-reported this violation of NCAA bylaws as required and the transaction does not result in any adjustment to the Statement.

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

The management of the University is responsible for establishing and maintaining internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

We have performed the procedures enumerated below, which were agreed to by the management of the University, solely to assist you in evaluating management's assertion about the effectiveness of the University's internal accounting control related to CU-Boulder's Intercollegiate Athletics Department for the year ended June 30, 2004.

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

2. We obtained and documented an understanding of CU-Boulder's Intercollegiate Athletics Department's procedures for gathering information on the nature and extent of outside organizations not under the University's accounting control (e.g., University of Colorado Foundation, other booster clubs) on behalf of CU-Boulder's intercollegiate athletics program. Also, we determined how CU-Boulder's Intercollegiate Athletics Department communicates, monitors, and takes responsibility for these outside organizations.

3. We selected 20 disbursements related to CU-Boulder's Intercollegiate Athletics Department from the general ledger for the year ended June 30, 2004. For each of these 20 disbursements, we compared the disbursed amount and payee to the corresponding information on the vendor invoice, which was authorized in accordance with the purchasing policies and procedures of the University and verified the proper expense account was used. We found such information to be in agreement. The 20 disbursements selected were as follows:

Date	Description		Amount
07/08/03	Employee Out-of-State Travel	$	1,298
07/08/03	Employee Out-of-State Travel		2,082
07/09/03	Other Operating Contract Services		100,000
07/14/03	Equipment < $5,000		1,560
08/25/03	Athletic Meals/Local Lodging		36,457
09/02/03	Nonemployee Out-of-State Travel		929
05/09/03	Medical Services		1,225
09/22/03	Official Function-Receipts/Events		1,237
10/02/03	Athletic Meals/Local Lodging		2,763
10/09/03	Equipment < $5,000		5,191
10/15/03	Employee Out-of-State Travel		6,590
10/28/03	Ticket Cost		4,725
11/14/03	Employee Out-of-State Travel		3,099
11/25/03	Official Function-Receipts/Events		5,252
12/19/03	Print/Publication/Reproduction Services		8,425
12/23/03	Ticket Cost		7,380
01/22/04	Nonemployee Out-of-State Travel		2,214
03/04/04	Employee Out-of-State Travel		2,214
04/15/04	Print/Publication/Reproduction Services		1,005
05/19/04	Other Operating Contract Services		13,520

4. We selected ten payroll disbursements related to CU-Boulder's Intercollegiate Athletics Department from the general ledger for the year ended June 30, 2004. For each of these ten payroll disbursements, we compared the amount paid and payee to the corresponding information on the employee personnel file, which was authorized in accordance with the human resources policies and procedures of the University. We found such information to be in agreement. The 10 payroll disbursements selected were as follows:

Date	Employee ID		Amount paid
07/31/03	XXXX14	$	15,029
09/30/03	XXXX51		5,042
10/31/03	XXXX46		4,523
03/31/04	XXXX86		3,375
05/28/04	XXXX92		3,723
05/28/04	XXXX49		14,870
07/31/03	XXXX75		12,500
03/31/04	XXXX70		40,000
07/31/03	XXXX91		3,326
04/30/04	XXXX35		1,920

5. We obtained an understanding of the monthly budget-to-actual review conducted by CU-Boulder's Assistant Athletic Director and other accounting staff to determine how they investigate variances.

* * * * * * *

The procedures described above would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. In addition, we noted related matters over internal control, which we have reported as Finding 1 on pages 12-13 "Improvement Needed in Process to Identify Organizations That Directly or Indirectly Benefit the University." A material weakness is a condition in which the design or operation of the specific internal control elements does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements of the CU-Boulder's Intercollegiate Athletics Department may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. We noted no matters involving the internal control and its operations, as it pertains to CU-Boulder's Intercollegiate Athletics Department, that we consider to be material weaknesses as defined above.

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

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

KPMG LLP

December 15, 2004,
except for procedure 8,
which is as of March 31, 2005,
and procedure 11, which is as of March 31, 2005
and June 28, 2005

UNIVERSITY OF COLORADO

University of Colorado at Boulder Intercollegiate Athletics Department

Statement of Revenues and Expenses (Unaudited)

Year ended June 30, 2004

	Football	Men's Basketball	Women's Basketball	Other Men's Sports	Other Women's Sports	Non-Program Specific	Total
Operating revenues:							
Ticket sales	$ 12,265,505	793,382	250,434	—	14,061	—	13,323,382
Guarantees received	560,500	—	—	—	—	—	560,500
Conference distribution	—	—	—	—	—	7,194,382	7,194,382
Programs	35,000	—	—	—	—	5,836	40,836
Novelties	67,062	(72)	1,091	—	—	14,259	82,340
Licensing	—	—	—	—	—	557,452	557,452
Credit card sponsorship	—	—	—	—	—	171,920	171,920
Radio and television	491,705	147,546	118,670	—	—	—	757,921
Signage	—	—	—	—	—	404,457	404,457
Buff vision	—	—	—	—	—	743,143	743,143
Corporate sponsor days	121,737	74,173	45,462	—	2,000	—	243,372
Nike contract	198,789	40,043	38,381	86,148	120,645	197,678	681,684
Concessions	198,109	73,756	32,096	—	4,108	78,959	387,028
Parking	131,727	—	—	—	—	9,796	141,523
Banquets	6,450	2,940	5,670	1,050	1,860	—	17,970
Student fees	—	—	—	—	1,522,145	—	1,522,145
Facility rentals	—	—	—	—	—	366,856	366,856
Miscellaneous income	—	—	—	—	7,521	225,555	233,076
Restricted gifts	3,205,567	6,282	26,357	58,555	61,449	3,443,717	6,801,927
Restricted investment income	—	—	—	—	—	10,555	10,555
Financial aid support:							
CCHE	12,825	—	18,850	8,007	46,798	—	86,480
Boulder campus	181,335	37,800	68,375	79,743	274,427	—	641,680
President's support	—	—	—	—	—	548,000	548,000
Chancellor's support	—	—	—	—	—	816,857	816,857
Total operating revenues	17,476,311	1,175,850	605,386	233,503	2,055,014	14,789,422	36,335,486

(Continued)

UNIVERSITY OF COLORADO

University of Colorado at Boulder Intercollegiate Athletics Department

Statement of Revenues and Expenses (Unaudited)

Year ended June 30, 2004

	Football	Men's Basketball	Women's Basketball	Other Men's Sports	Other Women's Sports	Non-Program Specific	Total
Operating expenses:							
Coaches' salaries and benefits	$ 2,611,777	1,056,334	639,529	364,042	660,985	—	5,332,667
Other salaries and benefits	345,975	106,104	103,256	41,207	101,665	4,852,108	5,550,315
Compensated absences	—	—	—	—	—	52,887	52,887
Game guarantees paid	540,000	185,000	91,000	—	4,000	—	820,000
Contractual services	855,384	318,878	251,220	3,653	58,569	846,090	2,333,794
Film/videotape/photography	7,536	3,306	1,514	459	1,637	64,919	79,371
Travel:							
Team/individual	498,716	248,908	184,257	237,177	431,410	102,368	1,702,836
Recruiting	227,890	106,551	89,014	22,074	89,373	—	534,902
Motor vehicle rental	20,257	4,384	75	29,194	29,194	2,094	85,198
Financial aid	2,481,254	448,294	432,353	588,447	1,547,461	2,000	5,499,809
Maintenance and general administration	143,808	4,463	—	2,755	2,792	1,988,416	2,142,234
Equipment purchases	427,454	50,486	42,615	128,183	176,861	596,920	1,422,519
Publicity	129,648	56,459	52,682	605	7,127	312,319	558,840
Insurance	2,750	—	—	582	582	444,011	447,925
Telephone	58,945	25,439	17,278	14,062	23,860	207,700	347,284
Entertainment	200,235	123,780	46,638	13,578	37,981	201,565	623,777
Training table	107,132	8,872	10,538	—	20,676	45,050	192,268
Local food/lodging	273,400	26,956	22,456	4,640	35,421	1,303	364,176
Medical	190,424	15,700	27,080	27,635	82,931	64,792	408,562
Postage	56,862	6,549	10,390	2,115	5,715	85,331	166,962
Building and equipment rent	359,410	6,015	3,552	13,518	26,814	181,000	590,309
Gifts/awards	17,426	3,469	5,765	4,001	8,263	55,741	94,665
Fees/licensing/registrations	—	864	2,110	1,121	2,672	299,280	306,047
Information technology costs	16,064	5,033	7,332	2,042	14,130	245,891	290,492
General administration recharge	—	374	1,392	—	—	1,167,733	1,169,499
Band support	—	—	—	—	—	78,000	78,000
Academic support transfer	—	—	—	—	—	616,250	616,250
Foundation support costs	—	—	—	—	—	1,104,861	1,104,861
Miscellaneous expense	117,727	34,069	24,358	7,987	20,595	250,608	455,344
Debt service transfer	—	—	—	—	—	3,376,293	3,376,293
Capital fund transfer	—	—	—	—	—	14,226	14,226
Total operating expenses	9,690,074	2,846,287	2,066,404	1,509,077	3,390,714	17,259,756	36,762,312
Excess/(deficiency) of revenues over expenses	$ 7,786,237	(1,670,437)	(1,461,018)	(1,275,574)	(1,335,700)	(2,470,334)	(426,826)

See accompanying notes to statement of revenues and expenses.

UNIVERSITY OF COLORADO

University of Colorado at Boulder Intercollegiate Athletics Department

Notes to Statement of Revenues and Expenses

Year ended June 30, 2004

(1) Basis of Presentation

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

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

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

(2) Summary of Significant Accounting Policies

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

Internal transactions occur between the CU-Boulder Intercollegiate Athletics Department and other University operational units. Since the accompanying statement does not present the operations of the University as a whole, internal transactions are presented as revenues or expenses as appropriate, based on whether the CU-Boulder Intercollegiate Athletics Department was the recipient or payor in the internal transaction. A portion of the University's general administrative costs has been allocated to the CU-Boulder Intercollegiate Athletics Department in accordance with the University's allocation policies. Such allocations are included in the accompanying statement as general administration recharge expenses.

Revenues received during a given fiscal year but not expensed are carried forward for use by the CU-Boulder Intercollegiate Athletics Department in future fiscal years. The current fiscal year deficiency of revenues over expenses reflects the spending of revenues in the current fiscal year that were carried forward from prior fiscal years.

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

Members of the Legislative Audit Committee:

We have performed the procedures enumerated below, which were agreed to by the Intercollegiate Athletics Department of the University of Colorado at Boulder (the University), solely to assist the University in complying with NCAA Bylaw 6.2.3.1 and its related Audit Guidelines. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In determining the financial activities of these outside organizations, we relied upon information supplied to us by the University of Colorado Foundation (Foundation). We did not confirm financial activities directly with the officers of the outside organizations, besides the Foundation.

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

1. We obtained a list of outside organizations not under the accounting control of the University from management. Management asserted that these organizations operate to support the activities disclosed in the statement of revenues and expenses (the Statement) for the University of Colorado at Boulder (CU-Boulder) Intercollegiate Athletics Department. In addition, except for the Foundation, these organizations did not contribute more than 10% of total restricted gifts per the Statement.

2. We obtained a copy of the audited financial statements and management letter detailing any findings, material weaknesses, or reportable conditions for any outside organization that has made contributions greater than $680,000 to the athletics department (e.g., University of Colorado Foundation). The Foundation was audited by a separate, independent KPMG LLP audit team. We noted a finding that dual signatures for checks greater than $5,000 were not always obtained in accordance with the organization's policy, and that certain accounting functions should be automated.

3. We agreed the amounts distributed to the University from the Foundation to restricted gift revenue disclosed on the Statement. The reconciliation is presented below:

Total amount transferred to the CU-Boulder Intercollegiate Athletics Department:		
From the Foundation (excluding $8,973 of in-kind and $214,670 of ticket revenues)	$	6,574,942
From the NCAA		111,706
Gift-in-kind distributions		115,279
Total restricted gifts per the Statement	$	6,801,927

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

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

KPMG LLP

December 15, 2004,
except for procedure 1,
which is as of March 31, 2005

The electronic version of this report is available on the Web site of the
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A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

Please refer to the Report Control Number below when requesting this report.

Report Control Number 1609