AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audits

June 30, 2005 and 2004

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Members of the Legislative Audit Committee:

We have completed the financial statement audit of Auraria Higher Education Center as of and for the year ended June 30, 2005. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.

We were engaged to conduct our audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all state agencies. The reports that we have issued as a result of this engagement are set forth in the table of contents, which follows.

October 6, 2005

AURARIA HIGHER EDUCATION CENTER
FINANCIAL AND COMPLIANCE AUDITS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
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AURARIA HIGHER EDUCATION CENTER
AUDIT REPORT SUMMARY
YEAR ENDED JUNE 30, 2005

Authority, Purpose and Scope

The Office of the State Auditor, State of Colorado engaged Kundinger, Corder & Engle, P.C. to conduct certain financial and compliance audits of Auraria Higher Education Center (the Center) for the years ended June 30, 2005 and 2004. The audits were made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from May through October, 2005.

The purpose and scope of our audits were to:

- Express an opinion on the financial statements of the Center for the years ended June 30, 2005 and 2004. This included a review of internal control as required by U.S. generally accepted auditing standards and *Government Auditing Standards.*
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Express an opinion on the Center's compliance and internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards.*
- Evaluate the Center's progress in implementing prior audit findings and recommendations.
- Evaluate compliance with restrictive covenants of the Center's revenue bond funds.

Audit Opinions and Report

We expressed an unqualified opinion on the Center's financial statements for the years ended June 30, 2005 and 2004.

We issued a report on the Center's compliance and internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards.* We did not note any material weaknesses or any material instances of noncompliance with legal or regulatory requirements based on our audit of the financial statements. We noted certain areas where the Center could improve its internal control. These are described in the Findings and Recommendations section of this report.

Audit Opinions and Report, Continued

We also issued certain required communications related to the conduct of an audit including our responsibility under generally accepted auditing standards, significant accounting policies, audit adjustments, and accounting estimates. No delays or disagreements with management are reported. We proposed and recorded four audit adjustments resulting in a decrease in net assets of $45,154. There were no unrecorded audit differences.

Summary of Key Findings and Recommendations

- Parking lot supervisors are not consistently verifying the range of sold and unsold parking lot tickets and signing off on the receipt of unsold parking lot tickets returned by parking lot attendants at the conclusion of their shifts. The Center should enforce the requirement that parking lot supervisors verify the range of sold and unsold tickets and sign off on the receipt of unsold parking lot tickets at the end of each attendant's shift.

- Current payroll procedures at the Auraria Early Learning Center do not require supervisors to sign hourly employees' time sheets to verify that they have been reviewed and approved prior to processing the payment. The Center should adopt payroll policies and procedures to ensure that accurate timesheets are being prepared and approved before being submitted for payment.

- The Center upgraded the level of skills in the accounting department during 2005 by hiring a Controller who is a Certified Public Accountant. As a result, the Center made improvements in the timeliness of preparing the financial statements and exhibits required by the State Controller's Office and the auditors, pursued federal grants receivable throughout the year, properly accrued payables related to construction in progress at year-end, and provided basic accounting information necessary for the completion of the audit. However, subsequent to year-end, the Controller was promoted to Chief Financial Officer, leaving the Controller position vacant. As a result, a significant number of exhibits prepared for the State Controller's Office contained errors and needed revision. The Center should continue to evaluate the current level of skills in the accounting department and make the necessary changes to ensure that the accounting department is operating efficiently and effectively on a day-to-day basis.

A summary of the recommendations is included in the Recommendation Locator on page 3 of this report. A detailed description of the findings and recommendations begin on page 5 of this report. The Center has agreed to implement these recommendations.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2004 included seven recommendations, two of which indicated material weaknesses in internal control. Six of the recommendations were fully implemented during fiscal year 2005 and one was partially implemented. See Disposition of Prior Audit Findings on page 7.

AURARIA HIGHER EDUCATION CENTER
RECOMMENDATION LOCATOR
YEAR ENDED JUNE 30, 2005

Record No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	5	The Center should enforce the requirement that parking lot supervisors verify the range of sold and unsold tickets and sign off on the receipt of unsold parking lot tickets at the end of each attendant's shift.	Agree. The Parking Division Director was notified of this concern and has communicated to his supervisors the lack of compliance in this area. The accounting department will periodically audit this requirement to ensure that procedures are being followed.	November, 2005
2	6	The Center should adopt payroll policies and procedures to ensure that accurate timesheets are being prepared and approved before being submitted for payment.	Agree. The Auraria Early Learning Center is now printing out hourly timesheets for both the employee and supervisor to sign and keep on file. The accounting department will begin quarterly audits to verify that the appropriate signatures are on each timesheet.	November, 2005
3	6	The Center should continue to evaluate the current level of skills in the accounting department and make the necessary changes to ensure that the accounting department is operating efficiently and effectively on a day-to-day basis.	Agree. A Controller has been hired to assist the Chief Financial Officer with strengthening internal controls and to direct the general ledger implementation project. A review of workflow, current positions and responsibilities will be conducted as the implementation progresses.	November, 2005

AURARIA HIGHER EDUCATION CENTER
FINANCIAL AND COMPLIANCE AUDITS
DESCRIPTION OF AURARIA HIGHER EDUCATION CENTER
FOR THE YEAR ENDED JUNE 30, 2005

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

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

In planning and performing our audit of the financial statements of Auraria Higher Education Center for the year ended June 30, 2005 (on which we have issued our report dated October 6, 2005), we developed the following recommendations concerning certain matters related to the Center's internal control. Our recommendations are summarized below.

Parking Controls

Parking lot revenues for the year ended June 30, 2005, were $7,418,000. Our audit of the Center included a review of controls over parking lot ticket stock. During our testing of ten randomly selected days, we noted nine instances in which parking supervisors did not sign off on the receipt of unsold parking lot tickets returned to them at the end of a parking attendant's shift.

Parking lot attendants are required to sign for parking lot tickets received at the beginning of their shift. All parking lot tickets are numbered and the range of tickets received by each attendant is documented. Upon completion of their shift, the attendants return the unsold tickets to the parking lot supervisor, who is required to verify the range of tickets sold and those returned, and to sign a receipt for the unsold tickets. This procedure is necessary in order to track the flow of parking lot tickets to prevent employees from selling the tickets and not reporting the receipts. If these procedures are not in place the risk of errors and irregularities going undetected increases.

Recommendation No. 1

The Center should enforce the requirement that parking lot supervisors verify the range of sold and unsold tickets and sign off on the receipt of unsold parking lot tickets at the end of each attendant's shift.

Center Response

Agree. The Parking Division Director was notified of this concern and has communicated to his supervisors the lack of compliance in this area. The accounting department will periodically audit this requirement to ensure that procedures are being followed.

Payroll Controls

During our testing of controls over the Center's payroll policies and procedures, we noted that there is no supervisor approval of timesheets for student hourly employees in the Auraria Early Learning Center. Total payroll costs of the Auraria Early Learning Center in fiscal year 2005 were $1,097,199, of which $573,041 was related to hourly employees.

There are approximately 40 hourly employees in the Auraria Early Learning Center. All hourly employees enter their time electronically in a time keeping system. The Early Learning Center paymaster reviews the information and sends a report electronically to the Auraria Center's payroll department for processing. Current procedures do not require supervisors to sign the hourly employees' time sheets to verify that they have been reviewed and approved prior to processing the payment. Full-time employees are not required to complete time sheets; however, they complete "pink sheets" which detail the amounts and types of leave used during the current payroll period. Early Learning Center supervisors review and approve these sheets before payroll is submitted for processing.

Recommendation No. 2

The Auraria Early Learning Center should adopt payroll policies and procedures to ensure that accurate timesheets are being prepared and approved before being submitted for payment.

Center Response

Agree. The Auraria Early Learning Center is now printing out hourly timesheets for both the employee and supervisor to sign and keep on file. The accounting department will begin quarterly audits to verify that the appropriate signatures are on each timesheet.

Accounting Department

The Center upgraded the level of skills in the accounting department in January, 2005. A Controller, who is a Certified Public Accountant, was hired during the year. As a result, the Center made improvements in the timeliness of preparing the financial statements and exhibits required by the State Controller's Office and the auditors, pursued federal grants receivable throughout the year, properly accrued payables related to construction in progress at year-end, and provided basic accounting information necessary for the completion of the audit. The Center continued, however, to have problems reconciling the internal balance sheet accounts with the State's accounting system and with the accuracy of the exhibits submitted to the State Controller's Office. These exhibits show such information as capital leases, operating leases, cash, investments, capital assets, and long-term debt. In addition, the Center continued to have problems with the accounting for interest income and expense, resulting in audit adjustments of $133,000 to interest income and $178,154 to interest expense. The Center has had on-going problems in these areas since 2003. In the current year, the problems were due largely to the fact that the Controller was working offsite on a general ledger implementation project for a significant amount of time and was promoted to Chief Financial Officer subsequent to year end.

Recommendation No. 3

The Center should continue to evaluate the current level of skills in the accounting department and make the necessary changes to ensure that the accounting department is operating efficiently and effectively on a day-to-day basis, including:

a) Performing reconciliations to the State's accounting system.

b) Preparing accurate and complete fiscal year end exhibits.

c) Accounting properly for interest income and expense.

Center Response

Agree. A Controller has been hired to assist the Chief Financial Officer with strengthening internal controls and to direct the general ledger implementation project. A review of workflow, current positions and responsibilities will be conducted as the implementation progresses. The accounting department is now staffed with two certified public accountants to supervise and train department personnel. This will ensure that the data collected at year end is accurate and that the exhibits submitted to the State Controller's Office will not need revision.

AURARIA HIGHER EDUCATION CENTER
DISPOSITION OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005

The following is a summary of the prior year audit recommendations and their disposition as of June 30, 2005:

Prior Year Audit Recommendations	**Disposition**
No. 1 The Center should upgrade the level of skills in the accounting department and put in place adequate controls to ensure the completeness and accuracy of financial statements and other financial information. The Center should also ensure that receivables are collected in a timely manner.	No. 1 Partially implemented. See current year recommendation No. 3.
No. 2 The Center should ensure that there is an adequate segregation of duties between individuals responsible for general ledger functions and wire transfers.	No. 2 Implemented.
No. 3 The Center should prepare monthly financial statements for use by the Board of Directors. Variances between budgeted, actual, and prior year results should be identified and investigated by management and explained to the Board of Directors.	No. 3 Implemented.
No. 4 The Center should establish procedures to limit system access for new vendor input.	No. 4 Implemented.
No. 5 The Center should make quarterly tax payments to ensure that underpayment penalties on unrelated business income are not incurred.	No. 5 Implemented.

Prior Year Audit Recommendations, Continued	**Disposition, Continued**
No. 6 The Center should perform periodic audits of procurement card statements to reinforce the policy that all statements need to have the proper approval for purchases.	No. 6 Implemented.
No. 7 The Center should require all cash advance documentation to be accurately completed by Book Center Personnel.	No. 7 Implemented.

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying statements of net assets of Auraria Higher Education Center (the Center), a blended component unit of the State of Colorado, and its discretely presented component unit, as of and for the years ended June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and cash flows, where applicable, for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Auraria Higher Education Center and its discretely presented component unit as of June 30, 2005 and 2004, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have issued our report dated October 6, 2005, on our consideration of Auraria Higher Education Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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.

October 6, 2005

Auraria Higher Education Center
Management's Discussion and Analysis
Year Ended June 30, 2005

This section of the Auraria Higher Education Center's (the Center) financial statements presents discussion and analysis, prepared by the Center's management, of the Center's financial performance during the fiscal year ended June 30, 2005. The purpose of this section is to provide an objective and easily readable analysis of the Center's financial position based on currently known facts, decisions and opinions. It should be read in conjunction with the basic financial statements and their footnotes.

Understanding the Comparative Financial Report

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

This report contains three basic financial statements: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement of cash flows. The statements report on all of the Center activities including services provided to its constituent institutions, parking operations and student fee bond operations.

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

Statement of Net Assets

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

Condensed Statements of Net Assets (in thousands)

	June 30, 2005	2004	2003
Assets			
Current assets	$ 16,662	15,794	23,842
Capital assets	170,382	149,855	140,103
Other non-current assets	20,307	45,241	28,870
Total assets	$ 207,351	210,890	192,815
Liabilities			
Current liabilities	$ 13,533	11,445	8,503
Non-current liabilities	89,496	93,251	76,782
Total liabilities	$ 103,029	104,696	85,285
Net Assets			
Invested in capital assets, net of related debt	$ 88,906	91,347	87,914
Restricted – expendable	4,147	5,285	1,125
Unrestricted	11,269	9,562	18,491
Total net assets	$ 104,322	106,194	107,530

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets reports operating and non-operating revenues and expenses during the year and the resulting increase or decrease in net assets at the end of the year. The Center's operating income has decreased $1,520,000 since the year ended June 30, 2003. The primary reasons for the decrease include escalating utility costs and increased controlled maintenance expense as the campus buildings age. In addition, support from the three constituent institutions has decreased $2,529,000 since the year ended June 30, 2003, due to decreased funding from the State of Colorado.

Condensed Statements of Revenues, Expenses and Changes in Net Assets
(in thousands)

		Years Ended June 30,		
		2005	**2004**	**2003**
Operating revenues				
Auxiliary enterprises	$	30,588	30,236	33,055
Operating transfers from constituent institutions		13,474	13,474	16,003
Student fees		4,642	4,785	4,848
Other		293	160	141
Total operating revenues	$	48,997	48,655	54,047
Operating Expenses				
Auxiliary enterprises	$	25,282	25,272	28,407
Operation and maintenance of plant		13,246	11,962	13,122
Institutional support		1,419	1,247	1,147
Academic support		1,003	1,052	1,416
Student services		-	-	394
Depreciation		8,105	8,097	8,099
Total operating expenses		49,055	47,630	52,585
Operating income	$	(58)	1,025	1,462
Non-operating revenues and expenses				
Investment income	$	618	292	403
Interest on capital asset-related debt		(2,664)	(2,843)	(3,000)
Loss on disposal of capital assets		(281)	-	(132)
Other non-operating revenues		-	1	122
Total non-operating revenues (expenses)		(2,327)	(2,550)	(2,607)
Capital appropriations, gifts and grants		513	189	1,265
Change in net assets		(1,872)	(1,336)	120
Net assets, beginning of year		106,194	107,530	107,410
Net assets, end of year	$	104,322	106,194	107,530

The statement of cash flows reports relevant information about the Center's cash receipts and cash payments during the year. The statement also aids in the assessment of an entity's ability to generate future net cash flows, meet obligations as they come due, and assess the need for external financing. The large increase in cash and cash equivalents from 2004 to 2005 was due a change in the classification of $10 million in restricted investments to restricted cash equivalents.

Condensed Statements of Cash Flows
(in thousands)

		Years Ended June 30,		
		2005	**2004**	**2003**
Cash provided by (used in):				
Operating activities	$	6,418	9,081	9,950
Non-capital financing activities		-	1	122
Capital and related financing activities		(31,676)	(497)	10,675
Investing activities		26,153	(15,726)	(20,274)
Net increase (decrease) in cash		895	(7,141)	473
Cash and cash equivalents, beginning of year		13,890	21,031	20,558
Cash and cash equivalents, end of year	$	14,785	13,890	21,031

Center's Revenues and Financial Position

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions increased slightly. Parking enterprise revenues were down slightly from the previous year due to the National Hockey League (NHL) strike which affected special events parking revenue. We expect increased parking revenues in fiscal year 2006 because the NHL strike is over and the Tivoli Auraria Parking structure opened August 2005 and can accommodate another 850 vehicles. Revenue reductions and spending restrictions faced by the State of Colorado resulted in reduced state funding to the constituent institutions. The constituent institutions allocated $13.5 million to the Center in fiscal year 2005. This was the same level of funding that was made in fiscal year 2004 and $2.6 million less than the 2003 allocation.

Capital Assets

At June 30, 2005 the Center had $170,382,142 invested in capital assets, net of accumulated depreciation of $109,614,709. For the year ended June 30, 2005, depreciation expense was $8,104,490.

Capital Assets, Net
(in thousands)

	June 30, 2005	June 30, 2004	June 30, 2003
Land	$ 11,753	11,753	11,649
Land improvements	10,937	11,774	8,524
Buildings and improvements	126,646	119,181	113,726
Equipment	2,171	2,407	3,772
Construction in progress	18,875	4,475	2,142
Film collection	-	265	290
Total	$ 170,382	149,855	140,103

The film collection was transferred to the University of Colorado at Denver on June 30, 2005. The $245,932 value of the collection, net of depreciation, is included in the line item "Loss on disposal of capital assets" in the Statement of Revenue, Expenses and Changes in Net Assets.

See Note 3 of the financial statements for additional information on capital asset activity during the fiscal year.

There was no state funding for capital construction or controlled maintenance projects in 2004 or 2005. In 2004, the Center received partial funding of a roof repair on the Center's Physical Education and Events Center facility from the Governor's Emergency Funds. The parking enterprise contributed the remaining portion to ensure proper completion of the project. Emergency funds were also provided for repairs and upgrades to the campus fire alarm systems. No additional emergency funds were received in 2005. The Center's auxiliary enterprises continue to provide funds for capital and controlled maintenance.

Bonds and Capital Leases

At June 30, 2005 the Center had $92,180,844 of bond and capital lease debt outstanding. The table below summarizes this debt by type.

Bond and Capital Lease Debt
(in thousands)

		June 30,		
		2005	**2004**	**2003**
Auxiliary enterprise revenue bonds	$	74,555	77,206	60,263
Capital lease obligations		17,626	18,550	18,554
Total	$	92,181	95,756	78,817

Economic Outlook

Revenue limitations resulting from the Taxpayer's Bill of Rights amendment to the Colorado Constitution (TABOR) have resulted in serious funding reductions to the constituent institutions for operating revenue and to the Center for funding deferred maintenance needs of the campus facilities. The constituent institutions will increase their allocation to fund the Center's general operations in fiscal year 2006 by 1.9% from $13.5 million to $13.7 million. The Center has relied on its auxiliary enterprise operations to fund needed projects and operational requirements; however, this trend cannot continue. The auxiliary enterprises are restricted by bond covenants to maintain reserve levels and cash flows to secure the pledges of debt service coverage.

The Center's auxiliary enterprise facilities are funded with student fees and user charges. These revenues are currently sufficient to maintain adequate levels of maintenance for the Tivoli Student Union, the recreation center, the child care center and all parking facilities. However, these fees and charges are <u>not</u> sufficient to cover the on-going maintenance needs of the general classroom facilities built approximately 29 years ago. With no prospect of State funding for controlled maintenance, the Center and the constituent institutions are studying various options for funding the annual operating costs and increasing maintenance needs of these aging facilities.

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF NET ASSETS
JUNE 30, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash & cash equivalents	$ 13,793,683	12,532,197
Accounts receivable (net of allowance of $783,419 and $616,313, respectively)	1,264,336	1,859,829
Inventories	1,428,656	1,179,356
Prepaid expense	81,337	118,754
Deferred debt issuance costs (notes 1 and 4)	94,103	103,755
Total current assets	16,662,115	15,793,891
Non-current assets:		
Restricted cash and cash equivalents	990,818	1,357,562
Bond proceeds restricted to investment in current capital projects	10,335,258	35,429,080
Restricted investments (note 2)	7,580,279	6,952,353
Capital assets (net of accumulated depreciation of $109,614,709 and $102,339,560, respectively) (note 3)	170,382,142	149,855,183
Deferred debt issuance costs (notes 1 and 4)	1,400,714	1,502,375
Total non-current assets	190,689,211	195,096,553
Total assets	$ 207,351,326	210,890,444
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 8,097,312	6,722,538
Interest payable	1,466,036	747,200
Compensated absences (note 4)	90,148	83,814
Deferred revenue	79,589	339,128
Current portion of long-term debt (note 4)	3,788,215	3,537,979
Other current liabilities	11,223	14,681
Total current liabilities	13,532,523	11,445,340
Non-current liabilities:		
Compensated absences (note 4)	1,103,831	1,032,660
Long-term debt (note 4)	88,392,629	92,217,864
Total non-current liabilities	89,496,460	93,250,524
Total liabilities	103,028,983	104,695,864
Net assets:		
Invested in capital assets	88,905,898	91,347,315
Restricted for expendable purposes	4,147,169	5,285,462
Unrestricted	11,269,276	9,561,803
Total net assets	$ 104,322,343	106,194,580

See accompanying notes to financial statements.

THE AURARIA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 and 2004

		2005	2004
Assets:			
General Operations			
Cash and cash equivalents	$	192,908	228,758
Short term investments		–	40,330
Prepaid expenses		3,760	3,560
Pledges receivable		–	200,000
Housing project expenditures		646,359	–
Property and equipment		1,015,351	1,057,472
Total assets, general operations		1,858,378	1,530,120
Dravo Building			
Rental and interest receivable		424,096	447,409
Cash held by trustee		301,661	355,411
Investments held by trustee			
Escrowed for 1995 bonds		7,956,635	8,752,916
Bond and lease funds		–	104,258
Bond issuance costs		343,987	372,631
Investment in direct financing lease		4,788,495	4,937,888
Property and equipment		4,864,043	4,883,860
Total Dravo Building assets		18,678,917	19,854,373
Lawrence Street Center			
Interest receivable		313,998	316,914
Cash held by trustee		350	65
Investments held by trustee		299,793	279,262
Bond issuance costs		307,329	320,595
Investment in direct financing lease		18,216,525	18,385,685
Property and equipment		892,099	931,406
Total Lawrence Street Center assets		20,030,094	20,233,927
Total assets	$	40,567,389	41,618,420

(continued)

THE AURARIA FOUNDATION
STATEMENTS OF FINANCIAL POSITION, CONTINUED
JUNE 30, 2005 and 2004

		2005	2004
Liabilities:			
General operations			
Accounts payable	$	21,227	5,751
Housing project loans		275,000	–
Interest payable		51,400	25,780
University of Colorado loan agreement		655,332	687,468
Total general operations liabilities		1,002,959	718,999
Dravo Building			
Accrued interest		289,878	303,227
Amounts held in custody for others		276,620	434,631
Bonds payable			
1995 bonds (advance refunded)		7,707,848	8,197,760
2001 bonds		8,733,914	9,098,238
Total Dravo Building liabilities		17,008,260	18,033,856
Lawrence Street Center			
Accrued interest		391,217	397,191
Deferred interest income		1,874,853	1,474,983
Amounts held in custody for others		299,792	279,261
Bonds payable		19,289,441	19,614,273
Total Lawrence Street Center liabilities		21,855,303	21,765,708
Total liabilities		39,866,522	40,518,563
Net Assets:			
Unrestricted		685,867	1,099,857
Temporarily restricted		15,000	–
Total net assets		700,867	1,099,857
Commitments			
Total liabilities and net assets	$	40,567,389	41,618,420

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 and 2004

	2005	2004
Operating revenues:		
Auxiliary enterprises	$ 30,587,542	30,236,596
Operating transfers from constituent institutions	13,473,602	13,473,599
Student fees	4,642,251	4,785,221
Gifts and grants	117,385	159,888
Other operating revenues	175,839	-
Total operating revenues	48,996,619	48,655,304
Operating expenses:		
Auxiliary enterprise expenditures	25,281,510	25,271,635
Operation and maintenance of plant	13,245,986	11,962,079
Institutional support	1,419,410	1,247,225
Academic support	1,003,485	1,052,322
Depreciation	8,104,490	8,096,555
Total operating expenses	49,054,881	47,629,816
Operating income	(58,262)	1,025,488
Non-operating revenues (expenses):		
Investment income (note 2)	618,363	291,761
Interest on capital asset related debt	(2,664,382)	(2,842,947)
Loss on disposal of assets	(280,941)	-
Other non-operating revenue	-	1,000
Net non-operating revenues (expenses)	(2,326,960)	(2,550,186)
Loss before other revenues, expenses, gains or losses	(2,385,222)	(1,524,698)
Capital grants and gifts	512,985	189,525
Change in net assets	(1,872,237)	(1,335,173)
Net assets, beginning of year	106,194,580	107,529,753
Net assets, end of year	$ 104,322,343	106,194,580

See accompanying notes to financial statements.

THE AURARIA FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2005 and 2004

	2005	2004
General Operations		
Revenues and other support		
Contributions, Performing Arts Center	$ 21,500	1,075
Rental income, St. Francis Center	38,625	38,625
Management fees	125,000	125,000
Investment income	6,557	2,053
Miscellaneous income	327	717
Total revenues and other support	192,009	167,470
Expenses		
St. Francis Center program expenses	45,997	54,582
Donations to other organizations	38,906	25,241
General and administrative	77,809	113,870
Performing Arts Center fundraising	–	7,327
Total expenses	162,712	201,020
Increase (decrease) in unrestricted net assets-general operations	29,297	(33,550)
Dravo Building		
Revenues		
Interest on direct financing lease	275,538	283,802
Rental income	345,077	345,078
Investment income	165,061	41,093
Total revenues	785,676	669,973
Expenses	935,535	975,189
Decrease in unrestricted net assets-Dravo Building	(149,859)	(305,216)
Lawrence Street Center		
Revenues		
Interest on direct financing lease	945,249	954,428
Investment income	703	201
Total revenues	945,952	954,629
Expenses	1,239,380	1,257,035
Decrease in unrestricted net assets-Lawrence Street Center	(293,428)	(302,406)
Total decrease in unrestricted net assets	(413,990)	(641,172)
Restricted contributions	15,000	–
Increase in temporarily restricted net assets	15,000	–
Decrease in net assets	(398,990)	(641,172)
Net assets at beginning of year	1,099,857	1,741,029
Net assets at end of year	$ 700,867	1,099,857

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received:		
Student fees	$ 4,640,626	6,447,267
Transfers from constituent institutions	13,450,112	13,359,528
Gifts and grants	117,385	159,888
Sales of services	15,333,898	15,516,189
Sales of products	14,864,994	14,787,388
Other receipts	172,381	2,887
Cash paid:		
Payments to or for employees	(15,495,088)	(15,642,570)
Payments to suppliers	(26,666,094)	(25,549,688)
Net cash provided by operating activities	6,418,214	9,080,889
Cash flows from noncapital financing activities:		
Other receipts	-	1,000
Net cash provided by noncapital financing activities	-	1,000
Cash flows from capital and related financing activities:		
Capital grants and gifts received	765,645	105,305
Purchases of capital assets	(25,071,949)	(13,069,101)
Proceeds from issuance of capital debt	-	20,168,195
Principal paid on capital debt and leases	(3,662,757)	(3,375,523)
Payment of debt issuance costs	-	(503,066)
Interest paid on capital debt and leases	(3,707,406)	(3,823,008)
Net cash used in capital and related financing activities	(31,676,467)	(497,198)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	25,093,822	5,263,899
Purchases of investments	(627,926)	(21,174,821)
Investment income	1,687,099	185,278
Net cash provided by (used in) investing activities	26,152,995	(15,725,644)
Net change in cash and cash equivalents	894,742	(7,140,953)
Cash and cash equivalents, beginning of year	13,889,759	21,030,712
Cash and cash equivalents, end of year	$ 14,784,501	13,889,759

(Continued)

AURARIA HIGHER EDUCATION CENTER
STATEMENTS OF CASH FLOWS, CONTINUED
YEARS ENDED JUNE 30, 2005 and 2004

		2005	2004
Reconciliation of cash and cash equivalents to the Statement of Net Assets:			
Cash and cash equivalents	$	13,793,683	12,532,197
Restricted cash and cash equivalents - noncurrent		990,818	1,357,562
	$	14,784,501	13,889,759
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income (loss)	$	(58,262)	1,025,488
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization expense		8,303,562	8,114,470
Bad debt expense		183,493	172,831
Changes in operating assets and liabilities:			
Accounts receivable		(27,210)	32,214
Inventories		(249,300)	635,071
Prepaid expense		37,417	212,617
Accounts payable and accrued liabilities		(1,585,994)	(1,001,940)
Deferred revenue		(259,539)	(82,361)
Accrued compensated absences		77,505	(30,388)
Other liabilities		(3,458)	2,887
Net cash provided by operating activities	$	6,418,214	9,080,889
Supplemental cash flow information:			
Accounts payable incurred for capital asset purchases	$	4,054,584	3,494,015

See accompanying notes to financial statements.

Auraria Higher Education Center

Notes to Financial Statements

June 30, 2005 and 2004

Note 1: Summary of Significant Accounting Policies

Nature of Operations

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

Basis of Accounting and Presentation

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

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

Effective June 30, 2004, the Center adopted GASB 39, *Determining Whether Certain Organizations are Component Units.* Accordingly, the financial statements of the Auraria Foundation are attached to the Center's financial statements. The Foundation is a private non-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Center's financial reporting entity for these differences. A complete copy of the Auraria Foundation financial statements can be obtained by contacting: Auraria Foundation, Box 173361 Campus Box A, Denver, Colorado 80217-3361.

Note 1: Summary of Significant Accounting Policies, Continued

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

Cash Equivalents
The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2005 and 2004, cash equivalents consisted primarily of U.S. Treasury money market funds, certificates of deposit and a repurchase agreement.

Investments and Investment Income
Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit and repurchase agreements are carried at cost.

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

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

Accounts Receivable
Accounts receivable consists of the following at June 30:

	2005	2004
Constituent Institutions	$ 143,363	361,224
At State Central Collections	764,084	614,076
Book Center credit memos due from vendors	294,228	421,244
Auxiliary enterprises	630,689	537,521
Interest	99,091	285,642
Auraria Foundation	23,381	-
Other	92,919	256,435
	$ 2,047,755	2,476,142

Note 1: Summary of Significant Accounting Policies, Continued

Accounts Receivable, Continued

Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance is based on past experience and analysis of the collectibility of current accounts receivable. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Accounts receivable are considered to be past due based on contractual terms. Accounts receivable is recorded net of the following related allowances for doubtful accounts at June 30:

	2005	2004
Prior year parking fines	$ 555,637	448,205
Book Center bad checks	103,690	73,924
Child Care Center and other auxiliaries	80,075	68,471
Tivoli Student Union building accounts	20,334	17,471
Book Center credit memos	23,683	8,242
	$ 783,419	616,313

Inventories

Book Center inventory is carried at the lower of cost or market. Supply inventories are stated at the lower of cost (first-in, first-out method) or market.

Deferred Debt Issue Costs

Debt issue costs incurred on the revenue bond issues and capital leases have been deferred and are being amortized over the life of the bonds using the straight-line method.

Capital Assets

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

Land improvements	5 – 20 years
Buildings and improvements	27.5 – 40 years
Equipment	3 – 10 years

The Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized during the years ended June 30, 2005 and 2004 was $879,774 and $514,063, respectively.

Note 1: Summary of Significant Accounting Policies, Continued

Accrued Salaries
State Senate Bill 03-197 required monthly and bi-weekly salaries for June that would normally be paid at the end of June to be paid in July. This resulted in an accrual of $1,472,020 and $1,353,990 that was included in accounts payable and accrued liabilities at June 30, 2005 and 2004, respectively.

Compensated Absences
Center employees may accrue annual and sick leave based on length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested at June 30, 2005 and 2004 is $1,193,978 and $1,116,474, respectively. Operating income for the years ended June 30, 2005 and 2004 includes $77,505 and $(30,388), respectively, representing the increase (decrease) in the estimated compensated absence liability.

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

	2005	2004
Student fees for the summer semester	$ 60,133	229,051
RTD bus pass fees	-	77,776
Childcare tuition collected in advance	12,994	-
Advance rent for Tivoli Student Union space	6,462	32,301
	$ 79,589	339,128

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

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

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

Note 1: Summary of Significant Accounting Policies, Continued

Functional Allocation of Expenses

The costs of supporting the various services and other activities of the Center have been summarized on a functional basis in the statements of revenues, expenses and changes in net assets. Costs for each category are directly tracked by cost center in the Center's accounting system.

Income Taxes

As a state institution of higher education, the income of the Center is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Note 2: Deposits, Investments and Investment Return

Deposits and Cash Equivalents

At June 30, 2005, the carrying value of the Center's deposits was $25,119,759. It consists of $24,714,407 on deposit with the State Treasurer, $350,706 in bank deposits and $54,646 of cash on hand. The Center's bank balance at June 30, 2005 was $148,669. The bank balance classified by custodial credit risk category includes $100,000 covered by federal depository insurance and $48,669 covered by collateral held by the pledging institutions' trust departments in the name of the public deposit pool as required by the Public Deposit Protection Act.

Investments

The Auraria Higher Education Center deposits cash with the Colorado Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. Auraria Higher Education Center reports its share of the Treasurer's unrealized gains/losses based on its participation in the State Treasurer's pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2005. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized loss included in "Investment Income" reflects only the change in fair value during the current fiscal year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Note 2: Deposits, Investments and Investment Return, Continued

Custodial Credit Risk
The Center has authority to invest in equity or non-equity investments as authorized by the Director of Business Services. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in either the Center's or the state's name, and are held by either the counterparty to the investment purchase or are held by the counterparty's trust department or agent but not held in the Center's or the state's name. The Center has no investments that are subject to custodial risk.

Credit Quality Risk
Credit risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations to the Center. This risk is assessed by national rating agencies, which assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not reported. However, credit quality ratings are reported for obligations of U.S. Government agencies that are not explicitly guaranteed by the U.S. Government. Credit ratings for long-term debt securities range from Gilt Edge, which is the highest and most secure rating to High Default Risk which is the lowest rating and carries the most risk.

Interest Rate Risk
Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In general, the Center manages interest rate risk using weighted average maturity. Weighted average maturity is a measure of the time to maturity in years that has been weighted to reflect the dollar size of individual investments within an investment type.

The following table lists the Center's investments by investment type. The fair value amount is shown along with the credit quality rating and weighted average maturity.

Investment Type	Fair Value Amount	Credit Rating	Weighted Ave. Maturity
U.S. Govt. Agencies – Explicitly Guaranteed	$ 3,356,140	Not Rated	N/A
U.S. Govt. Agencies – No Explicit Guarantee	2,237,420	Gilt Edge	.244 Year(s)
Commercial Paper	1,986,719	Gilt Edge	.260 Year(s)
Total Investments	$ 7,580,279		

Investments at June 30, 2005 total $7,580,279 and consist of $5,593,560 in U.S. Government Securities and $1,986,719 in commercial paper. All investments are carried at fair value.

Note 2: Deposits, Investments and Investment Return, Continued

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statements of net assets for the years ended June 30:

	2005	2004
Deposits	$ 14,784,501	13,889,759
Bond Proceeds Restricted Cash	10,335,258	35,429,080
Investments	7,580,279	6,952,353
	$ 32,700,038	56,271,192

Deposits and investments are included in the following categories in the statements of net assets for the years ended June 30:

	2005	2004
Cash and cash equivalents	$ 13,793,683	12,532,197
Restricted cash and cash equivalents, non-current	11,326,076	1,357,562
Restricted investments, non-current	7,580,279	42,381,433
	$ 32,700,038	56,271,192

Investment Income

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

	2005	2004
Interest and dividend income	$ 1,466,637	1,063,464
Net increase in fair value of investment	33,913	-
	1,500,550	1,063,464
Income capitalized	(882,187)	(771,703)
	$ 618,363	291,761

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2005 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 11,752,961	-	-	-	11,752,961
Land improvements	22,450,580	-	-	-	22,450,580
Buildings and improvements	207,642,111	21,698	-	14,130,427	221,794,236
Equipment	5,306,939	360,227	(543,295)	-	5,123,871
Film collection	566,989	-	(566,989)	-	-
Construction in progress	4,475,163	28,530,467	-	(14,130,427)	18,875,203
	252,194,743	28,912,392	(1,110,284)	-	279,996,851
Less accumulated depreciation:					
Land improvements	10,676,921	836,425	-	-	11,513,346
Buildings and improvements	88,461,014	6,687,234	-	-	95,148,248
Equipment	2,900,035	556,705	(503,625)	-	2,953,115
Film collection	301,590	24,128	(325,718)	-	-
	102,339,560	8,104,492	(829,343)	-	109,614,709
Net capital assets	$ 149,855,183	20,807,900	(280,941)	-	170,382,142

Capital asset activity for the year ended June 30, 2004 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 11,648,961	104,000	-	-	11,752,961
Land improvements	18,462,283	-	-	3,988,297	22,450,580
Buildings and improvements	195,318,615	-	-	12,323,496	207,642,111
Equipment	4,759,325	730,371	(182,757)	-	5,306,939
Film collection	566,989	-	-	-	566,989
Construction in Progress	3,772,445	17,014,511	-	(16,311,793)	4,475,163
	234,528,618	17,848,882	(182,757)	-	252,194,743
Less accumulated depreciation:					
Land improvements	9,938,605	738,316	-	-	10,676,921
Bldgs and improvements	81,593,067	6,867,947	-	-	88,461,014
Equipment	2,616,626	466,166	(182,757)	-	2,900,035
Film collection	277,463	24,127	-	-	301,590
	94,425,761	8,096,556	(182,757)	-	102,339,560
Net capital assets	$ 140,102,857	9,752,326	-	-	149,855,183

Note 4: Long-term Liabilities

The following is a summary of long-term obligation transactions for the Center for the year ended June 30, 2005:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable:					
Series 1996 Student Fee	$ 15,492,457	14,928	(375,000)	15,132,385	390,000
Series 2000 Parking	6,930,581	4,191	-	6,934,772	-
Series 2003 Parking	12,783,419	41,785	(1,510,000)	11,315,204	1,550,000
Series 2003 Student Fee	22,533,048	4,855	(835,000)	21,702,903	855,000
Series 2004 Parking	19,466,049	4,086	-	19,470,135	-
Total revenue bonds payable	77,205,554	69,845	(2,720,000)	74,555,399	2,795,000
Capital lease obligations	18,550,289	17,913	(942,757)	17,625,445	993,215
Total bonds and capital leases	95,755,843	87,758	(3,662,757)	92,180,844	3,788,215
Other non-current liabilities:					
Compensated absences	1,116,474	77,505	-	1,193,979	90,148
Total non-current liabilities	$ 96,872,317	165,263	(3,662,757)	93,374,823	3,878,363

The following is a summary of long-term obligation transactions for the Center for the year ended June 30, 2004:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable:					
Series 1996 Student Fee	$ 15,837,528	14,929	(360,000)	15,492,457	360,071
Series 2000 Parking	6,926,390	4,191	-	6,930,581	(4,191)
Series 2003 Parking	14,155,976	102,443	(1,475,000)	12,783,419	1,437,886
Series 2003 Student Fee	23,343,193	4,855	(815,000)	22,533,048	830,145
Series 2004 Parking	-	19,466,049	-	19,466,049	(4,086)
Total revenue bonds payable	60,263,087	19,592,467	(2,650,000)	77,205,554	2,619,825
Capital lease obligations	18,554,049	721,763	(725,523)	18,550,289	918,154
Total bonds and capital leases	78,817,136	20,314,230	(3,375,523)	95,755,843	3,537,979
Other non-current liabilities:					
Compensated absences	1,146,862	-	(30,388)	1,116,474	83,814
Total non-current liabilities	$ 79,963,998	20,314,230	(3,405,911)	96,872,317	3,621,793

Note 4: Long-term Liabilities, Continued

Revenue Bonds Payable

The Center had the following bonds outstanding at June 30, 2005:

- Student Fee Refunding Revenue Bonds, Series 1996 (Series 1996 Student Fee Bonds)
- Parking Facilities System Revenue Bonds, Series 2000 (Series 2000 Bonds)
- Parking Enterprise Refunding Revenue Bonds, Series 2003 (Series 2003 Parking Bonds)
- Student Fee Revenue Bonds, Series 2003 (Series 2003 Student Fee Bonds)
- Parking Enterprise Refunding Revenue Bonds, Series 2004 (Series 2004 Parking Bonds)

Series 1996 Bonds

On February 15, 1996, the Center issued $18,030,000 in Series 1996 Bonds for the purpose of refunding $10,480,000 of Student Fee Revenue Bonds, Series 1991B (Series 1991B Bonds), $1,850,000 of Student Fee Revenue Bonds, Series 1992 (Series 1992 Bonds) and $3,975,000 of Student Fee Revenue Bonds, Series 1989 (Series 1989 Bonds). The Center refunded and defeased in substance these bonds by placing the proceeds of the Series 1996 Bonds in an irrevocable trust to provide for all future debt service payments on the Series 1991B, Series 1992 and Series 1989 Bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Center's financial statements. On May 1, 2000, the outstanding Series 1989 Bonds were called.

At June 30, 2005, the following amounts of bonds outstanding are considered defeased:

Series 1991 B Bonds	$ 8,175,000
Series 1992 Bonds	1,240,000
	$ 9,415,000

The Series 1996 Bonds are payable in semiannual installments with annual principal payments ranging from $335,000 to $1,560,000 and interest ranging from 4.50 percent to 5.30 percent. The final installment is due May 1, 2021. Bonds maturing on or after May 1, 2007 can be called for redemption at the option of the Center's Board of Directors, in whole at any time or in part on any interest payment date on or after May 1, 2006. A premium of one percent of principal will be paid on redemptions from May 1, 2006 through April 30, 2007. The bonds are redeemable at par thereafter. The Series 1996 Bonds are collateralized by revenues from student fees assessed for student facilities and from an agreement with the Department of Housing and Urban Development. The Bond Resolution requires that the collateral exceed 1.25 of the combined maximum annual debt service on the outstanding bonds during the fiscal year.

At June 30, 2005 and 2004, the Series 1996 Bonds are shown net of a discount of $237,615 and $252,544, respectively, and have related unamortized issue costs of $198,258 and $202,382, respectively.

Note 4: Long-term Liabilities, Continued

Series 2000 Bonds

On December 7, 2000, the Center issued $7,020,000 in Series 2000 Bonds for the purpose of financing the costs of improving the Center's parking facilities. The Series 2000 Bonds are payable in semiannual installments with annual principal payments ranging from $315,000 to $1,330,000 and interest ranging from 5.0 percent to 5.5 percent. The final installment is due April 1, 2026. Bonds maturing on or after April 1, 2010 can be called for redemption at par at the option of the Center's Board of Directors, in whole or in part at any time on or after April 1, 2010. The Series 2000 Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2005 and 2004, the Series 2000 Bonds are shown net of a discount of $85,228 and $89,418, respectively, and have related unamortized issue costs of $164,829 and $172,932, respectively.

Series 2003 Parking Bonds

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

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

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

The Series 2003 Parking Bonds are due in semiannual installments with annual principal payments ranging from $1,475,000 to $1,855,000 and interest ranging from 2.50 percent to 3.625 percent. The final installment is due April 1, 2012. The Series 2003 Parking Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2005 and 2004, the Series 2003 Parking Bonds are shown net of unamortized premium of $67,565 and $77,217, respectively, unamortized deferred loss on refinancing of $572,361 and $654,127, respectively, and have related unamortized issue costs of $144,723 and $165,419, respectively.

Note 4: Long-term Liabilities, Continued

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

At June 30, 2005 and 2004, the Series 2003 Student Fee Bonds are shown net of a discount of $97,097 and $101,952, respectively, and have related unamortized issue costs of $294,208 and $308,918, respectively.

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

Interest on the Series 2004A bonds is payable in semiannual installments commencing on April 1, 2004. The principal amount of $6,550,000 is due on April 1, 2029. The series 2004B bonds accrete in value from the date of issuance, compounding semiannually, beginning April 1, 2004. Principal payments begin on April 1, 2012 and range from $518,455 to $4,330,000. Interest payments also begin on April 1, 2012 and range from 3.63% to 5.18%. The final installment is due April 1, 2028. The Series 2004A and 2004B Parking Bonds are collateralized by revenues from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2005 and 2004, the Series 2004 Parking Bonds are shown net of a discount of $92,266 and $96,352, respectively, and have related unamortized issue costs of $453,258 and $496,358, respectively.

Note 4: Long-term Liabilities, Continued

Bond Maturity Schedule
Debt service to maturity for all as of June 30, 2005 is as follows:

Years Ending June 30,	Total to be Paid	Principal	Interest
2006	$ 5,533,312	2,795,000	2,738,312
2007	5,538,742	2,875,000	2,663,742
2008	5,537,652	2,960,000	2,577,652
2009	5,529,934	3,050,000	2,479,934
2010	5,535,323	3,170,000	2,365,323
2011-2015	29,044,782	17,120,276	11,924,506
2016-2020	27,159,654	16,181,616	10,978,038
2021-2025	27,168,562	18,294,406	8,874,156
2026-2030	12,973,270	9,126,104	3,847,166
	124,021,231	75,572,402	48,448,829
Less unamortized discount/premium and deferred loss on refinancing	1,017,002	1,017,002	-
	$ 123,004,229	74,555,400	48,448,829

Capital Lease Obligations
The Center is obligated under leases accounted for as capital leases. Assets under capital leases are included in the statement of net assets at June 30, 2005 as follows:

	Cost	Accumulated Depreciation	Carrying Value
Administrative facility	$ 15,518,172	3,071,017	12,447,155
Equipment	2,282,655	1,079,498	1,203,157
	$ 17,800,827	4,150,515	13,650,312

Energy Certificates
On October 15, 1996, the Center entered into an agreement with the Auraria Foundation to finance certain energy saving modifications to heating, ventilation and air conditioning and lighting equipment in Campus buildings. The Foundation acted as an intermediary in the issuance of Certificates of Participation (Energy Certificates) in the amount of $2,130,000 to fund the improvements. Under the terms of the Energy Certificates, the Center is directly liable for the repayment of the debt and has title to the equipment and improvements. Interest rates on the Energy Certificates range from 4.85 percent to 5.20 percent.

At June 30, 2005 and 2004, the Energy Certificates are shown net of a discount of $1,488 and $2,264, respectively, and have related unamortized issue costs of $15,890 and $24,179, respectively.

Note 4: Long-term Liabilities, Continued

Administrative Facility Certificates

On May 1, 1998, the Center entered into an agreement with the Auraria Foundation to finance the acquisition, construction and equipping of an Administrative Office Facility. The Foundation acted as an intermediary in the issuance of Certificates of Participation (Administrative Facility Certificates) in the amount of $16,905,000 to fund the project. The Administrative Facility Certificates and the interest thereon are payable solely from annually appropriated base rentals to be paid by the Center. Upon full payment of the base rentals or the purchase option price, the Foundation will transfer and convey the office facility to the Center. Interest rates on the Administrative Facility Certificates range from 4.50 percent to 5.125 percent.

Approximately 75 percent of the Administrative Office Facility is occupied by the Center's three constituent institutions. It is anticipated that the institutions will share in the costs of debt service and operations of the facility through their annual allocation of State appropriated funds to the Center.

At June 30, 2005 and 2004, the Administrative Facility Certificates are shown net of a discount of $391,343 and $408,480, respectively, and have related unamortized issue costs of $223,632 and $233,426 respectively.

On September 29, 2005, the Center issued Series 2005 Certificates of Participation (Administrative Office Facility Refunding Project) in the amount of $17,520,000 for the purpose of refunding the 1998 Administrative Facility Certificates. The Series 2005 Certificates mature on May 1, 2028, and have interest rates ranging from 3.25 percent to 4.5 percent. Savings of approximately $720,000 from the advance refunding will be used for critical controlled maintenance needs on the campus.

Equipment Leases

The Center has also entered into lease-purchase contracts for telephone and copier equipment. The interest rate on those leases is 10.02 percent and 10.01 percent in fiscal years 2005 and 2004, respectively.

Note 4: Long-term Liabilities, Continued

Future Minimum Lease Payments
The following is a schedule of future minimum lease payments under all capital leases for the year ended June 30, 2005:

	Total to be Paid	Principal	Interest
2006	$ 1,944,047	998,089	945,958
2007	2,108,873	1,232,613	876,260
2008	1,375,545	564,269	811,276
2009	1,380,120	602,595	777,525
2010	1,222,481	475,000	747,481
2011-2015	6,120,181	2,765,000	3,355,181
2016-2020	6,110,569	3,535,000	2,575,569
2021-2025	6,112,094	4,540,000	1,572,094
2026-2030	3,666,194	3,320,000	346,194
	30,040,104	18,032,566	12,007,538
Less unamortized discount	392,831	392,831	-
	$ 29,647,273	17,639,735	12,007,538

Note 5: Reserve Balances

Reserve balances and requirements for outstanding bond issues at June 30, 2005 are as follows:

	Reserve Balance	Reserve Required
Series 2004, Series 2003 Parking Bonds and Series 2000 Bonds:		
Debt Service Reserve	$ 4,896,464	4,520,520
Replacement Reserve	$ 556,845	552,678
Series 2003 Student Fee Bonds and Series 1996 Bonds:		
Repair and Replacement Reserve	$ 356,500	300,000

The Center has purchased a surety bond as insurance to satisfy the combined debt service reserve requirement of the Series 2003 Student Fee Bonds and Series 1996 Bonds.

Note 6: Revenue Bond Fund Information

The following financial information represents identifiable activities for which one or more revenue bonds is outstanding. The accounts related to the Series 2004, 2003 and 2000 Parking Facilities Revenue Bonds meet the definition of a segment in GASB Statement No. 34, as amended, and are included below. The bond covenants of the Series 2003 and 1996 Student Fee Revenue Bonds require reporting of the revenues and expenses of bond-related activities. Although this requirement does not qualify the Series 2003 Student Fee and Series 1996 Bonds as a segment, the Center is voluntarily disclosing all the data that it would be required to report if the bonds met the definition of a segment. See Note 4 for a description of the revenue bonds outstanding.

	Series 2003 and 1996 Student Fee Revenue Bonds		Series 2004, 2003, and 2000 Parking Facilities Revenue Bonds	
	2005	2004	2005	2004
Condensed Statements of Net Assets				
Assets				
Current assets	$ 8,521,239	6,675,561	4,616,603	5,794,403
Other assets	7,019,863	17,978,291	11,642,543	25,262,661
Capital assets	37,614,866	28,797,174	42,294,074	25,692,330
Total assets	53,155,968	53,451,026	58,553,220	56,749,394
Liabilities				
Current liabilities	5,061,427	6,099,200	5,574,692	2,520,240
Non-current liabilities	36,234,368	37,597,918	36,240,741	37,814,464
Total liabilities	41,295,795	43,697,118	41,815,433	40,334,704
Net assets				
Invested in capital assets net of related debt	4,954,290	5,209,586	10,893,411	7,738,309
Restricted – expendable	822,574	937,504	2,111,811	2,809,856
Unrestricted	6,083,309	3,606,818	3,732,565	5,866,525
Total net assets	$ 11,860,173	9,753,908	16,737,787	16,414,690

(Continued)

Note 6: Revenue Bond Fund Information, Continued

	Series 2003 and 1996 Student Fee Revenue Bonds		Series 2004, 2003, and 2000 Parking Facilities Revenue Bonds	
	2005	2004	2005	2004
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 25,121,727	24,523,080	7,611,428	7,571,695
Operating expenses	(20,016,253)	(22,367,088)	(4,353,327)	(4,159,465)
Transfers for campus support	(541,524)	(341,524)	(1,570,784)	(512,292)
Depreciation	(1,802,461)	(1,358,583)	(964,147)	(856,236)
Operating income	$ 2,761,489	455,885	723,170	2,043,702
Non-Operating Revenues (Expenses)				
Capital Grants	$ 168,440	168,440	-	-
Investment income	175,871	76,140	375,962	206,785
Loss on disposal of assets	-	-	-	-
Interest expense on capital debt	(999,535)	(989,895)	(776,035)	(829,001)
Total other revenues	(655,224)	(745,315)	(400,073)	(622,216)
Change in net assets	2,106,265	(289,430)	323,097	1,421,486
Net assets, beginning of year	9,753,908	10,043,338	16,414,690	14,993,204
Net assets, end of year	$ 11,860,173	9,753,908	16,737,787	16,414,690
Condensed Statements of Cash Flows				
Net cash flows provided by operating activities	$ 4,904,119	2,699,750	2,121,837	2,228,719
Net cash flows provided by (used in) capital and related financing activities	(14,342,614)	(12,674,225)	(17,621,605)	13,812,932
Net cash flows provided by (used in) investing activities	12,128,442	6,062,119	13,899,351	(20,651,465)
Net increase (decrease) in cash	2,689,947	(3,912,356)	(1,600,417)	(4,609,814)
Cash and cash equivalents, beginning of year	4,384,680	8,297,036	5,912,548	10,522,362
Cash and cash equivalents, end of year	$ 7,074,627	4,384,680	4,312,131	5,912,548

Note 7: State Appropriations and Allocations from Other State Agencies

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

For the year ended June 30, 2005, appropriated expenditures were within the authorized spending authority. The Center had a total current funds appropriation of $13,473,599. All other revenues, expenditures and transfers reported by the Center 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 revenues of auxiliary, self-funding activities and miscellaneous revenues.

Note 8: The Auraria Foundation

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

The June 30, 2004, financial statements of the Foundation reflected an agreement between the Foundation and the University of Colorado which was subsequently vetoed by the Governor of Colorado. Accordingly, the Foundation's financial statements have been restated to remove the effect of the agreement. Restating the financial statements for the year ended June 30, 2004, reduced the unrestricted change in net assets by $250,461.

The Foundation has a contract with the Center under which the Center provides staff for the management of the Foundation. Under that agreement, the Foundation paid the Center $15,000 and $14,000, respectively, for the years ended June 30, 2005 and 2004. The Center also received $8,382 from the Foundation during the year ended June 30, 2005 for an audio upgrade at the King Center Building.

Note 8: The Auraria Foundation, Continued

The Foundation leases the Saint Francis Center building to the Center to provide office space for campus activities and for conferences. The lease requires the Center to pay an annual lease payment and the operating costs of the building. The Center paid the Foundation $38,625 for the use of the St. Francis Center during each of the years ended June 30, 2005 and 2004.

The Center also paid the Foundation $25,000 for rent of meeting space, building repairs and fees related to the financing of the administrative office facility during each of the years ended June 30, 2005 and 2004.

The Foundation, in conjunction with the Colorado Postsecondary Educational Facilities Authority and the Colorado Educational and Cultural Facilities Authority, has issued tax-exempt bonds for the purchase of buildings that are leased to one of the Center's constituent institutions.

Note 9: Pension Plan

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

Plan members vest after 5 years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 50 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 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 3 periods of 12 consecutive months of service credit.

Disabled members that have 5 or more years of service credit, 6 months of which has been earned since the most recent period of membership, may receive retirement benefits if they are determined to be permanently disabled. If a member dies before retirement, his spouse or eligible children under the age of 18 (23 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.

Note 9: Pension Plan, Continued

Funding Policy

Employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. During fiscal year 2005, the state contributed 10.15% of the employee's salary. Effective July 1, 2004, 1.02% of the total contribution was allocated to the Health Care Trust Fund.

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

The Center's contributions to the two programs described above for the fiscal years ending June 30, 2005, 2004 and 2003 were $1,212,451, $1,201,917 and $1,387,899, respectively. These contributions met the contribution requirement for each year.

Note 10: Voluntary Tax-Deferred Retirement Plans

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 403(b) or 401(a) plans. Members who contribute to any of these plans also receive the state match, when available.

In January, 2001, the MatchMaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The PERA board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan assets is 110% of actuarially accrued plan liabilities. This condition was not met during fiscal year 2005.

Note 11: Post Retirement Health Care and Life Insurance Benefits

Health Care Program

PERACare began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage based on an employee's years of service credit. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal year 2005, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 9.

Note 11: Post Retirement Health Care and Life Insurance Benefits, Continued

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

Life Insurance Program
During fiscal year 2005, PERA provided its members access to two group decreasing term life insurance plans offered by Prudential Insurance Company and Anthem Life. Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who transition to the new plan may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

Note 12: Risk Management

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

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

Note 13: Litigation

The Center is at times involved in litigation arising from the normal course of business. Management has consulted with legal counsel and estimates that these matters will be resolved without a material impact on the operations or financial position of the Center. The Center is currently appealing an employment decision that, if not overturned, will result in a potential liability of $150,000. The liability is not reflected in the accompanying financial statements because the outcome is uncertain and the impact is not expected to be significant.

<u>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*</u>

Members of the Legislative Audit Committee:

We have audited the financial statements of Auraria Higher Education Center (the Center) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 6, 2005. 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.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

October 6, 2005

REQUIRED COMMUNICATION LETTER

October 6, 2005

Members of the Legislative Audit Committee:

We have audited the basic financial statements of Auraria Higher Education Center (the Center), a blended component unit of the State of Colorado, for the year ended June 30, 2005 and have issued our report thereon dated October 6, 2005.

Our professional standards require that we provide you with information about significant matters related to our audit in order to assist you with your oversight responsibilities of the financial reporting process, and to comply with our professional responsibilities to the Members of the Legislative Audit Committee. We have prepared the following comments:

Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*, Issued by the Comptroller General of the United States.
Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally Accepted Accounting Principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

In planning our audit, we considered the internal control of the Center for the purpose of determining our audit procedures and not to provide any assurance concerning internal control. Our comment on the Center's internal control can be found on page 5 of this document.

Significant Accounting Policies
The Center's significant accounting policies are discussed in Note 1 to the Center's 2005 financial statements. During fiscal year 2004, the Center adopted GASB 39, *Determining Whether Certain Organizations are Component Units.* Accordingly, the financial statements of the Auraria Foundation are attached to the Center's financial statements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's use of estimates is disclosed in the notes to the basic financial statements, and include estimates for items such as allowances for doubtful accounts, useful lives of capital assets, and compensated absences. We have performed analytical procedures and made inquiries related to significant estimates.

Audit Adjustments

Our audit was designed to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. In addition, we are obligated by generally accepted auditing standards to inform you of any adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the Center's reporting process. All proposed audit adjustments (whether recorded or uncorrected) were reviewed with management. Audit adjustments were posted to the following financial statement line items:

- Interest payable
- Construction in progress
- Interest income
- Interest expense
- Depreciation expense
- Loss on disposal of assets

In addition, we are obligated by generally accepted auditing standards to inform you about uncorrected misstatements (regardless of whether they have a significant effect on the financial reporting process) aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no uncorrected misstatements pertaining to the most recent period presented in the basic financial.

Disagreements with Management
There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the Center's basic financial statements or our report on those financial statements.

Consultations with Other Accountants
We are not aware of any consultations management may have had with other accountants on the application of U.S. generally accepted accounting principles and U.S. generally accepted auditing standards.

Major Issues Discussed with Management Prior to Retention
There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Difficulties Encountered in Performing the Audit
There were no difficulties encountered during the audit.

* * * * *

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Directors, and management of the Center, and is not intended to be and should not be used by anyone other that these specified parties. However, this report is a matter of public record upon release by the Legislative Audit Committee.

The electronic version of this report is available on the Web site of the
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