

# *University of Colorado*

***Financial and Compliance Audits***

*For the Year Ended June 30, 2003*

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**UNIVERSITY OF COLORADO  
FINANCIAL AND COMPLIANCE AUDITS  
FOR THE YEAR ENDED JUNE 30, 2003  
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**UNIVERSITY OF COLORADO  
FINANCIAL AND COMPLIANCE AUDITS  
FOR THE YEAR ENDED JUNE 30, 2003  
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**UNIVERSITY OF COLORADO  
FINANCIAL AND COMPLIANCE AUDITS  
AUDIT REPORT SUMMARY  
FOR THE YEAR ENDED JUNE 30, 2003**

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**PURPOSE AND SCOPE**

The Office of the State Auditor, State of Colorado engaged Deloitte & Touche LLP to conduct certain financial and compliance audits of the University of Colorado (the University) for the year ended June 30, 2003. Deloitte & Touche performed these audits 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 March 31, 2003 to November 24, 2003.

The purpose and scope of our audits were to:

- Express an opinion on the financial statements of the University for the year ended June 30, 2003. This included a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Express an opinion on the University's compliance and internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Express an opinion on the financial statements of the University's bond fund for the year ended June 30, 2003. This included an evaluation of compliance with bond indenture provisions.
- Express an opinion on the Statement of Appropriations, Expenses, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the University for the year ended June 30, 2003.
- Perform certain agreed-upon procedures regarding the records and internal control related to the University of Colorado at Boulder's Intercollegiate Athletics Program and the statements and records of outside organizations' expenses for or on behalf of the University of Colorado at Boulder's Intercollegiate Athletics Program. These procedures were performed to assist the University in complying with the provisions of the National Collegiate Athletic Association (NCAA) Bylaws.
- Evaluate the University's progress in implementing prior audit findings and recommendations.

The financial statements of the University's bond fund and the related opinion of the independent auditors are contained in the University's bond fund report issued under separate cover. The University's Schedule of Expenditures of Federal Awards and applicable opinions thereon of the Office of the State Auditor, State of Colorado are included in the June 30, 2003, Statewide Single Audit Report issued under separate cover.

## **AUDIT OPINIONS AND REPORT**

We expressed unqualified opinions on the University's financial statements; bond fund financial statements; and the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs for the year ended June 30, 2003.

Several audit adjustments were proposed but not recorded in the financial statements. Had these adjustments been made, net assets would have decreased approximately \$1.6 million. These passed adjustments are not considered material to the University's financial statements. We issued a report on the University's compliance and internal control over financial reporting based on an audit of 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 did note certain areas where the University could improve its internal control and compliance procedures, which are described in the Findings and Recommendations section of this report.

We issued a report detailing our performance of agreed-upon procedures related to the University of Colorado at Boulder's Intercollegiate Athletic Program in accordance with NCAA guidelines. Our report disclosed no exceptions as the result of our procedures.

## **SUMMARY OF KEY FINDINGS**

### **Internal Controls Should be Strengthened Over Sponsored Program Administration at the University of Colorado at Denver**

The University of Colorado's Internal Audit Department conducted a review to evaluate the controls and processes within the University of Colorado at Denver's Division of Sponsored Programs Administration. The internal audit report identified a number of internal control weaknesses which contributed to several issues of noncompliance with sponsored program requirements. Questioned costs totaling \$15,719 were identified during the review. The weaknesses identified are the result of responsibilities not being clearly established, duties not being appropriately segregated, and training on sponsored program administration not being performed for all employees on a routine basis.

### **Controls Should Be Strengthened Regarding System Access to the PeopleSoft Environment**

The University of Colorado uses the PeopleSoft ERP application system for the processing of financial data. As designed, an ERP application system is meant to be a very flexible and customizable system, allowing for program functions and security levels to be tailored to the needs of the organization. This customization can be accomplished through a number of different and overlapping methods, including use of internal PeopleSoft utilities ("PeopleTools") and other user maintenance screens, making the administration and control of access rights a challenging task. Multiple users in the production databases appear to have excessive access to various PeopleTools. Without proper control over these methods, unintentional or inappropriate changes can be made to access capabilities and thus, ultimately, to financial transactions.

### **Procedures Regarding the Capital Asset Cycle Should Be Formalized and Strengthened at the University of Colorado**

The individual campus controller's offices are responsible for monitoring and maintaining the integrity of the data in the capital asset accounts for their respective campuses. Our review of the capital asset

balances revealed that there were balances in the capital asset detail that were improperly recorded. This resulted in the recording of adjustments of approximately \$1.7 million during the audit.

## **RECOMMENDATIONS AND UNIVERSITY OF COLORADO RESPONSES**

A summary of the recommendations for the above comments is included in the Recommendation Locator on page 4. The Recommendation Locator also shows the University's responses to the audit recommendations. A discussion of the audit comments and recommendations is contained in the Audit Findings and Recommendations section of our report.

### **Summary of Progress in Implementing Prior-Year Audit Recommendations**

The audit report for the year ended June 30, 2002, included two recommendations. The disposition of these audit recommendations as of September 20, 2003, is as follows:

Implemented	1
Partially Implemented	1
Not Implemented	0
Total	<u>2</u>

**UNIVERSITY OF COLORADO  
FINANCIAL AND COMPLIANCE AUDITS  
RECOMMENDATION LOCATOR  
FOR THE YEAR ENDED JUNE 30, 2003**

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<b>Rec No.</b>	<b>Page No.</b>	<b>Recommendation Summary</b>	<b>Agency Addressed</b>	<b>Agency Response</b>	<b>Implementation Date</b>
1	8	Report the questioned costs identified to the appropriate federal sponsors and refund the amounts owed.	University of Colorado	Agree	October 31, 2003
2	9	Conduct a comprehensive review of its sponsored program processes, controls and competencies, clearly identify respective responsibilities, authorities and procedures that will fully comply with federal and state requirements, develop guidance that reflects the same, and conduct training for sponsored program personnel.	University of Colorado	Agree	June 30, 2004
3	10	Strengthen controls over PeopleSoft system access by limiting access to sensitive PeopleTools including Application Designer and Maintain Security and reviewing custom built Correction Action audit trails / logs periodically.	University of Colorado	Agree	December 31, 2003



<b>Rec No.</b>	<b>Page No.</b>	<b>Recommendation Summary</b>	<b>Agency Addressed</b>	<b>Agency Response</b>	<b>Implementation Date</b>
4	12	Strengthen controls over capital assets and related accounts by establishing procedures for management to review journal entries made into the PeopleSoft system, preparing a periodic capital asset rollforward, monitoring construction in progress balances, revising existing policies and procedures regarding the recording of purchases of capital assets, providing training on policies and procedures, and periodically reviewing controls over capital assets to ensure that they are in place and functioning as intended.	University of Colorado	Agree	December 31, 2004

**UNIVERSITY OF COLORADO  
FINANCIAL AND COMPLIANCE AUDITS  
DESCRIPTION OF THE UNIVERSITY OF COLORADO  
FOR THE YEAR ENDED JUNE 30, 2003**

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

The University comprises systems offices and the following four campuses:

- Boulder
- Colorado Springs
- Denver
- Health Sciences Center

The four campuses consist of 32 schools and colleges, which offer more than 140 fields of study at the undergraduate level and 100 fields at the graduate level. Approximately 120 bachelors and masters degrees, along with 66 doctorates, are offered.

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

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

Enrollment, tuition, faculty, and staff information are presented below. Information was obtained from the Budget Data Book for fiscal year 2002-2003, prepared for the Colorado Commission on Higher Education (CCHE).

<b>Full-Time Equivalent (FTE) Student Enrollment</b>				
<b>Fiscal Year</b>	<b>Undergraduate</b>		<b>Graduate</b>	
	<b>Resident</b>	<b>Nonresident</b>	<b>Resident</b>	<b>Nonresident</b>
2002-2003	25,122	8,396	6,699	1,412
2001-2002	23,561	8,041	6,344	1,359
2000-2001	23,037	7,720	6,225	1,220

<b>Full-Time Faculty and Staff</b>		
<b>Fiscal Year</b>	<b>Faculty</b>	<b>Staff</b>
2002-2003	2,793	3,434
2001-2002	2,821	3,243
2000-2001	2,807	3,252

**UNIVERSITY OF COLORADO  
FINANCIAL AND COMPLIANCE AUDITS  
AUDIT FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2003**

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In planning and performing our audit of the financial statements of the University of Colorado (University) for the year ended June 30, 2003 (on which we have issued our report dated November 24, 2003), we developed the following recommendations concerning certain matters related to the University's internal control and certain observations and recommendations on other accounting, administrative, and operating matters. Our recommendations are summarized below.

**Internal Controls Should be Strengthened Over Sponsored Program Administration at the University of Colorado at Denver**

The University of Colorado's Internal Audit Department conducted a review to evaluate the controls and processes within the University of Colorado at Denver's (UCD) Division of Sponsored Programs Administration. UCD receives approximately \$20 million in total contract and grant awards per year, and incurred over \$14 million in expenditures on federally sponsored projects during fiscal year 2003.

The internal audit report, dated September 24, 2003, identified a number of internal control weaknesses over the administration of sponsored programs which contributed to several issues of noncompliance with sponsored program requirements.

The following issues were identified during the review:

- The Internal Audit Department identified some cases of improper budget modifications, billings in excess of costs, and improper cash transfers. The monetary impact of these totaled \$15,719. In these instances, excess funds should have been refunded to federal sponsoring agencies but were not. As a result, the items shown below are considered questioned costs under federal guidelines.

CFDA	Program Name	Sponsor	Amount	Description
47.076	Education and Human Resources	National Science Foundation	\$378	Over billed the sponsor
64.125	Vocational and Educational Counseling	Department of Veteran Affairs	\$7,224	Over billed the sponsor
17.249	Child Care Apprentice Program	Department of Labor	\$6,572	Unexpended balance that should be returned
84.027	Special Education Grants	Department of Education	\$1,545	Over billed the sponsor

- There is a lack of appropriate segregation of duties between the Pre-Award and Post-Award Offices. For example, Post-Award Office personnel have the ability to post budgets and budget modifications, make journal entries, and perform billings. This situation allowed some improper transactions to occur. The posting of budgets and budget modifications should be verified by the Pre-Award Office.

- New projects were not timely established in the PeopleSoft system and project costs were charged to an open program/project. This caused numerous expense transfers needing to be made to move costs to the appropriate projects once established. This practice resulted in process inefficiencies because of the need to make accounting entries to transfer costs from one project to another.
- Three of twelve projects reviewed were incorrectly identified as to contract type in the PeopleSoft system. The contract type identifies how projects should be handled based on whether they are fixed price, cost reimbursable, or some other type. Identification of contract type is important for the processes of billing and analysis, as well as identification of the appropriate regulations to follow in working with the grant.
- Costs initially charged to one project are sometimes transferred to another project. Documentation of cost transfer journal entries was consistently found to be insufficient to support the reason for the transfers. The explanations on the journal entries described the entries but did not explain why the transfers were necessary as required by federal regulations.
- Campus department administrative personnel are not familiar with federal compliance requirements and rely heavily on the Post-Award Office. UCD has little procedural guidance to clearly identify the responsibilities and authorities of the various parties involved in federal financial compliance. Having appropriate guidance and providing training to administrative personnel involved with sponsored program is important for their understanding of federal rules and regulations.
- Close out of sponsored projects should take place in a timely manner to ensure proper fiscal management and compliance with federal rules and regulations. All active projects that were past their project end dates were reviewed to determine if close outs were occurring timely. Thirty-one projects had end dates prior to July 1, 2002, nine of which were federally sponsored projects. Internal Audit Department's review of the projects with the Post-Award Office revealed there was uncertainty as to how to resolve many of the outstanding cash balances/deficits.

The weaknesses identified above are the result of responsibilities not being clearly established, duties not being appropriately segregated, and training on sponsored program administration not being performed for all employees on a routine basis.

#### **Recommendation No. 1:**

The University of Colorado at Denver should report the questioned costs identified in the Internal Audit Department's report to the appropriate federal sponsors and refund the amounts owed.

#### **University of Colorado Response:**

**Agree.** The federal sponsors subject to overcharges identified in this report either have been or will be contacted and apprised of the amount owed as follows:

- For Education and Human Resources - when the error was discovered, a letter was written to the sponsoring agency and the amount owed was returned prior to the issuance of this report.
- For Vocational and Educational Counseling – this represents a multi-year award that had been treated by the grantor agency and the University as a fixed-price award, which was determined incorrect by Internal Audit. The actual amount owed to the agency was determined to be \$4,697 and was returned prior to the issuance of this report.

- For Child Care Apprentice Program – the grantor agency extended the term of the award informally, rather than a formal extension of the Purchase Order. The amount owed was returned prior to the issuance of this report.
- For Special Education Grants – the grantor agency requested a bill prior to the end date of the award. When the project ended, the funds not expended were refunded to the grantor agency prior to the issuance of this report.

**Recommendation No. 2:**

The University of Colorado at Denver should establish adequate controls over sponsored programs by:

- Conducting a comprehensive review of its sponsored program processes, controls, and competencies.
- Clearly identifying respective responsibilities, authorities and procedures that will fully comply with federal and state requirements, and developing guidance that reflects the same.
- Conducting training to ensure all parties involved in sponsored program financial compliance are adequately equipped to carry out their responsibilities.

**University of Colorado Response:**

**Agree.** The University of Colorado at Denver will perform the following steps:

- UCD has leveraged the internal audit and continued the assessment of its program processes, controls, and competencies. An action plan of enhancements was developed by management and is expected to be fully implemented by June 30, 2004.
- A checklist (working set of procedures) is being developed outlining the responsibilities and authorizations required of Pre- vs. Post-Award Offices by December 31, 2003.
- CU-Denver will create a two-part training program as follows. First, CU-Denver will modify UCHSC web-based training and mandate that all grant/contract administrators and funded Principal Investigators complete this training. The web-based training will begin as soon as it becomes available, and is anticipated by December 31, 2003. Second, a training program developed by Pre- and Post-Award Offices has been piloted and will be offered to grant/contract administrators and Principal Investigators. The first round of training for existing administrators and Principal Investigators will be completed by June 30, 2004.

**Controls Should Be Strengthened Regarding System Access to the PeopleSoft Environment**

The University of Colorado uses the PeopleSoft ERP application system for the processing of financial data. As designed, an ERP application system is meant to be a very flexible and customizable system, allowing for program functions and security levels to be tailored to the needs of the organization. This customization can be accomplished through a number of different and overlapping methods, including use of internal PeopleSoft utilities (“PeopleTools”), Correction Action, and other user maintenance screens, making the administration and control of access rights a challenging task. Without proper control over these methods, unintentional or inappropriate changes and deletions can be made to access capabilities; changes in access capabilities could allow unintentional or inappropriate changes to be made to financial or other information.

PeopleSoft PeopleTools include items such as Security Administrator/Maintain Security and Application Designer. These items are used to grant/restrict access, and modify system objects such as menus/panels, rows of data, and trees.

The Correction Action access type allows effective dated transaction and control data to be modified or deleted without creating a corresponding audit trail. The University of Colorado has built custom audit trail functionality into the system to capture changes made by the distributed users using correction action access. In most cases, correction access is not needed to perform job responsibilities but audit trails and the review of such logs help to mitigate the risk of inappropriate changes where correction action is used.

Multiple users in the production databases, both Financials (or FIN on version 7.0.2) and Human Resources (or HR on version 8.3), appear to have excessive access to various PeopleTools and Correction Action that can compromise the integrity of the application and the data within the systems. The approximate number of users identified (by database instance) in our testing for each item include but may not be limited to:

**PeopleTools:**

FIN (v7.0.2):

- Security Administrator (16 users)
- Application Designer (15 users)

HR (v8.3):

- Maintain Security (12 users)
- Application Designer (15 users)

**Correction Action:**

FIN (v7.0.2):

- 275 users have correction-authorized action to various menu/panels in the PeopleSoft Production database including: Design Chartfields Menu/program panel, Maintain Vendors Menu/Vendor Information bar item, Maintain Ledgers Menu/Closing Rules bar item, Perform Allocations/Allocations bar item, Tree Manager Menu/Tree Node/Level panels.

HR (v8.3):

- 117 permission lists, approximately 1078 users have the correction-authorized action to various pages in the PeopleSoft Production database.

**Recommendation No. 3:**

The University of Colorado should strengthen controls over PeopleSoft system access by:

- a. Determining which users have access to sensitive PeopleTools including Application Designer and Maintain Security and restricting the number of 'Super users' under these PeopleTools to approximately 5. If others need such access periodically, develop a policy and approval process for enabling such access on a temporary basis (for a period of hours) and then removing such access.

- b. Reviewing custom built Correction Action audit trails / logs periodically. Management should set a policy assigning responsibility for reviewing these audit logs and a regular schedule for doing so.

**University of Colorado Response:**

a. **Agree.** The University has reviewed the number of users, which have access to sensitive PeopleTools including Application Designer and Maintain Security. Based on the specifics of the University's operating environment, the number of system users and our desired service levels we have reduced access to the following:

FIN (v7.0.2):

- Security Administrator (7 users; a reduction of 9 users)
- Application Designer (4 users; a reduction of 11 users)

HR (v8.3):

- Maintain Security (7 users; a reduction of 5 users)
- Application Designer (0 users; a reduction of 15 users)

The HR (v8.3) eliminates the need for Application Designer, therefore, all access related to the Human Resources side of the PeopleSoft application for Application Designer has been eliminated. Any further reduction in the number of users with access to PeopleTools, given that each these users use these tools on a daily basis, would have significant impact to our services levels with minimal added benefit. These changes were implemented on November 1, 2003.

b. **Agree.** The University agrees that a policy assigning responsibility for reviewing Correction Action audit trails/logs and a regular schedule for performing such review must be established. The Office of the University Controller and System Operations will develop the policies and procedures by December 31, 2004.

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**Procedures Regarding the Capital Asset Cycle Should Be Formalized and Strengthened**

The University's net capital assets at June 30, 2003 totaled \$1.2 billion. When land, building, improvements and equipment are purchased by the University, information regarding these assets is recognized in the PeopleSoft general ledger. In addition, the capital asset transactions are entered into campus-specific Excel / Access databases which are used for asset tracking and depreciation. These systems are periodically reconciled to each other

In addition, the campus accountants will review the expense transactions for the month to verify that the proper account codes have been used and that all major purchases have been included in the capital asset ledger. This review will also include the non-capital asset codes to verify that these accounts were not used for capital assets. If an error is identified, it will be investigated and corrected.

The University did not recognize depreciation expense until the implementation of GASB Statement No. 35 in fiscal year 2002. The University is still in the process of establishing uniform policies for recognizing depreciation expense routinely throughout the year.



In accordance with State Fiscal Rules, physical inventory counts of capital assets are performed once every two years. The purpose of a physical inventory is to ensure that capital assets recognized on the University's financial statements are still owned by the University and located consistent with the University's records.

While controls and procedures have been established to monitor recording capital asset transactions, we noted the following exceptions during testing:

***University of Colorado – Boulder***

Due to a physical inventory adjustment, manual adjustments were made at year end to record a \$1.5 million increase to capital assets. An increase to capital assets due to a physical inventory adjustment indicates that controls to ensure that capital assets are recorded properly were not functioning as intended.

***University of Colorado – Colorado Springs***

At the beginning of the fiscal year, two completed and occupied buildings were still recorded in construction in progress rather than depreciable assets. One was occupied in March, 2001 while the other was occupied in March, 2002. This error was identified and the items were correctly classified as depreciable assets in December, 2002. However, the University recognized a correction entry for \$1.6 million of depreciation expense for prior years during the audit.

***University of Colorado – Denver***

Accounting for accumulated depreciation associated with disposed assets was not performed accurately in accordance with generally accepted accounting principles. Accumulated depreciation was not appropriately considered in the disposal calculation. As a result, the University recorded a correction entry of \$440,000 during the audit.

***University of Colorado – System Offices***

The campus missed recording depreciation expense of approximately \$520,000 on a class of its capital assets in the current year. The University recorded a correction entry during the audit.

**Recommendation No. 4:**

The University of Colorado should strengthen controls over capital assets and related accounts by:

- a. Reviewing existing policies and procedures regarding the recording of purchases of capital assets and related accounts to ensure that all aspects of recognition are addressed. Such policies should clearly define when items should be capitalized into the accounting system as both construction in progress and depreciable assets, calculation of depreciation, disposal recognition, changes in estimates, and correction of errors. The policies should also provide for additional review procedures to determine the reasonableness of recognized amounts, such as quarterly capital asset rollforwards and monitoring of construction in progress against expected project completion dates.
- b. Providing additional training to campus personnel regarding these policies.

- c. Periodically reviewing controls over capital assets to ensure that they are in place and functioning as intended.

**University of Colorado Response:**

**Agree:** The Office of University Controller, in coordination with the campus controllers, will refine existing policies and procedures regarding the recording of capital assets and related accounts. Training and monitoring procedures will be incorporated into the new policies and procedures. Revised policies and procedures will be developed by December 31, 2004.

**UNIVERSITY OF COLORADO  
 FINANCIAL AND COMPLIANCE AUDITS  
 DISPOSITION OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS  
 FOR THE YEAR ENDED JUNE 30, 2003**

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The following are the audit recommendations made by Deloitte & Touche for the year ended June 30, 2002, and the University's dispositions at September 20, 2003:

<b>Recommendation</b>	<b>Disposition</b>
1. The University of Colorado Health Sciences Center should strengthen controls over the student loan files reconciliation process. Specifically, (a) controls should be formalized into written policies and procedures and be clearly communicated to the campus Bursar's Office staff; (b) controls should be periodically reviewed to ensure that they are being followed consistently and appropriately; and (c) the campus Bursar's Office should work to clear outstanding reconciling items between the student information system, the loan servicer, and the general ledger on a timely basis.	Implemented. The HSC has written and adopted policies and procedures and cleared all reconciling items. An on-going monitoring process of controls has been established.
2. The University of Colorado should strengthen its controls regarding the disposition of University gift and donation checks. Specifically, (a) departmental procedures should be enhanced to require a more thorough review and evaluation of the nature of the monies being received and whether they constitute gifts and donations or grant and contract monies to ensure appropriate routing per the respective University policy, and (b) the current process for handling gift and donation checks made payable to the University should be evaluated and modified as appropriate. The evaluation should focus on ensuring that the process suitably meets the essential objectives of stewarding the gift and properly recognizing the payee.	Partially Implemented. The University Controller is coordinating the finalization of a revised Administrative Policy Statement to better distinguish between grants and gifts. The University Treasurer is coordinating an interim process to address gift checks where the University is payee. Detailed information will be gathered through such interim processes to further assessment of the issue and guide development of final policies and procedures. Implementation is expected by June 30, 2004.



## INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the University of Colorado (the "University"), a blended component unit of the State of Colorado, as of and for the years ended June 30, 2003 and 2002. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of University Physicians, Inc., which represents total assets of \$106.9 million and \$84.7 million as of June 30, 2003 and 2002 and total operating revenues of \$170 million and \$148.3 million for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us and, our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the University at June 30, 2003 and 2002 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13 to the financial statements, in fiscal year 2002, the University adopted Governmental Accounting Standards Board ("GASB") GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, GASB No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

As discussed in Note 13, the accompanying 2002 financial statements have been restated.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the GASB. This information is the responsibility of the University's management. 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.

Members of the Legislative Audit Committee  
Page 2

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2003, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

*Deloitte & Touche LLP*

November 24, 2003

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# UNIVERSITY OF COLORADO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Management is pleased to present this discussion and analysis of the University of Colorado (the University). It provides an overview of the University's financial position and results of operations as of and for the years ended June 30, 2003 and 2002 (Fiscal Year 2003 and 2002, respectively).

### UNDERSTANDING THE FINANCIAL STATEMENTS

This management's discussion and analysis section is an essential part of the accompanying consolidated financial statements, which have the following five other parts. University management has prepared the financial statements. Thus, University management is responsible for the completeness and fairness of this information.

- **Report of Independent Auditors** presents the an unqualified opinion prepared by our auditors (an independent certified public accounting firm, Deloitte & Touche LLP) on the fair presentation (in all material respects) of our financial statements.
- **Statement of Net Assets** presents the assets, liabilities, and net assets of the University at a point in time (at June 30, 2003 and 2002). Its purpose is to present a financial snapshot of the University.
- **Statement of Revenues, Expenses, and Changes in Net Assets** presents the total revenues earned and expenses incurred by the University for operating, nonoperating, and other related activities during a period of time (the years ended June 30, 2003 and 2002). Its purpose is to assess the University's operating results.
- **Statement of Cash Flows** presents cash receipts and payments of the University during a period of time (the years ended June 30, 2003 and 2002). Its purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.
- **Notes to the Consolidated Financial Statements** present additional information to support the financial statements and are commonly referred to as Note(s). Their purpose is to clarify and expand on the information in the financial statements. Details of the financial highlights can be found in the Notes as referenced in this discussion.

In Fiscal Year 2002, the University implemented new accounting standards as issued by the Governmental Accounting Standards Board (Note 13). These new standards changed the focus of our financial statements to a comprehensive look at the University as a whole (opposed to the traditional presentation of fund groups).

The new standards also required the recognition of depreciation expense on our property, plant and equipment; a change in the accrual and deferral methodology used for summer session tuition and certain contracts; the recognition of on-behalf salary payments; and the elimination of internal

transactions. Major internal transactions include self-funded service units, such as telecommunications and cogeneration.

### UNDERSTANDING THE FINANCIAL REPORTING ENTITY

The presented information relates to the financial activities of the reporting entity of the University. The University comprises the system offices, the following four campuses, and blended component units (Note 1).

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

In Fiscal Year 2002, the University corrected its financial reporting entity to include University Physicians, Inc. (UPI) as a blended component unit (Note 13).

### UNDERSTANDING THIS DISCUSSION AND ANALYSIS

Taken together, the financial statements provide detailed information about the University's finances and they can provide insights into the University's financial health. Financial highlights are presented below to help your assessment of the University's financial activities.

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

### HIGHLIGHTS—STATEMENT OF NET ASSETS

The statement of net assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

As shown in the following condensed statement of net assets, assets and liabilities are further classified as current or noncurrent. Current classification distinguishes those assets that are highly liquid and available for immediate and unrestricted use by the University, and those liabilities likely to be settled in the next 12 months.

# UNIVERSITY OF COLORADO

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### Condensed Statement of Net Assets (in thousands)

	2003	2002
<b>Assets</b>		
Current assets	\$ 300,836	240,831
Noncurrent, noncapital assets	544,686	594,077
Net capital assets	1,200,123	1,010,617
<b>Total Assets</b>	<b>2,045,645</b>	<b>1,845,525</b>
<b>Liabilities</b>		
Current liabilities	277,614	200,083
Noncurrent liabilities	458,921	440,130
<b>Total Liabilities</b>	<b>736,535</b>	<b>640,213</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	825,653	721,706
Restricted for nonexpendable purposes	26,442	27,209
Restricted for expendable purposes	183,441	181,306
Unrestricted	273,574	275,091
<b>Total Net Assets</b>	<b>\$ 1,309,110</b>	<b>1,205,312</b>

Overall, the University's financial position has remained stable. During Fiscal Years 2003 and 2002, Net Assets have increased due to additions of property, plant and equipment and balanced operation. As of June 30, 2003, the University recognized approximately \$103,798,000 increase in net assets primarily attributable to the increase in our capital assets of approximately \$194,918,000 as offset by the utilization of our cash resources and lease financing. The University's income before other revenues increased by approximately \$42,098,000 over the prior year amount. This increase is the direct result of two equal factors: unrealized investment revenues and cost management activities (also see Highlights — Statement of Revenues, Expenses and Changes in Net Assets).

The majority (approximately 79 percent) of the University's noncapital assets are investments, with a balance of \$667,682,000 and \$665,508,000 at June 30, 2003 and 2002, respectively. The University maximizes earnings through an

internal pooling program and targeted rates of returns. Given current market conditions, the University has leveraged the investment portfolio and earning power, while ensuring safety and liquidity requirements are also met.

Changes in capital assets and related debt activity are discussed below (Highlights — Capital Asset and Debt Management).

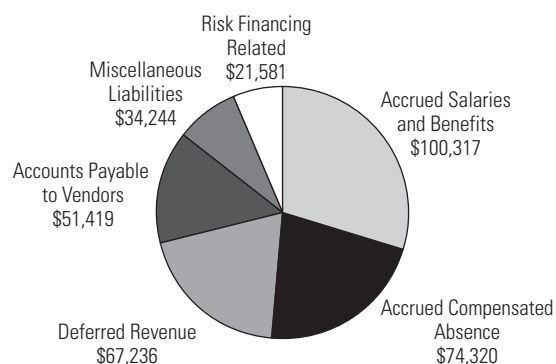
Of the total liabilities shown above, there are \$349,117,000 and \$285,530,000 of other (non-debt) liabilities at June 30, 2003 and 2002, respectively. These liabilities represent amounts due to vendors and others as displayed in the graph below.

Accrued salaries and benefits represent amounts earned by University employees but not paid at fiscal year end. At June 30, 2003 and 2002, the University had accruals of \$100,317,000 and \$49,072,000, respectively. The increase of approximately 104 percent is attributable to Fiscal Year 2003 State legislation, which delayed the payment of June payroll to the first business day in July.

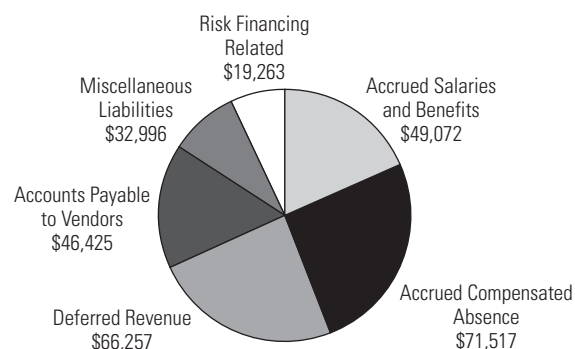
Accrued compensated absences estimate the amount payable to employees in the future for their vested rights under the University's various leave programs. This estimate is based on personnel policies that define the amount of vacation and sick leave to which each employee is entitled. In Fiscal Year 2002, this liability increased by 25 percent from the prior year because the University refined the amounts to be paid to faculty members upon termination. A significant change was not experienced in Fiscal Year 2003.

Deferred revenue represents amounts prepaid by students, auxiliary enterprise customers, grantors and contractors (or amounts received before the University met all of its requirements for earning the amounts). These amounts will be recognized as revenue in future periods after all conditions have been satisfied. At June 30, 2003 and 2002, respectively, the University recognized \$59,861,000 and \$58,596,000, respectively, of these prepayments as current or amounts to be realized in the next year.

### DETAIL OF OTHER LIABILITIES (in thousands)



2003



2002



# UNIVERSITY OF COLORADO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Net assets — the difference between the University's assets and liabilities — may not be available to spend under University management's full discretion. Net assets may have restrictions imposed by external parties, such as donors, or by their nature are invested in capital assets (property, plant and equipment). The University's net assets are categorized as displayed in the following graph.

As shown in the graph below (top), net assets are globally restricted for either expendable or nonexpendable purposes, but will and typically have more specific programmatic or time restrictions. The programmatic category of the restriction is shown on the statement of net assets. A nonexpendable restriction requires the original principal to be set aside for perpetual investment (as an endowment).

Unrestricted net assets are usually available for spending for any lawful purpose under the full discretion of management. However, the University has placed some limitations on future use by designating unrestricted net assets (\$273,574,000 and \$275,091,000 at June 30, 2003 and 2002, respectively) for certain purposes (Note 12). A significant portion of unrestricted net assets represents the unfunded compensated absence liability (discussed above). The graph below (bottom) illustrate the other major designated purposes.

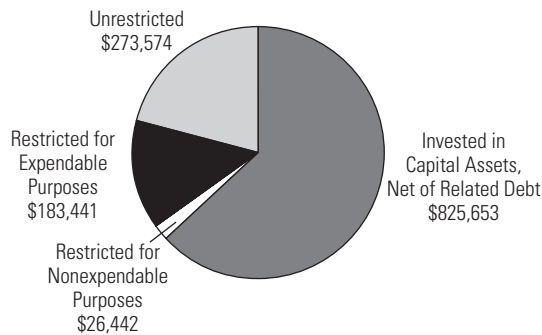
### HIGHLIGHTS — STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

As shown in the condensed statement of revenues, expenses and changes in net assets below, the University's net assets increased by approximately 8.6 and 7.1 percent during Fiscal Years 2003 and 2002, respectively.

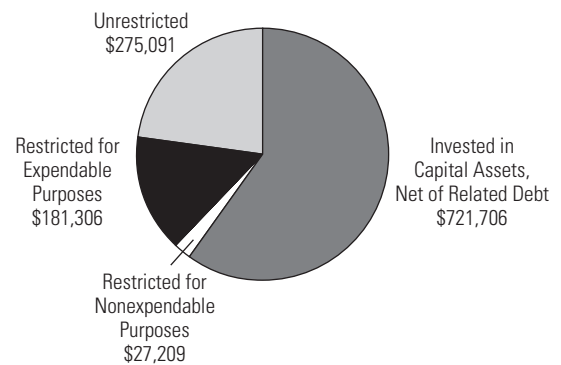
#### Condensed Statement of Revenues, Expenses and Changes in Net Assets (in thousands)

	2003	2002
Operating revenues	\$ 1,294,429	1,195,157
Operating expenses	1,491,562	1,429,912
<b>Operating Loss</b>	<b>(197,133)</b>	<b>(234,755)</b>
Nonoperating revenues (net of expenses)	265,330	260,854
<b>Income before Other Revenues</b>	<b>68,197</b>	<b>26,099</b>
Other capital and endowment revenues	35,601	53,894
<b>Increase in Net Assets</b>	<b>103,798</b>	<b>79,993</b>
Net assets, beginning of year as adjusted	1,205,312	1,125,319
<b>Net Assets, End of Year</b>	<b>\$ 1,309,110</b>	<b>1,205,312</b>

#### NET ASSETS BY CATEGORY (in thousands)

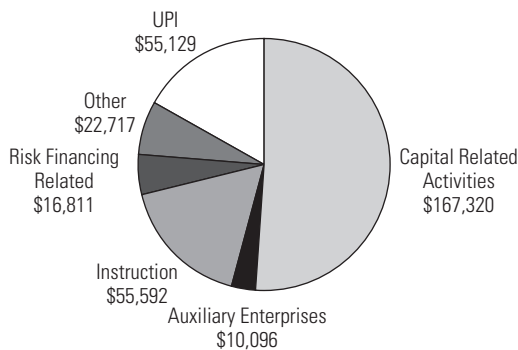


**2003**

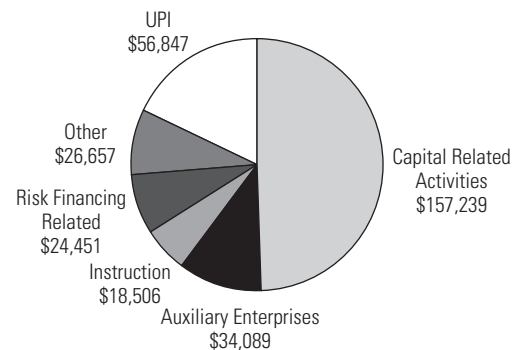


**2002**

#### DESIGNATION PURPOSES OF UNRESTRICTED NET ASSETS (in thousands)



**2003**



**2002**

# UNIVERSITY OF COLORADO MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

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

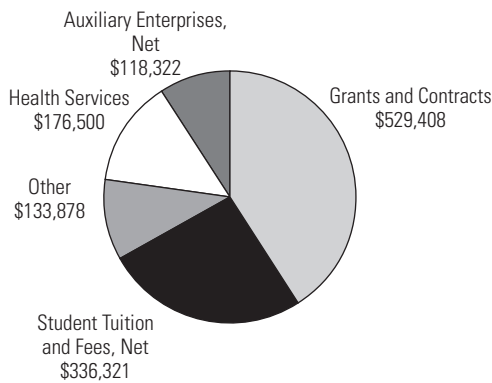
State appropriations represent only 12 and 14 percent of the University's total revenue in Fiscal Years 2003 and 2002, respectively. However, state appropriations combined with gift and investment revenues are necessary to maintain a balanced operation at the University. Since these revenues are not classified as operating, the University (like most public colleges and universities) experienced an operating loss; the University's loss totaled \$197,133,000 and \$234,755,000 in Fiscal Years 2003 and 2002, respectively.

Thus, it is also important to consider the net income before other revenues in determining the University's overall financial health. For Fiscal Years 2003 and 2002, a net gain before other revenues of \$68,197,000 and \$26,099,000, respectively, presents the complete picture of educational and research activities of the University. It provides a full match between the source of revenues and the related expenses.

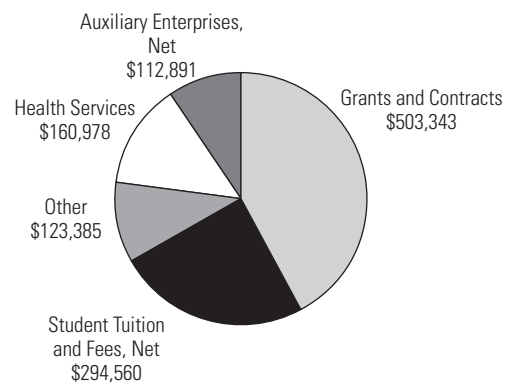
The graphs below provide a graphic display of operating and nonoperating revenues by major sources for Fiscal Years 2003 and 2002.

The general economy took a downturn in Fiscal Year 2002 that continued in Fiscal Year 2003, which in turn created revenue shortfalls for the State of Colorado (the State). These revenue shortfalls were not offset by a reduction in demands for services. To offset the shortfalls, the State required a reduction in State appropriations to be achieved through cost-saving initiatives. As a result, in Fiscal Year 2002, the University's noncapital appropriations were reduced by 3.7 percent or \$8,005,000, or almost equal to the Fiscal Year 2001 appropriated amount. In Fiscal Year 2003, appropriations were further reduced by 10.7 percent or \$23,256,000, or equivalent to appropriated amounts received in Fiscal Years 1997 and 1996.

### OPERATING REVENUES BY SOURCE *(in thousands)*

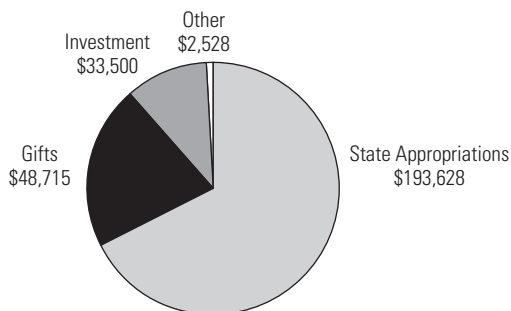


**2003**

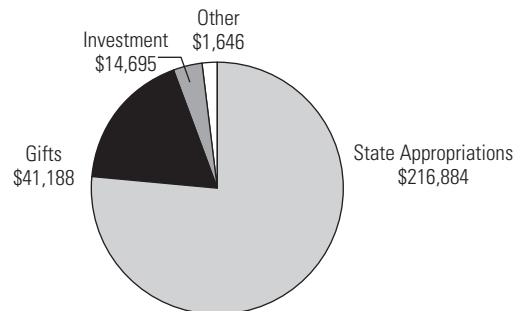


**2002**

### NONOPERATING REVENUES BY SOURCE *(in thousands)*



**2003**



**2002**

# UNIVERSITY OF COLORADO MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Although the state and general economy suffered some shortfalls, the University experienced increases in most operating revenue sources, specifically tuition and fees and grants and contracts, in Fiscal Year 2002. These increased revenues were maintained in Fiscal Year 2003.

Consistent with the University's goal to increase its focus and national role as a research institution, the University increased grants and contracts revenue by 5 and 15 percent in Fiscal Years 2003 and 2002, respectively, to achieve a ranking as the fourth highest among public research institutions in the nation. In Fiscal Years 2003 and 2002, respectively, the University received \$529,408,000 and \$503,343,000 from governmental and private sources.

Consistent with its current objective of increasing private donations, the University also saw an increase of gift revenues of approximately 18 and 15 percent in Fiscal Years 2003 and 2002, respectively. A greater emphasis on fundraising activities resulted in \$48,715,000 and \$41,188,000 of gift revenues (non-capital) in Fiscal Years 2003 and 2002, respectively.

In addition to operating and nonoperating revenues, the University had capital revenues in the amounts depicted in the following table.

### Capital Revenues by Source (in thousands)

	2003	2002
Grants and Gifts	\$ 25,806	41,541
Appropriations	9,734	12,344
<b>Total Net Assets</b>	<b>\$ 35,540</b>	<b>53,885</b>

In Fiscal Year 2002, capital grants and gifts grew at rates consistent with their noncapital revenue counterparts. However, the University experienced an approximately 38 percent decrease in Fiscal Year 2003. This decrease is attributable to the completion of significant privately funded construction projects at UCHSC's Fitzsimons campus (see below, Highlights — Capital Asset And Debt Management).

The University experienced declining capital appropriations in Fiscal Years 2003 and 2002 due to the revenue shortfalls experienced by the State. In Fiscal Year 2002, this revenue amount includes a reduction for return of prior year state capital appropriation of \$18,240,000 related to the Fitzsimons Trust Fund at UCHSC.

In addition, in Fiscal Year 2002, the University's health services revenues, and corresponding expenses, increased by approximately \$148,308,000 and \$145,951,000, respectively, as a direct result of a change in the University's reporting entity (discussed above, Understanding the Reporting Entity).

The programmatic uses of expenses are displayed graphically in the following table and in the graph below.

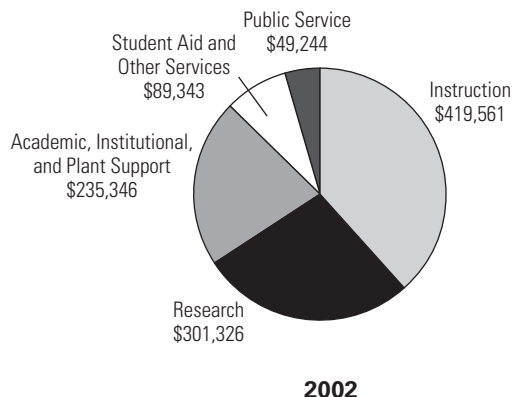
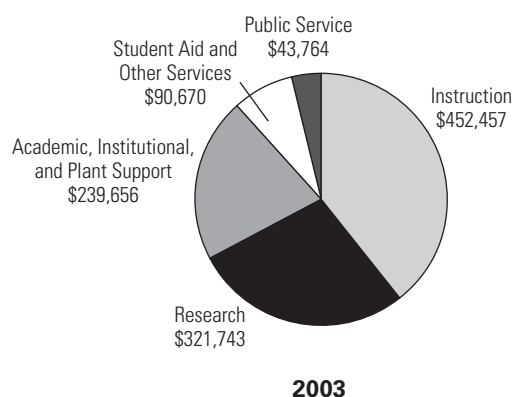
### Major Categories of Expense

	2003	2002
Education and general	77.0%	76.5
Depreciation	4.6	4.5
Auxiliary enterprises	7.6	7.7
Health services	10.8	11.3

In Fiscal Year 2002, the University experienced a general increase in total operating expenses approximating 13 percent as a result of the expansion of the University's research and academic programs. Another contributing factor for the increase was salary raises, which averaged 4 percent.

Due to State budget shortfalls (discussed above), management implemented cost management measures in Fiscal Year 2003. The objectives of such measures were to carefully expand programmatic costs to meet increased demand for services, while limiting increases in support services costs. As a result, the increase in total operating expenses in Fiscal Year 2003 was only 4 percent, which approximated the salary raises. Further, expenses for instruction and research increased by 8 and 7 percent, respectively, whereas the increase in support services was generally below 5 percent.

### EDUCATION AND GENERAL EXPENSES BY PROGRAM (in thousands)



# UNIVERSITY OF COLORADO MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

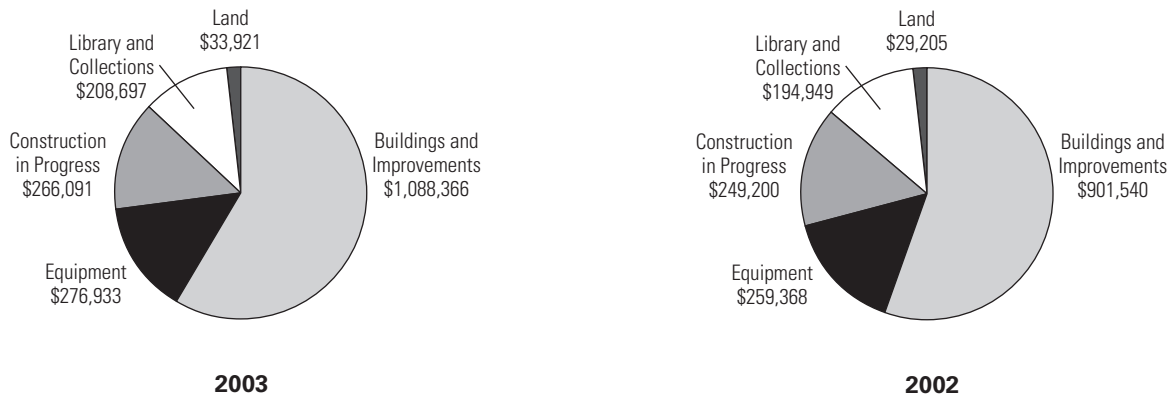
## HIGHLIGHTS — CAPITAL ASSET AND DEBT MANAGEMENT

The University had \$1,874,008,000 and \$1,634,262,000 of plant, property, and equipment at June 30, 2003 and 2002, respectively, offset by accumulated depreciation of \$673,885,000 and \$623,645,000, respectively. The major categories plant, property, and equipment at June 30, 2003 and 2002 are displayed below. Related depreciation charges of \$68,380,000 and \$64,737,000 were recognized in the Fiscal Years 2003 and 2002, respectively. More detailed financial activity related to the changes in Capital Assets is presented in Note 6.

In Fiscal Years 2003 and 2002, the University put into service capital construction projects of \$154,695,000 and \$39,775,000, respectively. In addition, another \$266,091,000 and \$249,200,000 of construction activity was in progress at June 30, 2003 and 2002, respectively. Major projects are detailed in the table on the following page.

The University has plans to continue its investment in property, plant, and equipment with an approved Fiscal Year 2004 capital projects budget of \$521,835,000. Of this budget amount, \$272,705,000 is related to continuing projects (described in the table).

### CATEGORIES OF CAPITAL ASSETS *(in thousands)*



**UNIVERSITY OF COLORADO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2003 and 2002

**Current Construction Project Details** *(in thousands)*

<i>Campus/Project Description</i>	<i>Fiscal Year Completed</i>	<i>Financing Sources</i>	<i>Value*</i>
<b>CU-Boulder:</b>			
• The new state-of-the-art BP Center for Visualization, which provides leading-edge technology to support research and development in the oil and gas industry.	2002	Private gift	\$ 2,400
• Improvement to its student union (University Memorial Center), which increased space for the bookstore and dining facilities, and provides student offices and meeting space as well as conference facilities.	2003	Bond proceeds	29,218
• Renovation to the Porter Biosciences building to update the facility.	2003	State appropriations and campus resources	18,638
• Construction of the Discovery Learning Center to create an integrated instructional laboratory for the engineering department.	2003	State appropriations and private gifts	16,503
• An extensive renovation to student housing centers, which has been segregated into the following phases:		Bond proceeds	
• Phase I	2003		14,857
• Phase II	In progress		41,226
• Folsom Stadium improvements to enlarge the east side of the stadium, and add a first floor concourse and facilities management shop space, resulting in increased seating capacity.	In progress	Bond proceeds (see below)	47,500
<b>UCHSC:</b>			
• The Nighthorse Campbell Native Health Building, the first completed University-owned facility at Fitzsimons.	2003	Primarily federal grants	10,367
• Continuation of the Fitzsimons expansion with the addition of the Research Complex I, which will provide new, state-of-the-art biomedical research facilities research laboratory modules, lab support space, research offices, and academic auditorium space.	In progress	Bond proceeds (see below), federal awards, gift and cash resources	216,000
• Addition of the Oral Health Building to the Fitzsimons campus to provide space for patient care and instruction.	In progress	Private resources and Certificates of Participation proceeds (see below)	26,500
• Administration building for University Physicians, Inc.	In progress	Bond proceeds	20,500
• The Barbara Davis Center for Childhood Diabetes will also further the provision of clinical, research, and educational space at Fitzsimons.	In progress	Private donations and bond proceeds	26,300
<b>CU-Colorado Springs:</b>			
• Renovation of its Student Center to update its facilities.	2002	Bond proceeds	5,415
• The addition to its library to provide expanded capacity and updated resources.	2003	State appropriations	26,912
• The Main/Cragmor Project is a complete renovation project of buildings providing student support and administrative space. This project was state funded and was suspended in Fiscal Year 2002 due to State budget shortfalls (see below, Economic Factors That Will Affect the Future). In Fiscal Year 2003, the buildings were separated into the following distinct projects:		State appropriations supplemented with the following:	
• Main Hall	2003	Campus resources	12,449
• Cragmor	In Progress	Bond Proceeds (see below)	3,500

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

**UNIVERSITY OF COLORADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2003 and 2002

The most significant new project is the construction of the educational buildings at UCHSC's Fitzsimons campus as detailed in the following table. The Fitzsimons Master Plan expected the State to finance the construction of the educational buildings. However, due to State budget shortfalls (see below, Economic Factors That Will Affect the Future), it became evident the University needed to identify an alternative to planned State capital appropriations to maintain its expansion schedule. In Fiscal Year 2003, the University was able to obtain legislative authority for the issuance of \$202,876,000 of State (not University) issued Certificates of Participation, which will be collateralized by these University's buildings. The target issuance date is second quarter of Fiscal Year 2004. The construction schedules project various completion dates through Fiscal Year 2007.

**UCHSC Fitzsimons Campus Expansion (in thousands)**

Academic Office Facilities	\$ 71,319
Education Facility II and Bridge	46,464
Fitzsimons Library	34,999
Education Facility 1B	32,581
Facility Support	15,707
Environmental Health and Safety II	1,806
<b>Total Cost to Be Financed with State of Colorado Certificates of Participation</b>	<b>\$ 202,876</b>

As a result of the University's efforts to identify alternative financing sources for its capital improvements (see below, Economic Factors That Will Affect the Future), the University financed the additional projects detailed in the following table with long-term obligations in the first quarter of Fiscal Year 2004.

**Fiscal Year 2004 Capital Projects Financed by New Long-Term Obligations (in thousands)**

<i>Issuance Description</i>	<i>Construction Project Description</i>	<i>Allocated Proceeds</i>
<b>Revenue Bonds:</b>		
	• UCHSC Research Complex 1 — provide additional funding for this project (described above).	\$ 31,660
	• CU-Boulder Research Laboratory — provides partial reimbursement for the purchase of a building to accommodate expansion space for its research programs, which was made in the third quarter of Fiscal Year 2003.	6,600
	• CU-Colorado Springs Parking — provides for the construction and equipping of a parking facility to address the campus' growing needs, with office space for the campus public safety office.	6,000
	• UCHSC Fitzsimons Research — provides additional funding for the Barbara Davis Center (described above).	20,000
	Total Revenue Bonds Issuance	64,260
<b>Certificates of Participation:</b>		
	• UCHSC Oral Health Center — provides additional funding for the project (described above).	25,000
	• CU-Colorado Springs University Hall — provides for the acquisition of a building to provide additional office, educational and laboratory space primarily for the nursing and engineering programs. This building was purchased by the CU Foundation in the second quarter of Fiscal Year 2003 and leased to the University.	7,925
	• CU-Colorado Springs Cragmor Building — provides funding for the completion of this renovation project (described above).	2,550
	Total Certificates of Participation Issuance	\$ 35,475

# UNIVERSITY OF COLORADO MANAGEMENT'S DISCUSSION AND ANALYSIS

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At June 30, 2003 and 2002, the University had long-term obligations of \$387,418,000 and \$354,683,000, respectively, in the categories displayed in the graph below (excludes notes payable which represent less than 1 percent). More detail about the University's long-term obligations is included in Note 10.

The University issued four bonds during Fiscal Year 2002 in the amounts and with purposes as follows.

- \$51,320,000 refinanced short-term Tax Exempt Commercial Paper Notes (Note 8) and provided funding for improvements to the existing student union (University Memorial Center) at CU-Boulder (discussed above).
- \$101,875,000 financed the Research Complex 1 facility at UCHSC (discussed above).
- \$40,055,000 financed the Folsom Stadium project at CU-Boulder (discussed above).
- \$5,670,000 provided additional funding for the Folsom Stadium project at CU-Boulder (discussed above).

In Fiscal Year 2003, the University entered into a capital lease for the central utility plant to provide chilled and steamed water to UCHSC's Fitzsimons campus. The lease had an outstanding balance at June 30, 2003 of \$27,805,000 (Note 10).

In addition, \$20,500,000 was issued by Fitzsimons Redevelopment Authority during Fiscal Year 2003 on behalf of University Physicians, Inc., for the purposes of constructing the Administration Building at Fitzsimons (discussed above).

Repayments of long-term and short-term debt of \$18,574,000 and \$12,265,000 were made in Fiscal Years 2003 and 2002, respectively.

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

increased its outstanding debt by approximately 3 and 80 percent in Fiscal Years 2003 and 2002, respectively, while maintaining its debt capacity limits.

## ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University's financial statements are comprised of appropriated and nonappropriated funds (Note 2). Appropriated funds include both state appropriations and certain cash funds, including tuition. Thus, the ability of the Regents to increase tuition rates is limited by the State. However, increases in tuition revenue due to student growth are not directly restricted. The following table depicts the three-year trend of tuition and fees rate increases.

### Tuition and Fees Rate Increases

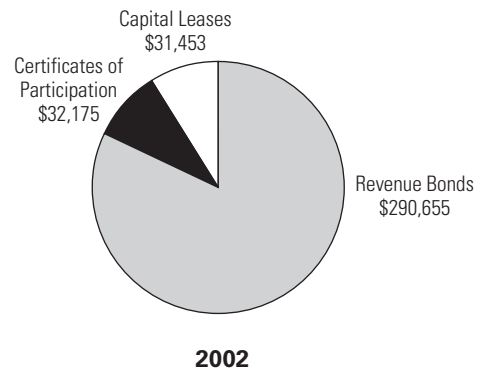
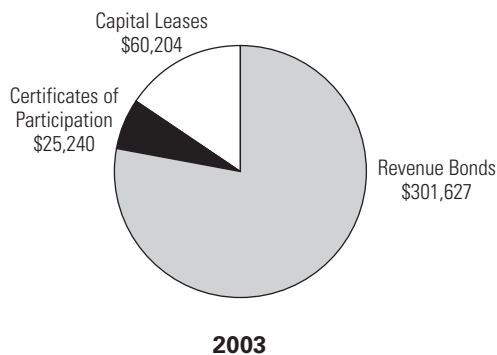
	2004	2003	2002
Residents	10.3%	8.4	7.7
Non-residents	6.0 *	6.2	4.0

\* Actual tuition rate increases varied by campus as follows: CU-Boulder 6%, UCHSC 5%, and CU-Colorado Springs and CU-Denver 5%.

As mentioned above (Highlights — Statement of Revenue, Expenses, and Changes in Net Assets), the State experienced limited economic growth with no reduction in demand for services in Fiscal Years 2003 and 2002. The current economic projections do not forecast a substantially different trend for the near future.

Appropriations (noncapital) for Fiscal Year 2004 are currently set at \$155,400,000, a decrease of 19.7 percent from Fiscal Year 2003 and an amount almost equal to appropriations received in Fiscal Year 1989. In addition, no new capital (state-funded) appropriations were made for Fiscal Year 2004, except for the issuance of the Fitzsimons Certificates of Participation (see above Highlights — Capital Asset and Debt Management). Further, (state-funded) capital appropriations for new projects are not expected before Fiscal Year 2006.

### CATEGORIES OF LONG-TERM OBLIGATIONS (in thousands)



**UNIVERSITY OF COLORADO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2003 and 2002

Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. As depicted in the following table, student enrollment continues to increase. Combined with the approved increases in tuition rates, the outlook for tuition and fees is favorable. In addition, grants, contracts, and gifts are projected to continue a positive pattern of growth, although at a slighter slower rate of growth than experienced in the past two fiscal years. Thus, adverse impacts of the reduction in State funding are anticipated to be largely offset by the tuition and grant revenue increases.

The University is still investigating more efficient and effective means to conduct its business. A major focus is exploring financing alternatives to ensure continued provision of space needed to carry out the University's mission. In addition, the University has begun the process of studying the potential of the consolidation of UCHSC and CU-Denver. The primary goal of the consolidation is to create a comprehensive urban research institution and not necessarily cost savings.

**Fall Enrollment Figures**

	<i>2003</i>	<i>2002</i>	
	<i>Estimated</i>	<i>Actual</i>	<i>Increase</i>
CU-Boulder	29,090	28,650	2%
CU-Health Sciences Center	2,540	2,480	2%
CU-Denver	12,000	11,760	2%
CU-Colorado Springs	7,640	7,410	3%
<b>Total CU</b>	<b>51,270</b>	<b>50,300</b>	<b>2%</b>



# UNIVERSITY OF COLORADO

## STATEMENT OF NET ASSETS

June 30, 2003 and 2002 *(in thousands)*

	2003	2002
		<i>(As restated, Note 13)</i>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 12,899	13,950
Investments at fair value	160,778	109,142
Accounts and loans receivable, less allowances of \$13,555 in 2003 and \$22,505 in 2002	114,414	104,962
Inventories	7,762	8,125
Other assets	4,983	4,652
<b>Total Current Assets</b>	<b>300,836</b>	<b>240,831</b>
<b>Noncurrent Assets</b>		
Investments at fair value	506,904	556,366
Accounts and loans receivable, less allowances of \$3,027 in 2003 and \$3,416 in 2002	32,345	32,885
Other assets	5,437	4,826
Capital assets, net	1,200,123	1,010,617
<b>Total Noncurrent Assets</b>	<b>1,744,809</b>	<b>1,604,694</b>
<b>Total Assets</b>	<b>2,045,645</b>	<b>1,845,525</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	51,419	46,425
Accrued expenses	108,492	59,152
Accrued compensated absences	6,175	5,829
Deferred revenue	59,861	58,596
Bonds, notes and leases payable	18,921	14,761
Other liabilities	32,746	15,320
<b>Total Current Liabilities</b>	<b>277,614</b>	<b>200,083</b>
<b>Noncurrent Liabilities</b>		
Accrued compensated absences	68,145	65,688
Deferred revenue	7,375	7,661
Bonds, notes and leases payable	368,497	339,922
Other liabilities	14,904	26,859
<b>Total Noncurrent Liabilities</b>	<b>458,921</b>	<b>440,130</b>
<b>Total Liabilities</b>	<b>736,535</b>	<b>640,213</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	825,653	721,706
Restricted for nonexpendable purposes (endowments):		
Academic support	8,420	8,804
Scholarships and fellowships	10,828	11,015
Capital	916	2,554
Other	6,278	4,836
<b>Total Restricted for Nonexpendable Purposes</b>	<b>26,442</b>	<b>27,209</b>
Restricted for Expendable Purposes		
Instruction	13,687	12,695
Research	17,954	21,836
Academic support	8,138	7,834
Student loans and services	40,984	40,041
Auxiliary enterprises	70,496	55,505
Institutional support	5,444	5,029
Scholarships and fellowships	9,636	7,972
Capital	8,027	21,329
Other	9,075	9,065
<b>Total Restricted for Expendable Purposes</b>	<b>183,441</b>	<b>181,306</b>
Unrestricted	273,574	275,091
<b>Total Net Assets</b>	<b>\$ 1,309,110</b>	<b>1,205,312</b>

*The accompanying notes are an integral part of this financial statement.*

**UNIVERSITY OF COLORADO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

Years Ended June 30, 2003 and 2002 *(in thousands)*

	2003	2002
		<i>(As restated, Note 13)</i>
<b>Operating Revenues</b>		
Student tuition & fees (net of scholarship allowances of \$46,193 in 2003 and \$40,494 in 2002; pledged revenues of \$2,156 in 2003 and \$3,700 in 2002)	\$ 336,321	294,560
Federal grants and contracts (pledged revenues of \$91,465 in 2003 and \$92,640 in 2002)	458,963	414,911
State and local grants and contracts (pledged revenues of \$3,832 in 2003)	27,061	33,892
Nongovernmental grants and contracts	43,384	54,540
Sales and services of educational departments (pledged revenues of \$3,485 in 2003 and \$4,874 in 2002)	91,158	78,076
Auxiliary enterprises (net of scholarship allowances of \$2,126 in 2003 and \$2,266 in 2002; pledged revenues of \$13,971 in 2003 and \$19,038 in 2002)	118,322	112,891
Health services	176,500	160,978
Other operating revenues (pledged revenues of \$2,156 in 2003 and \$371 in 2002)	42,720	45,309
<b>Total Operating Revenues</b>	<b>1,294,429</b>	<b>1,195,157</b>
<b>Operating Expenses</b>		
Education and General:		
Instruction	452,457	419,561
Research	321,743	301,326
Public service	43,764	49,244
Academic support	85,589	87,633
Student services	60,524	60,039
Institutional support	77,418	76,227
Operation & maintenance of plant	76,649	71,486
Student aid	30,146	29,304
Total Education and General expenses	1,148,290	1,094,820
Depreciation	68,380	64,737
Auxiliary enterprises	113,818	110,530
Health services	161,014	160,095
Other operating expenses	60	(270)
<b>Total Operating Expenses</b>	<b>1,491,562</b>	<b>1,429,912</b>
<b>Operating loss</b>	<b>(197,133)</b>	<b>(234,755)</b>
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	193,628	216,884
Gifts	48,715	41,188
Investment income (net of investment expenses of \$3,106 in 2003 and \$1,807 in 2002; pledged revenues of \$47 in 2003 and \$84 in 2002)	33,500	14,695
Loss on disposal of fixed assets	(4,411)	(4,725)
Interest expense on capital asset related debt	(8,630)	(8,834)
Other nonoperating revenues (net of expenses of \$3,106 in 2003 and \$1,807 in 2003; pledged revenues of \$15 in 2003)	2,528	1,646
<b>Net Nonoperating Revenues</b>	<b>265,330</b>	<b>260,854</b>
<b>Income Before Other Revenues</b>	<b>68,197</b>	<b>26,099</b>
Capital appropriations	9,734	12,344
Capital grants and gifts	25,806	41,541
Additions to permanent endowments	61	9
Total other revenues	35,601	53,894
<b>Increase in Net Assets</b>	<b>103,798</b>	<b>79,993</b>
Net Assets, beginning of year as adjusted	1,205,312	1,125,319
<b>Net Assets, End of Year</b>	<b>\$ 1,309,110</b>	<b>1,205,312</b>

The accompanying notes are an integral part of this financial statement.

**UNIVERSITY OF COLORADO**  
**STATEMENT OF CASH FLOWS**

Years Ended June 30, 2003 and 2002 *(in thousands)*

	2003	2002
		<i>(As restated, Note 13)</i>
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 335,315	286,432
Grants and contracts	520,792	524,154
Payments to suppliers	(356,359)	(353,489)
Payments for utilities	(31,852)	(13,571)
Payments to employees	(790,768)	(781,482)
Payments for benefits	(160,553)	(153,727)
Payments for scholarships and fellowships	(28,854)	(28,004)
Loans issued to students and employees	(7,052)	(7,199)
Collection of loans to students and employees	9,517	9,504
Auxiliary enterprise charges	171,607	154,543
Sales and services of educational departments	91,734	77,667
Payments related to patient services	129,653	118,137
Other receipts	47,027	45,596
<b>Total Cash Flows Used by Operating Activities</b>	<b>(69,793)</b>	<b>(121,439)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	193,628	216,907
Gifts and grants for other than capital purposes	48,531	45,692
Endowment disbursements	61	8
William D. Ford direct lending receipts	82,434	80,207
William D. Ford direct lending disbursements	(82,506)	(80,334)
PLUS loans receipts	32,191	18,386
PLUS loans disbursements	(32,188)	(18,386)
Agency transactions	1,105	1,177
Other payments	(557)	(3,619)
<b>Total Cash Flows Provided by Noncapital Financing Activities</b>	<b>242,699</b>	<b>260,038</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from capital debt	20,114	214,205
Capital grants and gifts received	25,806	35,863
Proceeds from sale of capital assets	536	8,039
Purchases of capital assets	(183,267)	(163,286)
Principal paid on capital debt and leases	(18,209)	(43,473)
Interest paid on capital debt and leases	(19,827)	(12,452)
Return of Fitzsimons capital trust fund to State	-	(15,451)
<b>Total Cash Flows Provided (Used) by Capital and Related Financing Activities</b>	<b>(174,847)</b>	<b>23,445</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	2,299,845	1,699,577
Interest on investments	33,103	16,313
Investment management fees paid	(3,106)	(2,614)
Purchase of investments	(2,328,952)	(1,874,987)
<b>Total Cash Flows Provided (Used) by Investing Activities</b>	<b>890</b>	<b>(161,711)</b>
<b>Net Decrease in Cash</b>	<b>(1,051)</b>	<b>333</b>
Cash, beginning of the year	13,950	13,617
<b>Cash, End of Year</b>	<b>\$ 12,899</b>	<b>13,950</b>

*continued*

*The accompanying notes are an integral part of this financial statement.*

**UNIVERSITY OF COLORADO**  
**STATEMENT OF CASH FLOWS**

Years Ended June 30, 2003 and 2002 *(in thousands)*

	2003	2002
		<i>(As restated, Note 13)</i>
<b>Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:</b>		
Operating loss	\$ (197,133)	(234,755)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	68,952	64,736
Provision for doubtful receivables	367	6,056
Receipts of items classified as nonoperating revenues	3,672	6,614
Changes in assets and liabilities:		
Receivables	(986)	(11,398)
Loans to student and employees	1,616	679
Inventories	363	(806)
Other assets	(960)	3,644
Accounts payable	1,034	8,784
Accrued expenses	47,670	508
Deferred revenue	979	16,667
Accrued compensated absences	2,658	14,263
Other liabilities	1,975	3,569
<b>Net Cash Used by Operating Activities</b>	<b>(69,793)</b>	<b>(121,439)</b>
<b>Noncash Transactions</b>		
Donation, lease-financed acquisitions, or state funded acquisitions of capital assets	\$ 49,396	39,223

*The accompanying notes are an integral part of this financial statement.*

# UNIVERSITY OF COLORADO

## NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

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

#### GOVERNANCE

The University of Colorado (the University) is governed by the University of Colorado Board of Regents (the Regents). The Regents are elected by popular vote in the State of Colorado's (the State) general elections and serve staggered terms of six years. Effective during the year ended June 30, 2003, qualified electors within each of the State's congressional districts elect seven Regents, and two Regents are elected on an at-large basis. During the year ended June 30, 2002, the Regents were from six congressional districts with two Regents elected on an at-large basis. The University comprises the system offices and the following four campuses:

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

#### BASIS OF PRESENTATION AND FINANCIAL REPORTING ENTITY

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

**University of Colorado Insurance Pool (UCIP)**, a public entity insurance pool operated for the benefit of the University and the University of Colorado Hospital Authority, insures property, liability, and workers' compensation risks. UCIP operates under the regulatory authority of the Colorado Division of Insurance, which requires an annual actuarial opinion and certification of reserve adequacy. Effective September 30, 1996, the University discontinued utilizing UCIP for its insurance and began utilizing a protected self-insurance program (Note 11). UCIP is responsible for claims covered under the terms of its policies. When all of UCIP's liabilities are discharged, UCIP will be legally dissolved. Detailed financial information may be obtained directly from UCIP at 4001 Discovery Drive, Suite 230, Boulder, Colorado 80303.

**The University Improvement Corporation (TUIC)** was established in 1976 as a separate corporation to manage real estate investments for the sole benefit of the University. TUIC is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. Detailed financial information may be obtained directly from TUIC at 1300 Walnut Street, Suite 20, Boulder, Colorado 80302.

**University License Equity Holding, Inc. (ULEHI)** was originally established in 1992 as a separate corporation named The University Technology Corporation to further the transfer of newly created technologies from the University to the private sector. Effective May 1, 2001, it was reorganized and began doing business as ULEHI. The reorganization resulted in a significant portion of its licensing and patenting activities and associated assets being transferred to the University's direct control and management. ULEHI facilitates certain licensing activities for the University. ULEHI is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. Detailed financial information may be obtained directly from ULEHI at 4001 Discovery Drive, Suite 390B, Boulder, Colorado 80303.

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

**University Physicians, Inc. (UPI)** was established on July 1, 1982 to perform the billing, collection, and disbursement services for the professional services rendered as authorized in Section 23-20-114, Colorado Revised Statutes. UPI is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code and was established to support patient health care and to assist the University in achieving its primary mission in education, research, and public service. UPI collects patient and other revenues generated from professional activities by over 950 member physicians of the faculty of the UCHSC School of Medicine. Medical care is provided to patients throughout the Rocky Mountain region through a statewide and regional network of services with over 160 sites of practice. Detailed financial information may be obtained directly from UPI at P.O. Box 22029, Denver, Colorado 80222 before February 29, 2004, and P.O. Box 876, Aurora, Colorado 80040 thereafter.

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

# UNIVERSITY OF COLORADO

## NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

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

The University has association with the following organizations for which it is not financially accountable. Accordingly, these organizations have not been included in the accompanying financial statements; information regarding the nature of the relationship has been included in subsequent notes.

- The University of Colorado Foundation, Inc.
- The University of Colorado Real Estate Foundation
- Coleman Colorado Foundation
- University of Colorado Hospital Authority

### TAX EXEMPT STATUS

The income generated by the University, as an instrumentality of the State, is excluded from federal income taxes under section 115(a) of the Internal Revenue Code. The University also has a determination letter from the Internal Revenue Service stating it is exempt under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Income generated from activities unrelated to the University's exempt purpose is subject to tax under Internal Revenue Code section 511.

### BASIS OF ACCOUNTING

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

The University applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, regardless of issue date, as well as the following pronouncements issued on or before November 30, 1989: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with, or contradict, GASB pronouncements.

### ACCOUNTING POLICIES

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

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

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

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

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

**Accounts Receivable** consists of four major sources. First, accounts receivable include tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Second, accounts receivable include amounts due from the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenses made pursuant to the University's grants and contracts. Third, accounts receivable include fees for medical services provided primarily by UPI, but also the University directly. These receivables are due from third party payers and individual patients. Fourth, accounts receivable include UPI contractual agreements for clinical, administrative, bio-technical, and medical legal consulting services performed by UCHSC faculty member providers. Accounts receivable are recorded net of estimated uncollectible amounts, approximating anticipated losses. Individual accounts are written off against the allowance when collection of the account appears doubtful. Bad debts substantially consist of writeoffs for uncollectible balances on self-pay patients. Health services revenue is shown net of bad debt expense amounting to \$7,036,000 and \$7,478,000 as of June 30, 2003 and 2002, respectively.

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

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

# UNIVERSITY OF COLORADO

## NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

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

The University has capitalized all collections, such as works of art and historical artifacts. The nature of certain collections is such that the value and usefulness of the collections does not decrease over time. These collections have not been depreciated in the University's financial statements.

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

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

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

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

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

student charges, the University records scholarship allowances. Any excess program revenues are recorded as student aid operating expense.

**Health Service Revenue for Contractual arrangements**—UPI provides care to patients covered under various third-parties such as Medicare and Medicaid, private insurance companies, and managed care programs, primarily from fixed rate agreements. Fixed rate agreements for Medicare and Medicaid are updated annually by the Federal and state government, respectively. UPI derived approximately 10.7 percent and 10.9 percent of its net health services revenue from services provided under the Medicare program for the years ended June 30, 2003 and 2002, respectively. UPI derived approximately 9.2 percent and 8.0 percent of its net health services revenue from services provided under the Medicaid program for the years ended June 30, 2003 and 2002, respectively. In addition to the standard Medicaid program, UPI provides substantial care to Medicaid patients under the Colorado Access program. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes UPI is in compliance, in all material respects, with all applicable laws and regulations.

Contractual arrangements with insurance companies and managed care plans are negotiated periodically for future years. Health services revenue is reported at the estimated net realizable amounts due from third-party payers and others for services rendered. Net patient service revenue includes care provided to patients who meet certain criteria under UPI's medically indigent care policy as reimbursed with funds provided by the State of Colorado processed by University of Colorado Hospital, and co-payments made by care recipients. In accordance with UPI's mission and philosophy, UPI members annually provide substantial levels of charity care to patients who meet certain defined criteria. Charity care relates to services rendered for which no payment is expected. Charity care provided in fiscal 2003 and 2002, for which no reimbursement was received, measured at established rates, totaled approximately \$13.7 million and \$12.9 million, respectively.

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

**Classification of Revenues** in the University's financial statements as either operating or nonoperating has been made according to the following criteria.

**TABLE A. Asset Useful Lives**

<i>Asset Class</i>	<i>Years</i>
Buildings	20 – 50*
Improvements	10 – 40
Equipment	3 – 20
Library and other collections	6 – 15

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

**UNIVERSITY OF COLORADO**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2003 and 2002

*Operating Revenues* are derived from activities associated with providing goods and services for instruction, research, public service, or related support to entities separate from the University and that are exchange transactions. Examples include student tuition and fees, sales and services of auxiliary enterprises, grants, contracts, and interest on student loans.

*Nonoperating Revenues* include all revenues that do not meet the definition of operating revenues, capital revenues, or endowment additions. They are primarily derived from activities that are non-exchange transactions (e.g., gifts), from activities defined as such by GASB Statement No. 9 (e.g., investment income), and from sources defined as such by GASB Statement Nos. 33 and 34 (e.g., state appropriations).

**Donor Restricted Endowment** disbursements of the net appreciation (realized and unrealized) of investments of endowment gifts are permitted by State law, except where a donor has specified otherwise. The amount of earnings and net appreciation available for spending by the University is based on a spending rate set by the Regents on an annual basis. For the year ended June 30, 2003, the authorized spending rate was equal to the greater of 4 percent of the prior month's market value or 4.5 percent of the average market value of endowment investments at the end of the previous three years. Earnings in excess of the amount authorized for spending are available in future years and are included in the value of the related investment. Earnings authorized to be spent are recognized in the accompanying financial statements as investment or gift revenue for University or CU Foundation-owned endowments (Notes 4 and 20), respectively.

**Net Assets** are classified in the University's financial statements as follows:

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

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

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

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

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

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

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

## NOTE 2 – LEGISLATIVE APPROPRIATIONS

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

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

All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Nonappropriated funds include

**TABLE AA. Appropriated Funds (in thousands)**

	2003	2002
Total appropriation	\$ 567,608	572,036
Actual appropriated revenues	537,620	572,109
Actual appropriated expenditures and transfers	535,861	554,699
Net increase in appropriated net assets	1,759	17,410



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certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the years ended June 30, 2003 and 2002, appropriated expenses were within the authorized spending authority. Table AA, Appropriated Funds, details the related activities for the years ended June 30, 2003 and 2002.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

As of June 30, 2003 and 2002, the University's cash and cash equivalents approximated \$12,899,000 and \$13,950,000, respectively. Associated bank balances are detailed in Table B, Cash and Cash Equivalents.

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

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

**TABLE B. Cash and Cash Equivalents (in thousands)**

	2003	2002
Cash on hand		
(petty cash and change funds)	\$ 279	251
Deposits with the State's treasurer	19	19
Deposits with U.S. and foreign financial institutions	12,601	13,680
<b>Total Cash and Cash Equivalents</b>	<b>\$ 12,899</b>	<b>13,950</b>

**TABLE C. Deposit Bank Balances (in thousands)**

Category of credit risk	2003	2002
Insured or collateralized with securities held by the University or its agent in the University's name	\$ 12,263	12,577
Collateralized with securities held by the pledging institution in the University's name	4,912	1,791
Uninsured or uncollateralized deposits with foreign financial institutions	82	575
<b>Total Deposit Bank Balances</b>	<b>\$ 17,257</b>	<b>14,943</b>

separately authorized as allowable depositories by the State. During the years ended June 30, 2003 and 2002, all deposits with foreign financial institutions were authorized.

Table C, Deposit Bank Balances, provides information concerning the credit risk for the University's bank balances for the deposits with U.S. and foreign financial institutions as of June 30, 2003 and 2002.

**NOTE 4 – INVESTMENTS**

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

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

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

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

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

**TABLE D. Investments (in thousands)**

Investment Type	2003	2002
Category of Risk No. 1		
U.S. government and agency securities	\$ 68,233	170,452
Corporate securities and commercial paper	100,068	91,027
Repurchase agreements	3,410	73,410
Certificates of Deposit	6,777	-
Subtotal Category of Risk No. 1	178,488	334,889
Uncategorized	489,194	330,619
<b>Total Investments</b>	<b>\$ 667,682</b>	<b>665,508</b>

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Mutual funds and certain other investments, including trusts, are not categorized as to custodial risk because ownership is not evidenced by a security.

A summary of the fair value of the University's investments as of June 30, 2003 and 2002 is shown in Table D, Investments.

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

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

For financial statement purposes, investment income is reported on a total return basis and is allocated among operational units based on average daily balances, using amortized costs. Average daily balances approximated \$482,129,000 and \$398,523,000 for the years ended June 30, 2003 and 2002, respectively. The total return on this pool was 5.39 and 1.42 percent for the years ended June 30, 2003 and 2002, respectively.

The University recognizes unrealized gains and losses as a component of investment income in order to calculate the net change in the fair value of its investment. The recognition of realized gains and losses as a component of investment income is an independent calculation, which may include prior years' unrealized gains or losses. As of and during the years ended June 30, 2003 and 2002, the University's investment balances and revenue include accumulated and current unrealized losses of approximately \$16,661,000 and \$22,630,000, respectively. During the years ended June 30, 2003 and 2002, the University's investment revenue included current unrealized gains of approximately \$5,598,000 and unrealized losses of approximately \$9,608,000, respectively.

### SECURITY LENDING

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

The custodian, acting as lending agent, lends the University's securities for collateral of 102 percent to broker-dealers and other entities (borrowers) with a simultaneous agreement to return the collateral for the same security in the future. Acceptable forms of collateral are cash, irrevocable standby letters of credit, and obligations issued or guaranteed by the U.S. government or its agencies. If the fair value of a loaned security increases, the borrower is required to deliver additional collateral to the custodian to protect the University. For both term and open loans collateralized by cash from the borrower, the collateral is invested in high-quality, U.S. dollar-denominated, short-term money market instruments that can have fixed, variable, or floating rates of interest. Collateral is invested in diversified instruments to provide adequate liquidity and to avoid concentration by issuer or industry except that no concentration limits are set for obligations of the U.S. government or its agencies. At June 30, 2003 and 2002, the University had no securities on loan.

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

### ENDOWMENTS

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

Table E, Endowments, details the University's investments related to endowments and similar gift instruments as of June 30, 2003 and 2002.

As of June 30, 2003 and 2002, net appreciation available for spending from the University's endowments approximated \$4,549,000 and \$4,365,000, respectively, which is reported as net assets restricted for expendable purposes.

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**TABLE E. Endowments (in thousands)**

<i>Type of Endowment</i>	2003			2002		
	<i>Managed by University</i>	<i>Managed by CU Foundation</i>	<i>Total</i>	<i>Managed by University</i>	<i>Managed by CU Foundation</i>	<i>Total</i>
True endowments	\$ 1,125	23,11	24,235	1,123	23,846	24,969
Quasi-endowments	777	27,291	28,068	610	27,860	28,470
Life income funds	—	109	109	—	109	109
<b>Total</b>	<b>\$ 1,902</b>	<b>50,510</b>	<b>52,412</b>	<b>1,733</b>	<b>51,815</b>	<b>53,548</b>

**TABLE F. Accounts and Loans Receivable (in thousands)**

<i>Type of Receivable</i>	2003				2002	
	<i>Gross Receivables</i>	<i>Allowances</i>	<i>Net Receivables</i>	<i>Net Current Portion</i>	<i>Net Receivables</i>	<i>Net Current Portion</i>
Student accounts	\$ 37,813	7,713	30,100	15,399	13,940	13,940
Federal government	35,622	—	35,622	35,621	19,493	19,493
Other governments	6,138	—	6,138	6,138	9,059	9,059
Patient accounts	28,106	5,296	22,810	23,126	24,103	24,103
Interest	1,981	—	1,981	1,981	3,321	3,321
Other	33,334	950	32,384	31,949	34,772	34,736
Total Accounts Receivable	142,994	13,959	129,035	110,477	104,688	104,652
Student loans	18,904	2,623	16,281	—	32,109	—
Other loans receivable	1,444	—	1,444	200	1,050	310
Total Loans Receivable	20,348	2,623	17,725	200	33,159	310
<b>Total Accounts and Loans Receivable</b>	<b>\$ 163,342</b>	<b>16,582</b>	<b>146,760</b>	<b>114,414</b>	<b>137,846</b>	<b>104,962</b>

**NOTE 5 – ACCOUNTS AND LOANS RECEIVABLE**

Table F, Accounts and Loans Receivable, segregates the University's receivables as of June 30, 2003 and 2002 by type.

**CONCENTRATION OF CREDIT RISK**

UPI grants credit without collateral to its patients. The mix of gross receivables from patients and third-party payers as of June 30, 2003 and 2002 is detailed in Table FF, Concentration of Credit Risk.

**TABLE FF. Concentration of Credit Risk**

	2003	2002
Managed care	48.6%	48.3
Medicare	11.9	12.8
Medicaid	12.8	8.5
Other third-party payers	16.3	17.9
Self-pay	10.4	12.5
	100.0	100.0

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**NOTE 6 – CAPITAL ASSETS**

Table G, Capital Assets, presents changes in capital assets and accumulated depreciation for the years ended June 30, 2003 and 2002.

The total interest expense related to capital assets incurred by the University during the years ended June 30, 2003 and 2002 approximated \$10,863,000 and \$12,447,000, respectively. Of

this amount approximately \$9,916,000 and \$3,629,000, respectively, was included as part of the value of construction in progress.

UPI purchased a three-acre parcel on the Fitzsimons site for approximately \$755,000. Building completion and move in are scheduled for the third quarter of fiscal 2004. The building is financed by tax-exempt bonds that were issued December 19, 2002.

**TABLE G. Capital Assets (in thousands)**

Category	Balance 2002	Additions	Retirements	Transfers	Balance 2003
Nondepreciable Capital Assets:					
Land	\$ 29,205	4,712	–	4	33,921
Construction in progress	249,200	171,594	8	(154,695)	266,091
Collections	6,187	1,059	–	–	7,246
<b>Total Nondepreciable Capital Assets</b>	<b>284,592</b>	<b>177,365</b>	<b>8</b>	<b>(154,691)</b>	<b>307,258</b>
Depreciable Capital Assets:					
Buildings	819,880	35,203	3,180	150,404	1,002,307
Improvements other than buildings	81,660	112	–	4,287	86,059
Equipment	259,368	36,989	19,424	–	276,933
Library and other collections	188,762	13,629	940	–	201,451
<b>Total Depreciable Capital Assets</b>	<b>1,349,670</b>	<b>85,933</b>	<b>23,544</b>	<b>154,691</b>	<b>1,566,750</b>
Less Accumulated Depreciation:					
Buildings	308,013	30,826	3,115	–	335,724
Improvements other than buildings	29,378	3,626	–	–	33,004
Equipment	175,338	25,974	14,435	–	186,877
Library and other collections	110,916	7,954	590	–	118,280
<b>Total Accumulated Depreciation</b>	<b>623,645</b>	<b>68,380</b>	<b>18,140</b>	<b>–</b>	<b>673,885</b>
<b>Net Depreciable Capital Assets</b>	<b>726,025</b>	<b>17,553</b>	<b>5,404</b>	<b>154,691</b>	<b>892,865</b>
<b>Total Net Capital Assets</b>	<b>\$ 1,010,617</b>	<b>194,918</b>	<b>5,412</b>	<b>–</b>	<b>1,200,123</b>

Category	Balance 2001	Additions	Retirements	Transfers	Balance 2002
Nondepreciable Capital Assets:					
Land	\$ 25,708	3,037	21	481	29,205
Construction in progress	136,070	152,905	–	(39,775)	249,200
Collections	4,454	1,733	–	–	6,187
<b>Total Nondepreciable Capital Assets</b>	<b>166,232</b>	<b>157,675</b>	<b>21</b>	<b>(39,294)</b>	<b>284,592</b>
Depreciable Capital Assets					
Buildings	795,073	2,981	4,701	26,527	819,880
Improvements other than buildings	76,968	1,418	6,538	9,812	81,660
Equipment	268,390	32,406	44,383	2,955	259,368
Library and other collections	176,609	13,687	1,534	–	188,762
<b>Total Depreciable Capital Assets</b>	<b>1,317,040</b>	<b>50,492</b>	<b>57,156</b>	<b>39,294</b>	<b>1,349,670</b>
Less Accumulated Depreciation:					
Buildings	282,038	26,563	588	–	308,013
Improvements other than buildings	28,021	3,413	2,056	–	29,378
Equipment	178,663	25,100	28,425	–	175,338
Library and other collections	102,043	9,595	722	–	110,916
<b>Total Accumulated Depreciation</b>	<b>590,765</b>	<b>64,671</b>	<b>31,791</b>	<b>–</b>	<b>623,645</b>
<b>Net Depreciable Capital Assets</b>	<b>726,275</b>	<b>(14,179)</b>	<b>25,365</b>	<b>39,294</b>	<b>726,025</b>
<b>Total Net Capital Assets</b>	<b>\$ 892,507</b>	<b>143,496</b>	<b>25,386</b>	<b>–</b>	<b>1,010,617</b>

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**NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Table H, Accounts Payable and Accrued Expenses, details the University's accounts payable and accrued expenses as of June 30, 2003 and 2002 by type.

**OPERATING LEASE EXPENSE**

The University leases various buildings and equipment under operating lease rental agreements. Operating leases do not give rise to property rights and, therefore, the related asset and liabilities are not recorded in the accompanying financial statements. Total rental expense under these agreements approximated \$7,527,000 and \$6,213,000 for the years ended June 30, 2003 and 2002, respectively. Future minimum payments for these operating leases are shown in Table I, Operating Leases.

**NOTE 8 – OTHER SHORT-TERM LIABILITIES**

During the year ended June 30, 2002, the tax exempt commercial paper (TECP) was issued to provide interim financing for the construction of capital facilities for the following enterprise projects: the University Center at CU-Colorado Springs; and housing renovation, University Memorial Center expansion and renovation, Student Recreation Center utility-related deferred maintenance, and telecommunications project at CU-Boulder.

Table J, Other Short-Term Liabilities, presents changes in short-term obligations for the year ended June 30, 2002. The interim financing was refunded in the year ended June 30, 2002, with bonds payable (Note 10). There was no interim financing activity during the year ended June 30, 2003.

**TABLE H. Accounts Payable and Accrued Expenses**  
*(in thousands)*

<i>Type</i>	<i>2003</i>	<i>2002</i>
Accounts payable vendors	\$ 51,420	46,427
Salaries and benefits payable	100,318	49,071
Accrued interest payable	1,540	1,744
Other accrued expenses	6,635	8,334
<b>Total Accounts Payables and Accrued Expenses</b>	<b>\$ 159,912</b>	<b>105,577</b>

**TABLE I. Operating Leases** *(in thousands)*

<i>Years Ending June 30</i>	<i>Minimum Lease Obligation</i>
2004	\$ 5,363
2005	3,720
2006	2,617
2007	1,764
2008	1,150
2009 – 2013	2,092
<b>Total Operating Lease Obligation</b>	<b>\$ 16,706</b>

**TABLE J. Other Short-Term Liabilities** *(in thousands)*

	<i>Balance</i>		<i>Repayments</i>	<i>Balance</i>
	<i>2001</i>	<i>Additions</i>		<i>2002</i>
TECP	\$ 18,589	13,000	31,589	–

**TABLE K. Deferred Revenue** *(in thousands)*

<i>Type</i>	<i>2003</i>		<i>2002</i>	
	<i>Total</i>	<i>Current Portion</i>	<i>Total</i>	<i>Current Portion</i>
Tuition and fees	\$ 11,975	11,975	10,905	10,905
Auxiliary enterprises	19,652	12,277	19,454	11,793
Grants and contracts	31,333	31,333	32,022	32,022
Miscellaneous	4,276	4,276	3,876	3,876
<b>Total Deferred Revenue</b>	<b>\$ 67,236</b>	<b>59,861</b>	<b>66,257</b>	<b>58,596</b>

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**NOTE 9 – DEFERRED REVENUE**

As of June 30, 2003 and 2002, the University had the types and amounts of deferred revenue shown in Table K, Deferred Revenue.

**NOTE 10 – BONDS, NOTES, AND LEASES PAYABLE**

As of June 30, 2003 and 2002, the University has long-term obligations approximating \$387,418,000 and \$354,683,000, respectively, in the categories detailed in Table L, Bonds, Notes, and Leases Payable.

Table M, Changes in Long-Term Obligations, presents changes in bonds, notes, and leases payable for the years ended June 30, 2003 and 2002.

**REVENUE BONDS**

The revenue bonds consist of multiple issues to finance construction, repair, and enhancement of various auxiliary and research facilities of the University. The revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the

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

<i>Type</i>	<i>Interest Rates</i>	<i>Final Maturity</i>	<i>Balance 2003</i>	<i>Balance 2002</i>
Revenue Bonds:				
Research Building Revolving Fund	4.45 - 6.00%	6/1/12	\$ 4,050	5,270
UPI Variable Demand Bonds	3.50%*	1/1/25	20,500	–
Enterprise System (including premium of \$2,867 in 2003 and \$3,230 in 2002)	3.50 - 5.75%	6/1/28	277,077	285,385
<b>Total Revenue Bonds</b>			<b>301,627</b>	<b>290,655</b>
Certificates of Participation:				
Cogeneration Plant	4.63 - 6.00%	12/1/05	15,195	18,780
Master Lease Purchase	3.90 - 5.25% *	7/1/18	10,045	13,395
<b>Total Certificates of Participation</b>			<b>25,240</b>	<b>32,175</b>
Other Capital Lease Obligations:				
Central Utility Plant	6.00%	12/31/22	27,805	–
Other Lease Obligations	2.87 - 13.95%	Various	32,399	31,453
<b>Other Capital Lease Obligations</b>			<b>60,204</b>	<b>31,453</b>
Notes Payable	5.00 - 6.00%	Various	347	400
<b>Total Long-term Debt</b>			<b>\$ 387,418</b>	<b>354,683</b>

\* Interest on the UPI Variable Rate Demand Bonds and the Master Lease Purchase Certificates of Participation is set at an adjustable rate as discussed below under Revenue Bonds and Certificates of Participation, respectively; the rates reflected in this table are as of June 30, 2003.

**TABLE M. Changes in Long-Term Obligations (in thousands)**

<i>Type</i>	<i>Balance 2002</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balance 2003</i>	<i>Current Portion</i>
Revenue Bonds Payable	\$ 287,425	20,500	9,165	298,760	11,535
Plus Unamortized Premiums	3,230	–	363	2,867	369
<b>Net Revenue Bonds Payable</b>	<b>290,655</b>	<b>20,500</b>	<b>9,528</b>	<b>301,627</b>	<b>11,904</b>
Certificates of Participation	32,175	–	6,935	25,240	4,745
Capital Leases Payable	31,453	30,809	2,058	60,204	2,217
Notes Payable	400	–	53	347	55
<b>Total Long-term Debt</b>	<b>\$ 354,683</b>	<b>51,309</b>	<b>18,574</b>	<b>387,418</b>	<b>18,921</b>

<i>Type</i>	<i>Balance 2001</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balance 2002</i>	<i>Current Portion</i>
Revenue Bonds Payable	\$ 94,945	198,920	6,440	287,425	9,165
Plus Unamortized Premiums	1,306	2,285	361	3,230	–
<b>Net Revenue Bonds Payable</b>	<b>96,251</b>	<b>201,205</b>	<b>6,801</b>	<b>290,655</b>	<b>9,165</b>
Certificates of Participation	36,510	–	4,335	32,175	4,575
Capital Leases Payable	31,635	899	1,081	31,453	968
Notes Payable	427	21	48	400	53
<b>Total Bonds, Notes and Leases Payable</b>	<b>\$ 164,823</b>	<b>202,125</b>	<b>12,265</b>	<b>354,683</b>	<b>14,761</b>

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University to redeem at various dates, portions of the outstanding revenue bonds at prices varying from 100 to 101 percent of the principal amount of the revenue bonds redeemed.

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2003 and 2002 is detailed in Table N, Revenue Bonds Detail.

The RBRF revenue bonds (Note 19) are secured by a pledge of net revenues of the Research Building Support Services Enterprise, including: all rents and charges generated from buildings and facilities, net of applicable operating expenses; allocated investment earnings on balances in the RBRF;

and to the extent necessary, indirect cost recoveries received by the University on grants and contracts performed by the University. As of June 30, 2003 and 2002, net pledged revenues for RBRF approximate \$98,967,000 and \$89,617,000, respectively.

The Enterprise System Bonds are secured by a pledge of all net revenues of certain auxiliary enterprise facilities and further secured by a subordinate pledge of RBRF net revenues as defined above. As of June 30, 2003 and 2002, total net pledged revenues, including the subordinate pledge, approximate \$117,127,000 and \$120,707,000, respectively.

**TABLE N. Revenue Bonds Detail (in thousands)**

<i>Issuance Description</i>	<i>Original Issuance Amount</i>	<i>Outstanding Balance 2003</i>	<i>Outstanding Balance 2002</i>
Research Building Revolving Fund (RBRF)			
Revenue Bonds:			
Refunding Series 1995 – Used to refund a portion of the Series 1986 and all of Series 1990 (Note 19)	\$ 11,055	4,050	5,270
Enterprise System Revenue Bonds:			
Refunding Series 1995A – Used to refund all of the Refunding Series 1986, 1989, 1990 and 1992B	32,940	24,415	25,700
Refunding and Improvement Series 1997 – Used to refund all of the Series 1986 and fund capital improvements at CU-Boulder and CU-Colorado Springs	12,760	2,775	3,605
Refunding Series 1999A – Used to refund all of the Adjustable Tender Series 1996A	22,495	21,745	22,010
Refunding Series 2001A – Used to refund all of the Student Recreation Center and Refunding Series 1989, Auxiliary Facilities System Refunding Series 1992A, RBRF Series 1989 (Note 19), and RBRF Series 1992 (Note 19) and a portion of the Enterprise System Tax Exempt Commercial Paper	34,840	29,435	32,933
Refunding and Improvement Series 2001B – Used to refund all of the Tax Exempt Commercial Paper (Note 8) and fund capital improvements at CU-Boulder (includes premium)	51,320	52,249	52,339
Series 2002A – Used to fund capital improvements at UCHSC (includes premium)	101,875	100,577	102,886
Series 2002B – Used to fund capital improvements at CU-Boulder (includes premium)	40,055	40,110	40,114
Series 2002C – Used to fund capital improvements at CU-Boulder (includes premium)	5,670	5,771	5,798
Total Enterprise System Revenue Bonds	301,955	277,077	285,385
UPI Variable Rate Demand Bonds – Used to finance construction of UPI's administrative office building	20,500	20,500	–
Total Revenue Bonds	333,510	301,627	290,655
Less premium		2,867	3,230
<b>Total Outstanding Revenue Bond Principal</b>		<b>\$ 298,760</b>	<b>287,425</b>

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

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

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

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

### CERTIFICATES OF PARTICIPATION

Certificates of participation have been issued to finance lease purchase agreements for a cogeneration plant (1996 Series), and the acquisition and refinancing of equipment (1998A Series). The certificates are secured by the buildings or equipment acquired with the lease proceeds and any unexpended lease proceeds. Annual lease payments are subject to annual appropriations by the Regents. The underlying capitalized

assets have a gross cost of approximately \$51,758,000, as of June 30, 2003 and 2002. The certificates contain optional redemption provisions allowing the University to redeem, at various dates, portions of the outstanding certificates at prices varying from 100 to 102 percent of the principal amount of the certificates redeemed.

At any time, the certificates for the 1998 Series bear interest at adjustable rates equal to comparable rates for tax-exempt obligations (market-rate). The interest is payable monthly and may be reset at the following four defined periods as elected by the University: daily, weekly, short-term (more than weekly and less than semi-annually) or long term (more than semi-annually and less than the maturity period). The interest rate period during the year ended June 30, 2003 was weekly. The interest rate period during the year ended June 30, 2002 was annually. Principal is payable annually or semiannually subject to annual appropriation by the Regents.

Future minimum payments for certificates of participation are detailed in Table P, Certificates of Participation.

### OTHER CAPITAL LEASES

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

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

**TABLE O. Revenue Bonds Future Minimum Payments**  
(in thousands)

Years Ending June 30	Principal	Interest	Total
2004	\$ 11,535	13,989	25,524
2005	12,295	13,451	25,746
2006	12,515	12,870	25,385
2007	13,260	12,281	25,541
2008	13,845	11,675	25,520
2009 – 2013	57,825	49,419	107,244
2014 – 2018	55,160	36,293	91,453
2019 – 2023	67,650	22,486	90,136
2024 – 2028	54,675	6,746	61,332
<b>Total</b>	<b>\$ 298,760</b>	<b>179,210</b>	<b>477,881</b>

**TABLE P. Certificates of Participation** (in thousands)

Years Ending June 30	Principal	Interest	Total
2004	\$ 4,745	1,361	6,106
2005	4,905	1,122	6,027
2006	8,465	749	9,214
2007	1,000	476	1,476
2008	1,050	426	1,476
2009 – 2013	3,750	1,402	5,152
2014 – 2018	1,325	402	1,727
<b>Total</b>	<b>\$ 25,240</b>	<b>5,938</b>	<b>31,178</b>



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As of June 30, 2003 and 2002, the University had an outstanding liability for all other capital leases approximating \$32,399,000 and \$31,453,000, respectively, with underlying gross capitalized asset cost approximating \$35,477,000 and \$34,854,000, respectively.

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

**NOTES PAYABLE**

As of June 30, 2003 and 2002, the University had two notes payable issued for general purposes and with amounts outstanding in Table R, Notes Payable. Future minimum payments of the notes payable are detailed in Table S, Notes Payable Future Minimum Payments.

**EXTINGUISHMENT OF DEBT**

Previous revenue bond issues and certificates of participation, considered to be extinguished through in-substance defeasance

**TABLE Q. Capital Leases (in thousands)**

<i>Years Ending June 30</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 2,217	3,451	5,668
2005	2,283	3,326	5,609
2006	2,347	3,197	5,544
2007	2,030	3,069	5,099
2008	1,932	2,964	4,896
2009 – 2013	10,700	13,116	23,816
2014 – 2018	14,340	9,463	23,803
2019 – 2023	16,415	4,562	20,977
2024 – 2028	6,460	1,178	7,638
2029 – 2033	1,480	35	1,515
<b>Total</b>	<b>\$ 60,204</b>	<b>44,361</b>	<b>104,565</b>

**TABLE R. Notes Payable (in thousands)**

	<i>2003</i>	<i>2002</i>
Issued for the acquisition of land for the site of student housing known as Williams Village at CU-Boulder; payable from student housing revenue.	\$ 254	289
Issued for the acquisition of a property known as the Bennett Property contiguous to the CU-Colorado Springs campus; payable by general campus resources.	83	94
Issued for the acquisition of the UPI automobile	10	17
<b>Total Notes</b>	<b>\$ 347</b>	<b>400</b>

**TABLE T. Accrued Compensated Absences (in thousands)**

	<i>Balance 2001</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance 2002</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance 2003</i>
\$	57,154	41,265	26,902	71,517	57,004	54,201	74,320

under generally accepted accounting principles, are not included in the accompanying financial statements. The amount of debt in this category, covered by assets placed in trust to be used solely for future payments, amounted to approximately \$14,735,000 and \$15,945,000 as of June 30, 2003 and 2002, respectively.

**NOTE 11 – OTHER LIABILITIES**

**ACCRUED COMPENSATED ABSENCES**

Table T, Accrued Compensated Absences, presents changes in accrued compensated absences (total current and noncurrent) for the years ended June 30, 2003 and 2002.

**RISK FINANCING RELATED LIABILITIES**

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

The University utilizes a protected self-insurance program for its property, liability, and workers' compensation risks. The University has established a separate self-insurance trust for the purpose of providing professional liability coverage for UCHSC and the University of Colorado Hospital Authority (Note 24). A separate self-insurance program has also been established to provide health insurance for graduate medical students and eligible dependents at UCHSC.

**TABLE S. Notes Payable Future Minimum Payments (in thousands)**

<i>Years Ending June 30</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2004	\$ 55	17	72
2005	54	15	69
2006	53	12	65
2007	56	10	66
2008	59	7	66
2009 – 2010	70	4	74
<b>Total</b>	<b>\$ 347</b>	<b>65</b>	<b>412</b>

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**TABLE U. Risk Financing Related Liabilities (in thousands)**

	<i>Property, general liability and workers' compensation</i>	<i>UCHSC professional liability</i>	<i>Graduate medical students' health benefits</i>	<i>Total</i>
Balance 2000	\$ 13,344	7,671	541	21,556
Fiscal Year 2001:				
Claims and changes in estimates	1,194	1,461	2,598	5,253
Claim payments	3,152	1,256	2,588	6,996
Balance 2001	11,386	7,876	551	19,813
Fiscal Year 2002:				
Claims and changes in estimates	2,780	333	3,665	6,778
Claim payments	3,279	502	3,547	7,328
Balance 2002	10,887	7,707	669	19,263
Fiscal Year 2003:				
Claims and changes in estimates	4,769	2,147	4,485	11,401
Claim payments	3,622	1,095	4,366	9,083

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

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

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

Changes in the balances of risk-financing related liabilities for the years ended June 30, 2003 and 2002, are presented in Table U, Risk Financing Related Liabilities.

**DIRECT LENDING**

CU-Boulder and UCHSC participate in the federal government's Direct Loan Program. This program provides loans from the federal government to qualifying students and their families for educational purposes. While the University helps students obtain these loans, the University is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers, as the U.S. Department of Education performs these functions. The amount of direct loans during the years ended June 30, 2003 and 2002 are detailed in Table V, Direct Lending.

**NOTE 12 – UNRESTRICTED NET ASSETS**

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

As of June 30, 2003 and 2002, certain portions of the University's unrestricted net assets have been designated or reserved by management for the following purposes and amounts detailed in Table W, Designations of Unrestricted Net Assets.

**TABLE V. Direct Lending (in thousands)**

	<i>2003</i>	<i>2002</i>
CU-Boulder	\$ 87,411	75,137
UCHSC	27,283	23,583
<b>Total</b>	<b>\$ 114,694</b>	<b>98,720</b>

**UNIVERSITY OF COLORADO**  
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**NOTE 13 – NET ASSET ADJUSTMENTS AND RESTATEMENTS**

**CHANGES IN ACCOUNTING PRINCIPLES**

In June 1999, GASB approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This was followed by the approval of Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. In addition, GASB approved Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus – An Amendment of GASB Statements No. 21 and No. 34*, and No. 38, *Certain Financial Statement Note Disclosures*. As of July 1, 2001, the University adopted these GASB statements as required. The University has elected to follow the financial statement presentation guidelines for special-purpose governments engaged only in business-type activities as outlined in GASB Statement No. 34. Those guidelines require the financial statements to be prepared using an entity-wide perspective. Therefore, the financial statements report the University's assets, liabilities, and net assets; revenues, expenses and changes in net assets; and cash flows for the University as a whole, rather than by fund, as previously required.

The University was required to make the following significant changes in accounting principles to conform to GASB Statement Nos. 34, 35, 37, and 38:

- Financial aid awarded to students by the University that is used to pay University charges is recognized as a scholarship allowance rather than as financial aid expense, as previously required.

- The University is required to recognize summer school revenue and expense as earned or incurred rather than deferring summer school revenue and expense and reporting the entire term in one fiscal year, as previously required.
- The University was required to adjust the timing of recognizing certain contractual revenues to ensure only revenues that were fully earned during the fiscal year are recognized or shown as revenue.
- The University is required to record depreciation expense for capital assets. Previously, depreciation expense was not recognized. In addition, accumulated depreciation was recognized for the retroactive adoption of this principle.
- Under the fund perspective, the University recognized an expenditure or fund deduction for the acquisition of capital assets and payment of debt principal. Under the entity-wide perspective, these items are not considered an expense against operations.

Net assets as of July 1, 2001, have been adjusted or reduced to reflect changes in accounting due to the implementation of GASB Statement Nos. 34, 35, 37, and 38 in amounts detailed in Table X, *Effects of Changes in Accounting*.

**INCLUSION OF COMPONENT UNIT**

The chairs of the UCHSC School of Medicine departments are members of UPI's board of directors and the dean of the UCHSC School of Medicine is the president of UPI. Effective July 1, 2001, the University restated its financial statements to include UPI as a blended component unit of the University. The inclusion of UPI had a pervasive impact on the 2002 financial statements. Condensed financial information for UPI now included in the financial statements as of and for the year ended June 30, 2002 is presented in Note 19. The effect of the restatement on the beginning net assets for fiscal year 2002 is included in Table X.

**TABLE W. Designations of Unrestricted Net Assets**  
*(in thousands)*

<i>Designation Description</i>	<i>2003</i>	<i>2002</i>
Academic support	\$ 51	2,103
Auxiliary enterprises	10,096	34,089
Capital related activities	167,320	157,239
Compensated absences	(74,320)	(71,517)
Debt service reserves	7,550	8,029
Health services	880	–
Institutional support	165	–
Instruction	55,592	18,506
Internal service units	5,632	–
Operation of plant	5,869	–
Research	1,893	11,151
Risk financing related activities (Note 11)	16,811	24,451
Scholarships and fellowships	195	642
Student services	483	4,732
University Physicians, Inc.	55,129	56,847
<b>Total Designated Unrestricted Net Assets</b>	<b>\$ 253,346</b>	<b>246,272</b>

**TABLE X. Net Asset Adjustments and Restatements**  
*(in thousands)*

<i>Description</i>	<i>Total</i>
Fund Balance as of June 30, 2001, as Originally Stated	\$ 1,658,158
Effect of Changes in Accounting:	
Accrual of summer school activity	7,226
Deferral of contract revenue	(35,202)
Accumulated depreciation	(576,652)
Net Assets as of July 1, 2001, as Previously Reported	1,053,530
Correction of an Error – Inclusion of UPI as a Blended Component Unit	71,789
<b>Net Assets as of July 1, 2001</b>	
<b>As Adjusted</b>	<b>\$ 1,129,532</b>

**UNIVERSITY OF COLORADO**  
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**TABLE Y. Scholarship Allowances (in thousands)**

<i>Funding Source Description</i>	<i>Tuition and Fees</i>	<i>Auxiliary Enterprise Revenues</i>	<i>Total 2003</i>	<i>Total 2002</i>
University general resources	\$ 8,441	466	8,907	8,518
University auxiliary resources	2,851	241	3,092	2,510
Colorado Commission on Higher Education financial aid program	9,726	328	10,054	6,782
Federal programs, including Pell grants	19,480	827	20,307	17,682
Other State of Colorado programs	666	2	668	2,322
Private programs	5,029	262	5,291	4,946
<b>Total Scholarship Allowances</b>	<b>\$ 46,193</b>	<b>2,126</b>	<b>48,319</b>	<b>42,760</b>

**NOTE 14 – SCHOLARSHIP ALLOWANCES**

During the years ended June 30, 2003 and 2002, scholarship allowances were provided by the following funding sources in amounts detailed in Table Y, Scholarship Allowances.

**NOTE 15 – ON-BEHALF PAYMENTS**

On-behalf payments occur when a third party, instead of the University, pays the salary and benefits (or portion thereof) for a University employee. On-behalf payments for University faculty salaries and benefits during the year ended June 30, 2003 and 2002 was approximately \$4,963,000 and \$4,102,000 respectively.

**NOTE 16 – RETIREMENT PLANS AND INSURANCE PROGRAMS**

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

The University's total payroll for the years ended June 30, 2003 and 2002 approximated \$852,381,000 and \$790,007,000, respectively. The total payroll of employees covered by the PERA plan is detailed in Table Z, Covered Payroll. The remaining employees were not eligible for participation in any of the University's retirement plans.

**PERA DEFINED BENEFIT PENSION PLAN**

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

Plan members vest after five years of service and are eligible for retirement benefits at age fifty with thirty years of service, age sixty with twenty years of service, or at age sixty-five with five years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least fifty-five and have a minimum of five years of service credit, and their age plus years of service equals eighty or more. Monthly benefits are calculated as a percentage of highest average salary (HAS).

HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of twelve consecutive months of service credit.

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

**TABLE Z. Covered Payroll (in thousands)**

	<i>2003</i>	<i>2002</i>
PERA	\$ 221,103	214,192
Optional Retirement Plan	430,013	372,140
Student Retirement Plan	11,317	11,836

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Employees contribute 8 percent of their gross covered wages to an individual account in the plan. During the years ended June 30, 2003 and 2002, the University contributed a total of 10 and 9.9 percent, respectively, of the employee's gross covered wages to PERA in accordance with the following allocations and amounts detailed in Table BB, University Contributions to PERA. These contributions met the contribution requirement for the year.

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.

**VOLUNTARY TAX-DEFERRED RETIREMENT PLANS**

On January 1, 2001, the Matchmaker Program established a State match for PERA members' voluntary contributions to tax-deferred retirement plans. For calendar year 2003, the match was 100 percent of up to 2 percent of the employee's gross covered wages paid during the month. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month. The PERA Board sets the level of the match annually, based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus 50 percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. While the plan was not overfunded, the maximum one year change in the match rate is statutorily limited to 1 percent, and therefore, the match changed from 3 percent to 2 percent. PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer a 403b plan. Members who contribute to any of these plans also receive the State match.

**UNIVERSITY OPTIONAL RETIREMENT PLAN**

Under the University's optional retirement plan, certain members of the University participate in a defined contribution retirement plan administered by the University for the benefit

of full-time faculty and unclassified staff members. The Constitution of the State assigns the authority to establish and amend plan provisions to the Regents. The contribution requirements of plan members and the University are established and may be amended by the Regents. For the years ended June 30, 2003 and 2002, the University's contribution to the defined contribution retirement plan was equal to 10 percent of covered payroll and the employee contribution was equal to 5 percent of covered payroll. The University's contribution under the optional retirement plan during the years ended June 30, 2003 and 2002 approximated \$43,001,000 and \$37,214,000, respectively. The employee's contribution under the optional retirement plan approximated \$21,234,000 and \$18,504,000, during the years ended June 30, 2003 and 2002, respectively.

Participants in the University's optional retirement plan choose to invest all contributions with one or more of three designated vendors. In addition, participants in the University's optional retirement plan are covered under federal Social Security (FICA). Federal Social Security regulations required both the employer and employee to contribute 6.2 percent of covered payroll to the plan during the years ended June 30, 2003 and 2002.

**UPI RETIREMENT PLAN**

UPI sponsors a defined contribution retirement plan for its permanent employees under the Teachers Insurance Annuities Association's College Retirement Equities Fund. Employees are eligible for participation in the plan after completing one year of service. UPI contributed an amount equal to 7 percent of eligible employees' salaries for the years ended June 30, 2003 and 2002. UPI's contributions for covered payroll to the retirement plan for the years ended June 30, 2003 and 2002, approximated \$1,209,000 and \$1,040,000, respectively.

**HEALTH INSURANCE PROGRAMS**

The University's contributions to the various health insurance programs approximated \$23,510,000 and \$27,165,000 during the years ended June 30, 2003 and 2002, respectively.

**TABLE BB. University Contributions to PERA (in thousands)**

<i>Program</i>	<i>Basis</i>	<i>2003</i>	<i>2002</i>
Health Care Trust Fund	1.1 percent after January 1, 2003; 1.64 between January 1, 2003 and January 1, 2002; and 1.42 percent before January 1, 2002	\$ 3,037	3,278
Matchmaker Program (see Voluntary Tax Deferred Retirement Plans below)	The amount needed to meet the match requirement established by the PERA Board	3,184	3,572
Defined Benefit Plan	The balance remaining	15,978	14,355
<b>Total University Contribution</b>		<b>\$ 22,199</b>	<b>21,205</b>

# UNIVERSITY OF COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 17 – POST-EMPLOYMENT BENEFITS

#### UNIVERSITY POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE PLAN

In addition to providing pension benefits described in Note 16, the University provides certain post-retirement health care and life insurance benefits for retired employees in accordance with the Regents' authority. Substantially all of the University's employees may become eligible for those benefits if they reach normal retirement age while working for the University. During the years ended June 30, 2003 and 2002, approximately 3,750 and 3,600 retirees, respectively, met the eligibility requirements and are receiving benefits. Under this program the University subsidizes a portion of health care and life insurance premiums by charging them as a current expense. These costs approximated \$2,321,000 and \$2,893,000 during the years ended June 30, 2003 and 2002, respectively.

#### PERA POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

##### Health Care Program

The PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the PERACare and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the years ended June 30, 2003 and 2002, the premium subsidy was \$115 for those with twenty years of service credit (\$230 for members under age sixty-five), and it was reduced by 5 percent for each year of service fewer than twenty. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution (see PERA Defined Benefit Pension Plan, Note 16).

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, 2002, there were approximately 35,000 enrollees in the plan.

##### Life Insurance Program

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

### NOTE 18 – COMMON FACILITIES

The Auraria Higher Education Center (AHEC), established by legislation in 1974, is jointly utilized by CU-Denver, the Community College of Denver, and Metropolitan State College of Denver. The institutions operate independently as educational institutions responsible to their own governing boards but share the costs of operating common plant and library facilities. Costs of common plant and library facilities are shared in accordance with an operating agreement between AHEC and the respective institutions. During the years ending June 30, 2003 and 2002, the University incurred expenses related to instructional facilities of \$5,520,000 and \$5,508,000, respectively, for payments to AHEC.

### NOTE 19 – SEGMENT INFORMATION

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

The RBRF has identifiable activities for which revenue bonds approximating \$21,723,000 and \$25,163,000 are outstanding as of June 30, 2003 and 2002, respectively. The activities supported by this segment include research operations and related support.

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

Summary financial information as of and for the years ended June 30, 2003 and 2002, respectively, is presented in Table CC, Segment Financial Information.

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**TABLE CC. Segment Financial Information (in thousands)**

As of and for the year ended June 30, 2003			
<b>Condensed Statement of Net Assets</b>			
		<i>RBRF</i>	<i>UPI</i>
<b>Assets</b>			
Due from other operational units	\$	261	–
Other current assets		–	50,196
<b>Total current assets</b>		<b>261</b>	<b>50,196</b>
Capital assets, net		60,839	7,800
Other noncurrent assets		26,030	48,876
<b>Total noncurrent assets</b>		<b>86,869</b>	<b>56,676</b>
<b>Total Assets</b>	<b>\$</b>	<b>87,130</b>	<b>106,872</b>
<b>Liabilities</b>			
Due to other funds	\$	8,496	598
Bonds, notes, and leases payable, current		3,510	130
Other current liabilities		162	9,374
<b>Total current liabilities</b>		<b>12,168</b>	<b>10,102</b>
Other noncurrent liabilities		94	276
Revenue bonds payable		18,213	20,500
<b>Total noncurrent liabilities</b>		<b>18,307</b>	<b>20,776</b>
<b>Total Liabilities</b>	<b>\$</b>	<b>30,475</b>	<b>30,878</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt		38,010	1,480
Unrestricted		18,645	74,514
<b>Total Net Assets</b>	<b>\$</b>	<b>56,655</b>	<b>75,994</b>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>			
Operating revenues	\$	11,673	169,981
Depreciation expense		(3,637)	(939)
Other operating expenses		(4,628)	(168,670)
<b>Net Operating Income</b>		<b>3,408</b>	<b>372</b>
<b>Nonoperating Expenses</b>			
Investment income (expenses)		354	3,086
Interest expense on capital asset related debt		(1,103)	–
Other nonoperating revenues (expenses)		87	(413)
<b>Total Nonoperating Expenses</b>		<b>(662)</b>	<b>2,673</b>
<b>Income Before Other Revenues and Transfers</b>		<b>2,746</b>	<b>3,045</b>
Capital gifts		248	–
Transfers in from other University funds		1,813	–
<b>Increase in Net Assets</b>		<b>4,807</b>	<b>3,045</b>
Net Assets, beginning of year		51,848	72,948
<b>Net Assets, end of year</b>		<b>56,655</b>	<b>75,993</b>
<b>Condensed Statement of Cash Flows</b>			
<b>Net Cash Flows Provided by</b>			
Operating activities		7,137	(2,418)
Non-capital financing activities		1,813	(857)
Capital and related financing activities		(6,427)	13,549
Investing activities		(2,523)	(10,484)
<b>Net Increase in Cash</b>		<b>–</b>	<b>(210)</b>
Cash and Cash Equivalents, beginning of year		–	12,258
<b>Cash and Cash Equivalents, end of year</b>	<b>\$</b>	<b>–</b>	<b>12,048</b>

*(continued)*

**UNIVERSITY OF COLORADO**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2003 and 2002

**TABLE CC. Segment Financial Information** *(in thousands)*

*(continued)*

As of and for the year ended June 30, 2002			
<b>Condensed Statement of Net Assets</b>			
		<i>RBRF</i>	<i>UPI</i>
<b>Assets</b>			
Due from other operational units	\$	261	–
Other current assets		–	49,701
<b>Total current assets</b>		<b>261</b>	<b>49,701</b>
Capital assets, net		53,857	2,064
Other noncurrent assets		23,153	32,944
<b>Total noncurrent assets</b>		<b>77,071</b>	<b>35,008</b>
<b>Total Assets</b>	<b>\$</b>	<b>77,271</b>	<b>84,709</b>
<b>Liabilities</b>			
Due to other funds	\$	–	730
Bonds, notes, and leases payable, current		3,300	45
Other current liabilities		165	10,924
<b>Total current liabilities</b>		<b>3,465</b>	<b>11,699</b>
Other noncurrent liabilities		95	62
Revenue bonds payable		21,863	–
<b>Total noncurrent liabilities</b>		<b>21,958</b>	<b>62</b>
<b>Total Liabilities</b>	<b>\$</b>	<b>25,423</b>	<b>11,761</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$	28,695	1,957
Unrestricted		23,153	70,991
<b>Total Net Assets</b>	<b>\$</b>	<b>51,848</b>	<b>72,948</b>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>			
Operating revenues	\$	11,391	148,308
Depreciation expense		(3,596)	(906)
Other operating expenses		(5,095)	(145,950)
<b>Net Operating Income</b>		<b>2,700</b>	<b>1,452</b>
<b>Nonoperating Expenses</b>			
Investment income (expenses)		(1,017)	3,022
Interest expense on capital asset related debt		(1,255)	–
Other nonoperating revenues (expenses)		24	(3,315)
<b>Total Nonoperating Expenses</b>		<b>(2,248)</b>	<b>(293)</b>
<b>Income Before Other Revenues and Transfers</b>		<b>452</b>	<b>1,159</b>
Capital gifts		78	–
Transfers in from other University funds		8,152	–
Transfers of fixed assets to other University funds		(11,167)	–
<b>Increase (Decrease) in Net Assets</b>		<b>(2,485)</b>	<b>1,159</b>
Net Assets, beginning of year		54,333	71,789
<b>Net Assets, end of year</b>		<b>51,848</b>	<b>72,948</b>
<b>Condensed Statement of Cash Flows</b>			
<b>Net Cash Flows Provided by</b>			
Operating activities		(1,856)	1,436
Non-capital financing activities		8,152	(3,276)
Capital and related financing activities		(5,041)	(946)
Investing activities		(1,255)	4,666
<b>Net Increase in Cash</b>		<b>–</b>	<b>1,880</b>
Cash and Cash Equivalents, beginning of year		–	10,378
<b>Cash and Cash Equivalents, end of year</b>	<b>\$</b>	<b>–</b>	<b>12,258</b>



**UNIVERSITY OF COLORADO**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2003 and 2002

**NOTE 20 – THE UNIVERSITY OF COLORADO FOUNDATION, INC.**

The University of Colorado Foundation, Inc. (CU Foundation), an unconsolidated affiliated corporation, was established in 1967 as a separate corporation to solicit, collect, and invest donations for the University and University of Colorado Hospital Authority (Note 24). The CU Foundation is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. A member of the Regents and the president of the University serve as ex-officio members of the CU Foundation's board of directors. The CU Foundation is not considered a component unit of the University because the University is not financially accountable for the CU Foundation. Detailed financial information may be obtained directly from the CU Foundation.

Under an operating agreement between the CU Foundation and the University, the CU Foundation provides development services to the University in exchange for operating support.

Distributions made by the CU Foundation to the University during the years ended June 30, 2003 and 2002 were \$59,757,000 and \$55,087,000, respectively. This amount has been recorded as gift revenue in the accompanying financial statements, and does not include undistributed income on University endowments.

In furtherance of UPI's mission, UPI contributed approximately \$7,000 and \$3,250,000 to the CU Foundation during the years ended June 30, 2003 and 2002, respectively.

Summarized audited financial statements of the CU Foundation for the years ended June 30, 2003 and 2002 are presented in Table DD, CU Foundation Financial Information.

**TABLE DD. CU Foundation Financial Information**  
*(in thousands)*

<i>Description</i>	<i>2003</i>	<i>2002</i>
Investments (at fair value)	\$ 535,560	563,323
Other assets	153,831	116,132
<b>Total Assets</b>	<b>689,391</b>	<b>679,455</b>
University custodial funds	55,069	56,113
Bonds payable, net	69,247	69,252
Other liabilities	55,912	44,897
<b>Total Liabilities</b>	<b>180,228</b>	<b>170,262</b>
Net assets		
Unrestricted	14,550	19,169
Temporarily restricted	322,726	324,596
Permanently restricted	171,887	165,428
<b>Total Net Assets</b>	<b>509,163</b>	<b>509,193</b>
Contributions and other revenues	98,811	69,429
Distributions, other expenses and adjustments	(98,841)	(91,894)
<b>Change in Net Assets</b>	<b>\$ (30)</b>	<b>(22,465)</b>

University custodial funds represent endowments owned by the University and managed by the CU Foundation (Note 4).

The University is the ultimate beneficiary of substantially all restricted and trust funds held by the CU Foundation and is income beneficiary of a significant portion of endowment funds held by the CU Foundation.

**WILLIAMS VILLAGE HOUSING PROJECT**

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

To provide construction financing, the CU Foundation issued \$69,090,000 of revenue bonds with a premium of approximately \$162,000. These bonds have serial and term maturities annually beginning July 1, 2005 and ending July 1, 2028 at interest rates between 2.5 and 5.375 percent. These bonds are recorded in the CU Foundation's condensed financial statements above. These bonds had an outstanding balance of \$69,090,000, with a premium of \$157,000, as of June 30, 2003.

**NOTE 21 – COLEMAN COLORADO FOUNDATION**

The Coleman Colorado Foundation (Coleman Foundation), an unconsolidated affiliated corporation, was established on August 21, 2001. The Coleman Foundation is a nonprofit entity under Section 501(c)(3) and 509(a)(3) of the Internal Revenue Code and was established to support the University's operational unit, the University of Colorado Coleman Institute for Cognitive Disabilities (the Institute), and related activities and professorships.

The Coleman Foundation received a January 2001 private donor pledge of \$250,000,000 for the Institute. The pledge amount is based on the value of certain stock holdings of the donor at the date of the pledge. The fluctuation of the value of these holdings could accelerate or defer contributions, currently scheduled over a period of ten years. The ultimate timing and value to be contributed to the Coleman Foundation can be altered by the donors. As a result, the pledge has not been recorded on the financial records of the University or Coleman Foundation. As of June 30, 2002, no amounts had been contributed to the Coleman Foundation. As of June 30, 2003, the Coleman Foundation had cash and investments of \$283,000.

# UNIVERSITY OF COLORADO

## NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

The University did receive related contributions of approximately \$1,298,000 and \$2,335,000 during the years ended June 30, 2003 and 2002, respectively. The contributions received during the year ended June 30, 2002 flowed through the CU Foundation (Note 20). All contributions have been recorded as gift revenue in the accompanying financial statements. In addition, the CU Foundation received a related contribution to an endowment fund. As of June 30, 2003 and 2002, this related endowment was valued at \$8,704,000 and \$9,119,000, respectively.

### NOTE 22 – THE UNIVERSITY OF COLORADO REAL ESTATE FOUNDATION

The University of Colorado Real Estate Foundation (CUREF), an affiliated corporation, was established in August 2002 as a separate corporation to solicit and manage real estate investments for the sole benefit of the University. CUREF is a non-profit entity under Section 509(a)(3) of the Internal Revenue Code. Five employees of the University serve as ex-officio members of the CUREF's board of directors. CUREF is not considered a component unit of the University because the University is not financially accountable for CUREF.

Under an operating agreement, CUREF provides management services to TUIC in exchange for a nominal fee. Given that CUREF does not yet hold any real estate assets, no distributions have been made to the University as of June 30, 2003. Detailed financial information may be obtained directly from CUREF.

### NOTE 23 – UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

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

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

Total payments issued by the Hospital Authority to the UCHSC approximated \$29,034,000 and \$26,760,000 for years ended June 30, 2003 and 2002, respectively. Total payments issued by the UCHSC to the Hospital Authority for the years ended June 30, 2003 and 2002 approximated \$7,664,000 and \$11,065,000, respectively.

During the years ended June 30, 2003 and 2002, UPI recognized approximately \$12,231,000 and \$16,066,000, respectively, in contract and health services revenue from the Hospital Authority in support of clinical and academic missions. Additionally, during the years ended June 30 2003 and 2002, the Hospital Authority reimbursed UPI approximately \$494,000 and \$769,000, respectively, for joint patient care administrative functions performed by UPI.

In fiscal year 1997, UPI assumed a 30 percent participation in the Hospital Authority's investment in TriWest Healthcare Alliance Corp. (TriWest). The Hospital Authority purchased the minority interest in TriWest for approximately \$3,300,000. As part of its negotiations, UPI has contributed \$993,750 of capital to the Hospital Authority for a 30 percent interest in the Hospital Authority's minority investment in TriWest. UPI accounts for its participation in the Hospital Authority's investment in TriWest on the cost basis. The estimated fair value of UPI's share of TriWest's net equity is approximately \$2,735,000. UPI received \$28,938 in dividends in 2003. TriWest was formed to deliver health care services to eligible beneficiaries of the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) within certain specified geographic regions. On June 27, 1996, TriWest was awarded the CHAMPUS contract for health care service delivery by the Department of Defense for an initial five-year period subject to renewal for up to four years, which began in April 1997. This contract was renewed for an additional two-year period commencing April 2002.

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

# UNIVERSITY OF COLORADO

## NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

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

Effective July 1, 2002, the Regents exercised its statutory authority to transfer the assets and operations of Colorado Psychiatric Hospital, an operational unit of UCHSC, to the Hospital Authority. The transfer was initiated because Colorado Psychiatric Hospital could no longer bill as a Hospital Authority Medicare sub-provider as of July 1, 2002. In addition, there were concerns about the continued financial feasibility of operating a small stand-alone psychiatric hospital.

UCHSC is responsible for the costs of transitioning Colorado Psychiatric Hospital to the Hospital Authority, which were recognized during the year ended June 30, 2002. These costs include a final settlement for the Medicare/Medicaid audits from previous fiscal years, extinguishing accounts payables, funding the operating deficit from the current fiscal year and funding employment benefit liabilities for staff that worked at Colorado Psychiatric Hospital. In addition, UCHSC will maintain and collect any patient accounts receivable billed before June 30, 2002. As of June 30, 2003, all such receivables were realized or written off.

### NOTE 24 – COMMITMENTS AND CONTINGENCIES

Contracts have been entered into for the purpose of planning, acquiring, constructing, and equipping certain building additions and other projects with outstanding amounts totaling approximately \$67,938,000 and \$99,795,000 as of June 30, 2003 and 2002, respectively. These additions will be funded or financed by donor contributions, appropriations from the State, issuance of revenue bonds, and other financings. As of June 30, 2003 and 2002, the amount of capital construction appropriations authorized from the State for these projects approximated \$5,387,000 and \$12,522,000, respectively.

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

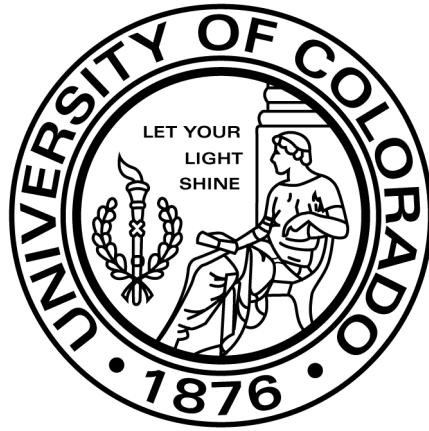
UPI, as a member of the healthcare industry, is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements,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

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

### NOTE 25 – SUBSEQUENT EVENTS

On July 22, 2003, the University issued \$64,260,000 of Enterprise System Revenue Bonds, Series 2003A. The proceeds of the bonds will be used to finance capital improvements and acquisitions at CU-Boulder, CU-Colorado Springs, and UCHSC. The revenue bonds bear interest rates from 3 to 5 percent with final maturity in 2025. The revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the University to redeem, at various dates, portions of the outstanding revenue bonds at prices equal to 100 percent of the principal amount of the revenue bonds redeemed.

On July 30, 2003, the University issued \$35,475,000 of Certificates of Participation, Series 2003A and 2003B. The proceeds of the bonds will be used to finance capital improvements and acquisitions at CU-Colorado Springs and UCHSC. The certificates of participation bear interest rates from 2 to 4.125 percent with final maturity in 2014. The certificates of participation are payable annually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the University to redeem, at various dates, portions of the outstanding certificates of participation at prices equal to 100 percent of the principal amount of the certificates of participation redeemed.





## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Legislative Audit Committee:

We have audited the financial statements of the University of Colorado (the University), a blended component unit of the State of Colorado, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 24, 2003. 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*.

### **Compliance**

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

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the University in the Audit Findings and Recommendations section of this report.

Members of the Legislative Audit Committee  
Page 2

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

*Deloitte & Touche LLP*

November 24, 2003



## **REQUIRED COMMUNICATION LETTER**

November 24, 2003

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the University of Colorado (the "University"); a blended component unit of the State of Colorado, for the year ended June 30, 2003, and have issued our report thereon dated November 24, 2003.

Our professional standards require that we communicate with you concerning certain matters that may be of interest to you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the University is responsible. We have prepared the following comments to assist you in fulfilling that obligation.

### **OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS* ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED STATES**

Our responsibility under auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and *Government Auditing Standards* issued by the Comptroller General of the United States requires, among other things, that we obtain an understanding of the University's internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. Our comments on the University's internal control can be found in the Audit Findings and Recommendations section of this document. This report is also dated November 24, 2003.

### **SIGNIFICANT ACCOUNTING POLICIES**

The University's significant accounting policies are set forth in Note 1 to the University's 2003 financial statements. During the year ended June 30, 2003, there were no significant changes in previously adopted accounting policies or their application.

### **MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the University's 2003 financial statements include the allowance for doubtful loans and accounts, market value of investments, compensated absences liabilities, self-insurance liabilities, and scholarship allowances.

During the year ended June 30, 2003, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such 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 the aggregate, have a significant effect on the University's financial reporting process. All proposed audit adjustments (whether recorded or uncorrected) were reviewed with management and were determined, individually or in the aggregate, not to have a significant effect on the financial reporting process.

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. A schedule of the uncorrected misstatements has been attached to this letter as Appendix A.

**DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the University's 2003 financial statements.

**CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2003.

**MANAGEMENT ADVISORY SERVICES**

The University did not engage us to perform any management advisory services during 2003.

\* \* \* \* \*

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

We will be pleased to discuss this report with you further at your convenience.

*Deloitte & Touche LLP*



**APPENDIX A**

**UNIVERSITY OF COLORADO SYSTEM  
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS  
YEAR ENDED JUNE 30, 2003  
(in thousands)**

	<b>Assets</b>	<b>Liabilities</b>	<b>Net Assets</b>	<b>Increase (Decrease) in Net Assets</b>
<b>Balances as Reported at June 30, 2003</b>	<u>\$2,045,645</u>	<u>\$ 736,535</u>	<u>\$1,309,110</u>	<u>\$ 103,798</u>
<b>Known Misstatements:</b>				
1. Record depreciation expense for assets not depreciated in correct year:				
Dr. Depreciation Expense			(1,657)	(1,657)
Dr. Net Assets			(1,657)	
<b>Net Effect of Known Mistatements</b>			<u>(1,657)</u>	<u>(1,657)</u>
<b>Pro Forma Balances for the Year Ended June 30, 2003</b>	<u><u>\$2,045,645</u></u>	<u><u>\$ 736,535</u></u>	<u><u>\$1,307,453</u></u>	<u><u>\$102,141</u></u>

**UNIVERSITY OF COLORADO**  
**STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS**  
**INTRODUCTION**  
**Year Ended June 30, 2003**

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

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

Our financial and compliance examination of the various state-funded student financial assistance programs at the University for the year ended June 30, 2003, was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHE) Financial Aid Policy, adopted April 2000. The state-funded student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2003.

**STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS**

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

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

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

The total state-funded student financial assistance expenditures made by the University were \$17,199,811 during the year ended June 30, 2003. Of this amount, state-funded matching funds of \$104,510 were transferred to the Perkins Loan and Health Professions Student Loan Funds during the year ended June 30, 2003.

Authorizations and expenditures for state-funded student financial assistance are detailed by program in the accompanying statement of appropriations, expenditures, transfers and reversions for the year ended June 30, 2003. The University also obtained authorizations for federal student financial aid funds as follows:

• Pell Grants	\$12,856,926
• Direct Loan	114,730,154
• Supplemental Educational Opportunity Grant	1,388,308
• College Work Study	3,264,643
• Perkins Student Loan Program – new capital contributions	283,070



## **INDEPENDENT AUDITORS' REPORT ON THE STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS OF THE STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS**

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs (the Statement) of the University of Colorado (the University), a blended component unit of the State of Colorado, for the year ended June 30, 2003. The Statement is the responsibility of the University's management. Our responsibility is to express an opinion on the Statement based on our audit.

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

As described in the notes to the Statement, the Statement was prepared in accordance with the format set forth in the *Guidelines for Administering State-Funded Student Assistance Programs*, issued by the Colorado Commission on Higher Education (CCHE), 2002 revision. The Statement is a summary of cash activity of the state-funded student financial assistance programs with the exception of the Colorado Work-Study program and Perkins Loan Program, and does not present certain transactions that would be in the Statement of the State-Funded Student Financial Assistance Programs if it was presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America. Accordingly, the accompanying Statement is not intended to present the net assets of the University at June 30, 2003, and the results of its operations and changes in cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly the appropriations, expenditures, transfers, and reversions of the state-funded student financial assistance programs of the University for the year ended June 30, 2003, in conformity with the provisions of the CCHE *Guidelines for Administering State-Funded Student Assistance Programs*, as described in Note 1 to the Statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2003, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

Members of the Legislative Audit Committee  
Page 2

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Regents, University management, and the Colorado Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

November 24, 2003

**UNIVERSITY OF COLORADO**  
**STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS**  
**STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS**  
**Year Ended June 30, 2003**

	<i>Total Financial Aid</i>	<i>Colorado Need-based Grants</i>	<i>CLEAP</i>	<i>SLEAP</i>	<i>Colorado Merit Scholarships</i>	<i>Colorado Work-Study</i>	<i>Governor's Opportunity Scholarships</i>	<i>Colorado Nursing Grants</i>	<i>Loan Matching</i>
<b>CU-Boulder</b>									
Appropriations:									
Original official allocation notice	\$ 8,176,579	3,984,137	197,462	134,680	2,036,519	1,500,760	309,543	-	13,478
Additional funds reallocated by CCHE	83,397	32,000	-	-	24,656	-	22,801	-	3,940
Funds released to CCHE		-	-	-	-	-	-	-	-
<b>Total Appropriations</b>	<b>8,259,976</b>	<b>4,016,137</b>	<b>197,462</b>	<b>134,680</b>	<b>2,061,175</b>	<b>1,500,760</b>	<b>332,344</b>	<b>-</b>	<b>17,418</b>
<b>Total Expenditures</b>	<b>8,259,976</b>	<b>4,016,137</b>	<b>197,462</b>	<b>134,680</b>	<b>2,061,175</b>	<b>1,500,760</b>	<b>332,344</b>	<b>-</b>	<b>17,418</b>
<b>Reversions</b>	\$ -	-	-	-	-	-	-	-	-
<b>UCHSC</b>									
Appropriations:									
Original official allocation notice	\$ 1,401,184	1,028,401	12,838	-	196,934	40,000	-	74,190	48,821
Additional funds reallocated by CCHE	775	-	-	-	-	-	-	-	775
Funds released to CCHE	(9,892)	-	-	-	-	-	-	(9,892)	-
<b>Total Appropriations</b>	<b>1,392,067</b>	<b>1,028,401</b>	<b>12,838</b>	<b>-</b>	<b>196,934</b>	<b>40,000</b>	<b>-</b>	<b>64,298</b>	<b>49,596</b>
<b>Total Expenditures</b>	<b>1,392,067</b>	<b>1,028,401</b>	<b>12,838</b>	<b>-</b>	<b>196,934</b>	<b>40,000</b>	<b>-</b>	<b>64,298</b>	<b>49,596</b>
<b>Reversions</b>	\$ -	-	-	-	-	-	-	-	-

(Continued)

**UNIVERSITY OF COLORADO**  
**STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS**  
**STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS**  
**Year Ended June 30, 2003**

	<i>Total Financial Aid</i>	<i>Colorado Need-based Grants</i>	<i>CLEAP</i>	<i>SLEAP</i>	<i>Colorado Merit Scholarships</i>	<i>Colorado Work-Study</i>	<i>Governor's Opportunity Scholarships</i>	<i>Colorado Nursing Grants</i>	<i>Loan Matching</i>
<b>CU-Denver</b>									
Appropriations:									
Original official allocation notice	\$ 4,321,008	2,081,207	51,602	70,260	878,678	674,887	546,217	-	18,157
Additional funds reallocated by CCHE	-	(11,000)	-	11,000	-	-	-	-	-
Funds released to CCHE	-	-	-	-	-	-	-	-	-
<b>Total Appropriations</b>	<b>4,321,008</b>	<b>2,070,207</b>	<b>51,602</b>	<b>81,260</b>	<b>878,678</b>	<b>674,887</b>	<b>546,217</b>	<b>-</b>	<b>18,157</b>
<b>Total Expenditures</b>	<b>4,321,008</b>	<b>2,070,207</b>	<b>51,602</b>	<b>81,260</b>	<b>878,678</b>	<b>674,887</b>	<b>546,217</b>	<b>-</b>	<b>18,157</b>
<b>Reversions</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CU-Colorado Springs</b>									
Appropriations:									
Original official allocation notice	\$ 3,191,328	1,369,047	45,775	25,749	579,029	575,615	554,701	22,073	19,339
Additional funds reallocated by CCHE	35,432	-	-	-	-	-	40,582	(5,150)	-
Funds released to CCHE	-	-	-	-	-	-	-	-	-
<b>Total Appropriations</b>	<b>3,226,760</b>	<b>1,369,047</b>	<b>45,775</b>	<b>25,749</b>	<b>579,029</b>	<b>575,615</b>	<b>595,283</b>	<b>16,923</b>	<b>19,339</b>
<b>Total Expenditures</b>	<b>3,226,760</b>	<b>1,369,047</b>	<b>45,775</b>	<b>25,749</b>	<b>579,029</b>	<b>575,615</b>	<b>595,283</b>	<b>16,923</b>	<b>19,339</b>
<b>Reversions</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**UNIVERSITY OF COLORADO**  
**STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS**  
**NOTES TO THE STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND REVERSIONS**  
**Year Ended June 30, 2003**

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**1. BASIS OF PRESENTATION**

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

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

The accompanying statement of appropriations, expenditures, transfers and reversions of state–funded student financial assistance programs (the Statement) has been prepared in accordance with the format as prescribed by the Colorado Commission on Higher Education (CCHE). The purpose of the Statement is to present, in summary form, the state–funded student financial assistance activities of the University's four campuses for the year ended June 30, 2003.

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

**2. BASIS OF ACCOUNTING**

The University's accounting system is structured and administered in accordance with the fund accounting principles promulgated by the National Association of College and University Business Officers (NACUBO) in their revised publication, Financial Accounting and Reporting Manual. The accounts related to the state–funded student financial assistance are included in the University's current restricted fund.

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

The Perkins Student Loan Program matching requirement from general funds, as approved by the CCHE, is recorded as a transfer from the current restricted fund to the loan fund, and not as a current restricted fund expense and loan fund revenue.

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





## **INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES**

To Members of the Legislative Audit Committee:

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

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

### **ATHLETIC DEPARTMENT STATEMENT OF REVENUE AND EXPENSES - AGREED-UPON SUBSTANTIVE PROCEDURES**

- a. We obtained the accompanying statement of revenue and expenses for the University of Colorado at Boulder (CU-Boulder) Intercollegiate Athletic Department (the "Statement") for the year ended June 30, 2003, as prepared by management. We recalculated the addition of the amounts on the Statement, agreed the amounts on the Statement to management's worksheets, and agreed the amounts on management's worksheets to the University's general ledger. We noted no differences between the amounts on the general ledger and the amounts on the worksheets.
- b. We compared the 2003 operating revenues and expenses applicable to CU-Boulder's Intercollegiate Athletics Department shown on the Statement to corresponding amounts shown in the prior year statement of revenue and expenses for the Intercollegiate Athletic Department. We identified accounts where the variance between the 2002 balance and the 2003 balance was greater than the lesser of 20% of the prior year balance or \$270,000. We discussed these variances with management and obtained corroborating evidence for their explanations.
- c. We made inquiries of management as to whether there were any individual intercollegiate athletics contributions greater than \$537,000, which represents 10% of the total gift revenue. Management of the CU Boulder's Intercollegiate Athletic Department informed us that there were no individual contributions greater than \$537,000. We read the listing of gifts and contributions for the year ended June 30, 2003, provided by the University, for additional individual intercollegiate athletics gifts and contributions greater than \$537,000 and noted none. In addition, we obtained the supporting documentation for the five largest donations made directly from the University of Colorado Foundation, and agreed the donated amounts to the supporting documentation. We noted no differences between the gift amount and the supporting documentation.

- d. We obtained the check advices and check explanations for the conference distributions dated July 30, 2002, August 14, 2002, January 28, 2003, February 10, 2003, April 23, 2003 and June 24, 2003. We agreed the amounts to bank deposits, noting all information was in agreement. We also agreed the amounts into the Statement without exception.
- e. We obtained the men's football and basketball ticket revenue reconciliations for the year ending June 30, 2003. We agreed the ticket sales for September 14, 2002, January 15, 2003 and February 8, 2003 into the reconciliation, and agreed the total sales on the reconciliation to the Statement, noting no exceptions.
- f. We obtained written management representations as to the completeness and accuracy of the Statement. In addition, we obtained certain written representations of management regarding its knowledge of institutional compliance with NCAA rules and other laws and regulations applicable to the CU-Boulder's Intercollegiate Athletics Department.
- g. We read the footnotes to the Statement and agreed amounts within the footnotes to supporting documentation, noting no exceptions.

**INTERNAL CONTROL STRUCTURE: POLICIES AND PROCEDURES RELATED TO THE UNIVERSITY OF COLORADO AT BOULDER INTERCOLLEGIATE ATHLETICS DEPARTMENT - AGREED-UPON PROCEDURES**

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

We have performed the procedures enumerated below, which were agreed to by management of the University, solely to assist you in evaluating management's assertion about the effectiveness of the University's internal accounting control related to the intercollegiate athletics program as of June 30, 2003. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the management of the University. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

- a. We made certain inquiries of management regarding control consciousness, experience of personnel, extent of internal audit involvement, and protection of records and equipment. We noted that the CU-Boulder's Intercollegiate Athletic Department is subject to the overall University policies, procedures, and control procedures. We considered these overall University policies, procedures, and internal control procedures in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements of University of Colorado as of June 30, 2003.

- b. We obtained and read the documentation of the accounting systems and procedures related to the CU-Boulder's Intercollegiate Athletic Department. This documentation included the cash receipts process, ticket sales process, disbursements, and financial aid. In addition to reading the aforementioned documentation, we also performed the following procedures:
- Made certain inquiries of the administration regarding control consciousness, experience of personnel, and protection of records and equipment.
  - Selected 10 purchase orders and (1) verified that each was approved by an authorized person and signed, (2) agreed with supporting documentation, and (3) verified that the account distribution was recorded in the expenses account in the University's general ledger. We noted no exceptions.
  - Selected 10 employees from the CU-Boulder's Intercollegiate Athletics Department payroll register for the year ended June 30, 2003. We agreed the payroll information in the general ledger to the employee's file. We noted no exceptions.
  - Obtained a listing of all athletes who received financial aid. From that list we selected five student athletes and obtained their financial aid awards. We agreed the amounts of financial aid per the CU-Boulder's Intercollegiate Athletics Department to the student's file per the Student Information System online. We noted no exceptions.
  - Selected 25 days during the fiscal year ending June 30, 2003. For each date selected, we obtained the Daily Cash Receipt Log, and selected one batch transaction. We agreed the batch information to the daily deposit slip and the general ledger. We noted no exceptions.

The procedures described above would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements of the Intercollegiate Athletics Department of CU Boulder 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 structure and its operation, as they pertain to CU-Boulder's Athletic Department, that we consider to be material weaknesses as defined above.

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

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

*Deloitte & Touche LLP*

November 24, 2003

**UNIVERSITY OF COLORADO**  
**UNIVERSITY OF COLORADO AT BOULDER INTERCOLLEGIATE ATHLETICS DEPARTMENT**  
**STATEMENT OF REVENUES AND EXPENSES**  
**Year Ended June 30, 2003**

	<i>Football</i>	<i>Men's Basketball</i>	<i>Women's Basketball</i>	<i>Other Men's Sports</i>	<i>Other Women's Sports</i>	<i>Non-Program Specific</i>	<i>Total</i>
<b>Operating Revenue:</b>							
Ticket Sales	\$ 10,606,061	767,423	202,016	-	16,085	75,507	11,667,092
Guarantees Received	310,000	-	-	-	-	-	310,000
Bowl Game Proceeds	1,075,546	-	-	-	-	-	1,075,546
Big XII Championship	150,000	-	-	-	-	-	150,000
Conference Distribution	-	-	-	-	-	7,421,491	7,421,491
Programs	17,300	-	-	-	-	5,691	22,991
Novelties	51,561	1,519	1,272	-	-	15,088	69,440
Licensing	-	-	-	-	-	673,294	673,294
Credit Card Sponsorship	-	-	-	-	-	137,044	137,044
Radio & TV	487,500	165,000	133,000	-	-	-	785,500
Signage	-	-	-	-	-	400,000	400,000
Buff Vision	-	-	-	-	-	735,893	735,893
Internet	-	-	-	-	-	-	-
Corporate Sponsor Days	121,736	74,173	45,462	-	2,000	-	243,371
Nike Contract	193,367	41,950	43,462	85,579	126,321	444,790	935,469
Concessions	136,602	84,585	26,238	-	3,871	30,018	281,314
Parking	115,311	-	-	-	-	7,555	122,866
Banquets	8,645	2,940	5,440	770	2,060	-	19,855
Student Fees	-	-	-	-	1,455,644	-	1,455,644
Ski Club	-	-	-	-	-	47,275	47,275
Facility Rentals	-	-	-	-	-	278,859	278,859
Miscellaneous Income	-	-	-	-	6,480	233,791	240,271
Restricted Gifts	1,204,448	1,000	43,033	43,257	25,257	4,056,700	5,373,695
Restricted Investment Income	-	-	-	-	-	10,766	10,766
Financial Aid Support:							
CCHE	29,126	-	19,983	52,365	69,138	-	170,612
Boulder Campus	478,149	9,325	59,617	80,985	218,312	-	846,388
President's Support	-	-	-	-	-	620,000	620,000
Chancellor's ECC Support	-	-	-	-	-	122,442	122,442
<b>Total Operating Revenue</b>	<b>\$ 14,985,352</b>	<b>1,147,915</b>	<b>579,523</b>	<b>262,956</b>	<b>1,925,168</b>	<b>15,316,204</b>	<b>34,217,118</b>

(Continued)

**UNIVERSITY OF COLORADO**  
**UNIVERSITY OF COLORADO AT BOULDER INTERCOLLEGIATE ATHLETICS DEPARTMENT**  
**STATEMENT OF REVENUES AND EXPENSES**  
**Year Ended June 30, 2003**

	<i>Football</i>	<i>Men's Basketball</i>	<i>Women's Basketball</i>	<i>Other Men's Sports</i>	<i>Other Women's Sports</i>	<i>Non-Program Specific</i>	<i>Total</i>
<b>Operating Expenses:</b>							
Coach's Salaries	\$ 2,815,291	935,782	674,044	337,527	646,608	41,442	5,450,694
Other Salaries	335,340	111,466	123,063	39,628	99,079	4,757,364	5,465,940
Compensated Absences	-	-	-	-	-	(82,931)	(82,931)
Guarantees Paid	600,000	185,000	42,000	-	7,200	-	834,200
Contractual Services	864,420	301,899	233,983	2,411	53,695	301,258	1,757,666
Film/Videotape/Photography	20,011	2,149	3,619	348	1,282	74,715	102,124
Travel:							
Team/Individual	1,148,301	265,418	188,273	241,457	413,784	109,652	2,366,885
Recruiting	199,385	85,657	98,254	25,447	88,912	-	497,655
Other:							
Motor Vehicle Rental	18,934	688	-	23,947	24,893	9,626	78,088
Financial Aid	2,372,489	384,843	417,317	615,732	1,344,149	9,350	5,143,880
Maint & General Admin	114,558	5,378	467	1,881	1,435	1,494,289	1,618,008
Equipment Purchases	437,232	50,680	54,901	132,828	194,304	550,932	1,420,877
Publicity	193,644	76,107	70,597	579	8,106	384,861	733,894
Insurance	3,750	-	-	260	260	268,754	273,024
Telephone	61,883	30,302	22,811	17,183	24,813	171,936	328,928
Entertainment	367,043	92,343	59,140	13,187	44,354	212,350	788,417
Training Table	118,880	14,101	13,227	-	15,883	63,973	226,064
Local Food/Lodging	255,878	22,030	21,502	4,350	30,180	119	334,059
Medical	206,606	37,206	(3,961)	26,435	91,376	55,441	413,103
Postage	76,949	9,538	8,058	3,019	7,438	123,974	228,976
Building & Equipment Rent	491,763	6,996	3,565	11,514	24,123	152,925	690,886
Gifts/Awards	137,116	2,282	3,759	4,029	16,059	81,126	244,371
Fees/Licensing/Registrations	498	350	1,376	753	1,988	422,374	427,339
Information Technology Costs	67,743	1,329	6,617	6,203	7,140	244,234	333,266
General Admin Recharge	58,435	2,009	2,834	-	-	966,575	1,029,853
Band Support	-	-	-	-	-	133,850	133,850
Academic Support	-	-	-	-	-	651,000	651,000
Foundation Costs	-	-	-	-	-	1,047,740	1,047,740
Miscellaneous Expense	181,885	10,872	25,348	17,191	12,792	168,976	417,064
Debt Service	-	-	-	-	-	699,952	699,952
Capital Fund	-	-	-	-	-	150,000	150,000
<b>Total Operating Expenses</b>	<b>\$ 11,148,034</b>	<b>2,634,425</b>	<b>2,070,794</b>	<b>1,525,909</b>	<b>3,159,853</b>	<b>13,265,857</b>	<b>33,804,872</b>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<b>\$ 3,837,318</b>	<b>(1,486,510)</b>	<b>(1,491,271)</b>	<b>(1,262,953)</b>	<b>(1,234,685)</b>	<b>2,050,347</b>	<b>412,246</b>

(Concluded)

## **1. BASIS OF PRESENTATION**

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

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

For reporting purposes, the major sports in which the University participates are combined by and reported by the following major categories: Football, Men's Basketball, Women's Basketball, Men's Other Sports, and Women's Other Sports. The first three categories represent individual activities, whereas the last two represent combinations. The administrative functions of the University of Colorado at Boulder Intercollegiate Athletics Department, which support all sports, have been combined and reported within the category Non-Program Specific. General administrative costs of the University have not been allocated to athletics operations and are not reported herein.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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



## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Members of the Legislative Audit Committee:

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

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

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

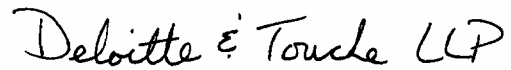
- a. Obtained a list of outside organizations not under the accounting control of the University from the Foundation. Management asserted that these organizations operate to support the activities disclosed in the statement of revenues and expenses (the Statement) for the University of Colorado at Boulder (CU-Boulder) Intercollegiate Athletics Department.
- b. Obtained a copy of the audited financial statement of the Foundation for the year ended June 30, 2003, which was audited by other auditors who expressed an unqualified opinion.
- c. Agreed the amounts distributed to the University from the Foundation to Restricted Gift Revenue disclosed on the Statement. The reconciliation is presented below:

Total amount transferred to the CU-Boulder Intercollegiate Athletics Department	\$ 5,267,365
Amounts paid directly to fund capital projects	(44,850)
Gift-in-kind distributions	151,180
Total restricted gifts per the Statement	<u>\$5,373,695</u>

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

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

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

November 24, 2003



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