



AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Fiscal Years ended June 30, 2017 and 2016

(With Independent Auditors' Reports Thereon)

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AURARIA HIGHER EDUCATION CENTER

Table of Contents

	Page(s)
Report Summary	1
Recommendation Locator	4
Financial and Compliance Audit Report Section:	
Description of the Auraria Higher Education Center	8
Findings and Recommendations	9
Independent Auditors' Report	26–27
Management's Discussion and Analysis (Unaudited)	28–36
Statements of Net Position	37
Statements of Revenue, Expenses, and Changes in Net Position	38
Statements of Cash Flows	39–40
Notes to Financial Statements	41–77
Required Supplementary Information	78
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79–80
Required Communications to Legislative Audit Committee	81–85

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Report Summary

Year ended June 30, 2017

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Auraria Higher Education Center (the Center) for the year ended June 30, 2017. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from May 2017 to January 2018.

The purpose and scope of our audit was to:

- Express opinions on the financial statements of the Center as of and for the years ended June 30, 2017 and June 30, 2016. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate the Center's compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.

Audit Opinions and Reports

We expressed unmodified opinions on the Center's financial statements as of and for the years ended June 30, 2017 and 2016.

We issued a report on the Center's internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We identified three instances involving the internal control over financial reporting and its operation that we consider to be a material weaknesses and one instance we consider to be a significant deficiency, which are discussed below.

Summary of Key Findings

Compliance with Accounting Standards

We identified errors in the Center's accounting processes as follows:

- Center staff made errors totaling \$15,942,000 when calculating and posting pension entries at fiscal year-end. Center staff initiated journal entries to record the Center's net pension liability using Office of the State Controller (OSC) templates and information from the Colorado Public Employees Retirement Association (PERA). While the journal entries were reviewed by the financial systems and payroll manager, they contained a number of errors and did not agree to underlying information provided by PERA. The Center reversed all of the original pension entries and posted correcting entries.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Report Summary

Year ended June 30, 2017

- The Center failed to reconcile cash accounts in an accurate and timely manner, including comparing cash in the State's Treasury Department to the Center's records.
- The Center identified that it did not properly record transactions in accounts representing amounts due to and/or due from Center funds, which resulted in cash reconciliation differences totaling \$5 million.
- The Center made errors in recording capital assets.
- The Center was not able to obtain or provide a detailed report containing fiscal year 2017 accounts payable transactions from MIP Fund Accounting (MIP). In order to complete the audit, the Center manually prepared a list of invoices making up accounts payable balances.
- The Center failed to identify and quantify \$526,000 in invoices that were received subsequent to year-end, but prior to July 17, that related to fiscal year 2017 that should have been recorded as accounts payable at June 30, 2017. In addition, the Center lacks consistency between its accrual policy and procedures.

Noncompliance with Statutory Reporting Requirements and Controls over Journal Entries

The Center made a number of adjustments to its financial statements based on the audit work performed. As a result of these adjustments, significant challenges with its MIP implementation, and resource constraints, the Center did not submit its financial statements to the OSC by the required September 8 due date. The Center submitted its financial statements to the OSC on November 3, 2017, 56 days late.

The Center had also significant challenges and delays reconciling its financial statements and Colorado Operations Resource Engine (CORE) and, as a result, did not provide the OSC an Exhibit J until January 23, 2018, 125 days after the OSC's due date. During preparation of the Exhibit J, the Center identified material differences between its financial statements and CORE that required research and adjustments to CORE. However, certain differences could not be resolved by the Center.

The Center did not provide the Exhibit V1, Higher Education Cash Flow Statement – Supplemental Information, to the OSC until November 21, 2017, 74 days after the submission deadline.

The Center did not timely reconcile the fiscal year 2017 beginning balances entered into MIP to the fiscal year 2016 ending balances in Fundware. Center staff took more than six months to reconcile opening balances, which delayed the audit and preparation of the Center's financial statements. The Center began reconciling MIP and Fundware in March 2017, after implementation of MIP began. It was not able to fully reconcile the beginning balances until the end of September 2017. As part of its reconciliation of the beginning and ending balances, the Center made adjustments to properly reflect the beginning balance for net assets, or fund balance, totaling \$7 million.

We identified 240 journal entries totaling \$49 million that were created and posted by the same individual. We subsequently reviewed a sample of 31 of the 240 entries totaling \$38 million and found the entries were for a valid business purpose and supported by appropriate documentation including the amount, period, and general ledger accounts. We reviewed a sample of 31 journal entries that were created and posted by the same user and found that 17 of 31 (59 percent) of the entries did not contain evidence of review, such as a reviewer signature on the hard copy document.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Report Summary

Year ended June 30, 2017

MIP Fund Accounting General Information Technology Controls

The Center does not have written information technology policies, including those related to system security and access, system changes, or program development.

CORE Access Management

The Center did not ensure its CORE system users' access was disabled "immediately, to the extent possible," when employees were terminated or left employment with the Center during fiscal year 2017. We identified five terminated employees with CORE access for which the Center failed to disable this access within five days of employment termination.

Recommendations and Center Responses

A summary of our recommendations and responses from the Center can be found in the Recommendation Locator Section of this report. The Center's responses to the findings have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2017

Rec no.	Page no.	Recommendation summary	Agency response	Implementation date
2017-001	13	The Auraria Higher Education Center should ensure compliance with relevant accounting standards by:		
		a) Developing, documenting, and implementing policies and procedures to record pension liability balances.	Agree	June 2018
		b) Increasing training for staff creating and approving journal entries for pension liability balances and new staff to ensure an understanding of the accounting policies and procedures.	Agree	May 2018
		c) Developing, documenting, and implementing policies and procedures to reconcile cash accounts, including Treasury cash and due to/from other accounts, on a monthly basis.	Agree	February 2018
		d) Developing, documenting, and implementing policies and procedures to ensure assets are properly capitalized, construction in progress balances are reviewed for existence, and capital assets are supported by appropriate documentation.	Agree	March 2018
		e) Working with the MIP consultant to develop reports in MIP that provide detailed information of accounts payable and implementing a process to reconcile these reports to the general ledger.	Agree	June 2018

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2017

Rec no.	Page no.	Recommendation summary	Agency response	Implementation date
		f) Updating the accrual policy to determine an appropriate threshold for evaluating invoices received after close that should be accrued and consistently applying the policy.	Agree	April 2018
2017-002	19	The Auraria Higher Education Center should strengthen its internal controls over financial reporting to ensure compliance with statutory reporting requirements by:		
		a) Evaluating Accounting Services resources to ensure staffing is commensurate with workload and that staff are properly trained on the MIP system and financial reporting processes, and Office of the State Controller requirements, including deadlines.	Agree	February 2018
		b) Developing, documenting, and implementing policies and procedures to timely reconcile MIP and the Colorado Operations Resource Engine (CORE).	Agree	March 2018
		c) Addressing system challenges preventing the timely reconciliation of CORE and MIP. Specifically, the Center should work with its consultant to investigate and correct feed errors between MIP and CORE and complete the automated reconciliation.	Agree	March 2018
		d) Documenting difficulties encountered in the MIP implementation to identify areas to improve for future system.	Agree	January 2018

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2017

Rec no.	Page no.	Recommendation summary	Agency response	Implementation date
		e) Evaluating system capabilities to not allow the same user to create and post the same journal entry and implementing the controls, as applicable.	Agree	February 2018
		f) Implementing formal documented policies and procedures regarding requirements for reviews of journal entries, including requirements for supervisory reviews and hard copy sign-offs and comparisons of all entries posted in MIP to the manual journal entry sign off, and training staff on the policies.	Agree	April 2018
2017-003	21	The Auraria Higher Education Center should prioritize staff time to improve information technology controls to safeguard information contained in MIP by:		
		a) Developing, documenting, and implementing IT policies and procedures, including those related to system account management and change management.	Agree	June 2018
		b) Ensuring compliance with the National Institute of Standards and Technology (NIST) security framework to mitigate the specific related problems noted in the confidential finding.	Agree	January 2018

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2017

Rec no.	Page no.	Recommendation summary	Agency response	Implementation date
		c) Formalizing account management procedures, as well as documenting and retaining evidence to mitigate the specific related problems noted in the confidential finding.	Agree	January 2018
		d) Ensuring compliance with the National Institute of Standards and Technology (NIST) security framework to mitigate the specific related problems noted in the confidential finding.	Agree	January 2018
		e) Ensuring compliance with the National Institute of Standards and Technology (NIST) security framework to mitigate the specific related problems noted in the confidential finding.	Agree	January 2018
		f) Developing, documenting, and implementing program change controls to mitigate the specific related problems noted in the confidential finding.	Agree	February 2018
2017-004	24	The Auraria Higher Education Center should improve information technology controls to safeguard information contained in CORE by developing, documenting, and implementing procedures for:		
		a) Disabling CORE user access in a timely manner for employees that leave the Center.	Agree	July 2017
		b) Periodically reconciling CORE access for all staff to ensure that access is disabled appropriately for terminated employees.	Agree	July 2017

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Description of the Auraria Higher Education Center

Year ended June 30, 2017

Organization

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

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

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit
Findings and Recommendations
Year ended June 30, 2017

We have audited the financial statements of the Center as of and for the year ended June 30, 2017 and have issued our report thereon dated January 26, 2018. In planning and performing our audit of the financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion of the Center's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated January 26, 2018, on our consideration of the Center's internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since January 26, 2018.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses.

COMPLIANCE WITH ACCOUNTING STANDARDS

The Center's Accounting Services Department (Department) is responsible for preparing the Center's basic financial statements (Financial Statements) as required by Colorado Revised Statutes (Section 24-30-204(1), C.R.S.). The Department is also responsible for ensuring that the information systems used for recording the Center's financial activities, including expenditures and revenues, are functioning appropriately and that reports are available to assist staff in the Center's various divisions in monitoring their own financial activity. The Department, which reports to the assistant vice president of Business Services and chief financial officer, has six staff members including the controller, accounting manager, financial systems and payroll manager, and three accounting technicians.

On July 1, 2016, the Center implemented a new general ledger system, MIP Fund Accounting (MIP), replacing its legacy system, Fundware, which had been in place since 2008. All daily accounting functions were processed through MIP in fiscal year 2017 except for payroll, which continued to be processed in Fundware. Payroll is scheduled to migrate to MIP on January 1, 2018.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit
Findings and Recommendations
Year ended June 30, 2017

WHAT WAS THE PURPOSE OF THE AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to determine whether the Center's Financial Statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles (GAAP) as of June 30, 2017, which includes statements issued by the Government Accounting Standards Board (GASB). We interviewed staff at the Center and performed detailed tests of account balances.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We used the following criteria to determine if the Center was in compliance with accounting standards:

- For states and local governments, GASB establishes GAAP through the issuance of GASB Statements. For example, the following statements are applicable to the Center:
 - GASB Statement No. 34, *Basic Financial Statements for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34*
 - Paragraph 19 of GASB Statement No. 34 states that capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.
 - GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, GASB Statement No. 34, Basic Financial Statements for State and Local Governments*
 - Paragraph 48 of GASB 68 states that a liability should be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.
- **Center Accrual Policy** – According to the Center's Fiscal Year 2017 Accrual Policy, fiscal year 2017 invoices received between July 18, 2017 and July 31, 2017 were to be manually accrued using a June 30, 2017 date in order to feed to the State's financial accounting system, the Colorado Operations Resource Engine (CORE), prior to CORE's accounting close on August 4, 2017. The policy further required that fiscal year 2017 accounts payable invoices received after the cutoff date (July 31) be logged each week through August 31, 2017. From this log, Center staff were to determine whether or not the invoices should be accrued for based on materiality. The Center's policy states that invoices exceeding \$500,000 received after the cut off are to be reviewed to determine if an accrual should be recorded post-period 13 close, taking into account deadlines and the effect recording the accrual will have on state exhibits already submitted to the Office of the State Controller (OSC).
- **United States Government Accountability Office, Standards for Internal Control in the Federal Government** – Principle 10, *Design Control Activities*. Management should design control activities to achieve the objective and respond to risk. Management designs control activities in response to the entity's

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

objectives and risk to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations, the entity's risk tolerance, and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

We identified errors in the Center's accounting processes as follows:

- **ERRORS IN PENSION CALCULATIONS.** We determined that Center staff made errors totaling \$15,942,000 when calculating and posting pension entries at fiscal year-end. Center staff initiated journal entries to record the Center's net pension liability using OSC templates and information from the Colorado Public Employees Retirement Association (PERA). While the journal entries were reviewed by the financial systems and payroll manager, they contained a number of errors and did not agree to underlying information provided by PERA. The Center reversed all of the original pension entries and posted correcting entries. The net impact of all correcting entries posted by the Center were as follows:

Account	Amount
Deferred Outflow – Pension Contributions	\$1,470,986
Deferred Outflow – Pension Proportionate Share	\$778,976
Deferred Outflow – Pension Experience	\$804,800
Deferred Outflow – Pension Investments	\$4,302,117
Net Pension Liability	\$1,405,689
Deferred Inflow – Pension Changes in Assumptions	\$639,283
Deferred Inflow – Pension Proportionate Share	\$2,024,808
Pension Expense	\$4,515,912

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit
Findings and Recommendations
Year ended June 30, 2017

- **LACK OF CASH RECONCILIATIONS.** The Center failed to reconcile cash accounts in an accurate and timely manner, including comparing cash in the State’s Treasury Department in CORE to the Center’s records. Specifically, as of fiscal year-end, Center staff had not prepared monthly reconciliations for March through June 2017 and the following accounts showed unreconciled differences at June 30, 2017:

Account	Unreconciled difference as of June 30, 2017
Bookstore Credit Card	\$594,281
Treasury Cash	\$1,096,389
Imprest	\$3,532,335

- **ERRORS IN DUE TO/FROM OTHER ACCOUNTS.** During the audit based on our questions in cash reconciliations, the Center identified that it did not properly record transactions in accounts representing amounts due to and/or due from Center funds, which resulted in cash reconciliation differences identified above totaling \$5 million. The Center recorded adjustments to correct the balances after it identified the errors based on our inquiries.
- **ERRORS IN ACCOUNTING FOR CAPITAL ASSETS.** We found the following errors in the Center’s recording of capital assets:
 - \$707,000 of asset purchases with useful lives greater than one year were incorrectly expensed instead of capitalized.
 - Construction in process totaling \$757,000 was recorded twice.
- **LACK OF MIP SYSTEM REPORTING CAPABILITIES OF ACCOUNTS PAYABLE.** The Center was not able to obtain or provide a detailed report containing fiscal year 2017 accounts payable transactions from MIP. In order to complete the audit, the Center manually prepared a list of invoices making up accounts payable balances.
- **FAILURE TO RECORD ACCOUNTS PAYABLE.** The Center failed to identify and quantify \$526,000 in invoices that were received subsequent to year-end, but prior to July 17, that related to fiscal year 2017 that should have been recorded as accounts payable at June 30, 2017.
- **LACK OF CONSISTENCY BETWEEN ACCRUAL POLICY AND PROCEDURES.** Center staff told us that they review all invoices received after the cutoff date, instead of invoices over \$500,000, which is the threshold outlined in the Center’s accrual policy. As a result, the Center is not adhering to its written policy. In addition, the Center does not maintain evidence of all invoices reviewed on a log and its assessment of the materiality of accruals that have been not been recorded.

To assess the reasonableness of the written policy, we evaluated the Center’s invoices received after the cut off and found a limited number above \$500,000. However, we found multiple invoices between \$100,000 and \$500,000 that would accumulate to a material amount and may not be evaluated by the

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

Center if the policy was followed as written and those invoices represented expenses related to fiscal year 2017.

WHY DID THE PROBLEM OCCUR?

The Center does not have written policies and procedures for many of its business processes and year-end closing activities. Specifically, the Center lacks policies on pension, capital assets, monthly reconciliations, and year-end closing activities. The Center also dedicated significant resources to the MIP implementation during fiscal year 2017, which resulted in staff resources being focused on MIP implementation issues instead of core accounting processes.

Further, the Center failed to appropriately train accounting staff on the proper recording of entries for certain accounts such as pensions and how to prepare and review reconciliations. In addition, MIP has certain system limitations that were not fully considered by the Center. For example, MIP lacks account detail for accounts payable and does not automate the capitalization of fixed assets, both of which were available in the legacy system. Instead, Center staff manually prepared a detail listing of accounts payable and manually reviewed invoices recorded in MIP expense accounts to determine if the expense should be capitalized.

These internal control weaknesses were compounded by the fact that the Center had turnover of three Department staff during fiscal year 2017 and year-end close. As a result, the Center had difficulties in the adherence to generally accepted accounting standards when preparing its Financial Statements.

WHY DO THESE PROBLEMS MATTER?

Accurate financial reporting and consistent application of GASB standards is critical to ensure the Center's Financial Statements are fairly stated. Further, having strong internal control processes such as reconciliations, system reports, and documented procedures are important to ensure timely completion of financial reporting. In addition, the errors we identified through our audit resulted in delays in the Center's finalization of its Financial Statements.

CLASSIFICATION OF FINDING – MATERIAL WEAKNESS

RECOMMENDATION 2017-001

The Auraria Higher Education Center (Center) should ensure compliance with relevant accounting standards by:

- a) Developing, documenting, and implementing policies and procedures to record pension liability balances.
- b) Increasing training for staff creating and approving journal entries for pension liability balances and new staff to ensure an understanding of the accounting policies and procedures.
- c) Developing, documenting, and implementing policies and procedures to reconcile cash accounts, including Treasury cash and due to/from other accounts, on a monthly basis.
- d) Developing, documenting, and implementing policies and procedures to ensure assets are properly capitalized, construction in progress balances are reviewed for existence, and capital assets are supported by appropriate documentation.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit
Findings and Recommendations
Year ended June 30, 2017

- e) Working with the MIP consultant to develop reports in MIP that provide detailed information of accounts payable and implementing a process to reconcile these reports to the general ledger.
- f) Updating the accrual policy to determine an appropriate threshold for evaluating invoices received after close that should be accrued and consistently applying the policy.

Response

- a) AGREE. IMPLEMENTATION DATE: JUNE 2018

The AHEC Controller will establish and document the various steps taken to prepare the annual pension liability journal entry, including the source of AHEC's annual pension obligation (PERA) and corresponding references to the revised pension amortization template prepared during the audit.

- b) AGREE. IMPLEMENTATION DATE: MAY 2018

AHEC will hold a training session, to include the controller, accounting manager, director of Business Operations, and the CFO, to ensure a thorough understanding of the accounting policies and procedures around the annual pension liability journal entry.

- c) AGREE. IMPLEMENTATION DATE: FEBRUARY 2018

It has been a standing practice that bank reconciliations are done on a monthly basis. However, during FY 2016–17, with the implementation to MIP and significant staffing shortages throughout the year, the agency fell behind on the monthly bank reconciliations. To date, bank reconciliations have been completed for most agency bank accounts through November 30, 2017; however, several are unreconciled through November 30, 2017. All bank accounts will be reconciled and current as of February 28, 2018 and will continue to be completed on a monthly basis moving forward provided sufficient staffing levels. The due to/due from account has been reconciled through December 31, 2017 and will be reconciled monthly moving forward. Treasury cash will be reconciled on a monthly basis effective February 1, 2018 and moving forward.

- d) AGREE. IMPLEMENTATION DATE: MARCH 2018

AHEC does currently have fixed asset policies and procedures that we will review and update as needed. We believe the errors discovered during the audit were once again the result of the MIP implementation and understanding of the new system, staffing shortages and related time constraints, and training of new staff members. Every effort will be made to ensure that assets are properly capitalized, construction-in-progress balances are reviewed for existence, and capital assets are supported by appropriate documentation during the FY 2017–18.

- e) AGREE. IMPLEMENTATION DATE: JUNE 2018

AHEC will continue to work with the MIP consultant to develop reports in MIP that provide detailed information of accounts payable and implementing a process to reconcile these reports to the general ledger. However, if a solution is not available, AHEC will take steps to create a spreadsheet to log all accounts payable dated prior to June 30 but paid in the new fiscal year to provide the necessary support required by the auditors.

- f) AGREE. IMPLEMENTATION DATE: APRIL 2018

AHEC will update the accrual policy to provide an appropriate threshold for evaluating invoices received after close that should be accrued and consistently applying the policy.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

Non-Compliance With Statutory Reporting Requirements And Controls Over Journal Entries

The Center's Accounting Services Department is responsible for preparing the Basic Financial Statements (Financial Statements) as required by Colorado Revised Statutes (C.R.S), Section 24-30-204(1). Accounting Services is also responsible for ensuring that the systems used for recording the Center's financial activities are functioning appropriately. Accounting Services, which reports to the Assistant Vice President of Business Services and Chief Financial Officer, has six staff including the controller, accounting manager, financial systems and payroll manager, and three accounting technicians.

On July 1, 2016, the Center implemented a new general ledger system, MIP Fund Accounting (MIP), replacing its legacy system, Fundware, which had been in place since 2008. All daily accounting functions were processed through MIP in Fiscal Year 2017 except for payroll, which continued to be processed in Fundware.

To record all transactions in MIP, journal entries are initiated, authorized, and recorded, through both user actions and automated system processes. Each journal entry must go through a three-step process. First, the journal entry is created in MIP by an authorized accounting staff. Accounting staff do not have access in MIP to approve and post a journal entry; however accounting managers have this access. Next, the journal entry is reviewed by either the controller, the accounting manager, or the financial systems and payroll manager. At that time, the reviewer approves the entry by signing and dating a hard copy of the entry and attaches documentation supporting the purpose, amount, period, and general ledger account. Finally, the reviewer posts the journal entry to MIP. In Fiscal Year 2017, Center staff recorded approximately \$2.6 billion of activity into MIP through journal entries.

The Colorado Operations Resource Engine (CORE) is the State of Colorado's financial accounting system. The Center provides summarized information from MIP into CORE through an automated interface. In addition, the Center prepares and provides formalized reports, or exhibits, to the Office of the State Controller (OSC) to aid the OSC in compiling information to prepare the State's financial statements. Specifically, the OSC aggregates the financial information with similar data from other departments to prepare the statewide financial statements.

WHAT WAS THE PURPOSE OF THE AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to determine if the Center was in compliance with its financial reporting responsibilities defined in statute during Fiscal Year 2017, including whether the Center had adequate internal controls in place over journal entry preparation and approval.

As part of our audit testwork, we interviewed Center staff on their accounting policies, procedures, and processes and reviewed and performed testing related to relevant documents including statutory reporting requirements; and OSC communications and guidance, including the OSC prepared Fiscal Year 2017 Procedures Manual, exhibits, and exhibit instructions. We also obtained a listing of all journal entries posted to MIP during Fiscal Year 2017 and reviewed documentation related to the conversion of ending balances in Fundware to opening balances in MIP to determine if beginning balances in Fiscal Year 2017 were accurate.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We used the following criteria to determine if the Center was in compliance with financial reporting requirements and had adequate controls over journal entries:

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

- State statute [Section 24-30-204(3), C.R.S.] requires that the State's accounting records be closed no later than 35 days after the end of the fiscal year, which was August 4, 2017, for Fiscal Year 2017. As of this date, all adjusted revenue, expenditures, and expense accounts shall be closed into CORE in order to divide the financial details of the state into comparable periods.
- State statute [Section 24-30-204(1), C.R.S.] requires that financial statements for the fiscal year be submitted by each department to the State Controller no later than August 25. Statute allows the OSC to grant up to a 20-day extension to departments; the OSC granted a 14-day extension for Fiscal Year 2017, which revised the financial statement submission deadline to September 8.
- The OSC Fiscal Procedures Manual, Chapter 1, Section 4, *Opening and Closing Calendar*, states a successful close is contingent upon departments completing tasks timely and accurately. The OSC provided a Fiscal Year 2017 closing calendar, which initially required department/institution financial statements to be submitted to the OSC along with the Exhibit J, *Financial Statement Reconciliation* (Exhibit J), by August 25, 2017; however, as noted previously, the OSC granted a 14-day extension to departments, which revised the financial statement and Exhibit J due date to September 8.
- The OSC Fiscal Procedures Manual, Chapter 3, Section 4, *Financial Statements*, requires departments or institutions that are required or choose to prepare separately issued financial statements to submit an Exhibit J, *Financial Statement Reconciliation* to the OSC. The Exhibit J is used for the following: 1) to reconcile the institution's trial balance per CORE to the institution's financial statements, 2) to provide assurance to the State Controller that institution financial statements properly accumulate CORE accounts in the format of the State's Comprehensive Annual Financial Report financial statement line items, 3) as a basis for institution compliance with the statutory requirement to obtain the State Controller's examination and approval of all financial statements and reports of state government prior to publication, and 4) to document compliance with statute [Section 24-30-204(1), C.R.S.] requiring statements be submitted to the State Controller no later than August 25, with a 14-day extension.
- The OSC Fiscal Procedures Manual, Chapter 3, Section 4, *Financial Statements*, requires departments or institutions to submit an Exhibit V1, *Higher Education Cash Flow Statement – Supplemental Information (Exhibit V1)*, to the OSC. Because AHEC and other higher education institutions feed summarized transactions to CORE, the OSC does not have access to transaction detail needed to convert the indirect method cash flow to the direct-method format, as required by the Governmental Accounting Standards Board. The Exhibit V1 is used by the OSC to provide the information necessary for conversion and to disclose non-cash transactions. The OSC's Fiscal Year 2017 due date for the Exhibit V1 was August 25, with a 14-day extension.
- Professional auditing standards, AU-C 240.31, *Consideration of Fraud in a Financial Statement Audit*, notes that, "Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is, nevertheless, present in all entities. To address such risk, management should have controls surrounding journal entries, including standard journal entries, non-standard journal entries used to record non-recurring, unusual transactions or adjustments, and other adjustments made during the financial statement closing process, and include any anti-fraud controls over

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit
Findings and Recommendations
Year ended June 30, 2017

the risk of management override of controls over journal entries and other adjustments.” Such controls should include segregation of duties between any individual who can prepare a journal entry and any individual who can approve and/or post the journal entry.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

For Fiscal Year 2017, the Center did not prepare and submit its Financial Statements and OSC exhibits in accordance with timeframes established by statutes and did not ensure that strong controls were in place related to the creation and approval of journal entries as follows:

- THE CENTER DID NOT MEET THE STATUTORY DEADLINES TO CLOSE THE ACCOUNTING RECORDS AND TO PROVIDE FINANCIAL STATEMENTS TO THE OSC. The Center made a number of adjustments to its financial statements based on the audit work performed. As a result of these adjustments, significant challenges with its MIP implementation, and resource constraints, the Center did not close its accounting records and submit its Financial Statements to the OSC by the required August 4 and September 8 due dates. The Center closed its accounting records on September 14, or 40 days late, and submitted its Financial Statements to the OSC on November 3, 2017, or 56 days late.
- THE CENTER DID NOT MEET THE OSC’S RECONCILIATION REQUIREMENTS BETWEEN THE CENTER’S FINANCIAL STATEMENTS AND CORE. The Center had significant challenges and delays reconciling its financial statements and CORE and, as a result, did not provide the OSC a fully reconciled Exhibit J. During preparation of the Exhibit J, the Center identified differences between its financial statements and CORE that required research and adjustments to CORE. Center staff initially noted net differences related to the Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position of \$7,131,594 and \$3,697,100, respectively. The Center made adjustments to CORE to reconcile certain accounts (reconciled difference column below) but also had unreconciled differences as presented in the table below.

Financial Statement Caption	Reconciled difference	Unreconciled difference	Total difference
Assets	\$(3,152,080)	\$(1,785,372)	\$(4,937,452)
Liabilities	1,605,562	495,449	2,101,011
Net position	(1,546,518)	(1,289,923)	(2,836,441)
TOTAL	(96,876)	5,388,221	5,485,097
Revenue	2,778,379	1,713,196	4,491,575
Expenses	(693,488)	(128,302)	(821,790)
TOTAL	2,084,891	1,584,894	3,669,785

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

After significant research, on January 11, 2018, or 125 days after the OSC's due date, the Center determined it was unable to identify the cause of the unreconciled differences noted in the table above and presented to the OSC a balancing entry to reconcile the two systems.

- **THE CENTER DID NOT MEET THE DEADLINE TO PROVIDE CERTAIN OTHER INFORMATION TO THE OSC.** The Center did not provide the Exhibit V1, *Higher Education Cash Flow Statement – Supplemental Information*, to the OSC until November 21, 2017, or 74 days after the submission deadline.
- **THE CENTER LACKED CONTROLS SURROUNDING THE CONVERSION OF DATA IN MIP.** The Center did not timely reconcile the Fiscal Year 2017 beginning balances entered into MIP to the Fiscal Year 2016 ending balances in Fundware. Center staff took more than six months to reconcile opening balances, which delayed the preparation of the Center's Financial Statements and the audit. The Center began reconciling MIP and Fundware in March 2017, after implementation of MIP began. It was not able to fully reconcile the beginning balances until the end of September 2017. As part of its reconciliation of the beginning and ending balances, the Center made adjustments to properly reflect the beginning balance for net assets, or fund balance, totaling \$7 million.
- **FOUR MIP USERS ARE ABLE TO BOTH CREATE AND APPROVE THE SAME JOURNAL ENTRY.** We identified 240 journal entries totaling \$49 million that were created and posted by the same individual. We subsequently reviewed a sample of 31 of the 240 entries totaling \$38 million and found the entries were for a valid business purpose and supported by appropriate documentation including the amount, period, and general ledger accounts.
- **JOURNAL ENTRIES WERE NOT REVIEWED IN ACCORDANCE WITH CENTER POLICY.** We reviewed a sample of 31 journal entries that were created and posted by the same user and found that 17 of 31 (59 percent) of the entries did not contain evidence of review, such as a reviewer signature on the hard copy document

WHY DID THE PROBLEM OCCUR?

The Center failed to ensure that it had adequate accounting processes and procedures in place subsequent to the implementation of MIP during Fiscal Year 2017 and after fiscal year-end related to financial reporting.

First, Center staff reported that they dedicated significant resources to the MIP implementation, which did not allow time for proper training on MIP and OSC reporting requirements and deadlines and did not allow sufficient time to focus on core accounting processes and procedures, including reconciliations. Second, the Center had turnover in four Accounting Services staff during Fiscal Year 2017 and year-end close, which created a significant workload for the Controller and other accounting staff and directly contributed to continued delays in the completion of the Center's Financial Statements and submission of OSC exhibits.

Third, the Center had significant challenges reconciling MIP and CORE, including errors in the feed of summarized information from MIP to CORE and the failure of the Center's external consultant to provide a working, automated reconciliation of MIP and CORE. In addition, the Center did not begin working on a manual reconciliation of MIP and CORE until October 2017.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

Fourth, the Center did not adequately consider internal controls within and related to MIP prior to the system's implementation. Specifically, the Center failed to formally address required segregation of duties controls within the system, the Center did not develop formal, documented policies and procedures over journal entries, Center staff reported that they did not follow the Center's policies for manual review of journal entries due to resource constraints during the fiscal year, and while the Center has an unwritten policy requiring manual sign-off of journal entries to address the segregation of duties risk in MIP noted above, it does not have a formalized policy requiring the sign-offs or a quality assurance process to ensure manual sign-offs are occurring.

WHY DO THESE PROBLEMS MATTER?

By not having adequate controls, such as segregation of duties, over information input into MIP, the Center is at risk that transactions may not be accurate or supported, due to error or fraud.

The Center's failure to reconcile its information systems in a timely manner and inability to close its accounting records for the fiscal year and prepare OSC exhibits timely resulted in additional work and costs to be incurred by the Center and the OSC. In addition, the issues caused delays in the State's completion of its financial statements and increases the risk that the State's and/or the Center's financial statements will be materially misstated.

CLASSIFICATION OF FINDING – MATERIAL WEAKNESS

RECOMMENDATION 2017-002

The Auraria Higher Education Center (Center) should strengthen its internal controls over financial reporting to ensure compliance with statutory reporting requirements by:

- a) Evaluating Accounting Services resources to ensure staffing is commensurate with workload and that staff are properly trained on the MIP system and financial reporting processes, and Office of the State Controller requirements, including deadlines.
- b) Developing, documenting, and implementing policies and procedures to timely reconcile MIP and the Colorado Operations Resource Engine (CORE).
- c) Addressing system challenges preventing the timely reconciliation of CORE and MIP. Specifically, the Center should work with its consultant to investigate and correct feed errors between MIP and CORE and complete the automated reconciliation.
- d) Documenting difficulties encountered in the MIP implementation to identify areas to improve for future system implementations.
- e) Evaluating system capabilities to not allow the same user to create and post the same journal entry and implementing the controls, as applicable.
- f) Implementing formal documented policies and procedures regarding requirements for reviews of journal entries, including requirements for supervisory reviews and hard copy sign-offs and comparisons of all entries posted in MIP to the manual journal entry sign off, and training staff on the policies.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

RESPONSE

a) **AGREE. IMPLEMENTATION DATE: FEBRUARY 2018**

The Center's Chief Executive Officer authorized the addition of one new full time equivalent (FTE), the Director of Business Operations, who will oversee the agency budget and all accounting and financial reporting activities. The Controller will report directly to this new position and the Director of Business Operations will oversee the annual audit and assist the Controller with all year end close and financial reporting responsibilities. This new position has been filled and the new employee will begin their duties effective January 22, 2018. In addition, another position in Accounting Services will be upgraded from .50 FTE to a full-time FTE in February 2018.

b) **AGREE. IMPLEMENTATION DATE: MARCH 2018**

The Controller will develop, document and implement policies and procedures to ensure that MIP and CORE are reconciled on a monthly basis. For FY 2017-18, MIP and CORE will be reconciled through December 31, 2017 by March 31, 2018 and subsequent months will be reconciled on a monthly basis to ensure all variances are identified and addressed to ensure the timely completion and submission of the Exhibit J for FY 2017-18.

c) **AGREE. IMPLEMENTATION DATE: MARCH 2018**

The monthly reconciliation of MIP and CORE is heavily contingent upon the proper functioning of the automated reconciliation program in MIP that was designed by the system implementation consultant but was not finalized and available to the Center until July 2017. The accurate and correct feeding of data from MIP to CORE is also a critical component. Therefore, the Center will work with our consultant to ensure the feed from MIP to CORE is working properly and investigate and correct any feed errors that are identified. In addition, the Center will work with our consultant to correct any issues identified with the automated reconciliation program to ensure the timely completion of the monthly reconciliation of MIP to CORE.

d) **AGREE. IMPLEMENTATION DATE: JANUARY 2018**

The Center will document any difficulties encountered in the MIP implementation to identify areas to improve for future system implementations.

e) **AGREE. IMPLEMENTATION DATE: FEBRUARY 2018**

In the Center's old financial system, users were given the rights to create and post journal entries, but the system would not allow a user to both create and post a journal entry. Unfortunately, MIP does not prevent a user from both creating and posting a journal entry. While employees were instructed to never create and post the same journal entry, the system did not prevent them from doing so. Therefore, effective February 1, 2018, no users will be given rights to create and post journal entries. Those employees delegated transaction approval authority will only have the right to post journal entries but never to create a journal entry and those employees who create journal entries will never have the ability to post journal entries.

f) **AGREE. IMPLEMENTATION DATE: APRIL 2018**

The Controller will review and update all existing policies and procedures regarding requirements for reviews of journal entries, including requirements for supervisory reviews, and hard copy sign-offs and comparisons of all entries posted in MIP to the manual journal entry sign off, and ensure that accounting staff are properly trained and fully understand the requirements of the policy.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

MIP Fund Accounting General Information Technology Controls

Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding to be sensitive in nature and not appropriate for public disclosure. Therefore, the following finding has been provided to the Center in a separate confidential memo.

MIP is a vendor-developed, software system hosted by the Center. MIP is password protected and access is controlled by rights granted by the information technology department, after first being reviewed and approved by the controller. Program changes, including patches and fixes, are provided by the vendor and the Center tests and implements the changes.

WHAT WAS THE PURPOSE OF THE AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether the Center had appropriate information technology general controls (IT controls) in place over MIP during fiscal year 2017, related to account management and change management. We conducted staff interviews and reviewed documentation to obtain an understanding of the relevant MIP IT processes and controls.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the National Institute of Standards and Technology (NIST), which is one of the primary standards bodies used by governments for their information security policy framework.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

We identified problems with the overall IT controls within MIP for account management and change management.

WHY DID THE PROBLEM OCCUR?

The Center has not dedicated staff resources to develop and implement adequate IT controls related to account management and change management.

WHY DO THESE PROBLEMS MATTER?

These problems matter because the Center is responsible for the information contained in MIP and ensuring that appropriate account management and change management controls are in place and operating effectively to reduce the risk of unauthorized access and changes to the system are made to the system.

CLASSIFICATION OF FINDING – MATERIAL WEAKNESS

RECOMMENDATION 2017-003

The Auraria Higher Education Center (the Center) should prioritize staff time to improve information technology controls to safeguard information contained in MIP by:

- a) Developing, documenting, and implementing IT policies and procedures, including those related to system account management and change management.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

- b) Ensuring compliance with the National Institute of Standards and Technology (NIST) security framework to mitigate the specific related problems noted in the confidential finding.
- c) Formalizing account management procedures, as well as documenting and retaining evidence to mitigate the specific related problems noted in the confidential finding.
- d) Ensuring compliance with the National Institute of Standards and Technology (NIST) security framework to mitigate the specific related problems noted in the confidential finding.
- e) Ensuring compliance with the National Institute of Standards and Technology (NIST) security framework to mitigate the specific related problems noted in the confidential finding.
- f) Developing, documenting, and implementing program change controls to mitigate the specific related problems noted in the confidential finding.

Response

- a) AGREE. IMPLEMENTATION DATE: JUNE 2018

The AHEC IT director will explore IT best practices and continue to develop, document, and implement written IT policies and procedures to ensure safeguards around account management and change management.

- b) AGREE. IMPLEMENTATION DATE: JANUARY 2018

AHEC will ensure compliance with the National Institute of Standards and Technology (NIST) security framework to mitigate the specific related problems noted in the confidential finding.

- c) AGREE. IMPLEMENTATION DATE: JANUARY 2018

AHEC will formalize account management procedures, as well as documenting and retaining evidence to mitigate the specific related problems noted in the confidential finding.

- d) AGREE. IMPLEMENTATION DATE: JANUARY 2018

AHEC will ensure compliance with the National Institute of Standards and Technology (NIST) security framework to mitigate the specific related problems noted in the confidential finding.

- e) AGREE. IMPLEMENTATION DATE: JANUARY 2018

AHEC will ensure compliance with the National Institute of Standards and Technology (NIST) security framework to mitigate the specific related problems noted in the confidential finding.

- f) AGREE. IMPLEMENTATION DATE: FEBRUARY 2018

AHEC will develop, document, and implement program change controls to mitigate the specific related problems noted in the confidential finding.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

CORE Access Management

The Colorado Operations Resource Engine (CORE) is the State of Colorado's accounting system. The Center provides summarized information to CORE through an automated interface with its MIP Fund Accounting (MIP) system. The Office of the State Controller (OSC) is responsible for aggregating this financial information with similar data from other departments to prepare the statewide financial statements.

WHAT WAS THE PURPOSE OF THE AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether only authorized individuals within the Center had access to CORE during the period of review, whether CORE access was removed in a timely manner for terminated employees, and whether the Center was performing periodic access reviews. We evaluated whether CORE access was removed in a timely manner for terminated employees and whether only authorized individuals within the Center had access to CORE during the period of review. We conducted staff interviews and reviewed documentation to obtain an understanding of CORE user access policies and procedures. We reviewed CORE user access and compared the access to a listing of terminated employees.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

The OSC has developed procedures which apply to all State departments and outline the requirements for managing employee access to CORE. The Center is responsible for determining and monitoring its staff's access to CORE, including ensuring that access is disabled when a user no longer works for the department.

Specifically, when a user no longer works for the department, CORE User Access Procedure Number SWF.PO.01 (Procedure) requires that, "Each cabinet must disable access for any user who has terminated employment with a department. Access should be disabled immediately, to the extent possible." In this instance, "cabinet" is referring to management at the Center. In May 2017, the procedure was updated to require departments to disable access for any user who has terminated employment with their department as soon as possible, and at least, by the end of the same calendar month or by the 15th of the following calendar month when the employee's last day falls within the last 10 days of the month.

As our testing involved terminations that occurred prior to the May 2017 updated procedures and based on auditor judgment, we used a threshold of 5 business days of employment termination for determining whether a user account was disabled "immediately, to the extent possible." In addition, the procedure states that "departments are required to periodically reconcile lists of terminated employees with CORE users to ensure all terminated employees have been disabled in CORE."

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

The Center did not ensure its CORE user access was disabled "immediately, to the extent possible," when employees were terminated or left employment with the Center during fiscal year 2017. We identified five terminated employees with CORE access for which the Center failed to disable this access within five days of employment termination. The following table presents the employee's termination date, but we found access had not been disabled as of the date of our audit work in July 2017.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit
Findings and Recommendations
Year ended June 30, 2017

Termination date	Number of Months After Termination (Approximated)*
December 2, 2016	7 months
April 21, 2016	15 months
November 30, 2016	8 months
October 26, 2015	21 months
January 25, 2017	6 months

* Number of months calculated from termination date to July 2017, which was the date of field work. The Center terminated access after identification of the exceptions.

Based on our additional testing, we determined that none of these employees had made any edits in CORE subsequent to the date of termination. In addition, the employee's network access was removed immediately upon termination. Once network access is removed, an employee is not able to access CORE except through a location that has CORE on their server. In such circumstances, the employee would have access to CORE even through the network access was terminated. In addition, the Center does not review CORE user access on a periodic basis to ensure access is appropriate or disabled for terminated employees.

WHY DID THE PROBLEM OCCUR?

The Center does not have formal, documented procedures in place to ensure it is in compliance with the OSC's CORE procedures related to CORE user account management, including disabling staff access immediately upon termination and performing access reviews for terminated staff.

WHY DO THESE PROBLEMS MATTER?

These problems matter because the Center is responsible for the information contained in CORE and ensuring that staff who need access to CORE have appropriate access. By not disabling access upon termination and not performing periodic access reviews, the Center is at risk of users inappropriately accessing and modifying data, including confidential information, in CORE, which could impact the overall data reliability at it relates to financial reporting.

CLASSIFICATION OF FINDING - SIGNIFICANT DEFICIENCY

RECOMMENDATION 2017-004

The Auraria Higher Education Center (Center) should improve information technology controls to safeguard information contained in CORE by developing, documenting, and implementing procedures for:

- a) Disabling CORE user access in a timely manner for employees that leave the Center.
- b) Periodically reconciling CORE access for all staff to ensure that access is disabled appropriately for terminated employees.

AURARIA HIGHER EDUCATION CENTER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2017

Response

a) AGREE. IMPLEMENTATION DATE: JULY 2017

Employees of AHEC log in to CORE through Zscaler, using the same user ID given to access AHEC's network. Upon an employee's termination, AHEC's IT department immediately disables the employee's user ID in Active Directory, which is the only method of accessing the network (including Zscaler). Access was disabled immediately at AHEC but not within CORE. On July 28, 2017, the controller disabled all terminated employees that were still active in CORE. The practice of disabling user access timely was immediately implemented with the next employee who left AHEC on September 29, 2017, whose CORE access was disabled on October 2, 2017.

b) AGREE. IMPLEMENTATION DATE: JULY 2017

The controller reconciled CORE access for all staff on July 28, 2017 when all terminated employees were disabled. A review of all users by the controller was again performed when employees leaving AHEC were disabled in CORE on October 2, 2017 and December 22, 2017. There are currently 13 active CORE users for AHEC. The controller will continue to reconcile and sign off on CORE access for all staff whenever a user is enabled or disabled in CORE and on a monthly basis.



KPMG LLP
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1225 17th Street
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Independent Auditors' Report

Members of the
Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities of the Auraria Higher Education Center (the Center), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Auraria Higher Education Center as of June 30, 2017 and 2016, and the respective changes in financial position and the cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 28 to 36 and schedule of proportionate share of net pension liability and employer contributions on page 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2018 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado
January 26, 2018

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

(Unaudited)

June 30, 2017 and 2016

This section of the Auraria Higher Education Center's (the Center) financial statements presents discussion and analysis, prepared by the Center's management, of the Center's financial performance during the fiscal years ended June 30, 2017 and June 30, 2016 with comparable information for 2015. The purpose of this section is to provide an objective and easily readable analysis of the Center's financial position and results of operations based on currently known facts, decisions, and opinions. It should be read in conjunction with the financial statements and the related notes.

Understanding the Comparative Financial Report

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

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

Statements of Net Position

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

As of June 30, 2017 and 2016, total assets and deferred outflows of resources of the Center exceeded total liabilities and deferred inflows of resources by \$107.9 million and \$124.3 million, respectively. Net investment in capital assets represents the Center's investment in capital assets, net of accumulated depreciation and outstanding debt related to acquisition, construction, or improvement of those assets. This category decreased by \$1.0 million in fiscal year 2017 as compared to a \$14.3 million increase in fiscal year 2016. Since these are capital assets that provide the facilities and infrastructure necessary for the three constituent institutions to provide educational services, these assets are not available for future spending.

Restricted expendable net position represents resources that are subject to externally imposed stipulations regarding their use. Restricted net position totaled \$8.2 million as of June 30, 2017 compared to \$5.5 million as of June 30, 2016, which represents 7.7% of net position in 2017 and 4.4% of net position in 2016.

Unrestricted net position is not subject to externally imposed stipulations although these resources may be designated for specific purposes by the Center's management or board of directors. This category is negative due to pension obligations of \$96.5 million at June 30, 2017 and \$54.8 million at June 30, 2016, exceeding the Center's reserves. Changes in two actuarial assumptions primarily contributed to the significant increase in net pension liability from fiscal year 2016 to fiscal year 2017. See note 8(a) for additional information. Unrestricted net position totaled \$(52.3) million as of June 30, 2017 compared to \$(34.2) million as of June 30, 2016. It

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

(Unaudited)

June 30, 2017 and 2016

decreased by \$47.4 million, or 309.1%, to \$(32.0) million at June 30, 2015 as a result of the \$46.4 million cumulative effect of the change in accounting principle from the implementation of GASB 68.

Total assets and deferred outflows of resources increased \$20.2 million primarily due to an increase in deferred outflows related to pension obligations. Total liabilities and deferred inflows increased by \$38.4 million primarily due to the increase in pension obligation.

Condensed Statements of Net Position

	June 30		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(In thousands)		
Assets:			
Current assets	\$ 26,185	24,568	30,275
Capital assets, net	241,180	244,970	233,345
Other noncurrent assets	<u>24,990</u>	<u>25,345</u>	<u>26,780</u>
Total assets	292,355	294,883	290,400
Deferred outflows of resources	<u>31,661</u>	<u>7,712</u>	<u>3,673</u>
Total assets and deferred outflows of resources	<u>\$ 324,016</u>	<u>302,595</u>	<u>294,073</u>
Liabilities:			
Current liabilities	\$ 20,084	20,028	22,734
Noncurrent liabilities	<u>195,259</u>	<u>156,774</u>	<u>155,667</u>
Total liabilities	215,343	176,802	178,401
Deferred inflows of resources	<u>1,382</u>	<u>1,492</u>	<u>159</u>
Total liabilities and deferred inflows of resources	<u>\$ 216,725</u>	<u>178,294</u>	<u>178,560</u>
Net position:			
Net investment in capital assets	\$ 152,019	153,049	138,739
Restricted for expendable purposes	8,205	5,491	8,821
Unrestricted	<u>(52,933)</u>	<u>(34,240)</u>	<u>(32,047)</u>
Total net position	<u>\$ 107,291</u>	<u>124,300</u>	<u>115,513</u>

Statements of Revenue, Expenses, and Changes in Net Position

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

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

(Unaudited)

June 30, 2017 and 2016

For fiscal year 2017, the operating and nonoperating activities of the Center resulted in a decrease in net position of \$16.4 million as compared to an increase of \$8.8 million for fiscal year 2016. For fiscal year 2017, operating revenue totaled \$63.6 million while operating expenses totaled \$83.9 million, resulting in an operating loss of \$20.3 million. For fiscal year 2016, operating revenue totaled \$63.1 million while operating expenses totaled \$65.3 million, resulting in an operating loss of \$2.2 million. The increase in operating loss from fiscal year 2016 to 2017 of \$18.1 million was primarily the result of a \$16.4 million increase in pension expense resulting from the Center's pension obligation as of June 30, 2017.

Support from the three constituent institutions increased approximately \$.5 million from 2016 to 2017 while revenue from auxiliary enterprises increased \$3.2 million from 2016 to 2017, primarily as a result of increased institutional project revenues, parking revenues, and Starbucks revenues. In 2017, approximately \$2.2 million of auxiliary revenue and auxiliary reserves were used to support general operating costs. For 2017 and 2016, the State of Colorado (State) provided \$6.3 million and \$14.8 million, respectively, in capital contributions primarily for the fire alarm and sprinkler projects, the Auraria Library Renovation, and improving Americans with Disabilities Act (ADA) accessibility on 10th Street.

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

(Unaudited)

June 30, 2017 and 2016

Condensed Statements of Revenue, Expenses, and Changes in Net Position

	Year ended June 30		
	2017	2016	2015
	(In thousands)		
Operating revenue:			
Auxiliary enterprises	\$ 35,095	31,879	32,700
Revenue from constituent institutions	22,753	22,245	21,897
Student fees	5,459	5,426	5,220
Other operating revenue	263	3,546	693
Total operating revenue	<u>63,570</u>	<u>63,096</u>	<u>60,510</u>
Operating expenses:			
Auxiliary enterprises	33,347	27,934	29,849
Operation and maintenance of plant	18,273	17,569	16,253
Institutional support	18,179	5,072	4,695
Academic support	1,409	1,362	1,317
Public service	69	(65)	108
Depreciation	13,213	13,465	13,200
Total operating expenses	<u>84,490</u>	<u>65,337</u>	<u>65,422</u>
Operating loss	<u>(20,920)</u>	<u>(2,241)</u>	<u>(4,912)</u>
Nonoperating revenue (expenses):			
Investment income	199	509	338
Interest expense on capital debt	(4,128)	(4,501)	(4,329)
Gain on disposal of capital assets	1,522	267	260
Total nonoperating expenses, net	<u>(2,407)</u>	<u>(3,725)</u>	<u>(3,731)</u>
Capital contributions, grants, and gifts	<u>6,318</u>	<u>14,753</u>	<u>8,060</u>
Increase (decrease) in net position	<u>(17,009)</u>	<u>8,787</u>	<u>(583)</u>
Net position, beginning of year as previously reported	124,300	115,513	162,535
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>(46,439)</u>
Net position, beginning of year as restated	<u>124,300</u>	<u>115,513</u>	<u>116,096</u>
Net position, end of year	<u>\$ 107,291</u>	<u>124,300</u>	<u>115,513</u>

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

(Unaudited)

June 30, 2017 and 2016

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions showed an average decrease overall between fall 2015 and fall 2016 of 0.7% due to an 1.1% headcount enrollment decrease for Community College of Denver, a 1.6% headcount enrollment decrease for Metropolitan State University of Denver, and a 0.8% headcount enrollment increase for University of Colorado Denver. Estimates for fall 2017 predict a very slight increase for all three institutions.

Capital Assets

At June 30, 2017, the Center had approximately \$241.2 million invested in capital assets, net of accumulated depreciation, of approximately \$238.6 million. At June 30, 2016, the Center had approximately \$245.0 million invested in capital assets, net of accumulated depreciation, of approximately \$225.4 million. For the years ended June 30, 2017 and 2016, depreciation expense was approximately \$13.2 million and \$13.5 million, respectively.

A summary of capital assets is provided below:

	June 30		
	2017	2016	2015
		(In thousands)	
Land	\$ 27,896	27,896	27,896
Land improvements	14,951	11,473	5,327
Buildings and improvements	165,834	175,396	183,491
Equipment	4,383	4,855	3,945
Construction in progress	28,116	25,350	12,686
Total capital assets, net	<u>\$ 241,180</u>	<u>244,970</u>	<u>233,345</u>

Construction in progress increased approximately \$2.8 million during fiscal year 2017 primarily due to ongoing construction of the Auraria Library Renovation project that is expected to be completed late fall 2017.

In December 2008, the Center purchased a parcel of land adjacent to campus, increasing the acreage of the campus by 13.54 acres. The cost of the new parcel was approximately \$16.5 million, and as part of the campus master plan, the Center's board of directors, at their December 2010 meeting, approved the property as the location for the Metropolitan State University of Denver's Regency Athletic Complex, which was completed in February 2015 and includes tennis courts, three athletic fields (soccer, baseball, and softball), and a 23,000-square-foot locker room and training facility. The Center owns the land and Metropolitan State University of Denver owns the fields and facilities on the land.

On October 7, 2010, the Regional Transportation District (RTD) filed a Petition in Condemnation to acquire 1.04 acres of the aforementioned 13.54 acres of land. On December 8, 2010, the Court granted immediate possession of the property to RTD, including any and all claims, rights, title, interests, easements, liens, encumbrances, reversionary interests, and rights of entry, upon payment of just compensation in the amount of \$1,515,700.

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

(Unaudited)

June 30, 2017 and 2016

Net proceeds from the land condemnation with interest and gains in the amount of \$1,619,167 are currently being held by Wells Fargo Bank, as trustee, until these funds are needed to pay the final debt service obligations on the Series 2008 Land Acquisition Certificates, with final maturity on May 1, 2028.

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

Bonds and Capital Leases

At June 30, 2017, the Center had approximately \$103.2 million of bond and capital lease obligations outstanding as compared to \$107.3 million as of June 30, 2016. The outstanding revenue bonds as of June 30, 2017 comprise Parking Revenue Bonds totaling \$41.1 million and Student Fee Revenue Bonds totaling \$26.7 million. These debt service requirements are met by pledged revenue from the Center's parking operations and student fees.

The capital lease obligations as of June 30, 2017 comprise three Certificates of Participation totaling \$35.4 million. The constituent institutions share in the cost of debt service of the three Certificates of Participation. During fiscal year 2017, the constituent institutions provided funding of \$2.3 million in excess of their annual allocation of state-appropriated funds to help fund these capital lease obligations.

During fiscal year 2017, long term debt decreased \$4.2 million from \$107.3 million in 2016 to \$103.1 million as the result of scheduled principal payments on the debt described above.

During fiscal year 2016, long-term debt decreased \$3.0 million from \$110.3 million in 2015 to \$107.3 million as the result of scheduled principal payments on the debt described above.

On August 12, 2015, the Center issued Series 2015A (Tax-Exempt) and 2015B (Taxable) Student Fee Revenue Bonds in the amounts of \$5,050,000 and \$250,000, respectively, for the purpose of financing the construction and equipping of the Tivoli Park/Quadrangle, the Tivoli Patio and Coffee Lounge, and other future student gathering spaces throughout the campus. Portions of the proceeds will be advanced by the Purchaser upon request of the Center in accordance with the requirements of the Bond Resolution adopted June 24, 2015. An initial advance of \$1,100,000 was made on August 12, 2015: \$850,000 from Series 2015A Tax-Exempt Bonds and \$250,000 from Series 2015B Taxable Bonds. A second advance of \$1,877,488 was made on May 26, 2016 from Series 2015A Tax-Exempt Bonds. The remaining Series 2015A Tax-Exempt Bond proceeds totaling \$2,322,512 will be requested as final project costs are incurred.

On March 9, 2016, the Center issued Series 2016 Parking Enterprise Revenue Refunding Bonds in the amount of \$5,845,000, together with other funds of the Center, for the purpose of current refunding \$6,370,000 in Series 2004A Parking Bonds. The Center completed the current refunding to reduce its total debt service payments by \$835,419 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$762,556.

On April 7, 2016, the Center issued Series 2016 Student Fee Revenue Refunding Bonds in the amount of \$7,415,000, together with other funds of the Center for the purpose of current refunding \$8,570,000 in Series 2006 Student Fee Bonds. The Center completed the current refunding to reduce its total debt service payments by \$452,363 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$435,332.

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

(Unaudited)

June 30, 2017 and 2016

See note 5 to the financial statements for additional information on bond and capital lease activity during the fiscal year.

Long-Term Debt

	June 30		
	2017	2016	2015
	(In thousands)		
Auxiliary enterprise revenue bonds	\$ 67,778	69,505	70,125
Capital lease obligations	35,376	37,819	40,161
Total long-term debt	<u>\$ 103,154</u>	<u>107,324</u>	<u>110,286</u>

Economic Outlook

During fiscal year 2017, the constituent institutions' allocation to fund the Center's general operations was \$19.6 million, as compared to \$18.9 million for fiscal year 2016. In addition, the constituent institutions provided an additional \$1.7 million in funding to be used exclusively for deferred maintenance projects across the aging campus. The Center's budget for fiscal year 2018 reflects a 2.0% increase to the base allocation of the constituent institutions to fund mandated salary increases for custodial and police staff and to offset a reduction in auxiliary fund operating transfers.

An extensive master plan study for the entire campus was completed in 2012 and provides direction on how to develop the campus over the next 20 years. The master plan identified areas of the Auraria Campus for each of the three constituent institutions to create their own neighborhoods and for new facilities to be developed within those neighborhoods, primarily utilizing existing parking lots. As a result, during the last several years, the constituent institutions have been working earnestly to formulate plans to fund and build institution-specific buildings, as described in the campus master plan.

On March 19, 2012, the first institution-specific building was opened to students, faculty, and staff by MSU Denver. The new Student Success Building added an estimated 145,000 square feet of space on campus for classrooms and faculty offices, specifically for MSU Denver students and professors, and provides students with a central location for a wide range of MSU Denver support services. Several months later, on August 1, 2012, MSU Denver opened its second building, the new Spring Hill Suites Hotel and Hospitality Learning Center, which included a 150-room hotel and conference center as well as an additional 30,000 square feet of space, including classrooms, specialty learning labs, and faculty offices, to provide hands-on training opportunities for students in MSU Denver's Hospitality, Tourism, and Events Department. The operations of the Marriott-chained hotel are being managed by a hotel management company. On May 2, 2013, the Community College of Denver opened its new building, Confluence, which added an estimated 87,000 square feet of space on campus for classrooms, administrative offices, and a wide range of CCD support services. The University of Colorado Denver opened its new Academic Building in August 2014, which added an estimated 120,000 square feet of campus space and is home to the College of Liberal Arts and Sciences and also provides a consolidated location for student services. MSU Denver's Aerospace and Engineering Sciences (AES) building opened August 2017 and contains an estimated 142,000 square feet of campus space that provides MSU Denver with a state-of-the-art building to support their new AES initiative, which fosters advantageous

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

(Unaudited)

June 30, 2017 and 2016

connections between aviation; aerospace science; civil, electrical, and mechanical engineering technology; computer information systems and computer science; and industrial design into a new curriculum.

The Center is nearing completion of the \$26.8 million Auraria Library Renovation that began in May 2014 and is expected to be fully completed by November 2017. Renovations were funded by the State of Colorado capital development funds. Renovations include new Lawrence Street Entrance, 10th Street Entrance Makeover, Collaborative High-Tech classrooms, nine new group study spaces, exterior window replacement, roof replacement, improved lighting system, and expansion and renovation of café/community area.

Finally, construction of one new institutional building and renovations to the North Classroom are underway. The new CU Denver Wellness Center was an initiative of the CU Denver student government and will include fitness facilities such as a lap pool, gymnasium, a "commuter haven" lounge for CU Denver students between classes, and other features. The building is expected to open spring 2018. CU Denver is funding a \$33.5 million renovation to the North Classroom that will upgrade virtually all building mechanical and electrical systems and also includes the renovation of 32 existing classrooms and other cosmetic improvements throughout the building. The renovations are expected to be completed by early 2018.

In addition to adding new buildings on the Auraria Campus, MSU Denver began construction in February 2013 of a 12.5-acre athletic complex that was built in phases and completed in February 2015. The Regency Athletic Complex contains eight tennis courts and a fitness trail encircling the site, a new soccer field, baseball field, and softball field, and central building that contains locker rooms, weightlifting areas, and meeting spaces. The complex serves varsity athletics, intramural sports, and academic programs as well as provides health, sports, and recreation opportunities to the surrounding underserved Denver communities and to downtown Denver businesses and residents. The land was financed and purchased by the Center in December 2008.

The Center broke ground in August 2015 on the Tivoli Quad project, a student-supported initiative, located on the east side of the Tivoli Student Union Building. This project was completed in May 2016 and provides a prime gathering space for students to relax, study, and socialize and includes a tiered patio with tables and seating, a park area with an amphitheater for concerts and events, beautiful landscaping elements for aesthetic value and shade, and road modifications to offer easier access in and out of the area. The Auraria Foundation provided a \$3.55 million grant in support of this project and student fees will continue to fund the debt issued to finance the remaining construction cost of the \$7.7 million project.

The Center's budget for fiscal year 2018 includes a \$0.25 parking rate adjustment approved by the Auraria board of directors at their May 25, 2016 meeting. At that meeting, the Board also approved a \$0.25 parking rate adjustment, effective July 1, 2016. A \$.50 rate increase was originally proposed and to be effective July 1, 2016; however, the Board spread the increase out over a two year period. The last rate adjustment occurred July 2013.

From the fall 2010 to the spring 2016, parking capacity declined by over 800 spaces, from 6,858 to 6,057 as a result of the ongoing construction by the three constituent institutions, and despite the construction and opening of the 925-space 5th Street Parking Garage on August 11, 2014. The structure was funded with \$16 million in bond proceeds and \$4 million in cash accumulated in the parking capital reserve fund. The construction of the CU Denver Wellness Center resulted in the loss of the Redwood parking lot and approximately 105 parking spaces, but the completion of the MSU Denver's Aerospace and Engineering Sciences (AES) Building brought the Dogwood lot back online with 171 additional spaces, increasing capacity for fall 2017 to over 6,200 spaces.

AURARIA HIGHER EDUCATION CENTER

Management's Discussion and Analysis

(Unaudited)

June 30, 2017 and 2016

The campus has one of the highest classroom utilization rates in the nation. State funding for maintenance projects has been limited and inadequate to meet the ever-increasing needs of the Center's aging campus infrastructure. Therefore, recognizing that reliance on the State is unrealistic given the current economic conditions, the Center prepared an eight-year deferred maintenance plan in early 2011, totaling over \$28.8 million, for the review and consideration of the constituent institutions. Beginning with the 2012 fiscal year, the three institutions committed and funded an additional appropriation of \$1.9 million to be exclusively used on deferred maintenance projects. The three institutions continued that annual additional commitment of \$1.9 million toward deferred maintenance during the 2013, 2014, 2015, and 2016 fiscal years. The amount was reduced to \$1.67 million for fiscal year 2017, bringing total deferred maintenance funding during the last six years to \$11.17 million. As part of the Center's fiscal year 2018 budget, the three institutions committed and funded an additional appropriation, over and above the \$20.0 million for general campus operations, of \$1.8 million, which was earmarked exclusively for deferred maintenance projects. To date, the deferred maintenance plan has focused on maintenance projects primarily tied to life safety and critical campus operations. During future budget discussions, the Center will work closely with the constituent institutions to continue to secure funding for the deferred maintenance plan.

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

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Net Position

June 30, 2017 and 2016

Assets and Deferred Outflows of Resources		2017	2016
Current assets:			
Cash and cash equivalents	\$	16,924,203	16,775,457
Accounts receivable, net		6,412,498	5,058,983
Notes receivable, current		894,328	851,285
Inventories		1,894,589	1,733,535
Prepaid expenses		58,959	148,961
Total current assets		<u>26,184,577</u>	<u>24,568,221</u>
Noncurrent assets:			
Restricted cash and cash equivalents		6,542,488	7,590,371
Restricted investments		6,127,616	4,510,952
Notes receivable		12,046,407	12,940,735
Prepaid bond costs		273,275	302,898
Capital assets, net		241,180,308	244,970,413
Total noncurrent assets		<u>266,170,094</u>	<u>270,315,369</u>
Total assets		<u>292,354,671</u>	<u>294,883,590</u>
Deferred outflows of resources:			
Deferred amount on refunding		1,164,238	1,306,937
Deferred amount on pension obligations		30,497,313	6,404,569
Total deferred outflows of resources		<u>31,661,551</u>	<u>7,711,506</u>
Total assets and deferred outflows of resources	\$	<u>324,016,222</u>	<u>302,595,096</u>
Liabilities and Deferred Inflows of Resources			
Current liabilities:			
Accounts payable and accrued liabilities	\$	7,971,558	8,785,334
Interest payable		525,984	538,056
Deposits held for others		1,590,501	1,435,275
Unearned revenue		2,644,906	2,186,686
Long-term debt, current		7,141,266	6,945,913
Compensated absences liability, current		209,551	136,941
Total current liabilities		<u>20,083,765</u>	<u>20,028,205</u>
Noncurrent liabilities:			
Long-term debt		96,012,532	100,377,605
Pension obligations		97,869,336	54,777,089
Compensated absences liability		1,377,578	1,619,740
Total noncurrent liabilities		<u>195,259,446</u>	<u>156,774,434</u>
Total liabilities		215,343,211	176,802,639
Deferred inflows of resources:			
Deferred amount on pension obligations		1,382,276	1,492,239
Total liabilities and deferred inflows of resources	\$	<u>216,725,487</u>	<u>178,294,878</u>
Net Position			
Net position:			
Net investment in capital assets	\$	152,018,793	153,048,750
Restricted for expendable purposes		8,204,746	5,491,100
Unrestricted		(52,932,803)	(34,239,632)
Total net position	\$	<u>107,290,735</u>	<u>124,300,218</u>

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

	2017	2016
Operating revenue:		
Auxiliary enterprises	\$ 35,094,747	31,879,438
Revenue from constituent institutions	22,753,126	22,244,500
Student fees	5,459,383	5,426,189
Other operating revenue	262,668	3,545,985
Total operating revenue	63,569,923	63,096,112
Operating expenses:		
Auxiliary enterprises	33,347,430	27,934,039
Operation and maintenance of plant	18,272,901	17,569,418
Institutional support	18,178,549	5,071,953
Academic support	1,408,934	1,361,777
Public service	69,296	(64,716)
Depreciation	13,213,146	13,465,326
Total operating expenses	84,490,255	65,337,797
Operating loss	(20,920,332)	(2,241,685)
Nonoperating revenue (expenses):		
Investment income	198,876	509,144
Interest expense on capital debt	(4,127,559)	(4,500,619)
Gain on disposal of capital assets	1,521,966	267,377
Nonoperating expenses, net	(2,406,717)	(3,724,098)
Loss before other revenue, expenses, gains, or losses	(23,327,050)	(5,965,783)
Other revenue, expenses, gains, or losses:		
State capital contributions	6,317,567	14,753,250
Increase (decrease) in net position	(17,009,483)	8,787,467
Net position, beginning of year	124,300,218	115,512,751
Net position, end of year	\$ 107,290,735	124,300,218

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received:		
Student fees	\$ 5,706,687	5,480,836
Revenue from constituent institutions	22,428,070	22,456,146
Sales of products and services	33,640,505	34,710,537
Cash payments:		
Payments for employees	(23,391,280)	(24,367,801)
Payments to suppliers	(27,930,360)	(25,867,532)
Net cash provided by operating activities	<u>10,453,622</u>	<u>12,412,186</u>
Cash flows from noncapital financing activities:		
Receipts of deposits held in custody	13,328,704	10,531,433
Disbursements of deposits held in custody	(12,231,803)	(10,494,662)
Net cash provided by noncapital financing activities	<u>1,096,901</u>	<u>36,771</u>
Cash flows from capital and related financing activities:		
State appropriations	6,317,566	14,987,311
Capital grants and gifts	—	1,650,000
Proceeds from capital debt	2,322,512	16,237,488
Proceeds from insurance	1,521,967	—
Acquisition and construction of capital assets	(11,585,661)	(27,183,207)
Principal received on notes receivable	851,285	813,025
Principal paid on debt refunding	—	(14,940,000)
Principal paid on long-term debt	(6,945,913)	(4,754,922)
Interest paid on long-term debt	(3,513,628)	(3,995,791)
Net cash used in capital and related financing activities	<u>(11,031,872)</u>	<u>(17,186,096)</u>
Cash flows from investing activities:		
Sales of investments	55,336	177,589
Purchase of investments	(1,676,264)	—
Investment income	203,140	520,481
Net cash (used in) provided by investing activities	<u>(1,417,788)</u>	<u>698,070</u>
Net decrease in cash and cash equivalents	(899,137)	(4,039,069)
Cash and cash equivalents, beginning of year	<u>24,365,828</u>	<u>28,404,897</u>
Cash and cash equivalents, end of year	<u>\$ 23,466,691</u>	<u>24,365,828</u>

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER

Business-Type Activities

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (20,920,332)	(2,241,685)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	13,213,146	13,465,326
Bad debt expense	(6,145)	21,174
Decrease (increase) in assets:		
Accounts receivable	(2,289,045)	77,763
Inventories	(161,054)	113,526
Prepaid expenses	90,002	(51,515)
Deferred outflows	(23,999,531)	(4,086,177)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	1,348,843	(1,047,196)
Unearned revenue	458,220	(605)
Compensated absences liability	(169,552)	145,913
Pension liability	43,092,248	4,682,132
Deferred inflows	(203,176)	1,333,530
Net cash provided by operating activities	\$ 10,453,624	12,412,186
Supplemental cash flow information:		
Accounts payable related to capital asset purchases	\$ 2,162,620	743,149

See accompanying notes to financial statements.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(1) Summary of Significant Accounting Policies

(a) Nature of Operations

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

The financial statements of the Center, which is an institution of higher education of the State, are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of the Center. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Financial results for the State are presented in separate statewide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in these statewide financial statements.

The board of directors of the Center is a corporate body created by the State. The authority under which the Center operates is Article 70 of Title 23, Colorado Revised Statutes (C.R.S.). The Center's board of directors consists of nine voting members and two nonvoting members. Three of the voting members are appointed by the Governor of the State. In addition, the governing boards of each of the three constituent institutions appoint a voting member, and the president or chief executive officer of each of the constituent institutions also serves as a voting member. The nonvoting members are appointed by the students and faculties of the constituent institutions.

(b) Basis of Accounting and Presentation

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

The operations of the Center are accounted for as an enterprise fund business-type activity. Enterprise funds are used to account for those operations for which the pricing policies of the entity establish fees and charges designed to recover its costs, including capital costs such as depreciation and debt service.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(c) Use of Estimates

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

(d) Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, cash and cash equivalents and restricted cash and cash equivalents consisted primarily of U.S. Treasury money market funds, certificates of deposit, cash on hand, and amounts on deposit with the Colorado State Treasurer (the Treasurer).

(e) Investments and Investment Income

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

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

(f) Restricted Cash and Cash Equivalents and Restricted Investments

Restricted cash and cash equivalents and restricted investments consist of deposits held for others and required bond reserves.

(g) Accounts Receivable, Net

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

	<u>2017</u>	<u>2016</u>
Constituent institutions	\$ 1,891,383	3,016,184
State of Colorado central collections	787,554	757,727
Book Center credit memos due from vendors	654,094	616,797
Auxiliary enterprises	1,887,182	801,488
Other	<u>2,045,898</u>	<u>716,591</u>
	7,266,111	5,908,787
Less allowance for doubtful accounts	<u>(853,613)</u>	<u>(849,804)</u>
Accounts receivable, net	<u>\$ 6,412,498</u>	<u>5,058,983</u>

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

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(h) Notes Receivable

In 2009, the Center entered into capital lease arrangements with the constituent institutions to lease space in the Science Building. The proceeds of these capital lease arrangements will be used by the Center to fund the \$20,133,417 due to the State as required under the State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 (the Certification) (refer to note 5 for more details).

Notes receivable consist of the following at June 30:

	2017	2016
Science building – receivable from constituent institutions, current	\$ 894,328	851,285
Science building – receivable from constituent institutions, long term	12,046,407	12,940,735
Total notes receivable	\$ 12,940,735	13,792,020

The notes receivable balances are considered to be fully collectible as of June 30, 2017 and 2016.

(i) Inventories

The Campus provides an academic bookstore utilized by the three constituent institutions, consisting of new and used textbooks, insignia items, apparel, electronics, convenience items, and other supplies. The Center is responsible for managing and maintaining the bookstore and carries the inventory at the lower of market or cost method. Provisions are made for obsolete inventory on a periodic basis. Provisions recorded for the years ended June 30, 2017 and 2016 totaled (\$69,329) and \$11,255, respectively.

(j) Capital Assets, Net

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

Land improvements	20 years
Buildings and improvements	20–40 years
Equipment	3–22 years

The following is the capitalization threshold used by the Center:

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

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

Capital leases consist of direct financing leases, in which the Center is the lessor with the constituent institutions in relation to the Science Building.

The Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. The Center ceased borrowing funds for the asset that was placed in service for intended use in fiscal year 2015; therefore, no interest was due or capitalized in 2017 or 2016, respectively.

(k) Prepaid Bond Costs and Premiums and Discounts

Prepaid bond costs, which consist of bond insurance premiums, as well as bond premiums and discounts, are deferred and amortized over the life of the related bonds as a component of interest expense.

(l) Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

The deferred outflow balances are amortized as a component of interest or pension expense based on:

- Losses on refunding of debt using the straight-line method over the remaining life of the old bonds (refunded) debt or the life of the new debt, whichever is shorter
- Pension contributions made subsequent to the December 31 measurement date used by Colorado Public Employees' Retirement Association (PERA)
- The net difference between projected and actual earnings on pension plan investments.

The deferred inflow balances are amortized as a component of pension expense based on:

- Pension plan differences between expected and actual experience
- Changes in proportion and differences between contributions recognized and proportionate share of contributions.

(m) Pension Obligations

The Center participates in the State Division Trust Fund (SDTF), a cost-sharing, multiple-employer, defined-benefit pension fund administered by PERA. Information regarding the measuring of the net pension liability, pension expense, and related deferred outflows and deferred inflows of resources are described in detail in notes 4, 7, and 8.

(n) Accrued Salaries

State Senate Bill 03-197 requires salaries that would normally be paid at the end of June to be paid July 1. In FY 2013, State House Bill 12-1246 was implemented, which excluded biweekly payroll amounts from this requirement. This resulted in an accrual of \$1,872,241 and \$1,979,287 that was included in accounts payable and accrued liabilities at June 30, 2017 and 2016, respectively.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(o) Compensated Absences

The Center employees may accrue annual and sick leave based on length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested at June 30, 2017 and 2016 is \$1,587,129 and \$1,756,681, respectively. Operating expenses for the years ended June 30, 2017 and 2016 include \$169,552 and \$145,913, respectively, representing the annual decrease/increase in the estimated compensated absences liability.

(p) Unearned Revenue

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

	2017	2016
Student fees for the summer semester	\$ 481,603	337,804
Childcare tuition collected in advance	2,859	2,859
Foundation Grant – Tivoli Quad Project	250,000	250,000
Early Learning Center grants	—	55,000
Media Center (Channel 54/Studio) – City & County of Denver	576,765	—
Deferred maintenance	1,111,384	1,111,384
Parking	—	8,540
Lot I Modular build-out fee	222,295	213,755
Campus damage	—	124,007
Student spaces fees	—	26,599
Colorado Historical Society	—	56,738
	\$ 2,644,906	2,186,686

(q) Classification of Revenue and Expenses

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

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

Nonoperating revenue and expenses – Nonoperating revenue and expenses include activities that have the characteristics of nonexchange transactions such as gifts and contributions, and other revenue sources that are defined as nonoperating revenue and expenses by Government Accounting Standards Board (GASB) Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state capital contributions, capital grants and gifts, interest expense in capital debt, and investment income.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(r) Functional Allocation of Expenses

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

(s) Income Taxes

As a state agency, the income of the Center is excluded from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, income not earned in exercise of the Center's essential government function would be subject to income tax. All income in fiscal year 2017 and 2016 was earned in the exercise of the Center's essential government functions.

(2) Deposits, Investments, and Investment Return

(a) Deposits and Cash Equivalents

At June 30, 2017 and 2016, the carrying value of the Center's deposits was \$23,207,451 and \$24,244,468, respectively. At June 30, 2017 and 2016, balances consist of deposits with the Treasurer, as described below, \$5,026,600 and \$5,355,236 in bank deposits, and \$56,724 and \$146,583 of cash on hand, respectively. The bank balances classified by custodial credit risk category are covered 100% by federal depository insurance or by collateral held by the pledging institutions' trust departments in the name of the state public deposit pool as required by the Public Deposit Protection Act.

(b) Investments

The Center deposits its cash with the Treasurer as required by C.R.S. The Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited with the Treasury are invested until the cash is needed. Earnings are allocated in proportion to the average daily cash balance for all participants in the pool. As of June 30, 2017 and 2016, the Center had cash on deposit, including restricted cash and cash equivalents, with the Treasurer of \$18,641,699 and \$18,242,346, respectively, which represented approximately 0.28% of the total \$6,770,200,000 and approximately 0.24% of the total \$7,408,500,000, respectively, in deposits in the Treasurer's Pool (Pool).

On the basis of the Center's participation in the Pool, the Center reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Additional information on investments of the State Treasurer's Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2017

(c) Custodial Credit Risk

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

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

purchase or the counterparty's trust department or agency but not held in the Center's or the State's name. As of June 30, 2017 and 2016, the Center has no investments that are subject to custodial risk.

(d) Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government.

(e) Interest Rate Risk

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. The Center does not have a formal investment policy, but manages various elements of investment risk by keeping a majority of investments within the State Treasury Pool, which falls under the Treasurer's investment policy, and maintains other investments in low-risk securities with high-credit ratings when purchased.

The following table lists the Center's restricted investments, by investment type, as of June 30, 2017 and 2016 for those investments not part of the Pool. The fair value amount is shown along with the credit quality rating and WAM:

<u>Investment type</u>	<u>Fair value amount</u>	<u>Credit rating</u>	<u>Weighted average maturity</u>
June 30, 2017:			
U.S. government agencies – explicitly guaranteed	\$ 4,131,206	Not rated	Not applicable
Commercial paper	<u>1,996,410</u>	Highest	0.07
Total restricted investments	<u>\$ 6,127,616</u>		
June 30, 2016:			
U.S. government agencies – explicitly guaranteed	\$ 2,510,476	Not rated	Not applicable
Commercial paper	<u>2,000,476</u>	Highest	0.50
Total restricted investments	<u>\$ 4,510,952</u>		

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(f) Fair Value of Investments

The following table lists the Center's restricted investment types as of June 30, 2017, using the fair market input to valuation technique, which determines the hierarchy of fair market value of the investments per Statement No. 72:

Investment type	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs
June 30, 2017:			
U.S. government securities – explicitly guaranteed	\$ 1,619,701	2,511,505	—
Commercial paper	—	1,996,410	—
Total restricted investments	\$ 1,619,701	4,507,915	—
June 30, 2016:			
U.S. government securities – explicitly guaranteed	\$ —	2,510,476	—
Commercial paper	—	2,000,476	—
Total restricted investments	\$ —	4,510,952	—

(g) Investment Income

Investment income consisted of the following for the years ended June 30, 2017 and 2016:

	2017	2016
Interest and dividend income	\$ 219,720	481,868
Net increase in fair value of investments	(20,844)	27,276
	\$ 198,876	509,144

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(3) Capital Assets

Capital asset activity for the year ended June 30, 2017 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 27,895,650	-	-	-	27,895,650
Land improvements	31,543,050	-	-	4,626,056	36,169,106
Buildings and improvements	374,633,821	42,686	-	1,624,944	376,301,451
Equipment	10,915,567	365,069	(8,125)	-	11,272,511
Construction in progress, net	25,349,784	9,017,768	-	(6,251,000)	28,116,552
Total capital assets	<u>470,337,872</u>	<u>9,425,523</u>	<u>(8,125)</u>	<u>-</u>	<u>479,755,270</u>
Less accumulated depreciation:					
Land improvements	20,069,838	1,147,818	-	-	21,217,656
Buildings and improvements	199,237,878	11,229,825	-	-	210,467,703
Equipment	6,059,743	835,502	(5,642)	-	6,889,603
Total accumulated depreciation	<u>225,367,459</u>	<u>13,213,145</u>	<u>(5,642)</u>	<u>-</u>	<u>238,574,962</u>
Total capital assets, net	<u>\$ 244,970,413</u>	<u>(3,787,622)</u>	<u>(2,483)</u>	<u>-</u>	<u>241,180,308</u>

As of June 30, 2017, the construction in progress primarily consisted of the fire sprinkler and alarm system upgrades, the Auraria Library Renovation, the Facility Services Building renovations, and smaller internal building improvement projects.

Capital asset activity for the year ended June 30, 2016 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 27,895,650	—	—	—	27,895,650
Land improvements	24,700,483	—	—	6,842,567	31,543,050
Buildings and improvements	370,646,258	—	—	3,987,563	374,633,821
Equipment	9,552,784	917,873	(239,217)	684,127	10,915,567
Construction in progress, net	12,686,249	24,177,792	—	(11,514,257)	25,349,784
Total capital assets	<u>445,481,424</u>	<u>25,095,665</u>	<u>(239,217)</u>	<u>—</u>	<u>470,337,872</u>
Less accumulated depreciation:					
Land improvements	19,374,440	695,398	—	—	20,069,838
Buildings and improvements	187,154,710	12,083,168	—	—	199,237,878
Equipment	5,607,653	686,761	(234,671)	—	6,059,743
Total accumulated depreciation	<u>212,136,803</u>	<u>13,465,327</u>	<u>(234,671)</u>	<u>—</u>	<u>225,367,459</u>
Total capital assets, net	<u>\$ 233,344,621</u>	<u>11,630,338</u>	<u>(4,546)</u>	<u>—</u>	<u>244,970,413</u>

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(4) Deferred Outflows/Inflows of Resources

The deferred outflows of resources represent the remaining unamortized deferral balances from losses on refunding of debt and amounts on pension obligations. The June 30, 2017 and 2016 debt-related deferral balances of \$1,164,238 and \$1,306,937, respectively, are included within the net investment in capital assets component of net position. The June 30, 2017 and 2016 pension obligations–related balances for deferred outflows of \$30,497,313 and \$6,404,569, respectively, and deferred inflows of \$1,382,276 and \$1,492,239, respectively, are included within the unrestricted component of net position.

A summary of deferred outflows/inflows of resources as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Deferred refunding – Series 2013 Student Fee Bonds	\$ 111,748	126,013
Deferred refunding – Series 2016 Student Fee Bonds	147,578	186,932
Deferred refunding – Series 2015 Parking Bonds	44,029	47,776
Deferred refunding – Series 2016 Parking Bonds	254,226	283,560
Deferred refunding – Series 2015 Admin COP	606,657	662,656
Deferred outflow on refunding	<u>\$ 1,164,238</u>	<u>1,306,937</u>
Deferred pension – pension investments	\$ 3,182,449	4,145,254
Deferred pension – experience gains and losses	964,023	797,646
Deferred pension – changes in assumptions	24,898,592	—
Deferred pension – proportionate share	—	—
Deferred pension – contributions after measurement date	1,452,249	1,461,669
Deferred outflow on pension obligations	<u>\$ 30,497,313</u>	<u>6,404,569</u>
Deferred pension – experience gains and losses	\$ 5	1,731
Deferred pension – changes in assumptions	294,085	648,404
Deferred pension – proportionate share	1,088,186	842,104
Deferred inflow on pension obligations	<u>\$ 1,382,276</u>	<u>1,492,239</u>

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(5) Long-Term Debt

The following is a summary of long-term debt for the Center for the year ended June 30, 2017:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Revenue bonds payable:					
Series 2004 parking	\$ 13,879,081	661,670	(1,605,000)	12,935,751	1,605,000
Series 2013 student fee	16,692,047	—	(775,609)	15,916,438	690,000
Series 2013A parking	16,248,593	—	(103,512)	16,145,081	65,000
Series 2015 parking	6,697,394	—	(61,364)	6,636,030	—
Series 2015 student fee	2,727,488	2,322,512	(250,000)	4,800,000	265,000
Series 2016 parking	5,845,000	—	(480,000)	5,365,000	500,000
Series 2016 student fee	7,415,000	—	(1,435,000)	5,980,000	1,465,000
Total revenue bonds payable	<u>69,504,603</u>	<u>2,984,182</u>	<u>(4,710,485)</u>	<u>67,778,300</u>	<u>4,590,000</u>
Capital lease obligations:					
Land acquisition, Series 2008	12,030,045	2,496	(715,000)	11,317,541	760,000
State capital construction financing, Series 2008	14,443,870	—	(890,913)	13,552,957	936,266
Administration facility, Series 2015	11,345,000	—	(840,000)	10,505,000	855,000
Total capital lease obligations	<u>37,818,915</u>	<u>2,496</u>	<u>(2,445,913)</u>	<u>35,375,498</u>	<u>2,551,266</u>
Total long-term debt	<u>\$ 107,323,518</u>	<u>2,986,678</u>	<u>(7,156,398)</u>	<u>103,153,798</u>	<u>7,141,266</u>

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

The following is a summary of long-term debt for the Center for the year ended June 30, 2016:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Revenue bonds payable:					
Series 2004 parking	\$ 14,786,441	697,640	(1,605,000)	13,879,081	1,605,000
Series 2006 parking	6,374,681	—	(6,374,681)	—	—
Series 2006 student fee	8,559,953	10,047	(8,570,000)	—	—
Series 2013 student fee	17,297,656	—	(605,609)	16,692,047	665,000
Series 2013A parking	16,347,105	—	(98,512)	16,248,593	65,000
Series 2015 parking	6,758,758	—	(61,364)	6,697,394	—
Series 2015 student fee	—	2,977,488	(250,000)	2,727,488	250,000
Series 2016 parking	—	5,845,000	—	5,845,000	480,000
Series 2016 student fee	—	7,415,000	—	7,415,000	1,435,000
Total revenue bonds payable	<u>70,124,594</u>	<u>16,945,175</u>	<u>(17,565,166)</u>	<u>69,504,603</u>	<u>4,500,000</u>
Capital lease obligations:					
Land acquisition, Series 2008	\$ 12,702,549	2,496	(675,000)	12,030,045	715,000
State capital construction financing, Series 2008	15,293,792	—	(849,922)	14,443,870	890,913
Administration facility, Series 2015	<u>12,165,000</u>	<u>—</u>	<u>(820,000)</u>	<u>11,345,000</u>	<u>840,000</u>
Total capital lease obligations	<u>40,161,341</u>	<u>2,496</u>	<u>(2,344,922)</u>	<u>37,818,915</u>	<u>2,445,913</u>
Total long-term debt	<u>\$ 110,285,935</u>	<u>16,947,671</u>	<u>(19,910,088)</u>	<u>107,323,518</u>	<u>6,945,913</u>

(a) Revenue Bonds Payable

The Center had the following bonds outstanding at June 30, 2017:

- Parking Enterprise Revenue Refunding Bonds, Series 2004B (Series 2004B Parking Bonds)
- Student Fee Revenue Refunding Bonds, Series 2013 (Series 2013 Student Fee Bonds)
- Parking Enterprise Revenue Bonds, Series 2013A (Series 2013A Parking Bonds)
- Parking Enterprise Revenue Refunding Bonds, Series 2015 (Series 2015 Parking Bonds)
- Student Fee Revenue Bonds, Series 2015 (Series 2015 Student Fee Bonds)
- Parking Enterprise Revenue Refunding Bonds, Series 2016 (Series 2016 Parking Bonds)
- Student Fee Revenue Refunding Bonds, Series 2016 (Series 2016 Student Fee Bonds).

(b) Series 2004 Parking Bonds

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

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

Interest on the Series 2004A bonds is payable in semiannual installments commencing on April 1, 2004. The principal amount of \$6,550,000 is payable in two annual installments of \$2,220,000 and \$4,330,000 due on April 1, 2028 and 2029, respectively. The Series 2004B Bonds accrete in value from the date of issuance, compounding semiannually, beginning April 1, 2004. Principal payments began on April 1, 2012 and range from \$75,000 to \$2,295,000. Interest payments also began on April 1, 2012 and range from 3.6% to 5.2%. The final installment is due April 1, 2028.

The Series 2004A and 2004B Parking Bonds are collateralized by revenue from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities. Series 2004A Bonds were paid off on April 1, 2015 with the proceeds of the Series 2015 Parking Enterprise Revenue Refunding Bonds.

At June 30, 2017 and 2016, the Series 2004 Parking Bonds accreted interest of \$661,670 and \$697,640, respectively, and have related prepaid bond costs of \$100,698 and \$109,329, respectively.

(c) Series 2013 Student Fee Bonds

On March 7, 2013, the Center issued \$17,040,000 in Series 2013 Bonds for the purpose of current refunding \$15,851,887 of Series 2003 Student Fee Revenue Bonds. These bonds were redeemed on May 1, 2013. As a result, the Series 2003 Bonds are considered defeased and the liability for those bonds has been removed from the Center's statements of net position. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$173,565, and was recorded as a loss on the refunding of the bonds. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources and is being charged to operations through the fiscal year 2025. Bonds maturing on or after May 1, 2024 can be called for redemption at the option of the Center's board of directors on or after May 1, 2023 as a whole or in part on any interest payment date, at a redemption price equal to the principal amount of the bonds redeemed, plus accrued interest to the redemption date.

The Center completed the current refunding to reduce its total debt service payments by \$1,618,461 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,583,423.

The Series 2013 Bonds are payable in semiannual installments with annual principal payments ranging from \$345,000 to \$4,550,000 and interest ranging from 2.5% to 4.0%. The final installment is due May 1, 2025. The Series 2013 Student Bonds are collateralized by revenue from student fees assessed for student facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2017 and 2016, the Series 2013 Bonds are shown net of a premium of \$866,438 and \$977,047, respectively, and an unamortized deferred loss on refunding of \$111,748 and \$126,013, respectively.

(d) Series 2013A Parking Bonds

On June 5, 2013, the Center issued \$15,680,000 in Series 2013A Parking System Revenue Bonds for the purpose of financing the construction and equipping of a four-story parking garage located at 5th Street and Walnut Street on the Auraria campus. The Series 2013A Parking Revenue Bonds are

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

payable in semiannual installments with annual principal payments ranging from \$55,000 to \$3,150,000 and interest ranging from 2.0% to 5.0%. The final installment is due April 1, 2034. Bonds maturing on or after April 1, 2024 can be called for redemption at par at the option of the Center's board of directors, in whole or in part at any time on or after April 1, 2023. The Series 2013A Bonds are collateralized by revenue from the operation of the parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2017 and 2016, the Series 2013A Parking Revenue Bonds are shown net of a premium of \$645,081 and \$683,593, respectively, and have related prepaid bond costs of \$104,874 and \$111,136, respectively.

(e) Series 2015 Parking Bonds

On February 26, 2015, the Center issued Series 2015 Parking Enterprise Revenue Refunding Bonds in the amount of \$6,030,000 for the purpose of current refunding \$6,550,000 in Series 2004A Parking Bonds. The Center refunded those bonds by placing the proceeds of the Series 2015 Parking Bonds and amounts held in reserve related to the Series 2004A Parking Bonds in an irrevocable trust to provide for the early redemption of the Series 2004A Parking Bonds. The Series 2004A Parking Bonds were redeemed on April 1, 2015. As a result, the Series 2004A Parking Bonds are considered defeased and the liability for those bonds has been removed from the Center's statements of net position.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$52,772. The 2004 Series bonds maturing on or after April 1, 2015 can be called for redemption at the option of the Center's board of directors on or after April 1, 2016 as a whole or in part on any interest payment date, at a redemption price equal to the principal amount of the bonds redeemed plus accrued interest to the redemption date. The Center completed the current refunding to reduce its total debt service payments by \$1,092,180 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$819,439.

The Series 2015 Bonds are payable in semiannual installments with annual principal payments beginning on April 1, 2015 ranging from \$115,000 to \$4,010,000 and interest ranging from 3.0% to 5.0%. The final installment is due April 1, 2029. The Series 2015 Bonds are collateralized by revenue from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2017 and 2016, the Series 2015 bonds are shown net of a premium of \$721,030 and \$782,394, respectively; an unamortized deferred loss on refunding of \$44,029 and \$47,776, respectively; and related prepaid bond costs of \$18,305 and \$19,863, respectively.

(f) Series 2015 Student Fee Bonds

On August 12, 2015, the Center issued Series 2015A (Tax-Exempt) and 2015B (Taxable) Student Fee Revenue Bonds in the amounts of \$5,050,000 and \$250,000, respectively, for the purpose of financing the construction and equipping of the Tivoli Park/Quadrangle, the Tivoli Patio and Coffee Lounge, and other future student gathering spaces throughout the campus. Portions of the proceeds will be advanced by the purchaser upon request of the Center in accordance with the requirements of the Bond Resolution adopted June 24, 2015. An initial advance of \$1,100,000 was made on August 12,

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

2015: \$850,000 from Series 2015 Tax-Exempt Bonds and \$250,000 from Series 2015 Taxable Bonds. A second advance of \$1,877,488 was made on May 26, 2016 from Series 2015 Tax-Exempt Bonds. The remaining Series 2015 Tax-Exempt bond proceeds were drawn on July 8, 2016 in the amount of \$1,720,903 and August 31, 2016 in the amount of \$601,609.

The Series 2015A Bonds are payable in semiannual installments on May 1 and November 1, with annual principal payments ranging from \$250,000 to \$485,000, a fixed interest rate of 2.66%, and payments commencing on November 1, 2015. Bonds maturing on or after May 1, 2019 can be called for redemption at par at the option of the Center's board of directors, in whole or in part at any time on or after May 15, 2018. The Series 2015B Bonds are due on May 1, 2016. Interest payments began on November 1, 2015 at a fixed rate of 1.25%.

The Series 2015 Fee Student Bonds are collateralized by revenue from student fees assessed for student facilities and spaces and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

(g) Series 2016 Parking Bonds

On March 9, 2016, the Center issued \$5,845,000 in Series 2016 Parking Enterprise Revenue Refunding Bonds, together with other funds of the Center for the purpose of current refunding \$6,370,000 of Series 2006 Parking Enterprise Revenue Refunding Bonds. These bonds were redeemed on April 1, 2016. As a result, the Series 2006 Parking Bonds are considered defeased and the liability for those bonds has been removed from the Center's statements of net position. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$293,338 and was recorded as a loss on the refunding of the bonds. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources and is being charged to operations through fiscal year 2026.

The Series 2016 Parking Bonds are subject to redemption prior to the stated maturity at the option of the Center's board of directors, in whole or in part (and if in part, in inverse order of the principal payment dates shown on Schedule I), on or after April 1, 2019 on the dates and at the redemption prices set forth below equal to the principal amount of the Series 2016 Parking Bonds being redeemed plus accrued interest to the redemption date, plus the applicable premium:

<u>Date</u>	<u>Price</u>
April 1, 2019 through March 31, 2020	103%
April 1, 2020 through March 31, 2021	102
April 1, 2021 through the maturity date	101

The Center completed the current refunding to reduce its total debt service payments by \$835,419 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$762,556.

The Series 2016 Parking Bonds are payable in semiannual installments with annual principal payments ranging from \$480,000 to \$1,090,000 and a fixed interest rate of 1.80%. The final installment is due April 1, 2026. The Series 2016 Parking Bonds are collateralized by revenue from the operation of

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2017 and 2016, the Series 2016 Bonds have an unamortized deferred loss on refunding of \$254,226 and \$283,560, respectively.

(h) Series 2016 Student Fee Bonds

On April 7, 2016, the Center issued \$7,415,000 in Series 2016 Student Fee Revenue Refunding Bonds, together with other funds of the Center, for the purpose of current refunding \$8,570,000 of Series 2006 Student Fee Revenue Refunding Bonds. These bonds were redeemed on May 1, 2016. As a result, the Series 2006 Student Fee Bonds are considered defeased and the liability for those bonds has been removed from the Center's statements of net position. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$196,770, and was recorded as a loss on the refunding of the bonds. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources and is being charged to operations through the fiscal year 2021.

The Series 2016 Student Fee Bonds are subject to redemption prior to the stated maturity at the option of the Center's board of directors, in whole or in part (and if in part, in inverse order of the principal payment dates shown on Schedule I) on or after May 1, 2017 on the dates and at the redemption prices set forth below equal to the principal amount of the Series 2016 Student Fee Bonds being redeemed plus accrued interest to the redemption date, plus the applicable premium:

<u>Date</u>	<u>Price</u>
May 1, 2017 through April 30, 2018	103%
May 1, 2018 through April 30, 2019	102
May 1, 2019 through the maturity date	101

The Center completed the current refunding to reduce its total debt service payments by \$452,363 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$435,332.

The Series 2016 Student Fee Bonds are payable in semiannual installments with annual principal payments ranging from \$1,435,000 to \$1,525,000 and a fixed interest rate of 1.40%. The final installment is due May 1, 2021. The Series 2016 Student Bonds are collateralized by revenue from student fees assessed for student facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2017 and 2016, the Series 2016 Bonds have an unamortized deferred loss on refunding of \$147,578 and \$186,932, respectively, and related prepaid bond costs of \$49,398 and \$62,571, respectively.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(i) Bond Maturity Schedule

Debt service to maturity for all bonds as of June 30, 2017 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2018	\$ 4,590,000	1,739,795	6,329,795
2019	4,655,000	1,684,686	6,339,686
2020	4,725,000	1,617,468	6,342,468
2021	4,810,000	1,548,306	6,358,306
2022	4,975,000	1,476,652	6,451,652
2023–2027	23,555,000	5,647,745	29,202,745
2028–2032	15,925,000	3,342,078	19,267,078
2033–2034	6,150,000	465,000	6,615,000
	<u>69,385,000</u>	<u>17,521,730</u>	<u>86,906,730</u>
Add premiums, net of discounts	2,232,548	—	2,232,548
Less unaccrued principal on Series 2004 Parking Bonds	<u>(3,839,248)</u>	<u>—</u>	<u>(3,839,248)</u>
	<u>\$ 67,778,300</u>	<u>17,521,730</u>	<u>85,300,030</u>

Reserve balances and requirements for outstanding bond issues at June 30, 2017 are as follows:

	<u>Reserve balance</u>	<u>Required reserve</u>
Series 2004 and Series 2016 Parking Bonds:		
Debt service reserve	\$ 2,543,700	2,540,740
Repair and replacement reserve	858,630	764,099
2013 Student Fee Bonds:		
Debt service reserve	\$ 1,911,351	1,838,574
Repair, replacement, and operation and maintenance reserve	350,000	350,000

As of June 30, 2017 and 2016, the Center believes it was in compliance with all bond covenants and related reserve requirements.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

Student bond fees and parking revenue were pledged as follows:

	2017	2016
Revenue source:		
Student fees pledged for bond payments	\$ 5,459,383	5,426,189
Interest earned on student fees pledged for bond payments	9,736	20,862
Parking revenue	10,652,459	9,842,216
Interest earned on parking revenue	169,276	335,038
	<u>\$ 16,290,854</u>	<u>15,624,305</u>

(j) Capitalized Leases

The Center is obligated under leases accounted for as capital leases. Assets under capital leases are included in the statements of net position at June 30, 2017 and 2016 as follows:

June 30, 2017	Cost	Accumulated depreciation	Carrying value
Administrative building	\$ 15,518,172	9,894,248	5,623,924
Land	14,983,536	—	14,983,536
Science building	97,807,826	25,514,199	72,293,627
Science building equipment	1,050,330	837,062	213,268
	<u>\$ 129,359,864</u>	<u>36,245,509</u>	<u>93,114,355</u>

June 30, 2016	Cost	Accumulated depreciation	Carrying value
Administrative building	\$ 15,518,172	9,328,138	6,190,034
Land	14,983,536	—	14,983,536
Science building	97,807,826	21,709,604	76,098,222
Science building equipment	1,050,330	634,807	415,523
	<u>\$ 129,359,864</u>	<u>31,672,549</u>	<u>97,687,315</u>

(k) Administrative Facility Series 2015

On March 26, 2015, the Center issued Series 2015 Certificates of Participation (COP) in the amount of \$13,060,000 for the purpose of current refunding \$12,635,000 in Series 2005 Certificates of Participation. The Center refunded those COPs by placing the proceeds of the Series 2015 Certificates of Participation in an irrevocable trust to provide for the early redemption of the Series 2005 Certificates of Participation. The Series 2005 Certificates of Participation were redeemed on May 1, 2015. As a

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

result, the Series 2005 COP are considered defeased and the liability for those COP has been removed from the Center's statements of net position.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$732,655 and was recorded as a loss on the refunding of the COP. The deferred amount on refunding is reported in the accompanying statements of net position as a deferred outflow of resources and is being charged to operations through the fiscal year 2028. The Series 2015 COP can be called for redemption at the option of the Center's board of directors on or after May 1, 2016 as a whole or in part on any interest payment date, at a redemption price equal to the principal amount of the bonds redeemed plus accrued interest to the redemption date. The Center completed the current refunding to reduce its total debt service payments by \$1,767,125 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,531,999.

The Series 2015 COP are payable in semiannual installments with annual principal payments beginning on May 1, 2015 ranging from \$820,000 to \$1,065,000 and interest rate at 2.2%. The final installment is due May 1, 2028. The Series 2015 COP are collateralized by revenue from the operation of parking facilities and earnings on the investment of the issuance's income fund less general operating expenses of those facilities.

At June 30, 2017 and 2016, the Series 2015 COP have an unamortized deferred loss on refunding of \$606,657 and \$662,656, respectively.

(I) Land Acquisition Series 2008

On December 30, 2008, the Center entered into an agreement to finance the acquisition of approximately 13.54 acres of land located south of West Colfax Avenue and west of Rio Court near the Campus. Issuance of Certificates of Participation (Series 2008 Land Acquisition Certificates) in the amount of \$16,500,000 was used to fund the project. The Center has entered into a leased property agreement with the three constituent institutions in order to finance the property acquisition. The institutions share 50% of the costs of debt service through their lease payments to the Center.

Effective November 1, 2013, based on the provisions of a Memorandum of Understanding entered into August 24, 2011 by the three constituent institutions and the Center, which amends and supplements the original leased property agreement, MSU Denver assumed responsibility for the entire 50% institutional share of the costs of the land debt service, while the Center will continue to fund the other 50% of debt service costs. MSU Denver assumed CU Denver and CCD's obligation under the original lease property agreement in exchange for paying for their respective shares of the \$3 million electrical infrastructure upgrade that was completed in March 2014, and was critical to the ongoing campuswide building expansion defined in the Campus Master Plan.

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

At June 30, 2017 and 2016, the Series 2008 Land Acquisition Certificates are shown net of an unamortized discount of \$27,458 and \$29,954, respectively.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

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

On November 6, 2008, the Treasurer completed a lease purchase agreement under which a Trustee (Wells Fargo Bank, National Association) issued \$230,845,000 of State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 (the Certificates). The Certificates were issued at a net premium of \$180,940 and were a combination of serial and term maturities with the final maturity in November 2027. The Certificates carry coupon rates ranging from 3.00% to 5.50% with a total interest cost of 5.40%. The Certificate proceeds will be used to fund renovations, additions, and new construction at 12 state institutions of higher education and are collateralized with existing properties at 11 of the 12 institutions. C.R.S. § 23-1-106.3 enacted in the 2008 session of the Colorado State General Assembly authorized the lease purchase and limited the lease payments to average \$16.2 million for the first 10 years and \$16.8 million for the second 10 years. The legislation envisions annual appropriations of Federal Mineral Lease program revenue to fund the semiannual lease payments required. Annual lease payments are made by the State and are subject to annual appropriations by the Legislature. As a result, the portion of the liability related to the Center of \$63,619,181 is recognized by the State and not included in the Center's financial statements.

On November 6, 2008, certificate proceeds were allocated to the Science Building renovation and addition project on the Campus in the amount of \$83,752,598 with \$63,619,181 funded through state appropriations and \$20,133,417 to be paid by the Center to the State. The Center pledged the Library/Media Center building and the King Center building as collateral for the project.

The Certificates are payable in semiannual installments with annual principal payments ranging from \$493,645 to \$1,590,823, with final payment maturing on November 1, 2027, and have an interest rate of 5.2%.

(n) Future Minimum Lease Payments

The following is a schedule of future minimum lease payments under all capital leases for the year ended June 30, 2017:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2018	\$ 2,551,266	1,621,594	4,172,860
2019	2,659,001	1,513,986	4,172,987
2020	2,774,820	1,394,793	4,169,613
2021	2,901,946	1,264,473	4,166,419
2022	3,040,381	1,132,694	4,173,075
2023–2027	17,464,719	3,395,935	20,860,654
2028–2031	4,010,823	163,044	4,173,867
	<u>35,402,956</u>	<u>10,486,519</u>	<u>45,889,475</u>
Less unamortized discount	<u>(27,458)</u>	<u>—</u>	<u>(27,458)</u>
	<u>\$ 35,375,498</u>	<u>10,486,519</u>	<u>45,862,017</u>

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(o) Ground Leases

On November 13, 2009, the Center entered into an interagency ground lease with MSU Denver to lease land occupied by their new Student Success Building. The new building added an estimated 145,000 square feet of space on campus for classrooms and faculty offices, specifically for MSU Denver students and professors, and will provide students with a central location for a wide range of MSU Denver support services. The groundbreaking for the building was held on December 3, 2010, with an opening date of March 2012.

The term of this lease shall be 50 years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, MSU Denver paid \$10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. MSU Denver shall be solely responsible for any and all operating expenses of the premises and improvements.

On October 28, 2010, the Center entered into an interagency ground lease with MSU Denver to lease land occupied by their new Hotel and Hospitality Learning Center. The new structure includes a 150-room hotel and conference center as well as an additional 28,000 square feet of space, including classrooms, specialty learning labs, and faculty offices, to provide hands-on training opportunities for students in MSU Denver's Hospitality, Tourism, and Events Department.

The term of this lease shall be 50 years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, MSU Denver paid \$15,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. MSU Denver shall be solely responsible for any and all operating expenses of the premises and improvements.

On December 22, 2011, the Center entered into an interagency ground lease with CCD to lease land occupied by their new building, Confluence. The new building added an estimated 87,000 square feet of space on campus for classrooms, administrative offices, and a wide range of CCD support services.

The term of this lease shall be 50 years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, CCD paid \$10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. CCD shall be solely responsible for any and all operating expenses of the premises and improvements.

On February 1, 2012, the Auraria Foundation donated 0.57 acres of land located at 1030 St. Francis Way on the Auraria Campus with an estimated market value of \$831,552 to the Center. The property is the site location of the St. Francis Center, a building formerly owned by the Auraria Foundation. Upon receipt of the donated land, the Center subsequently entered into an interagency ground lease with CCD to lease the donated land so that CCD could purchase the St. Francis Center building from the Auraria Foundation.

The term of this lease shall be 50 years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, CCD paid \$10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. CCD shall be solely responsible for any and all operating expenses of the premises and improvements.

On November 14, 2012, the Center entered into an interagency ground lease with CU Denver to lease land on which their new Academic Building was constructed. The new building added an estimated

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

120,000 square feet of space on campus for their College of Liberal Arts and Sciences, as well as a wide range of CU Denver support services.

The term of this lease shall be 50 years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, CU Denver paid \$10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. CU Denver shall be solely responsible for any and all operating expenses of the premises and improvements.

On October 14, 2015, the Center entered into an interagency ground lease with MSU Denver to lease land on which their new Aerospace Engineering Sciences (AES) building is being constructed. The new building will add an estimated 142,000 square feet of space on campus and will house five programs as part of the initiative fostering advantageous connections between aviation; aerospace sciences; civil, electrical, and mechanical engineering technology; and computer information systems and computer science. In addition, the AES initiative will include Colorado's only Institute for Advanced Manufacturing.

The term of this lease shall be 50 years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, MSU Denver paid \$10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. MSU Denver shall be solely responsible for any and all operating expenses of the premises and improvements.

On January 21, 2016, the Center entered into an interagency ground lease with CU Denver to lease land on which their new CU Denver Wellness Center is being constructed. The new building will add an estimated 85,000 square feet of space on campus and will include weight and fitness studios, basketball courts, a rock climbing wall, wellness and information center, training and assessment rooms, social lounge, locker rooms, a multiactivity court, and a six-lane indoor swimming pool.

The term of this lease shall be 50 years and rent in the amount of \$1 for the term of the lease was paid in advance in full upon execution of the lease agreement. In addition, CU Denver paid \$10,000 to reimburse reasonable out-of-pocket legal expenses incurred by the Center. CU Denver shall be solely responsible for any and all operating expenses of the premises and improvements.

(6) State Contributions and Allocations from Other State Agencies

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

For the year ended June 30, 2017, appropriated current fund expenditures were within the authorized spending authority. The Center had total current funds appropriations of \$19,628,225 for which the constituent institutions funded \$19,628,225. The constituent institutions also provided nonappropriated funding of \$1,673,760 for various deferred maintenance projects. An additional amount of \$1,575,045 was provided by MSU Denver and CU Denver in lease payments related to the financed portion of the Science Building Project. MSU Denver provided additional nonappropriated funding of \$719,475 to fund a portion of the debt service payments on the additional 13 acres of land purchased in December 2008.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

For the year ended June 30, 2016, appropriated current fund expenditures were within the authorized spending authority. The Center had total current funds appropriations of \$18,852,754 for which the constituent institutions funded \$18,852,754. The constituent institutions also provided nonappropriated funding of \$1,900,000 for various deferred maintenance projects. An additional amount of \$1,576,360 was provided by MSU Denver and CU Denver in lease payments related to the financed portion of the Science Building Project. MSU Denver provided additional nonappropriated funding of \$719,508 to fund a portion of the debt service payments on the additional 13 acres of land purchased in December 2008.

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

(7) Pension Plan

(a) Summary of Significant Accounting Policies

The Center participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined-benefit pension fund administered by the PERA of Colorado. The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position, of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(b) Plan Description

Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

(c) Benefits Provided

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA benefit structure is the greater of the:

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100% match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

In all cases, the service retirement benefit is limited to 100% of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50% or 100% on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit has been obtained, and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive postretirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2% or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve for the SDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. State Troopers whose disability is caused by an on-the-job injury are immediately eligible to apply for disability benefits and do not have to meet the five years of service credit requirement. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(d) Contributions

Eligible employees and the Center are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. Eligible employees with the exception of State Troopers are required to contribute 8% of their PERA-includable salary. The employer contribution requirements for all employees except State Troopers are summarized in the table below:

	Fiscal year 2015		Fiscal year 2016		Fiscal year 2017	
	CY14	CY15	CY15	CY16	CY16	CY17
	7-1-14 to 12-31-14	1-1-15 to 6-30-15	7-1-15 to 12-31-15	1-1-16 to 6-30-16	7-1-16 to 12-31-16	1-1-17 to 6-30-17
Employer contribution rate	10.15 %	10.15 %	10.15 %	10.15 %	10.15 %	10.15 %
Amount of Employer Contribution Apportioned to the HealthCare Trust Fund as specified in C.R.S. Section 24-51-208(1)(f)	(1.02)	(1.02)	(1.02)	(1.02)	(1.02)	(1.02)
Amount Apportioned to the SDTF Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	9.13	9.13	9.13	9.13	9.13	9.13
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. Section 24-51-411	3.80	4.20	4.20	4.60	4.60	5.00
Total Employer Contribution Rate to the SDTF	3.50	4.00	4.00	4.50	4.50	5.00
	16.43	17.33	17.33	18.23	18.23	19.13

Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the Center is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the Center for the years ended 2017 and 2016 were \$2,982,959 and \$2,805,437, respectively.

(8) Pension Obligations, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

(a) General Information

At June 30, 2017 and 2016, the Center reported a liability of \$97,869,336 and \$54,777,089, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The Center's proportion of the net pension liability was based on the Center's contributions to the SDTF for the calendar year 2016 relative to the total contributions of participating employers to the SDTF.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

The measurement of the collective net pension liability of the SDTF is comprised of two components: fiduciary net position which includes the fair value of investment held for the exclusive purpose of administering the pension fund and the total pension liability which is the amount of future benefit obligations earned by the membership of the plan. The amount of the collective net pension liability for the SDTF increased by approximately \$7.8 billion from the prior year, which resulted in a substantial increase to the Center's net pension liability. Changes in two actuarial assumptions primarily contributed to the increase in the collective net pension liability. In November 2016, the plan's Board decided to take a more conservative approach to the future of the market, and lowered the long-term return expectation from 7.5% to 7.25%. Additionally, the Board conducted an experience study, which showed that members of the plan are now living longer, thus benefits are being paid for a longer period of time.

The majority of the \$7.8 billion increase can be attributed to a provision of governmental accounting standards for pensions which require future benefit obligations to be measured at a lower discount rate when certain conditions exist. In 2015, the application of the required GASB test resulted in the liabilities being measured using the assumed investment rate of return of 7.5%. In 2016, application of the required GASB test triggered the need to use a blend of two rates: an assumed investment rate of return of 7.25% and a municipal bond index rate of 3.86%. This resulted in the use of a blended discount rate of 5.26%. The use of 5.26% resulted in an increase to the collective net pension liability of approximately \$6.6 billion. More information and analysis on the collective net pension liability for the SDTF can be found in PERA's 2016 Comprehensive Annual Financial Report (CAFR) on pages 42-47 and 90-94 and on the FAQ fact sheet.

The net pension liability is unlike other liabilities in that it is not immediately due, nor can it be paid off under an accelerated schedule. Contribution rates are set in statute. As a result, the Center would not be able to remit payment, in excess of the statutory contribution amount, for the Center's share of the collective net pension liability in order to remove it from the financial statements.

At December 31, 2016, the Center's proportion was 0.53%, which was an increase of 0.01% from its proportion measured as of December 31, 2015. At December 31, 2015, the Center's proportion was 0.52%, which was a decrease of 0.01% from its proportion measured as of December 31, 2014.

For the years ended June 30, 2017 and 2016, the Center recognized pension expense of \$18,889,540 and \$1,929,486, respectively, which is allocated to the appropriate functional expense categories.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

At June 30, 2017, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 964,023	5
Changes of assumptions or other inputs	24,898,592	294,085
Net difference between projected and actual earnings on pension plan investments	3,182,449	—
Changes in proportion and differences between contributions recognized and proportionate share of contributions	—	1,088,186
Contributions subsequent to the measurement date	<u>1,452,249</u>	<u>—</u>
Total	<u>\$ 30,497,313</u>	<u>1,382,276</u>

At June 30, 2016, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 797,646	1,731
Changes of assumptions or other inputs	—	648,404
Net difference between projected and actual earnings on pension plan investments	4,145,254	—
Changes in proportion and differences between contributions recognized and proportionate share of contributions	—	842,104
Contributions subsequent to the measurement date	<u>1,461,669</u>	<u>—</u>
Total	<u>\$ 6,404,569</u>	<u>1,492,239</u>

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

For the fiscal years ended June 30, 2017 and 2016, \$1,452,249 and \$1,461,669, respectively, were reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability for the years ended June 30, 2017 and 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>	<u>FY16</u>	<u>FY17</u>	<u>Total</u>
2018	\$ 831,515	13,992,702	14,824,217
2019	1,100,154	10,824,950	11,925,104
2020	844,793	34,337	879,130
2021	—	34,337	34,337

(b) Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions and other inputs:

<u>Actuarial cost method</u>	<u>Entry Age</u>
Price inflation	2.80%
Real wage growth	1.10%
Wage inflation	3.90%
Salary increases, including wage inflation	3.90–9.57%
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.50%
Discount rate	7.50%
Future postretirement benefit increases:	
PERA benefit structure hired prior to January 1, 2007; and DPS benefit structure (automatic)	2.00%
PERA benefit structure hired after December 31, 2006 (ad hoc, substantively automatic)	Financed by the annual increase reserve

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

Actuarial cost method	Entry Age
Price inflation	2.40%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50–9.17%
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	5.26%
Postretirement benefit increases:	
PERA benefit structure hired prior to January 1, 2007; and DPS benefit structure (automatic)	2.00%
PERA benefit structure hired after December 31, 2006 (ad hoc, substantively automatic)	Financed by the annual increase reserve

Mortality rates used in the December 31, 2015 valuation were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the SDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 18, 2016, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	10-Year expected geometric real rate of return
U.S. equity – large cap	21.20%	4.30%
U.S. equity – small cap	7.42	4.80
Non-U.S. equity – developed	18.55	5.20
Non-U.S. equity – emerging	5.83	5.40
Core fixed income	19.32	1.20
High yield	1.38	4.30
Non U.S. Fixed Income - Developed	1.84	0.60
Emerging market bonds	0.46	3.90
Core real estate	8.50	4.90
Opportunity fund	6.00	3.80
Private equity	8.50	6.60
Cash	1.00	0.20
Total	<u>100.00%</u>	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

(c) Discount Rate

The discount rate used to measure the total pension liability was 5.26%. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA’s Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED), until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. AED and SAED are additional employer contributions required by law that are designed to reduce PERA's unfunded liability and amortization period. Additionally, estimated employer contributions included reductions for the funding of PERA's Annual Increase Reserve (AIR) and retiree healthcare benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc postretirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the SDTF's fiduciary net position was projected to be depleted in 2039 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25% on pension plan investments was applied to periods through 2039 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to period on and after 2039 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86%, resulting in a discount rate of 5.26%.

As of the prior measurement date, the projection test indicated the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.25% was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50%, 2.24% higher compared to the current measurement date.

Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

Year ended June 30, 2017	1% Decrease (4.26%)	Current discount rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	\$ 121,217,229	97,869,336	78,687,243
Year ended June 30, 2016	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$ 69,203,153	54,777,089	42,710,167

(d) Pension plan fiduciary net position

Detailed information about the SDTF's fiduciary net position is available in PERA's comprehensive annual financial report, which can be obtained on the following Web site:
www.copera.org/investments/pera-financial-reports.

(9) Other Retirement Plans

(a) Defined-Contribution Retirement Plan

Plan Description – Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008, which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined-benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan). The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined-contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The PERA DC Plan is also included in PERA's comprehensive annual financial report as referred to above.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

Funding Policy – All participating employees in the PERA DC Plan, with the exception of State Troopers, are required to contribute 8.00% of their PERA-includable salary and the State of Colorado is required to contribute 10.15% of PERA-includable salary on behalf of these employees. All participating State Troopers are required to contribute 10.00% of their PERA-includable salary and the State of Colorado is required to contribute 12.85% of PERA-includable salary on behalf of these employees. Additionally, the State of Colorado is required to contribute AED and SAED to the SDTF as follows:

	Fiscal year 2015		Fiscal year 2016		Fiscal year 2017	
	CY14	CY15	CY16	CY16	CY17	
	7-1-14 to 12-31-14	1-1-15 to 6-30-15	7-1-15 to 12-31-15	1-1-16 to 6-30-16	7-1-16 to 12-31-16	1-1-17 to 6-30-17
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411	3.80%	4.20%	4.20%	4.60%	4.60%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. Section 24-51-411	3.50	4.00	4.00	4.50	4.50	5.00
Total Employer Contribution Rate to the SDTF	7.30%	8.20%	8.20%	9.10%	9.10%	10.00%

Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Total employer contributions for the years ended June 30, 2017 and 2016 were \$15,184,231 and \$15,846,351, respectively. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50% vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10%. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.08 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense.

(b) 401(k) Defined-Contribution Plan

Plan Description – Employees of the Center that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined-contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions and investment earnings.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(c) 457 Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2014, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8.0% PERA contribution) to a maximum of \$18,000. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$6,000 contribution in 2015, for total contributions of \$24,000. Contributions and earnings are tax deferred. At December 31, 2015, the plan had 17,814 participants.

(d) 403(b) Retirement Savings Plan

The Center offers a tax-sheltered 403(b) plan through Valic Life Insurance Company to employees. The Center does not contribute to the 403(b) plan and, as such, does not incur any expense with regard to the plan.

(10) Other Postemployment Benefits and Life Insurance

(a) Health Care Trust Fund

Plan Description – The Center contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a healthcare premium subsidy and healthcare programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of healthcare subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – The Center is required to contribute at a rate of 1.02% of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Center are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ended June 30, 2017, 2016, and 2015, the Center's contributions to the HCTF were \$150,998, \$148,652, and \$141,758, respectively, equal to their required contributions for each year.

(b) Other Programs

Nonclassified administrative staffs are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiemployer insurance purchasing pool, which allows for postemployment health coverage until the retiree is eligible for Medicare. For fiscal year 2017, the Center has no retiree participants under CHEIBA; as of December 31, 2015, CHEIBA is no longer offering the program.

CHEIBA financial statements are prepared under accounting principles generally accepted in the United States of America using the accrual basis of accounting following governmental accounting standards for a business-type activity. The financial statements can be obtained by contacting the

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

Center at 303-556-2232. Contributions are recognized in the period due. Benefits and refunds are recognized and paid when due according to the participating plans. The fair value of the CHEIBA's investments is based on quoted market prices from national securities exchanges.

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

(11) Land Condemnation

On December 30, 2008, Certificates of Participation (Series 2008 Land Acquisition Certificates) in the amount of \$16,500,000 were issued pursuant to a Mortgage and Indenture of Trust, dated as of December 1, 2008, as amended and supplemented, by and between Wells Fargo Bank, National Association, as grantor, and Wells Fargo Bank, National Association, as trustee, to finance the acquisition of approximately 13.54 acres of land, located south of West Colfax Avenue and west of Rio Court near the Campus, to be used for recreational and athletic field purposes by the Constituent Institutions.

On October 7, 2010, the Regional Transportation District (RTD) filed a Petition in Condemnation to acquire 1.04 acres of the aforementioned 13.54 acres of land. On December 8, 2010, the Court granted immediate possession of the property to RTD, including any and all claims, rights, title, interests, easements, liens, encumbrances, reversionary interests, and rights of entry, upon payment of just compensation in the amount of \$1,515,700. The 1.04 acres of land that was condemned by RTD was purchased on December 30, 2008 at a cost of \$1,516,464, resulting in a net loss on the condemnation of this property of \$25,344.

Net proceeds from the land condemnation with interest and gains in the amount of \$1,619,167 are currently being held by Wells Fargo Bank, as trustee, until these funds are needed to pay the final debt service obligations on the Series 2008 Land Acquisition Certificates, with final maturity on May 1, 2028. These proceeds are included in restricted cash and cash equivalents at June 30, 2017.

(12) Risk Management

The Center is subject to risks of loss from liability for accident, property damage, and personal injury. These risks are managed by the State Division of Risk Management, an agency formed by statute and funded by the Long Bill. Therefore, the Center is not required to obtain additional insurance, and accordingly, no reduction occurred in coverage nor did any settlements exceed coverage. The Center does not retain risk of loss except for damage incurred to property belonging to the State, limited to a \$5,000 deductible per incident. This deductible rate has been effective since June 7, 2010, when HB-10-1181 was signed into law increasing the property loss claim deductible from \$1,000 to \$5,000 per incident.

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

(13) Concentrations of Credit Risk

Operating revenue consists of revenue from the constituent institutions for services and facilities provided by the Center. This revenue currently covers the costs of operating the Campus.

AURARIA HIGHER EDUCATION CENTER

Notes to Financial Statements

June 30, 2017 and 2016

(14) Litigation

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

(15) Subsequent Event

On September 26, 2017, the Center issued Series 2017 Certificate of Participation (COP) in the amount of \$12,560,000 for the purpose of advance refunding \$11,345,000 in Series 2008 COP's. Proceeds were placed in an escrow fund and the COP's will be fully redeemed May 1, 2019. The Series 2017 COP's are payable in semiannual installments with annual principal payments ranging from \$1,015,000 to \$1,255,000 and a fixed interest rate of 2.42%.

AURARIA HIGHER EDUCATION CENTER

Required Supplementary Information

June 30, 2017 and 2016

The schedule of proportionate share of net pension liability and schedule of employer contributions present multiyear trend information for the last 10 fiscal years. Until a full 10-year trend is compiled, information for those years for which information is available will be presented.

The following schedules are for the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined-benefit pension fund administered by the PERA of Colorado for the years ended December 31, 2016 and 2015:

Schedule of proportionate share of the net pension liability	2016	2015	2014
AHEC's proportion of the net pension liability	0.53282%	0.52015%	0.53256%
AHEC's proportionate share of the net pension liability	\$ 97,869,336	54,777,089	50,094,957
AHEC's covered payroll	16,030,265	15,222,897	15,070,368
AHEC's proportionate share of the net pension liability as a percentage of its covered payroll	610.5%	359.8%	332.4%
Plan fiduciary net position as a percentage of the total pension liability	42.6	56.1	59.38
Schedule of employer contributions	2016	2015	2014
Statutorily required contribution	\$ 2,767,338	2,505,828	2,355,939
Contributions in relation to the statutorily required contribution	<u>(2,907,785)</u>	<u>(2,505,828)</u>	<u>(2,355,939)</u>
Contribution deficiency (excess)	\$ <u>(140,447)</u>	<u>—</u>	<u>—</u>
AHEC's covered payroll	\$ 16,030,265	15,222,897	15,070,368
Contributions as a percentage of covered payroll	18.2%	16.5%	15.5%

The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

See accompanying auditors' report.



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

Members of the
Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Auraria Higher Education Center (the Center), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated January 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Findings and Recommendations as items 2017-001, 2017-002, and 2017-003 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Findings and Recommendations as item 2017-004 to be a significant deficiency.

Compliance and Other Matters

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



Center's Response to Findings

The Center's responses to the findings identified in our audit are described in the accompanying Findings and Recommendations. The Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

KPMG LLP

Denver, Colorado
January 26, 2018



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

January 26, 2018

Members of the
Legislative Audit Committee
Auraria Higher Education Center
Denver, Colorado

Legislative Audit Committee and Auraria Higher Education Center Board of Directors:

We have audited the financial statements of the business-type activities of the Auraria Higher Education Center (the Center), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2017 and 2016, and have issued our report thereon dated January 26, 2018. 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. Under our professional standards, we are providing you with the accompanying information related to the conduct of our 2017 audit.

Our Responsibility under Professional Standards

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

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

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the board of directors in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

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



The Members
Legislative Audit Committee
Auraria Higher Education Center
January 26, 2018

Accounting Practices and Alternative Treatments

Significant Accounting Policies

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

Unusual Transactions

We are not aware of any transactions entered into by the Center during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance.

Qualitative Aspects of Accounting Practices

We have discussed with the board of directors and management our judgments about the quality, not just the acceptability, of the Center's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the Center's accounting policies and their application, and the understandability and completeness of the Center's financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

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

Management's estimates include the allowance for uncollectible receivables, the period to depreciate capital assets owned by the Center, accrued compensated absences, and the net pension liability. We evaluated the key factors and assumptions used to develop these estimates, including possible management bias in developing the estimates, in determining that the estimates are reasonable in relation to the financial statements as a whole.

Uncorrected and Corrected Misstatements

Uncorrected misstatements

In connection with our audit of the Center's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the Center's books and records as of and for the year ended June 30, 2017. We have reported such misstatements to management on a Summary of Unadjusted Audit Misstatements and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Page 84 includes a copy of the summary that has been provided to, and discussed with, management.

Corrected misstatements

In addition, during the course of our audit, we also identified and discussed with management certain misstatements that were corrected by the Center. Specifically, we proposed several corrections relating to the net pension liability and related deferred outflows and inflows and capital assets. Page 85 includes a copy of the summary that has been provided to, and discussed with, management.



The Members
Legislative Audit Committee
Auraria Higher Education Center
January 26, 2018

The Center also should consider whether these uncorrected and corrected misstatements were caused by one or more significant deficiencies or material weaknesses in internal controls over financial reporting.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' report on the Center's financial statements.

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2017.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management prior to Retention

We generally discuss a variety of matters with the board of directors and management each year prior to our retention by you as the Center's auditors. However, these matters occurred in the normal course of our professional relationship and responses were not a condition to our retention.

Material Written Communications

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

1. Engagement letter
2. Management representation letter

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Independence

Confirmation of Audit Independence

We hereby confirm that as of January 26, 2018, we are independent accountants with respect to the Center under relevant professional and regulatory standards.

* * * * *

This letter to the Legislative Audit Committee is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Center's board of directors, and management, and is not intended to be, and should not be, used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee this report is a public document.

Very truly yours,

KPMG LLP

Auraria Higher Education Center
 Summary of Uncorrected Audit Misstatements
 June 30, 2017

Correcting Entry Required at Current Period End					Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)					Cash Flow Effect - Increase (Decrease)			
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Net Position	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Operating Activities	Investing Activities	Financing Activities
1	To record accounts payable at June 30, 2017	Factual	Operating Expenses	\$ 75,508			\$ (75,508)		\$ (75,508)					\$ (75,508)		
			Property Plant & Equipment	\$ 450,938						\$ 450,938						\$ (450,938)
			Accounts Payable		\$ 526,446							\$ 526,446				
2	To record projected misstatement of expense sampling.	Projected	Construction in Progress	\$ 755,171			\$ 755,171		\$ 755,171		\$ 755,171			\$ 755,171		\$ (755,171)
			Operating Expenses		\$ 755,171											

Auraria Higher Education Center
 Summary of Corrected Audit Misstatements
 June 30, 2017

ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income Statement Effect - Debit (Credit)	Balance Sheet Effect - Debit (Credit)					
						Income Effect Debit (Credit)	Net Position	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	
1	To reclass cash to investments.	Factual	Restricted Investments	\$ 1,619,096				\$ 1,619,096				
			Restricted cash and cash equivalents		\$ 1,619,096				\$ (1,619,096)			
2	To properly record operating expenses and capital assets.	Factual	Capital Assets	\$ 707,000							\$ 707,000	
			Operating Expenses		\$ 707,000	\$ 707,000	\$ 707,000	\$ 707,000				
3	To correct net pension obligation and related accounts.	Factual	Deferred Inflow	\$ 2,664,091								
			Pension Expense	\$ 4,515,912		\$ (4,515,912)	\$ (4,515,375)					
			Deferred Outflow		\$ 5,774,313				\$ (5,756,598)			
			Pension Obligation		\$ 1,405,689							\$ 1,405,689
4	To reverse duplicate construction in progress entry.	Factual	Operating Expenses	\$ 757,000								
			Construction in Progress		\$ 757,000	\$ (757,000)	\$ (757,000)				\$ (757,000)	