



**AURARIA HIGHER EDUCATION CENTER**

Financial and Compliance Audit

Fiscal Years ended June 30, 2018 and 2017

(With Independent Auditors' Reports Thereon)

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COSA – 201 04/00

## AURARIA HIGHER EDUCATION CENTER

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## **AURARIA HIGHER EDUCATION CENTER**

Financial and Compliance Audit

Report Summary

Year ended June 30, 2018

### **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, 2018. 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 2018 to November 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, 2018 and June 30, 2017. 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, 2018 and 2017.

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 no instances involving the internal control over financial reporting and its operation that we consider to be a material weakness.

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

For the Fiscal Year 2018 audit, we performed test work to determine the disposition of the four prior year recommendations relating to Fiscal Year 2017. We found that all recommendations for the fiscal year ended June 30, 2017, were fully implemented. See the Disposition of Prior Audit Recommendations section of this report for further information.

## **AURARIA HIGHER EDUCATION CENTER**

Financial and Compliance Audit

Description of the Auraria Higher Education Center

Year ended June 30, 2018

### **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, 2018

We have audited the financial statements of the Center as of and for the year ended June 30, 2018 and have issued our report thereon dated November 30, 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 November 30, 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 November 30, 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.

**AURARIA HIGHER EDUCATION CENTER**

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2018

Recommendations Issued for Year Ended June 30, 2017	Disposition
<p><b>Recommendation No. 1:</b></p> <p>The Auraria Higher Education Center should ensure compliance with relevant accounting standards by:</p> <ul style="list-style-type: none"> <li>a) Developing, documenting, and implementing policies and procedures to record pension liability balances.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>e) Working with the MIP Fund Accounting (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.</li> <li>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.</li> </ul>	<p>Implemented</p>
<p><b>Recommendation No. 2:</b></p> <p>The Auraria Higher Education Center should strengthen its internal controls over financial reporting to ensure compliance with statutory reporting requirements by:</p> <ul style="list-style-type: none"> <li>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.</li> <li>b) Developing, documenting, and implementing policies and procedures to timely reconcile MIP and the Colorado Operations Resource Engine (CORE).</li> </ul>	<p>Implemented</p>

**AURARIA HIGHER EDUCATION CENTER**

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2018

<ul style="list-style-type: none"> <li>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.</li> <li>d) Documenting difficulties encountered in the MIP implementation to identify areas to improve for future system.</li> <li>e) Evaluating system capabilities to not allow the same user to create and post the same journal entry and implementing the controls, as applicable.</li> <li>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.</li> </ul>	
<p><b>Recommendation No. 3:</b></p> <p>The Auraria Higher Education Center should prioritize staff time to improve information technology controls to safeguard information contained in MIP by:</p> <ul style="list-style-type: none"> <li>a) Developing, documenting, and implementing IT policies and procedures, including those related to system account management and change management.</li> <li>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.</li> <li>c) Formalizing account management procedures, as well as documenting and retaining evidence to mitigate the specific related problems noted in the confidential finding.</li> <li>d) Ensuring compliance with the NIST security framework to mitigate the specific related problems noted in the confidential finding.</li> <li>e) Ensuring compliance with the NIST security framework to mitigate the specific related problems noted in the confidential finding.</li> <li>f) Developing, documenting, and implementing program change controls to mitigate the specific related problems noted in the confidential finding.</li> </ul>	<p align="center">Implemented</p>

**AURARIA HIGHER EDUCATION CENTER**

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2018

<p><b>Recommendation No. 4:</b></p> <p>The Auraria Higher Education Center should improve information technology controls to safeguard information contained in CORE by developing, documenting, and implementing procedures for:</p> <ul style="list-style-type: none"><li>a) Disabling CORE user access in a timely manner for employees that leave the Center.</li><li>b) Periodically reconciling CORE access for all staff to ensure that access is disabled appropriately for terminated employees.</li></ul>	<p>Implemented</p>
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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, 2018 and 2017, 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, 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, 2018 and 2017, 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.



### **Emphasis of Matters**

As discussed in note 1 to the financial statements, in fiscal year 2018, the Center adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 9 to 19 and schedules of proportionate share of net pension liability and proportionate share of the net OPEB liability and employer contributions on page 70 and 71 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 November 30, 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 the effectiveness of the Center's 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  
November 30, 2018

## **AURARIA HIGHER EDUCATION CENTER**

### Management's Discussion and Analysis

(Unaudited)

June 30, 2018 and 2017

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, 2018 and June 30, 2017 with comparable information for 2016. 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**

Effective June 30, 2018, the Center adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Center changed its accounting policies with the implementation of this new accounting standard. Changes in accounting policies for other postemployment benefits (OPEB) are designed to improve transparency regarding OPEB obligations by requiring recognition of a liability equal to the net OPEB liability for the Center's defined benefit plans. This standard requires recognition of OPEB expense using a systematic method, designed to match the cost of OPEB benefits with service periods for eligible employees. These accounting policy changes do not impact the Center's funding requirements for the OPEB plan.

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, 2018 and 2017, total assets and deferred outflows of resources of the Center exceeded total liabilities and deferred inflows of resources by \$82.5 million and \$107.3 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 \$6.1 million in fiscal year 2018 as compared to a \$1.0 million decrease in fiscal year 2017. 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.

**AURARIA HIGHER EDUCATION CENTER**

Management's Discussion and Analysis

(Unaudited)

June 30, 2018 and 2017

The Center's net position of \$82.5 million at June 30, 2018 was significantly impacted by PERA net pension and OPEB liabilities and their related deferred outflows and inflows, as shown below (in thousands):

	<u>2018</u>	<u>2017</u>
Net position (GAAP) basis	\$ 82,466	107,291
Add: GASB 68 – Net Pension Impact (1)	88,274	68,754
Add: GASB 75 – Net OPEB Impact (2)	<u>2,443</u>	<u>—</u>
Net position (Excluding Pension and OPEB)	<u>\$ 173,183</u>	<u>176,045</u>
	<u>2018</u>	<u>2017</u>
Net Pension Liability	\$ 104,642	97,869
Deferred inflows – Pension Obligations	7,110	1,382
Deferred outflows – Pension Obligations	<u>(23,478)</u>	<u>(30,497)</u>
GASB 68 – Net Pension Impact (1)	<u>\$ 88,274</u>	<u>68,754</u>
	<u>2018</u>	<u>2017</u>
Net OPEB Liability	\$ 2,454	—
Deferred inflows – OPEB Obligations	79	—
Deferred outflows – OPEB Obligations	<u>(90)</u>	<u>—</u>
GASB 75 – Net OPEB Impact (2)	<u>\$ 2,443</u>	<u>—</u>

The Center's total net position decreased by \$24.8 million in fiscal year 2018 as compared to a \$17.0 million decrease in fiscal year 2017. In fiscal year 2018, \$19.5 million of the decrease was attributable to additional PERA pension and OPEB expenses while \$2.4 million of the decrease was attributable to the cumulative effect of the OPEB change in accounting principle. The remaining \$2.9 million of the decrease in net position resulted from the current year impact from Center operations.

Restricted expendable net position represents resources that are subject to externally imposed stipulations regarding their use. Restricted net position totaled \$7.5 million as of June 30, 2018 compared to \$8.2 million as of June 30, 2017, which represents 9.1% of net position in 2018 and 7.7% of net position in 2017.

**AURARIA HIGHER EDUCATION CENTER**

Management's Discussion and Analysis

(Unaudited)

June 30, 2018 and 2017

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. Unrestricted net position totaled \$(71.0) million as of June 30, 2018 compared to \$(52.9) million as of June 30, 2017. The Center's unrestricted net position at June 30, 2018 was significantly impacted by PERA net pension and OPEB liabilities and their related deferred outflows and inflows, as shown below (in thousands):

	<u>2018</u>	<u>2017</u>
Unrestricted Net Position (GAAP) basis	\$ (71,023)	(52,933)
Add: GASB 68 – Net Pension Impact	88,274	68,754
Add: GASB 75 – Net OPEB Impact	<u>2,443</u>	<u>—</u>
Unrestricted Net Position (Excluding Pension and OPEB)	<u>\$ 19,694</u>	<u>15,821</u>

Total assets and deferred outflows of resources decreased \$16.7 million primarily due to a decrease in net capital assets of \$11.7 million and a \$7.0 decrease in deferred outflows related to pension obligations. Total liabilities and deferred inflows increased by \$8.2 million primarily due to deferred inflows related to pension obligations.

**AURARIA HIGHER EDUCATION CENTER**

Management's Discussion and Analysis

(Unaudited)

June 30, 2018 and 2017

**Condensed Statements of Net Position**

	<b>June 30</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
		(In thousands)	
<b>Assets:</b>			
Current assets	\$ 29,338	26,185	24,568
Capital assets, net	229,482	241,180	244,970
Other noncurrent assets	<u>23,159</u>	<u>24,990</u>	<u>25,345</u>
<b>Total assets</b>	<b>281,979</b>	<b>292,355</b>	<b>294,883</b>
Deferred outflows of resources	<u>25,367</u>	<u>31,661</u>	<u>7,712</u>
<b>Total assets and deferred outflows of resources</b>	<b>\$ <u>307,346</u></b>	<b><u>324,016</u></b>	<b><u>302,595</u></b>
<b>Liabilities:</b>			
Current liabilities	\$ 19,240	20,084	20,028
Noncurrent liabilities	<u>198,451</u>	<u>195,259</u>	<u>156,774</u>
<b>Total liabilities</b>	<b>217,691</b>	<b>215,343</b>	<b>176,802</b>
Deferred inflows of resources	<u>7,189</u>	<u>1,382</u>	<u>1,492</u>
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ <u>224,880</u></b>	<b><u>216,725</u></b>	<b><u>178,294</u></b>
<b>Net position:</b>			
Net investment in capital assets	\$ 145,954	152,019	153,049
Restricted for expendable purposes	7,535	8,205	5,491
Unrestricted	<u>(71,023)</u>	<u>(52,933)</u>	<u>(34,240)</u>
<b>Total net position</b>	<b>\$ <u>82,466</u></b>	<b><u>107,291</u></b>	<b><u>124,300</u></b>

## **AURARIA HIGHER EDUCATION CENTER**

Management's Discussion and Analysis

(Unaudited)

June 30, 2018 and 2017

### **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.

For fiscal year 2018, the operating and nonoperating activities of the Center resulted in a decrease in net position of \$22.4 million as compared to a decrease of \$17.0 million for fiscal year 2017. For fiscal year 2018, operating revenue totaled \$64.2 million while operating expenses totaled \$84.5 million, resulting in an operating loss of \$20.3 million. For fiscal year 2017, operating revenue totaled \$63.6 million while operating expenses totaled \$84.5 million, resulting in an operating loss of \$20.9 million.

Support from the three constituent institutions increased approximately \$1.1 million from 2017 to 2018 while revenue from auxiliary enterprises decreased \$0.9 million from 2017 to 2018, primarily as a result of a decrease in bookstore revenues. In 2018, approximately \$2.2 million of auxiliary revenue and auxiliary reserves were used to support general operating costs. For 2018 and 2017, the State of Colorado (State) provided \$1.4 million and \$6.3 million, respectively, in capital contributions primarily for the fire alarm and sprinkler projects, the Auraria Library Renovation, the Facilities Services building renovation, and improving Americans with Disabilities Act (ADA) accessibility on 10th Street. Operating expenses between 2017 and 2018 were relatively flat, but operating expenses between 2016 and 2017 increased \$19.2 million primarily as the result of a \$16.4 million increase in pension expense resulting from the Center's pension obligation as of June 30, 2017.

**AURARIA HIGHER EDUCATION CENTER**

Management's Discussion and Analysis

(Unaudited)

June 30, 2018 and 2017

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

	Year ended June 30		
	2018	2017	2016
	(In thousands)		
Operating revenue:			
Auxiliary enterprises	\$ 34,167	35,095	31,879
Revenue from constituent institutions	23,909	22,753	22,245
Student fees	5,515	5,459	5,426
Other operating revenue	597	263	3,546
Total operating revenue	<u>64,188</u>	<u>63,570</u>	<u>63,096</u>
Operating expenses:			
Auxiliary enterprises	32,926	33,347	27,934
Operation and maintenance of plant	16,082	18,273	17,569
Institutional support	19,156	18,179	5,072
Academic support	1,307	1,409	1,362
Public service	486	69	(65)
Depreciation	14,546	13,213	13,465
Total operating expenses	<u>84,503</u>	<u>84,490</u>	<u>65,337</u>
Operating loss	<u>(20,315)</u>	<u>(20,920)</u>	<u>(2,241)</u>
Nonoperating revenue (expenses):			
Investment income	224	199	509
Interest expense on capital debt	(3,694)	(4,128)	(4,501)
Gain on disposal of capital assets	17	1,522	267
Total nonoperating expenses, net	<u>(3,453)</u>	<u>(2,407)</u>	<u>(3,725)</u>
Capital contributions, grants, and gifts	<u>1,359</u>	<u>6,318</u>	<u>14,753</u>
Increase (decrease) in net position	<u>(22,409)</u>	<u>(17,009)</u>	<u>8,787</u>
Net position, beginning of year as previously reported	107,291	124,300	115,513
Cumulative effect of change in accounting principle	<u>(2,416)</u>	<u>—</u>	<u>—</u>
Net position, beginning of year as restated	<u>104,875</u>	<u>124,300</u>	<u>115,513</u>
Net position, end of year	<u>\$ 82,466</u>	<u>107,291</u>	<u>124,300</u>

## AURARIA HIGHER EDUCATION CENTER

### Management's Discussion and Analysis

(Unaudited)

June 30, 2018 and 2017

Headcount enrollment (as measured by the student fees paid to the Center) at the constituent institutions showed an average decrease overall between fall 2016 and fall 2017 of 1.5% due to a 4.4% headcount enrollment decrease for Community College of Denver, a 1.6% headcount enrollment decrease for Metropolitan State University of Denver, and a 0.2% headcount enrollment increase for University of Colorado Denver. Estimates for fall 2018 predict a slight decrease for all three institutions.

### Capital Assets

At June 30, 2018, the Center had approximately \$229.5 million invested in capital assets, net of accumulated depreciation, of approximately \$253.1 million. At June 30, 2017, the Center had approximately \$241.2 million invested in capital assets, net of accumulated depreciation, of approximately \$238.6 million. For the years ended June 30, 2018 and 2017, depreciation expense was approximately \$14.5 million and \$13.2 million, respectively.

A summary of capital assets is provided below:

	<b>June 30</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(In thousands)		
Land	\$ 27,896	27,896	27,896
Land improvements	13,813	14,951	11,473
Buildings and improvements	180,498	165,834	175,396
Equipment	5,024	4,383	4,855
Construction in progress	2,251	28,116	25,350
Total capital assets, net	<u>\$ 229,482</u>	<u>241,180</u>	<u>244,970</u>

Construction in progress decreased approximately \$25.9 million during fiscal year 2018 primarily due to the completion of the Auraria Library Renovation project in August 2017 and \$26.8 million of accumulated construction in progress being placed into service for the fiscal year 2018.

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, 2018 and 2017

Net proceeds from the land condemnation with interest and gains in the amount of \$1,621,465 are currently being held by UMB Bank, as trustee, until these funds are needed to pay the final debt service obligations on the Series 2017 Refunding Certificates of Participation, with final maturity on May 1, 2028. These proceeds are included in restricted cash and cash equivalents at June 30, 2018.

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, 2018, the Center had approximately \$97.2 million of bond and capital lease obligations outstanding as compared to \$103.2 million as of June 30, 2017. The outstanding revenue bonds as of June 30, 2018 comprise Parking Revenue Bonds totaling \$39.4 million and Student Fee Revenue Bonds totaling \$24.2 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, 2018 comprise three Certificates of Participation totaling \$33.6 million. The constituent institutions share in the cost of debt service of the three Certificates of Participation. During fiscal year 2018, 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 2018, long-term debt decreased \$6 million from \$103.2 million in 2017 to \$97.2 million as the result of scheduled principal payments on the debt described above.

During fiscal year 2017, long-term debt decreased \$4.1 million from \$107.3 million in 2016 to \$103.2 million as the result of scheduled principal payments on the debt described above.

On September 26, 2017, the Center issued Series 2017 Refunding Certificates of Participation (COP) in the amount of \$12,560,000 for the purpose of advance refunding and defeasing \$11,345,000 in Series 2008 Certificates of Participation. The Center completed the advance refunding to reduce its total debt service payments by \$1,522,130 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,334,421.

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

#### Long-Term Debt

	<b>June 30</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(In thousands)		
Auxiliary enterprise revenue bonds	\$ 63,605	67,778	69,505
Capital lease obligations	33,572	35,376	37,819
Total long-term debt	<u>\$ 97,177</u>	<u>103,154</u>	<u>107,324</u>

## AURARIA HIGHER EDUCATION CENTER

### Management's Discussion and Analysis

(Unaudited)

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#### **Economic Outlook**

During fiscal year 2018, the constituent institutions' allocation to fund the Center's general operations was \$20.0 million, as compared to \$19.6 million for fiscal year 2017. In addition, the constituent institutions provided an additional \$1.8 million in funding to be used exclusively for deferred maintenance projects across the aging campus. The Center's budget for fiscal year 2019 reflects a 4.4% 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 updated in 2017 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 connections between aviation; aerospace science; civil, electrical, and mechanical engineering technology; computer information systems and computer science; and industrial design into a new curriculum. Finally, the new CU Denver Wellness Center, which was an initiative of the CU Denver student government, opened July 2018 and includes fitness facilities such as a six-lane swimming pool, three-court gymnasium, weight rooms, a "commuter haven" lounge for CU Denver students between classes, and other features.

In August 2017 the Center completed the \$26.8 million Auraria Library Renovation that began in May 2014. 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.

Renovations to the North Classroom are continuing and are expected to be completed by Spring 2019. CU Denver is funding the \$38.4 million renovation to the North Classroom that will upgrade virtually all building

## AURARIA HIGHER EDUCATION CENTER

### Management's Discussion and Analysis

(Unaudited)

June 30, 2018 and 2017

mechanical and electrical systems and also includes the renovation of 32 existing classrooms and other cosmetic improvements throughout the building.

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.

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. Parking capacity remained unchanged through the 2017-18 fiscal year and is expected to remain the same for the 2018—19 fiscal year as well.

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, with the amount being reduced to \$1.67 million for fiscal year 2017, and increased to \$1.8 million for fiscal year 2018, bringing total deferred maintenance funding during the last seven years to \$12.97 million. As part of the Center's fiscal year 2019 budget, the three institutions committed and funded an additional appropriation, over and above the \$20.9 million for general campus operations, of \$1.9 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.

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Management's Discussion and Analysis

(Unaudited)

June 30, 2018 and 2017

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, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>Assets and Deferred Outflows of Resources</b>		
Current assets:		
Cash and cash equivalents	\$ 19,284,536	16,924,203
Accounts receivable, net	6,291,210	6,412,498
Notes receivable, current	942,152	894,328
Inventories	2,751,997	1,894,589
Prepaid expenses	68,274	58,959
Total current assets	29,338,169	26,184,577
Noncurrent assets:		
Restricted cash and cash equivalents	9,819,255	6,542,488
Restricted investments	1,991,516	6,127,616
Notes receivable	11,104,255	12,046,407
Prepaid bond costs	243,652	273,275
Capital assets, net	229,482,320	241,180,308
Total noncurrent assets	252,640,998	266,170,094
Total assets	281,979,167	292,354,671
Deferred outflows of resources:		
Deferred amount on refunding	1,798,816	1,164,238
Deferred amount on pension obligations	23,477,840	30,497,313
Deferred amount on OPEB obligations	90,160	—
Total deferred outflows of resources	25,366,816	31,661,551
Total assets and deferred outflows of resources	\$ 307,345,983	324,016,222
<b>Liabilities and Deferred Inflows of Resources</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,248,551	7,971,558
Interest payable	444,975	525,984
Deposits held for others	2,655,268	1,590,501
Unearned revenue	2,240,190	2,644,906
Long-term debt, current	7,524,002	7,141,266
Compensated absences liability, current	127,259	209,551
Total current liabilities	19,240,245	20,083,765
Noncurrent liabilities:		
Long-term debt	89,652,883	96,012,532
Pension obligations	104,642,140	97,869,336
OPEB obligations	2,454,498	—
Compensated absences liability	1,701,200	1,377,578
Total noncurrent liabilities	198,450,721	195,259,446
Total liabilities	217,690,966	215,343,211
Deferred inflows of resources:		
Deferred amount on pension obligations	7,110,084	1,382,276
Deferred amount on OPEB obligations	79,402	—
Total deferred inflows of resources	7,189,486	1,382,276
Total liabilities and deferred inflows of resources	\$ 224,880,452	216,725,487
<b>Net Position</b>		
Net position:		
Net investment in capital assets	\$ 145,953,391	152,018,793
Restricted for expendable purposes	7,535,374	8,204,746
Unrestricted	(71,023,234)	(52,932,803)
Total net position	\$ 82,465,531	107,290,735

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, 2018 and 2017

	<b>2018</b>	<b>2017</b>
Operating revenue:		
Auxiliary enterprises	\$ 34,166,133	35,094,747
Revenue from constituent institutions	23,909,377	22,753,126
Student fees	5,515,314	5,459,383
Other operating revenue	597,306	262,668
Total operating revenue	64,188,130	63,569,923
Operating expenses:		
Auxiliary enterprises	32,926,296	33,347,430
Operation and maintenance of plant	16,081,599	18,272,901
Institutional support	19,156,335	18,178,549
Academic support	1,306,563	1,408,934
Public service	486,446	69,296
Depreciation	14,546,073	13,213,146
Total operating expenses	84,503,312	84,490,255
Operating loss	(20,315,182)	(20,920,332)
Nonoperating revenue (expenses):		
Investment income	224,174	198,876
Interest expense on capital debt	(3,694,163)	(4,127,559)
Gain on disposal of capital assets	17,262	1,521,966
Nonoperating expenses, net	(3,452,727)	(2,406,717)
Loss before other revenue, expenses, gains, or losses	(23,767,909)	(23,327,050)
Other revenue, expenses, gains, or losses:		
State capital contributions	1,358,658	6,317,567
Increase (decrease) in net position	(22,409,251)	(17,009,483)
Net position, beginning of year as previously reported	107,290,735	124,300,218
Cumulative effect of change in accounting principle	(2,415,953)	—
Net position, beginning of year as restated	104,874,782	124,300,218
Net position, end of year	\$ 82,465,531	107,290,735

See accompanying notes to financial statements.

**AURARIA HIGHER EDUCATION CENTER**

Business-Type Activities

Statements of Cash Flows

Year ended June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Cash received:		
Student fees	\$ 5,515,269	5,706,687
Grants, contracts and gifts	244,679	
Revenue from constituent institutions	24,100,705	22,428,070
Sales of products and services	33,964,493	33,640,505
Cash payments:		
Payments for employees	(26,024,651)	(23,391,280)
Payments to suppliers	(26,254,499)	(27,930,360)
Net cash provided by operating activities	11,545,996	10,453,623
Cash flows from noncapital financing activities:		
Receipts of deposits held in custody	15,489,313	13,328,704
Disbursements of deposits held in custody	(14,424,546)	(12,231,803)
Net cash provided by noncapital financing activities	1,064,767	1,096,901
Cash flows from capital and related financing activities:		
State appropriations	1,438,215	6,317,566
Capital grants and gifts		
Proceeds from capital debt	12,560,000	2,322,512
Gain/(loss) on disposal of assets	17,262	
Acquisition and construction of capital assets	(3,326,701)	(10,063,694)
Principal received on notes receivable	894,328	851,285
Principal paid on debt refunding	(11,318,137)	
Principal paid on long-term debt	(7,631,266)	(6,945,913)
Interest paid on long-term debt	(3,967,638)	(3,513,628)
Net cash used in capital and related financing activities	(11,333,937)	(11,031,872)
Cash flows from investing activities:		
Sales of investments	4,142,813	55,336
Purchase of investments	(46,686)	(1,676,264)
Investment income	264,146	203,141
Net cash provided by investing activities	4,360,273	(1,417,787)
Net increase (decrease) in cash and cash equivalents	5,637,099	(899,136)
Cash and cash equivalents, beginning of year	23,466,692	24,365,828
Cash and cash equivalents, end of year	\$ 29,103,791	23,466,692

**AURARIA HIGHER EDUCATION CENTER**

Business-Type Activities

Statements of Cash Flows

Year ended June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (20,315,182)	(20,920,332)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	14,546,073	13,213,146
Bad debt expense	(235,937)	(6,145)
Decrease (increase) in assets:		
Accounts receivable	277,669	(2,289,045)
Inventories	(857,408)	(161,054)
Prepaid expenses	(9,315)	90,002
Deferred outflows	6,929,314	(23,999,531)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(1,244,391)	1,348,843
Unearned revenue	(404,716)	458,220
Compensated absences liability	241,330	(169,552)
Pension liability	6,772,805	43,092,247
OPEB liability	38,544	—
Deferred inflows	5,807,210	(203,176)
Net cash provided by operating activities	\$ 11,545,996	10,453,623
Supplemental cash flow information:		
Accounts payable related to capital asset purchases	\$ 478,616	2,162,620

See accompanying notes to financial statements.

## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements

June 30, 2018 and 2017

#### **(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, 2018 and 2017, 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, 2018 and 2017

As of July 1, 2017, the center implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses accounting and financial reporting by state and local governments of postemployment benefits other than pensions (other postemployment benefits or OPEB). The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The Center participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado (PERA). Statement No. 75 requires cost-sharing employers participating in the PERA program, such as the Center, to record their proportionate share, as defined in Statement No. 75, of PERA's net OPEB obligation. The Center has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly. The requirement of Statement No. 75 to record a portion of PERA's net OPEB obligation has negatively affected the Center's future unrestricted net position. The cumulative effect of this accounting change reduced the total net position by \$2,415,953 from \$107,290,735 to \$104,874,782. Information regarding PERA's current funding status can be found in its Comprehensive Annual Financial Report.

#### **(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, 2018 and 2017, 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.

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements

June 30, 2018 and 2017

**(g) Accounts Receivable, Net**

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

	<b>2018</b>	<b>2017</b>
Constituent institutions	\$ 1,257,124	1,891,383
State of Colorado central collections	1,024,554	787,554
Book Center credit memos due from vendors	1,597,879	654,094
Auxiliary enterprises	2,371,946	1,887,182
Other	893,320	2,045,898
	7,144,823	7,266,111
Less allowance for doubtful accounts	(853,613)	(853,613)
Accounts receivable, net	\$ 6,291,210	6,412,498

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.

**(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:

	<b>2018</b>	<b>2017</b>
Science building – receivable from constituent institutions, current	\$ 942,152	894,328
Science building – receivable from constituent institutions, long term	11,104,255	12,046,407
Total notes receivable	\$ 12,046,407	12,940,735

The notes receivable balances are considered to be fully collectible as of June 30, 2018 and 2017.

**(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

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements

June 30, 2018 and 2017

lower of market or cost method. Provisions are made for obsolete inventory on a periodic basis. Provisions recorded for the years ended June 30, 2018 and 2017 totaled (\$64,734) and (\$69,329), 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

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 2018 or 2017, 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

## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements

June 30, 2018 and 2017

- Pension contributions made subsequent to the December 31 measurement date used by Colorado Public Employees' Retirement Association (PERA)
- Changes in proportion and differences between pension contributions recognized and proportionate share of contributions
- Changes in assumptions for the pension plan
- The net difference between projected and actual earnings on pension plan investments.
- Pension plan differences between expected and actual experience
- Other Post-Employment Benefits (OPEB) contributions made subsequent to the December 31 measurement date used by PERA
- The net difference between projected and actual earnings on OPEB plan investments
- OPEB plan differences between expected and actual experience
- Changes in proportion and differences between OPEB contributions recognized and proportionate share of contributions.

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

- Pension plan differences between expected and actual experience
- Pension plan differences between expected and actual gains and losses
- Changes in proportion and differences between pension contributions recognized and proportionate share of contributions
- The net difference between projected and actual earnings on OPEB plan investments
- OPEB plan differences between expected and actual experience
- OPEB changes in assumptions
- Changes in proportion and differences between OPEB 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 and 7.

#### ***(n) Other Post Employment Benefit (OPEB) Obligations***

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. Information regarding the measuring of the net OPEB liability, OPEB expense, and related deferred outflows and deferred inflows of resources are described in detail in notes 4 and 8.

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**(o) 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. On November 30, 2017, the Office of the State Controller issued Alert #210, which excluded Institutions of Higher Education from this requirement effective July 1, 2017. This resulted in an accrual of \$77,714 and \$1,872,241 that was included in accounts payable and accrued liabilities at June 30, 2018 and 2017, respectively.

**(p) 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, 2018 and 2017 is \$1,828,459 and \$1,587,129, respectively. Operating expenses for the years ended June 30, 2018 and 2017 include \$241,330 and \$169,552, respectively, representing the annual decrease/increase in the estimated compensated absences liability.

**(q) 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:

	<u>2018</u>	<u>2017</u>
Student fees for the summer semester	\$ 318,183	481,603
Childcare tuition collected in advance	2,859	2,859
Foundation Grant – Tivoli Quad Project	250,000	250,000
Media Center (Channel 54/Studio) – City & County of Denver	222,720	576,765
Deferred maintenance	1,224,133	1,111,384
Lot I Modular build-out fee	<u>222,295</u>	<u>222,295</u>
	<u>\$ 2,240,190</u>	<u>2,644,906</u>

**(r) 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

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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.

#### **(s) 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.

#### **(t) 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 2018 and 2017 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, 2018 and 2017, the carrying value of the Center's deposits was \$29,257,436 and \$23,207,451, respectively. At June 30, 2018 and 2017, balances consist of deposits with the Treasurer, as described below, \$18,459,021 and \$5,026,600 in bank deposits, and \$69,417 and \$56,724 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, 2018 and 2017, the Center had cash on deposit, including restricted cash and cash equivalents, with the Treasurer of \$10,575,353 and \$18,641,699, respectively, which represented approximately 0.14% of the total \$7,635,800,000 and approximately 0.28% of the total \$6,770,200,000, 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, 2018.

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**(c) Custodial Credit Risk**

Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in either the Center's or the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agency but not held in the Center's or the State's name. As of June 30, 2018 and 2017, 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, 2018 and 2017 for those investments not part of the Pool. The fair value amount is shown along with the credit quality rating and WAM:

Commercial paper	1,991,516	Highest	0.109
Total restricted investments	\$ 1,991,516		
June 30, 2017:			
U.S. government agencies – explicitly guaranteed	\$ 4,131,206	Not rated	Not applicable
Commercial paper	1,996,410	Highest	0.07
Total restricted investments	\$ 6,127,616		

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**(f) Fair Value of Investments**

The following table lists the Center's restricted investment types as of June 30, 2018, using the fair market input to valuation technique, which determines the hierarchy of fair market value of the investment 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, 2018:			
U.S. government securities – explicitly guaranteed	\$ —	—	—
Commercial paper	—	1,991,516	—
Total restricted investments	\$ —	1,991,516	—
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	—

**(g) Investment Income**

Investment income consisted of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Interest and dividend income	\$ 362,040	219,720
Net increase in fair value of investments	(137,866)	(20,844)
	\$ 224,174	198,876

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**(3) Capital Assets**

Capital asset activity for the year ended June 30, 2018 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	36,169,106	70,469	-	-	36,239,575
Buildings and improvements	376,301,451	190,123	-	26,848,307	403,339,881
Equipment	11,272,511	567,733	(7,000)	1,039,748	12,872,992
Construction in progress, net	28,116,552	2,117,934	(94,907)	(27,888,055)	2,251,524
<b>Total capital assets</b>	<u>479,755,270</u>	<u>2,946,259</u>	<u>(101,907)</u>	<u>-</u>	<u>482,599,622</u>
Less accumulated depreciation:					
Land improvements	21,217,656	1,208,709	-	-	22,426,365
Buildings and improvements	210,467,703	12,374,112	-	-	222,841,815
Equipment	6,889,603	963,252	(3,733)	-	7,849,122
<b>Total accumulated depreciation</b>	<u>238,574,962</u>	<u>14,546,073</u>	<u>(3,733)</u>	<u>-</u>	<u>253,117,302</u>
<b>Total capital assets, net</b>	<u>\$ 241,180,308</u>	<u>(11,599,814)</u>	<u>(98,174)</u>	<u>-</u>	<u>229,482,320</u>

As of June 30, 2018, the construction in progress primarily consisted of the fire sprinkler and alarm system upgrades, the Media Center studio upgrades, the Facility Services Building renovations, and smaller internal building improvement projects.

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
<b>Total capital assets</b>	<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
<b>Total accumulated depreciation</b>	<u>225,367,459</u>	<u>13,213,145</u>	<u>(5,642)</u>	<u>-</u>	<u>238,574,962</u>
<b>Total capital assets, net</b>	<u>\$ 244,970,413</u>	<u>(3,787,622)</u>	<u>(2,483)</u>	<u>-</u>	<u>241,180,308</u>

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### Notes to Financial Statements

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#### **(4) Deferred Outflows/Inflows of Resources**

The deferred outflows of resources represent the remaining unamortized deferral balances from losses on refunding of debt, amounts on pension obligations and amounts on other post-employment benefits (OPEB). The June 30, 2018 and 2017 debt-related deferral balances of \$1,798,816 and \$1,164,238, respectively, are included within the net investment in capital assets component of net position. The June 30, 2018 and 2017 pension obligations–related balances for deferred outflows of \$23,477,840 and \$30,497,313, respectively, and deferred inflows of \$7,110,084 and \$1,382,276, respectively, are included within the unrestricted component of net position. The June 30, 2018 and 2017 OPEB obligations–related balances for deferred outflows of \$90,160, and \$0, respectively, and deferred inflows of \$79,402 and \$0, respectively, are included within the unrestricted component of net position.

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A summary of deferred outflows/inflows of resources as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Deferred refunding – Series 2013 Student Fee Bonds	\$ 97,482	111,748
Deferred refunding – Series 2016 Student Fee Bonds	108,224	147,578
Deferred refunding – Series 2015 Parking Bonds	40,282	44,029
Deferred refunding – Series 2016 Parking Bonds	224,892	254,226
Deferred refunding – Series 2015 Admin COP	550,658	606,657
Deferred refunding – Series 2017 Land COP	<u>777,278</u>	<u>—</u>
Deferred outflow on refunding	\$ <u>1,798,816</u>	<u>1,164,238</u>
Deferred pension – pension investments	\$ 2,047,959	3,182,449
Deferred pension – experience gains and losses	1,636,572	964,023
Deferred pension – changes in assumptions	18,374,797	24,898,592
Deferred pension – proportionate share	—	—
Deferred pension – contributions after measurement date	<u>1,418,512</u>	<u>1,452,249</u>
Deferred outflow on pension obligations	\$ <u>23,477,840</u>	<u>30,497,313</u>
Deferred pension – experience gains and losses	\$ 5	5
Deferred pension – changes in assumptions	—	294,085
Deferred pension – pension investments	5,990,914	—
Deferred pension – proportionate share	<u>1,119,165</u>	<u>1,088,186</u>
Deferred inflow on pension obligations	\$ <u>7,110,084</u>	<u>1,382,276</u>
Deferred OPEB – experience gains and losses	11,608	—
Deferred OPEB – contributions after measurement date	<u>78,552</u>	<u>—</u>
Deferred outflow on OPEB obligations	\$ <u>90,160</u>	<u>—</u>
Deferred OPEB – investments	\$ 41,063	—
Deferred OPEB – employer contributions vs. employer proportionate share	1,091	—
Deferred OPEB – proportionate share	<u>37,248</u>	<u>—</u>
Deferred inflow on OPEB obligations	\$ <u>79,402</u>	<u>—</u>

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**(5) Long-Term Debt**

The following is a summary of long-term debt for the Center for the year ended June 30, 2018:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Revenue bonds payable:					
Series 2004 parking	\$ 12,935,751	622,380	(1,605,000)	11,953,131	1,600,000
Series 2013 student fee	15,916,438	—	(800,609)	15,115,829	710,000
Series 2013A parking	16,145,081	—	(103,512)	16,041,569	70,000
Series 2015 parking	6,636,030	—	(61,365)	6,574,665	—
Series 2015 student fee	4,800,000	—	(265,000)	4,535,000	280,000
Series 2016 parking	5,365,000	—	(495,000)	4,870,000	510,000
Series 2016 student fee	5,980,000	—	(1,465,000)	4,515,000	1,485,000
Total revenue bonds payable	<u>67,778,300</u>	<u>622,380</u>	<u>(4,795,486)</u>	<u>63,605,194</u>	<u>4,655,000</u>
Capital lease obligations:					
Land acquisition, Series 2008	11,317,541	595	(11,318,136)	—	—
Land acquisition, Series 2017	—	12,560,000	(1,255,000)	11,305,000	1,015,000
State capital construction financing, Series 2008	13,552,957	—	(936,266)	12,616,691	979,002
Administration facility, Series 2015	10,505,000	—	(855,000)	9,650,000	875,000
Total capital lease obligations	<u>35,375,498</u>	<u>12,560,595</u>	<u>(14,364,402)</u>	<u>33,571,691</u>	<u>2,869,002</u>
Total long-term debt	\$ <u>103,153,798</u>	<u>13,182,975</u>	<u>(19,159,888)</u>	<u>97,176,885</u>	<u>7,524,002</u>

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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>

**(a) Revenue Bonds Payable**

The Center had the following bonds outstanding at June 30, 2018:

- 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.

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

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\$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, 2018 and 2017, the Series 2004 Parking Bonds accreted interest of \$622,380 and \$661,670, respectively, and have related prepaid bond costs of \$92,067 and \$100,698, 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, 2018 and 2017, the Series 2013 Bonds are shown net of a premium of \$755,829 and \$866,438, respectively, and an unamortized deferred loss on refunding of \$97,482 and \$111,748, 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 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

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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, 2018 and 2017, the Series 2013A Parking Revenue Bonds are shown net of a premium of \$606,568 and \$645,081, respectively, and have related prepaid bond costs of \$98,613 and \$104,874, 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, 2018 and 2017, the Series 2015 bonds are shown net of a premium of \$659,665 and \$721,030, respectively; an unamortized deferred loss on refunding of \$40,282 and \$44,029, respectively; and related prepaid bond costs of \$16,747 and \$18,305, 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, 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.

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

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At June 30, 2018 and 2017, the Series 2016 Bonds have an unamortized deferred loss on refunding of \$224,892 and \$254,226, 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, 2018 and 2017, the Series 2016 Bonds have an unamortized deferred loss on refunding of \$108,224 and \$147,578, respectively, and related prepaid bond costs of \$36,225 and \$49,398, respectively.

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Notes to Financial Statements

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**(i) Bond Maturity Schedule**

Debt service to maturity for all bonds as of June 30, 2018 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2019	\$ 4,655,000	1,684,776	6,339,776
2020	4,725,000	1,617,558	6,342,558
2021	4,805,000	1,548,396	6,353,396
2022	4,975,000	1,476,832	6,451,832
2023	5,100,000	1,359,009	6,459,009
2024–2028	20,980,000	5,217,273	26,197,273
2029–2033	16,410,000	2,722,121	19,132,121
2034	<u>3,150,000</u>	<u>157,500</u>	<u>3,307,500</u>
	64,800,000	15,783,465	80,583,465
Add premiums, net of discounts	2,022,063	—	2,022,063
Less unaccrued principal on Series 2004 Parking Bonds	<u>(3,216,869)</u>	<u>—</u>	<u>(3,216,869)</u>
	<u>\$ 63,605,194</u>	<u>15,783,465</u>	<u>79,388,659</u>

Reserve balances and requirements for outstanding bond issues at June 30, 2018 are as follows:

	<u>Reserve balance</u>	<u>Required reserve</u>
Series 2004 and Series 2016 Parking Bonds:		
Debt service reserve	\$ 2,585,515	2,540,740
Repair and replacement reserve	869,075	783,888
2013 Student Fee Bonds:		
Debt service reserve	\$ 1,914,234	1,838,574
Repair, replacement, and operation and maintenance reserve	350,000	350,000

As of June 30, 2018 and 2017, the Center believes it was in compliance with all bond covenants and related reserve requirements.

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Student bond fees and parking revenue were pledged as follows:

	<b>2018</b>	<b>2017</b>
Revenue source:		
Student fees pledged for bond payments	\$ 5,515,314	5,459,383
Interest earned on student fees pledged for bond payments	2,808	9,736
Parking revenue	12,188,759	10,652,459
Interest earned on parking revenue	243,871	169,276
Total pledged revenue	\$ 17,950,752	16,290,854

**(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, 2018 and 2017 as follows:

<b>June 30, 2018</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
Administrative building	\$ 15,518,172	10,460,358	5,057,814
Land	14,983,536	—	14,983,536
Science building	1,050,330	784,206	266,124
Science building equipment	97,807,826	29,318,794	68,489,032
Total capitalized leases	\$ 129,359,864	40,563,358	88,796,506

  

<b>June 30, 2017</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
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
Total capitalized leases	\$ 129,359,864	36,245,509	93,114,355

**(k) Series 2017 Refunding Certificates of Participation**

On September 26, 2017, the Center issued Series 2017 Refunding Certificates of Participation (COP) in the amount of \$12,560,000 for the purpose of advance refunding and defeasing \$11,345,000 in Series 2008 Certificates of Participation. The Center refunded those COPs by placing the proceeds of the Series 2017 Certificates of Participation in a special fund and trust account with Wells Fargo Bank, escrow agent, to provide for the May 1, 2019 redemption of Series 2008 Certificates maturing on and after May 1, 2019 pursuant to the optional redemption provisions of the 2008 Indenture.

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### Notes to Financial Statements

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The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$836,562 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 Center completed the advance refunding to reduce its total debt service payments by \$1,522,130 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,334,421.

The Series 2017 COP can be called for redemption at the option of the Center's board of directors, in whole or in part on any date, upon thirty (30) days prior written notice, at a redemption price equal to the principal amount of the bonds redeemed plus accrued interest to the redemption date.

The Series 2017 COP are payable in semiannual installments with annual principal payments beginning on May 1, 2018 ranging from \$1,015,000 to \$1,255,000 and interest rate at 2.42%. The final installment is due May 1, 2028.

At June 30, 2018 and 2017, the Series 2015 COP have an unamortized deferred loss on refunding of \$777,278 and \$0, respectively.

#### **(I) 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 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.

At June 30, 2018 and 2017, the Series 2015 COP have an unamortized deferred loss on refunding of \$550,658 and \$606,657, respectively.

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### **(m) 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, 2018 and 2017, the Series 2008 Land Acquisition Certificates are shown net of an unamortized discount of \$0 and \$27,458, respectively. Series 2008 Land Acquisition Certificates were defeased on September 26, 2017 with the proceeds of the Series 2017 Refunding Certificates of Participation and will be redeemed on May 1, 2019.

### **(n) 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

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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%.

**(o) Future Minimum Lease Payments**

The following is a schedule of future minimum lease payments under all capital leases for the year ended June 30, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2019	\$ 2,869,002	1,152,467	4,021,469
2020	2,959,820	1,057,010	4,016,830
2021	3,061,946	952,644	4,014,590
2022	3,170,381	849,213	4,019,594
2023	3,277,305	737,987	4,015,292
2024–2028	<u>18,233,237</u>	<u>1,877,647</u>	<u>20,110,884</u>
	33,571,691	6,626,968	40,198,659
Less unamortized discount	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 33,571,691</u>	<u>6,626,968</u>	<u>40,198,659</u>

**(p) 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.

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### Notes to Financial Statements

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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 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

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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, 2018, appropriated current fund expenditures were within the authorized spending authority. The Center had total current funds appropriations of \$20,012,653 for which the constituent institutions funded \$20,012,653. The constituent institutions also provided nonappropriated funding of \$1,800,000 for various deferred maintenance projects. An additional amount of \$1,574,447 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 \$705,587 to fund a portion of the debt service payments on the additional 13 acres of land purchased in December 2008.

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.

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**

*Pensions.* The Center participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees’ Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of

## AURARIA HIGHER EDUCATION CENTER

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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.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. Governmental accounting standards require the net pension liability and related amounts of the SDTF for financial reporting purposes be measured using the plan provisions in effect as of the SDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled *Changes between the measurement date of the net pension liability and June 30, 2018*.

#### **(b) General Information about the Pension Plan**

*Plan description.* Eligible employees of the Center are provided with pensions through the SDTF—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. 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](http://www.copera.org/investments/pera-financial-reports).

Benefits provided as of December 31, 2017. 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 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent 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.

In all cases the service retirement benefit is limited to 100 percent 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 percent or 100 percent on eligible amounts depending on

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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.

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, 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 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent 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 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) 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.

*Contributions provisions as of June 30, 2018:* 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

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to contribute 8 percent 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		Fiscal year 2018	
	CY14	CY15	CY16		CY17		CY18	
	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	1-17-17 to 6-30-17	7-1-17 to 12-31-17	1-1-18 to 6-30-18
Employer contribution rate <sup>1</sup>	10.15 %	10.15 %	10.15 %	10.15 %	10.15 %	10.15 %	10.15 %	10.15 %
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) <sup>1</sup>	(1.02)%	(1.02)%	(1.02)%	(1.02)%	(1.02)%	(1.02)%	(1.02)%	(1.02)%
Amount apportioned to the SDTF <sup>1</sup>	9.13 %	9.13 %	9.13 %	9.13 %	9.13 %	9.13 %	9.13 %	9.13 %
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	3.80 %	4.20 %	4.20 %	4.60 %	4.60 %	5.00 %	5.00 %	5.00 %
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	3.50 %	4.00 %	4.00 %	4.50 %	4.50 %	5.00 %	5.00 %	5.00 %
Total employer contribution rate to the SDTF <sup>1</sup>	16.43 %	17.33 %	17.33 %	18.23 %	18.23 %	19.13 %	19.13 %	19.13 %

<sup>1</sup>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 2018 and 2017 were \$2,934,112 and \$2,982,959.

**(c) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2018, the Center reported a liability of \$104,642,140 and \$97,869,336, respectively, for its proportionate share of the net pension liability. The net pension liability for the SDTF was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total pension liability to December 31, 2017. The Center's proportion of the net pension liability was based on the Center's contributions to the SDTF for the calendar year 2017 relative to the total contributions of participating employers to the SDTF.

At December 31, 2017, the Center's proportion was .52% percent, which was a decrease of .01% from its proportion measured as of December 31, 2016. 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.

For the year ended June 30, 2018 and 2017, the Center recognized pension expense of \$19,520,087 and \$18,889,540, respectively.

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At June 30, 2018, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 1,636,572	5
Changes of assumptions or other inputs	18,374,797	—
Net difference between projected and actual earnings on pension plan investments	2,047,959	5,990,914
Changes in proportion and differences between contributions recognized and proportionate share of contributions	—	1,119,165
Contributions subsequent to the measurement date	<u>1,418,512</u>	<u>—</u>
Total	<u>\$ 23,477,840</u>	<u>7,110,084</u>

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
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>

For the fiscal years ended June 30, 2018 and 2017, \$1,418,512 and \$1,452,249, 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 in the year ended

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June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<b>2018</b>	<b>2017</b>	<b>Total</b>
Fiscal Year ended June 30:			
2019	\$ 15,164,292	10,824,950	25,989,242
2020	2,744,612	34,337	2,778,949
2021	(1,463,391)	34,337	(1,429,054)
2022	(1,496,269)	—	(1,496,269)
2023	—	—	—
Thereafter	—	—	—

*Actuarial assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50–9.17 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

A discount rate of 4.72 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

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.

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.

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- **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 based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

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.

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 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.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset 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	30 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 Debt	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	100.00 %	

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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%.

*Discount rate.* The discount rate used to measure the total pension liability was 4.72 percent. 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:

- 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 member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- 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 AED and 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. Additionally, estimated employer contributions included reductions for the funding of the 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 post-retirement 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 2038 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 percent on

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pension plan investments was applied to periods through 2038 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2038 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.72 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.54 percent 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.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 4.72 percent, 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 (3.72 percent) or 1-percentage-point higher (5.72 percent) than the current rate:

Year ended June 30, 2018:

	<b>1% decrease (3.72%)</b>	<b>Current discount rate (4.72%)</b>	<b>1% increase (5.72%)</b>
Proportionate share of the net pension liability	130,182,337	104,642,140	83,675,204

Year ended June 30, 2017:

	<b>1% decrease (4.26%)</b>	<b>Current discount rate (5.26%)</b>	<b>1% increase (6.26%)</b>
Proportionate share of the net pension liability	121,217,229	97,869,336	78,687,243

*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 at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**Payables to the pension plan**

**(d) Changes between the measurement date of the net pension liability and June 30, 2018.**

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018.

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SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at [www.leg.colorado.gov](http://www.leg.colorado.gov).

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of three years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.
- Expands eligibility to participate in the PERA DC Plan to new members hired on or after January 1, 2019, who are classified college and university employees in the State Division. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the SDTF will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

At June 30, 2018, the Center reported a liability of \$104,642,140 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.72%. For comparative purposes, the following schedule presents an estimate of what the Center's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience, and other factors.

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<b>Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)</b>		<b>Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)</b>
7.25 %	\$	49,620,581

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$55,021,559 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

**(e) Other Retirement Plans**

Voluntary Investment Program

*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 which includes additional information on the Voluntary Investment Program. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://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.

Defined Contribution Retirement Plan (DC 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). SB 18-200 expands eligibility to participate in the PERA DC Plan to new employees hired on or after January 1, 2019, who are classified college and university employees in the State Division. 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 DC Plan is also included in PERA's comprehensive annual financial report as referred to above.

*Funding Policy* – All participating employees in the PERA DC Plan, with the exception of State Troopers, are required to contribute 8.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 10.15 percent of PERA-includable salary on behalf of these employees. All participating State Troopers are required to contribute 10.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 12.85 percent of PERA-includable

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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		Fiscal year 2018	
	CY14	CY15	CY16		CY17		CY18	
	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	1-17-17 to 6-30-17	7-1-17 to 12-31-17	1-1-18 to 6-30-18
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	3.80 %	4.20 %	4.20 %	4.60 %	4.60 %	5.00 %	5.00 %	5.00 %
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	3.50 %	4.00 %	4.00 %	4.50 %	4.50 %	5.00 %	5.00 %	5.00 %
Total employer contribution rate to the SDTF <sup>1</sup>	7.30 %	8.20 %	8.20 %	9.10 %	9.10 %	10.00 %	10.00 %	10.00 %

<sup>1</sup>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. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent. 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. Participating employees in the PERA DC Plan contributed \$11,411,000 and the State of Colorado recognized pension contributions of \$14,309,000, respectively, for the PERA DC Plan.

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 2017, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$18,500. Participants who are age 50 and older, and contributing the maximum amount allowable were allowed to make an additional \$6,000 contribution in 2017. Special 457(b) catch-up contributions allow a participant for 3 years prior to the normal retirement age to contribute the lesser of (1) Twice the annual limit (\$37,000 in 2015, 2016, and 2017), or (2) The basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age 50 or over catch-up contributions). Contributions and earnings are tax deferred. At December 31, 2017, the plan had 18,211 participants.

The Center made contributions to other retirement plans totaling \$0 during Fiscal Year 2018.

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### **(8) Defined Benefit Other Post Employment Benefit (OPEB) Plan**

#### **(a) Summary of Significant Accounting Policies**

*OPEB.* The Center participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of healthcare participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

#### **(b) General Information about the OPEB Plan**

*Plan description.* Eligible employees of the Center are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, 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 the premium subsidies. 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](http://www.copera.org/investments/pera-financial-reports).

*Benefits provided.* The HCTF provides a healthcare premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA healthcare plans; however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The healthcare premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government, and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the healthcare plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

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#### *PERA Benefit Structure*

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

*Contributions.* Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Center is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Center were \$156,397 for the year ended June 30, 2018.

#### **(c) OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2018, the Center reported a liability of \$2,454,498 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The Center's proportion of the net OPEB liability was based on The Center's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the Center's proportion was .1888 percent, which was a decrease of .0035 percent from its proportion measured as of December 31, 2016.

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For the year ended June 30, 2018, the Center recognized OPEB expense of \$27,786. At June 30, 2018, the Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 11,608	—
Changes of assumptions or other inputs	—	—
Net difference between projected and actual earnings on OPEB plan investments	—	41,063
Changes in proportion and differences between contributions recognized and proportionate share of contributions	—	38,339
Contributions subsequent to the measurement date	<u>78,552</u>	<u>N/A</u>
Total	<u>\$ 90,160</u>	<u>79,402</u>

\$78,552 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (12,602)
2020	(12,602)
2021	(12,602)
2022	(12,602)
2023	(12,602)
Thereafter	(4,784)

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*Actuarial assumptions.* The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Healthcare cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

Healthcare cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, healthcare cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Healthcare cost trend rates for the PERA benefit structure are based on published annual healthcare inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the healthcare cost trend rates for Medicare Part A

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements

June 30, 2018 and 2017

premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

<u>Year</u>	<u>PERACare Medicare Plans</u>	<u>Medicare Part A Premiums</u>
2017	5.00 %	3.00 %
2018	5.00 %	3.25 %
2019	5.00 %	3.50 %
2020	5.00 %	3.75 %
2021	5.00 %	4.00 %
2022	5.00 %	4.00 %
2023	5.00 %	4.25 %
2024+	5.00 %	4.25 %

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on 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.

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on 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.

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements

June 30, 2018 and 2017

- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita healthcare costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The healthcare cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita healthcare costs and their related trends are analyzed and reviewed by PERA’s actuary, as needed.

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Notes to Financial Statements

June 30, 2018 and 2017

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.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, 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 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.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target allocation</u>	<u>30 year expected geometric real rate of return</u>
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 Debt	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	100.00 %	

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%.

*Sensitivity of the Center's proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates.* The following presents the net OPEB liability using the current healthcare cost trend

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Notes to Financial Statements

June 30, 2018 and 2017

rates applicable to the PERA benefit structure, as well as if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	<u>1% decrease in trend rates</u>	<u>Current trend rates</u>	<u>1% increase in trend rates</u>
PERACare Medicare trend rate	4.00 %	5.00 %	6.00 %
Initial Medicare Part A trend rate	2.00 %	3.00 %	4.00 %
Ultimate Medicare Part A trend rate	3.25 %	4.25 %	5.25 %
Net OPEB Liability	2,386,965	2,454,498	2,535,836

*Discount rate.* The discount rate used to measure the total OPEB liability was 7.25 percent. 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 healthcare cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- 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%.
- 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. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- 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.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits 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 HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and, therefore, the discount rate is 7.25 percent.

**AURARIA HIGHER EDUCATION CENTER**

Notes to Financial Statements

June 30, 2018 and 2017

*Sensitivity of the Center's proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	<b>1% decrease (6.25%)</b>	<b>Current discount rate (7.25%)</b>	<b>1% increase (8.25%)</b>
Proportionate share of the net OPEB liability	2,759,627	2,454,498	2,194,061

*OPEB plan fiduciary net position.* Detailed information about the HCTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**(d) 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 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.

**(9) 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.

## AURARIA HIGHER EDUCATION CENTER

### Notes to Financial Statements

June 30, 2018 and 2017

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 \$1,621,465 are currently being held by UMB Bank, as trustee, until these funds are needed to pay the final debt service obligations on the Series 2017 Refunding Certificates of Participation, with final maturity on May 1, 2028. These proceeds are included in restricted cash and cash equivalents at June 30, 2018.

#### **(10) Risk Management**

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

#### **(11) 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.

#### **(12) 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.

**AURARIA HIGHER EDUCATION CENTER**  
 Required Supplementary Information for Pension  
 June 30, 2018 and 2017

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, 2017 and 2016:

<b>Schedule of proportionate share of the net pension liability</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
AHEC's proportion of the net pension liability	0.52274%	0.53282%	0.52015%
AHEC's proportionate share of the net pension liability	\$ 104,642,140	97,869,336	54,777,089
AHEC's covered payroll	16,091,172	16,030,265	15,222,897
AHEC's proportionate share of the net pension liability as a percentage of its covered payroll	650.3%	610.5%	359.8%
Plan fiduciary net position as a percentage of the total pension liability	43.2	42.6	56.1
<b>Schedule of employer contributions</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Statutorily required contribution	\$ 2,933,201	2,767,338	2,505,828
Contributions in relation to the statutorily required contribution	(2,921,635)	(2,907,785)	(2,505,828)
Contribution deficiency (excess)	\$ 11,566	(140,447)	—
AHEC's covered payroll	\$ 16,091,172	16,030,265	15,222,897
Contributions as a percentage of covered payroll	18.16%	18.2%	16.5%

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.

**AURARIA HIGHER EDUCATION CENTER**  
 Required Supplementary Information for OPEB  
 June 30, 2018 and 2017

The schedule of proportionate share of net OPEB 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 OPEB fund administered by the PERA of Colorado for the year ended December 31, 2017:

<b>Schedule of proportionate share of the net OPEB liability</b>	<b>2017</b>
AHEC's proportion of the net OPEB liability	0.18887%
AHEC's proportionate share of the net OPEB liability	\$ 2,454,498
AHEC's covered payroll	16,091,172
AHEC's proportionate share of the net OPEB liability as a percentage of its covered payroll	16.0%
Plan fiduciary net position as a percentage of the total OPEB liability	17.5

<b>Schedule of employer contributions</b>	<b>2017</b>
Statutorily required contribution	\$ 156,397
Contributions in relation to the statutorily required contribution	(155,778)
Contribution deficiency (excess)	\$ 619
AHEC's covered payroll	\$ 16,091,172
Contributions as a percentage of covered payroll	1.0%

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

**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 Center (the Center), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated November 30, 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.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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*.



### **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.

KPMG LLP

Denver, Colorado  
November 30, 2018



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

November 30, 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, 2018 and 2017, and have issued our report thereon dated November 30, 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 2018 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  
November 30, 2018

### **Accounting Practices and Alternative Treatments**

*Significant Accounting Policies are described in Note 1 to the financial statements.*

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

#### *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, net pension liability and the net OPEB 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, 2018. We identified no uncorrected misstatements in the audit.

#### *Corrected misstatements*

We identified no corrected misstatements in the audit.

### **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, 2018.

### **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.



The Members  
Legislative Audit Committee  
Auraria Higher Education Center  
November 30, 2018

*Material Written Communications*

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

1. Engagement letter; and
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 November 30, 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**