UNIVERSITY OF COLORADO

FINANCIAL AND COMPLIANCE AUDIT
June 30, 2011 and 2010

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UNIVERSITY OF COLORADO
REPORT SUMMARY
Year ended June 30, 2011

Purposes and Scope of Audit

Authority, Purpose and Scope

The Office of the State Auditor, State of Colorado, engaged Clifton Gunderson LLP (Clifton Gunderson) to conduct a financial and compliance audit of the University of Colorado (the University) for the fiscal year ended June 30, 2011. Clifton Gunderson conducted the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States of America. We conducted the related fieldwork from May 2011 to November 14, 2011.

The purpose and scope of our audit were to:

- Express an opinion on the basic financial statements of the University as of and for the year ended June 30, 2011. Our independent auditor's report refers to a report on internal control over financial reporting and compliance as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards.*

- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.

- Express an opinion on the statement of appropriations, expenditures, transfers, and reversions of the state-funded student financial assistance programs of the University for the year ended June 30, 2011.

- Evaluate progress in implementing the prior audit finding and recommendation.

The University's schedule of expenditures of federal awards and applicable opinions thereon by the Office of the State Auditor, State of Colorado, are included in the June 30, 2011 Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on the University's basic financial statements and on the statement of appropriations, expenditures, transfers, and reversions of the state-funded student financial assistance programs for the year ended June 30, 2011.

There were four audit adjustments that were proposed and not made to the basic financial statements:

- An adjustment that would have decreased beginning net assets by approximately $46.2 million and decreased current year operating expenses by this same amount to reflect a prior period error in the OPEB calculation caused by the prior year actuary.
- An adjustment that would have increased liabilities by approximately $28.8 million and increased capital assets and operating expenses by approximately $14.9 million and $13.9 million, respectively. These amounts were determined based on a projected error found during testing.
- An adjustment that would have decreased operating revenue and operating expenses by approximately $6.1 million to properly reflect bad debt expense.
- An adjustment that would have decreased beginning net assets by approximately $2.9 million and decreased current year operating expense by this same amount to reflect a prior period error in the Alternate Medicare Plan liability.

These adjustments were not made by the University as management determined these amounts were not quantitatively or qualitatively material to the financial statements.

We issued a report on the University's compliance and internal control over financial reporting based on an audit of the basic financial statements performed in accordance with *Government Auditing Standards.* 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 misstatements 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. A *material weakness* is a deficiency, or combination of deficiency, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We consider the following deficiencies described in the findings and recommendations section to be significant deficiencies in the University's internal control.

Summary of Findings

Information Technology General Controls

During our audit of the University, we tested the operating effectiveness of the University's information technology systems critical to its operations and financial reporting. During our testing, we found instances where general information technology controls relating to program change management and access controls were not operating as intended by management. Specifically, there were incompatible programmer duties, not all program changes were supported by proper authorization, and summer-term students were charged incorrect amounts due to system configurations that were not corrected prior to billing. In addition, we noted one individual who was assigned conflicting roles within the University's PeopleSoft application. The conflicting roles included having both administration rights as well as access to development tools used to modify the application. The deficiencies noted above during the information technology testing weaken the control environment surrounding information technology systems. In addition, new modules may not work correctly or meet user needs.

In addition to issuing a report on the University's compliance and internal control over financial reporting, we also performed procedures in accordance with Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-profit Organizations*, over major federal programs as determined by the Office of the State Auditor. The purpose of our procedures was not to issue an opinion over the University's compliance with the federal programs tested, but rather report any noncompliance and internal control deficiencies noted during our testing to the Office of the State Auditor for inclusion in the State-Wide Single Audit report. Instances of noncompliance and internal control deficiencies noted during these procedures include the following items.

UNIVERSITY OF COLORADO
REPORT SUMMARY
Year ended June 30, 2011

Timely Reporting for Research and Development (R&D) Grants

As required by the Office of Management and Budget Circular A-133, we performed testing of financial reporting for R&D projects which included ascertaining the financial reports were complete and accurate, were prepared in accordance with the required accounting basis and were submitted timely to the awarding agency. We selected a sample of twenty R&D projects to perform test of controls and compliance. Of the 20 projects selected for testing, we tested all reports required to be submitted for these projects during the June 30, 2011 year, which was a total of 20 reports. We obtained copies of these reports to determine information included on the reports were properly supported, that the reports were properly approved and that they were submitted on a timely basis in accordance with grant agreements. Of the 20 reports tested, one report was submitted 80 days past the deadline by the University of Colorado Denver.

Borrower Data Reconciliation for the Federal Direct Student Loan Program

The Federal Direct Student Loan Program requires that institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement. Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and Loan Detail records. The school is required to reconcile these files to the institution's financial records. During our testing, we noted that the University of Colorado Denver was not performing these required reconciliations.

Recommendations and the University's Responses

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

The University's responses to the findings are described in the findings and recommendations section of this report. The responses have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Summary of Progress in Implementing Prior Year Audit Recommendation

The audit report for the year ended June 30, 2010 included one recommendation. This recommendation was implemented as of November 14, 2011.

UNIVERSITY OF COLORADO
RECOMMENDATION LOCATOR
Year Ended June 30, 2011

Rec. no.	Page no.	Recommendation Summary	Agency Addressed	University Response	Implementation Date
1	10	Strengthen information technology controls.	University of Colorado	Agree	January 2012
2	13	Reconcile School Account Statement data files as provided by the Common Origination and Disbursement system to financial records on a monthly basis.	University of Colorado Denver	Agree	August 2011
3	15	Ensure financial reports for Research and Development grants are submitted to the awarding agency on a timely basis.	University of Colorado Denver	Agree	June 30, 2012

Organization and Administration

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

The University consists of the system office and the following three accredited campuses:

- University of Colorado Boulder
- University of Colorado Denver | Anschutz Medical Campus
- University of Colorado Colorado Springs

The three campuses comprise 28 schools and colleges, which offer more than 135 fields of study at the undergraduate level and 215 fields at the graduate level, offering 280 bachelor and master's degrees, along with 110 doctorates offered.

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

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

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

Full-Time equivalent (FTE) Student Enrollment

	Undergraduate		Graduate		
Fiscal years	**Resident**	**Nonresident**	**Resident**	**Nonresident**	**Total**
2010 – 2011	29,319	9,714	7,825	1,955	48,813
2009 – 2010	29,736	9,359	7,563	1,853	48,511
2008 – 2009	28,464	9,338	7,228	1,696	46,726

FTE Faculty and Staff

Fiscal years	**Instructional Faculty**	**Other Faculty and Staff**	**Total**
2010 – 2011	4,767	9,465	14,232
2009 – 2010	4,562	8,748	13,310
2008 – 2009	4,514	8,352	12,866

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the University of Colorado (the University), a component unit of the State of Colorado, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 14, 2011. In planning and performing our audit, we considered the University's internal control over financial reporting 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 University's internal control over financial reporting. 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 14, 2011 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since the date of that report. We did not audit the financial statements of the University of Colorado Foundation (CU Foundation) or the University of Colorado Real Estate Foundation (CUREF), discretely presented component units. In addition, we did not audit the financial statements of the University Physicians, Inc. (UPI), a blended component unit. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards.*

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. Also, 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 *control deficiency* 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 misstatements 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.

A *material weakness* is a deficiency, or a combination of significant 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.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as described above.

We consider the following deficiencies in the University's internal control to be significant deficiencies:

<u>Information Technology General Controls</u>

Information technology (IT) controls ensure the continued proper operation of network systems and applications running on the systems. Such controls include:

- Program change management
- Access controls

The University of Colorado (University) utilizes PeopleSoft, an enterprise resource planning (ERP) system for its financial reporting, procurement, payroll, and human resources information processing, among other applications. Prior to Fiscal Year 2011, for its student information module, the University utilized an "in house" developed and maintained system named the Student Information System (SIS). This module was responsible for student registration, course selection, admission, applying tuition and fee rates, financial aid awarding, and student billing. During Fiscal Year 2011, the University implemented a new module within PeopleSoft to handle these tasks – this new system was named the Integrated Student Information System (ISIS).

What was the purpose of the audit work?

The purpose of the audit work was to test the operating effectiveness of general information technology controls relating to program change management and access controls. As part of the audit work, we performed testing to ensure data from SIS were properly converted to ISIS.

What audit work was performed and how were results measured?

The audit work performed included testing the operating effectiveness of the University's information technology systems critical to its operations and financial reporting. Logistical access, physical access, program change management, access controls, and other controls were included in this testing. The results of the testing were evaluated against those industry best practices and governmental standards that address the risks that face the University's financial information systems.

The audit work also included testing of the conversion processes of financial data from SIS to ISIS modules of the PeopleSoft application. This included ensuring ending financial balances from SIS agreed to beginning financial balances of ISIS.

What problem did the audit work identify?

During our testing, we noted the following:

- Program change management:
  - One programmer had incompatible duties. Specifically, the programmer had access to process changes, yet also had responsibility for placing program changes into the production environment. This created an improper segregation of duties.

  - Not all program changes were supported by proper authorization. During our testing of new ISIS program changes, we selected a sample of changes to ensure the program changes were appropriately authorized. The University provided some documentation for the sample of program changes selected and included in this documentation were emails indicating that the changes had been approved for implementation. However, several emails were not available to support authorization.

  - o During the summer terms, certain students at the University of Colorado at Boulder (UCB) and the University of Colorado at Denver (UCD) were charged the incorrect tuition amount due to ISIS configurations that were not able to be corrected prior to billing the student. Specifically, this impacted students at UCB that were enrolled in 12 or more total summer credits hours and students at UCD that were enrolled in 13 or more total summer credit hours. Due to the configuration problems, these students were charged as if they were taking two separate 6-hour semesters as opposed to one 12-hour session. As such, these students were not provided the applicable tuition discounts for the classes they were taking. This impacted approximately 250 students at UCB and 310 at UCD. The University was aware of the configuration issues, but elected not to delay billings since this issue impacted a small number of students.

- Access controls:
  - o One University human resources employee was assigned conflicting roles within the PeopleSoft application. The employee had full access to all human resource-related applications, as well as the application security and system configurations menus (components), pages, component interfaces, web libraries, and PeopleTools, and access to development tools used to modify the application. The employee could perform human resource-related transactions, as well as change the application security, configuration and functionality.

Why does this problem matter?

The deficiencies noted during the information technology testing weaken the control environment surrounding information technology systems. In addition, new modules may not work correctly or meet user needs. Specifically:

- Program change management:
  - o Unapproved or untested changes may be made to an application by allowing the application programmer to also migrate a change into the production environment.

  - o Documentation supporting authorization of a program change may be easily misplaced and difficult to retrieve when those changes are approved through email.

  - o Tuition revenue for UCB was overstated by approximately $193,000 and tuition revenue for UCD was overstated by approximately $127,000 for the fiscal year ended June 30, 2011. These campuses made correcting journal entries to the general ledger and made the appropriate corrections to the students' ISIS accounts in August 2011.

- Access controls:
  - Allowing the individual whose job responsibilities are human-resources related to access the PeopleSoft development tools and the system and security administration functions causes a segregation of duties violation. This access allows the individual to have the ability to develop code for the application, change configuration and security of the application, and implement the unauthorized code and changes without the knowledge of others. The separation of these key duties will help prevent potential fraudulent activities and help ensure the availability and stability of the environment.

Why did the problem occur?

The deficiencies noted above occurred due to:

- Program Change Management:
  - The application programmer was in transition of job responsibilities from being an operator that implemented PeopleSoft changes to a PeopleSoft portal programmer.

  - For the ISIS implementation, the University allowed the change management process to include email responses to approve changes for implementation. There was no formal guidance to store these emails in a central location. As such, when one of the authorized approvers left the University, the emails were no longer available to support the approved change. This resulted in no evidence demonstrating some program changes were approved to be placed into production.

  - Configurations within ISIS did not charge summer session tuition to certain students at the correct approved rates, as business rules from the legacy system could not be configured in the new system in time for the billing cycle. Specifically, tuition was incorrectly charged to those students at UCB who took 12 or more credit hours and UCD students who took 13 or more credit hours. For these students, ISIS viewed the hours taken as two different summer sessions. Yet, the approved tuition rates for the summer session were based on the full summer semester and offered reductions in tuition based upon the number of courses enrolled over the full semester.

- Access controls:
  - The University had not appropriately addressed the segregation of duties issues of the employee that had been granted programming capabilities as well as the capability to administer the system configuration and security settings.

Classification of Finding: Significant Deficiency

Recommendation No. 1:

The University of Colorado should strengthen its information technology controls by:

a) Ensuring a proper segregation of duties exists between those who produce program changes and those who place the program changes into production. This may be performed by generating and reviewing application developers' responsibilities on a periodic basis to determine that segregation of duties exists.

b) Developing and implementing formal guidance for documenting and storing in a centralized location all of the critical information including email approvals as part of the change management process.

c) Correcting ISIS configuration issues related to the summer terms prior to the next summer term, if feasible. In the future, errors should be addressed prior to billing students.

d) Removing access to PeopleSoft development tools from individuals with administration rights.

University of Colorado Response:

a) Management agrees with the recommendation and implemented the role changes for the individual in July 2011. The overlapping roles were a temporary situation due to a period of organizational transition. In addition, further review for incompatible roles will occur upon significant organizational events.

b) Management agrees with the recommendation and implemented a centralized system in October 2011 to track change requests and approvals, including supporting documentation for those requests and approvals, such as emails from the campuses.

c) Management concurs. The complexity of the multi-campus, multiple-session Summer term (which includes a short interim session in May) and the policy of charging tuition by *session* in Summer rather than charging by *term* as seen in Fall and Spring requires the campuses to calculate multiple tuition items for a student within a single term. In the ISIS system, a configuration change was made which eliminates over-charging for the majority of students to the extent possible within the system. However, there is a subset of students which are not covered by the configuration change. To minimize the likelihood of overcharging any students, the campus Bursar Offices have added a step into their processing to capture and correct the billing for impacted students. In addition, the campuses are currently discussing a change in business practices to charge tuition by term rather than session for the Summer term to eliminate the risk altogether.

d) Management concurs. For the human resource application, the employee does have the PeopleSoft Administrator role access for the human resource application. This is believed to have been granted during the implementation phase of the PeopleSoft system and has continued in place for the ongoing maintenance and support of the system as the employee is the application owner. The employee's access is currently under review with both the application business management and the security coordinators; permissions will be reviewed against the application owner role and will be adjusted as necessary by January 31, 2012.

Implementation Date: January 2012

Federal Awards

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

- Student Financial Aid Cluster
- Research & Development Cluster

For Fiscal Year 2011, the University expended approximately $593 million and $463 million of federal financial assistance for the two programs, respectively. The two findings and recommendations below result from this work.

Student Financial Aid Cluster

Special Tests – Borrower Data Transmission and Reconciliation

The purpose of Federal Student Financial Aid Programs is to provide assistance to eligible students attending institutions of postsecondary education. One form of such assistance is provided through the Federal Direct Student Loans Program (Direct Loan Program). Many compliance requirements are applicable to postsecondary education institutions that administer the Direct Loan program. One of those requirements is that institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System via the Common Origination and Disbursement (COD) system within 30 days of disbursement. Each month, COD provides institutions with a School Account Statement data file which consists of cash summary, cash detail, and loan detail records. The institutions are required to reconcile these files to their financial records monthly.

What was the purpose of the audit work?

As required by OMB *Circular A-133*, we performed testing of the University's reconciliations of SAS data files to the University's records to determine that the reconciliations were being performed as required.

What audit work was performed and how were results measured?

We selected a sample of six monthly reconciliations to test - three from the University of Colorado Denver (UCD) campus and three from the University of Colorado Boulder (UCB) campus. Our testing procedures included ensuring that (1) the reconciliations were properly performed and reviewed, (2) underlying data supported amounts within the reconciliation, and (3) reconciling items (if any) were appropriately investigated and resolved. In addition, our testing procedures included testing controls over the reconciliation process, as performed by UCD and UCB to ensure controls were operating effectively.

What problem did the audit work identify?

We were unable to test UCD's reconciliation of the SAS records to its financial records because UCD staff were not performing the reconciliations.

Why did the problem occur?

UCD staff indicated that they were unaware of the compliance requirement.

Why does this problem matter?

Failure to perform reconciliations for the Direct Loan Program on a timely basis results in the University being out of compliance with the program regulations.

Classification of Finding: Significant Deficiency

Recommendation No. 2:

The University of Colorado Denver should reconcile the Common Origination and Disbursement system School Account Statement data files to the institution's financial records on a monthly basis. This reconciliation should be reviewed by someone separate from the preparer.

University of Colorado Response:

Agree. Our previous process had been to make periodic reconciliations between loans accepted/disbursed as recorded on the COD system to our internal records of loan dollars disbursed to students. If discrepancies arose we would then investigate to clear the discrepancy and then to do a final reconciliation at fiscal year-end close. For AY 11/12 we have implemented a complete monthly student by student reconciliation of our Direct Loan disbursements to the SAS report.

Implementation Date: August 2011

<u>Research & Development Cluster</u>

Reporting

The federal government sponsors Research and Development (R&D) activities under a variety of funding agreements, most commonly grants, cooperative agreements, and contracts, to achieve objectives agreed upon between the sponsoring agency and the institution. The types of R&D activities conducted under these agreements vary widely. The objective of individual projects is explained in each federal award document. The University is awarded R&D contracts on the basis of applications/proposals submitted to federal agencies or pass through entities. An agreement is then negotiated, that specifies the purpose of the project, the amount of the award, and the terms of administration.

The University is responsible for providing reports to each awarding federal agency in accordance with the grant agreement and for ensuring these reports are accurate, complete, and submitted timely.

What was the purpose of the audit work?

The purpose of the audit work was to determine compliance with federal reporting requirements for the R&D Cluster. As part of the audit work, we performed testing on the timeliness of the University's submission of required reports.

What audit work was performed and how were results measured?

As required by OMB *Circular A-133*, we performed testing of the University's financial reporting for R&D projects that included ascertaining that the financial reports were complete and accurate, were prepared in accordance with the required accounting basis, and were submitted timely to the awarding agency. We selected a sample of 20 R&D projects, on which to perform a test of controls and compliance. We tested all 20 reports required to be submitted for these projects during the year ended June 30, 2011. We obtained copies of these reports to determine that information included on the reports was properly supported, that the reports were properly approved, and that the reports were submitted on a timely basis in accordance with grant agreements.

What problem did the audit work identify?

We noted that one report out of the 20 reports tested was submitted 80 days after the due date.

Why did the problem occur?

The report in question was for a project at the University of Colorado Denver (UCD) campus. According to the Office of Grants and Contracts (OGC) at UCD, the report was late because OGC was unable to remove unallowable expenses for the project in time to submit the report accurately. Originally, OGC at UCD began working with the respective Departmental Grants Manager at UCD to remove unallowable expenses from the report. This type of follow-up is consistent with OGC's contracts close-out process in which a financial review is completed by OGC and any questionable items are communicated to the respective department fiscal personnel for correction. In this instance, the corrections were not completed by departmental fiscal personnel at UCD until after the reporting deadline had passed. OGC at UCD did not have system access to make these corrections. As such, OGC was not able to submit the report timely based upon the outstanding questions with department personnel.

While UCD's processes provide for assurance that financial reports are not submitted with any unallowable expenses, the report identified in the sample was submitted after the reporting deadline. Per discussion with OGC, this untimely submission of the report could have been avoided if it had the capabilities to make the needed corrections at project close-out by reclassifying unallowable costs to an alternative funding source. This would help ensure reports are both accurate and timely upon submission.

Why does this problem matter?

Failure to submit reports timely results in the University being out of compliance with the reporting requirements within the grant agreement.

Classification of Finding: Significant Deficiency

Recommendation No 3:

The University of Colorado Denver (UCD) should ensure it meets federal reporting requirements for the Research and Development Cluster by:

a. Investigating the feasibility of granting Office of Grants and Contracts (OGC) staff system access in order to make needed corrections at project close-out so that OGC staff can ensure financial reports for R&D grants are submitted to the awarding agency on a timely basis. If UCD determines this is a workable option, appropriate funding sources will need to be identified for re-allocation of unallowable project costs to alternative funding sources.

b. Obtaining an extension to file from the awarding agency in situations in which a report will need to be submitted after the deadline due to circumstances outside of OGC's control. Documentation of this extension from the awarding agency should be maintained.

University of Colorado Response:
Agreed. The University will grant OGC system access and authority to move unallowable sponsored project costs to departmental funding sources. In those circumstances in which a report will be submitted after the due date because of circumstances outside of the control of OGC, an extension will be requested from the awarding agency.

Implementation Date: June 30, 2012

UNIVERSITY OF COLORADO
DISPOSITION OF PRIOR AUDIT FINDING AND RECOMMENDATION
Year ended June 30, 2011

Following is the audit recommendation for the year ended June 30, 2010 and its disposition as of November 14, 2011.

Recommendation	Disposition
Recommendation No. 1 - The University should strengthen information technology controls by prohibiting the administrators from logging directly into the UNIX administrator account and generating and reviewing the log file on a periodic basis.	Implemented

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Colorado (the University), a component unit of the State of Colorado, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2011 and 2010 financial statements of University Physicians, Inc. (UPI) a blended component unit, which represents approximately 6%, 8%, and 15%, respectively, of the assets, net assets, and revenues of the business-type activities of the University for 2011 and 2010. We also did not audit the 2010 financial statements of University License Equity Holding, Inc. (ULEHI), a blended component unit, which represents approximately .07%, .1%, and .01% respectively, of the assets, net assets, and revenues of the business-type activities of the University for 2010. In addition, we did not audit the 2011 and 2010 financial statements of the University of Colorado Foundation (CU Foundation) and the University of Colorado Real Estate Foundation (CUREF), which represent 100% of the assets, net assets, and revenues of the aggregate discretely presented component units for 2011 and 2010. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as they relate to the amounts included for UPI, CU Foundation, ULEHI, and CUREF, are based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University of Colorado as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2011 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 19 through 26 and the Funding Status of Postemployment Benefits on page 64 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Greenwood Village, Colorado
November 14, 2011

We are pleased to present this financial discussion and analysis of the University of Colorado (the University). It is intended to make the University's financial statements easier to understand and communicate our financial situation in an open, transparent, and accountable manner. It provides an analysis of the University's position and results of operations for the years ended June 30, 2011 and 2010 (Fiscal Year 2011 and 2010, respectively), with comparative information for the year ended June 30, 2009. University management is responsible for the completeness and fairness of this discussion and analysis and the financial statements.

UNDERSTANDING THE FINANCIAL STATEMENTS

Statements of Net Assets present the assets, liabilities, and net assets of the University at a point in time (June 30, 2011 and 2010). Their purpose is to present a financial snapshot of the University. They aid readers in determining the assets available to continue the University's operations; how much the University owes to employees, vendors, and investors; and a picture of net assets and their availability for expenditure by the University.

Statements of Revenues, Expenses, and Changes in Net Assets present the total revenues and expenses of the University for operating, nonoperating, and other related activities during the fiscal years ended June 30, 2011 and 2010. Their purpose is to assess the University's operating and nonoperating operations.

Statements of Cash Flows present cash receipts and payments of the University during the fiscal years ended June 30, 2011 and 2010. Their purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.

Notes to the Financial Statements present additional information to support the financial statements and are commonly referred to as "Notes." Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

Required Supplementary Information (RSI) presents additional information that differs from the basic financial statements in that the auditor applies certain limited procedures in reviewing the information. In this report, RSI includes the funding status of other postemployment benefits and the Alternate Medicare Plan, as well as this management's discussion and analysis.

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

FINANCIAL HIGHLIGHTS

Increases in net assets during a period of declining budgets are one indicator of concerted planning on the part of University management to address anticipated future funding reductions. For each of the two past fiscal years, the University has managed to increase its net assets. For the year ended June 30, 2011, the University's net assets increased by $260,996,000. For the year ended June 30, 2010, the University's net assets increased by approximately $254,989,000.

For Fiscal Year 2011, the increase in net assets is partially attributable to investment income of $133,665,000 compared to investment income of $103,486,000 in Fiscal Year 2010. Included in investment income are unrealized gains of $97,189,000 in Fiscal Year 2011 and $68,106,000 in Fiscal Year 2010. Unrealized gains, by their nature, do not result in spendable funds for the University. Increases of $80,801,000 in fee-for-service contracts ($130,939,000 in Fiscal Year 2011 versus $50,138,000 in Fiscal Year 2010) partially restored the University's previous level of State purchases of educational activities (the cuts for Fiscal Years 2010 and 2009 were backfilled with federal stimulus funds as discussed below). While there was a one-year increase, overall funding from the State has been decreasing since Fiscal Year 2009. From Fiscal Year 2009 to Fiscal Year 2011, fee-for-service from the State has been reduced $40,034,000. Stipends represent the amount the State pays for each credit hour a resident undergraduate student is enrolled. The stipend amount received serves only as a source of payment for student tuition. In Fiscal Year 2010, the State cut the stipend from $68 per credit hour to $44 per credit hour. Per the College Opportunity Fund (COF) guidelines, this reduction in the stipend is not passed onto the student. As a result, in Fiscal Year 2010, the University had to decrease tuition revenue equal to the cumulative smount of the stipend reduction. In Fiscal Year 2011, the stipend remained consistent at $62 per credit hour. The Colorado Department of Higher Education (CDHE) purchases graduate and specialized education services, such as law and medicine, from public higher education institutions via fee-for-service contracts. The increase in stipends received occurred due to an increase in enrollment along with an increase in the stipend amount per credit hour. The increase in fee-for-service between Fiscal Year 2010 and Fiscal Year 2011 was offset by a decrease in stimulus funds of $120,888,000 in Fiscal Year 2010 to $10,910,000 in Fiscal Year 2011 from the federal government (the American Recovery and Reinvestment Act of 2009, "ARRA") which are included in nonoperating revenues. Federal stimulus funding for the State must be expended by October 2011.

The University sustained an operating loss of $76,525,000 in Fiscal Year 2011 and $121,701,000 in Fiscal Year 2010. Operating losses are expected in public higher education entities as student tuition is not set at a level to fully compensate for the cost of the education provided. Additionally, federal grants and contracts are typically reimbursement-based such that no excess of revenue over expenses is realized. Student tuition increased $52,465,000 in Fiscal Year 2011 versus Fiscal Year 2010 due to rate and enrollment increases, and fee-for-service revenue increased $80,801,000 due to a partial rebound in the State's purchasing of educational services. The increases in these operating revenue sources combined with a lower percentage increase in operating expenses resulted in a decrease in the operating loss between Fiscal Year 2011 and Fiscal Year 2010 of $45,176,000.

The University reported an increase in net assets of $254,989,000 in Fiscal Year 2010 versus a decrease in net assets of $2,084,000 in Fiscal Year 2009. For Fiscal Year 2010, the University reported investment income of $103,486,000 as compared to a loss of $95,754,000 in the prior fiscal year. Additionally, the University received stimulus funding from the federal government of $120,888,000 in Fiscal Year 2010 as opposed to $49,995,000 in the prior fiscal year. Offsetting these increases in investment income and stimulus funding were reductions in fee-for-service purchases from the State. In Fiscal Year 2010, the State purchased $50,138,000 in educational services as opposed to $101,940,000 in the prior fiscal year, a decrease of $51,802,000. Additionally, the stipend amount was reduced from $68 per hour to $44 per hour. As the University cannot recover the State's retroactive reduction in stipend funding to students, tuition revenue was reduced by $19,000,000.

The University sustained an operating loss of $121,701,000 in Fiscal Year 2010 due in part to the issues noted above and the reclassification of Pell Grant revenue in the amount of $40,139,000 from operating revenue to nonoperating revenue as a result of additional guidance provided by the Governmental Accounting Standards Board.

STATEMENT OF NET ASSETS

Figure 1 illustrates the University's summary of net assets and demonstrates that the University has positioned itself for the current economic environment and related anticipated budget constraints through its fiscal decisions over the past three fiscal years. The mix of assets, liabilities, and net assets has remained consistent. The change in net capital asset composition is related to ongoing capital-related activity. Analysis of the University's capital assets and related debt is included in the section Capital Asset and Debt Management, whereas this section provides analysis of the University's non-capital assets and other liabilities.

The University's investments were $1,534,239,000 and $1,451,669,000 at June 30, 2011 and 2010, respectively. The University maximizes earnings through an internal pooling program and targeted rates of returns. The University has leveraged the investment portfolio and earning power while ensuring security and liquidity requirements are also met. Funds invested in the University's investment pool increased approximately $200,185,000 from June 30, 2010, to June 30, 2011, including unrealized gains of $97,189,000. In Fiscal Year 2011, the University recovered a portion of the losses that existed at the end of Fiscal Year 2010 on the equities in the Treasury Pool of $78,473,000. The fixed income portion of the portfolio's unrealized losses declined by $1,235,000. At the end of Fiscal Year 2011, the University had $67,441,000 of unspent construction funds invested, compared to $178,231,000 at the end of Fiscal Year 2010.

The University's investments were $1,272,400,000 at June 30, 2009. Funds invested in the University's investment pool increased $149,342,000 from June 30, 2009 to June 30, 2010, including unrealized gains of $68,106,000. Also, in Fiscal Year 2010, the University recovered a portion of the losses incurred in Fiscal Year 2009 in the Treasury Pool in the amount of $48,581,000. At the end of Fiscal Year 2009, the University had $80,505,000 of unspent construction funds invested.

The increase in net accounts and loans receivable from Fiscal Year 2010 to Fiscal Year 2011 of $30,521,000 is driven by the increase in amounts receivable from the federal government of $14,470,000, which is due in part to the additional research funding received from the federal government under the ARRA program. The overall increase is also due in part to increases in student accounts receivable of $6,679,000 related to increased tuition and fee rates and enrollment, an increase of $5,850,000 due from component units related to timing issues, and an increase in patient receivables related to increased volume in services provided at University Physicians, Inc. (UPI). Amounts due from private sponsors increased $6,711,000 related to timing issues.

The increase in accounts and loans receivable from Fiscal Year 2009 to 2010 of $24,433,000 is driven by the increase in amounts receivable from the federal government of $14,222,000. This increase is due in part to the additional research funding received from the federal government under the ARRA program. It is also due in part to increases in nongovernmental research funding which caused receivables from these parties to increase by $5,073,000.

The University's non-debt-related liabilities are $655,389,000 and $566,112,000 at June 30, 2011, and 2010, respectively. These liabilities are comprised of amounts categorized in Figure 2.

The three largest categories of non-debt-related liabilities are accrued expenses, compensated absences and postemployment benefits, and deferred revenue. For accrued expenses, the increases from Fiscal Years 2009 through 2011 are due primarily to

Figure 1. Summary of Assets, Liabilities, and Net Assets as of June 30, 2011, 2010, and 2009
(in thousands)

	2011	2010	2009
Assets			
Current assets	$ 607,670	522,133	580,630
Noncurrent, noncapital assets	1,311,291	1,249,412	1,001,864
Net capital assets	2,534,573	2,331,983	2,121,616
Total Assets	**4,453,534**	**4,103,528**	**3,704,110**
Liabilities			
Current liabilities	463,370	452,790	502,642
Noncurrent liabilities	1,344,505	1,266,075	1,071,794
Total Liabilities	**1,807,875**	**1,718,865**	**1,574,436**
Net Assets			
Invested in capital assets, net of related debt	1,441,393	1,351,486	1,248,656
Restricted for nonexpendable purposes	76,827	46,127	41,968
Restricted for expendable purposes	320,608	303,706	284,012
Unrestricted	806,831	683,344	555,038
Total Net Assets	**2,645,659**	**2,384,663**	**2,129,674**
Total Net Assets and Liabilities	**$ 4,453,534**	**4,103,528**	**3,704,110**

Figure 2. Composition of Other Liabilities (non-debt-related) as of June 30, 2011, 2010, and 2009
(in thousands)

		2011	2010	2009
Accounts payable	$	63,751	69,997	70,794
Accrued expenses		170,520	170,168	161,117
Compensated absences and postemployment benefits		237,686	156,635	136,503
Deferred revenue		120,897	121,526	105,390
Risk financing		16,394	17,471	18,332
Contract retainage		11,391	9,822	3,939
Securities lending		–	–	88,456
Funding held for others		17,052	14,765	15,466
Miscellaneous liabilities		17,698	5,728	7,109
Total Other Liabilities	**$**	**655,389**	**566,112**	**607,106**

federal stimulus dollars for research. Accrued expenses represent salaries and benefits earned by University employees, primarily for June payroll, but not paid as of fiscal year end.

Compensated absences and other postemployment benefits (OPEB) estimate the amount payable to employees in the future for their vested rights under the University's various leave and retirement programs. This estimate is based on personnel policies that define the amount of vacation, sick leave, and postemployment benefits to which each employee may be entitled (Note 1). This liability increased by $81,051,000 for Fiscal Year 2011, primarily due to the recognition of the healthcare trend rate in the actuarially determined postemployment liability calculation. Prior to the current year actuarial valuation, a healthcare trend rate was disclosed in the actuarial report, but was not utilized in the determination of the actuarial accrued liability or in the net OPEB liability. This oversight was corrected in the Fiscal Year 2011 financial statements. The University is required to account and report on OPEB (Note 7). Such benefits include health insurance benefits for University retirees and their dependents. The accounting standard requires a liability to be recorded for the cumulative difference between the annual OPEB cost and the employer's contribution to fund the obligation. The University has chosen to fund this liability on a pay-as-you-go basis rather than fund the annual OPEB cost. The unfunded actuarial liability, as determined by the University's current and predecessor actuaries, as of July 1, 2010, and July 1, 2008, is $343,144,000 and $196,715,000, respectively. The unfunded actuarial liability represents the excess of the actuarial accrued liability (the obligation for benefits earned) over the actuarial value of assets. As noted earlier, the University has elected not to fund this liability; therefore there are no assets held in trust to pay future benefits which have been earned by employees. In accordance with Generally Accepted Accounting Principles (GAAP) the unfunded actuarial liability amount is not reflected in the financial statements and is therefore not included in Figure 2. Although accounting standards do not prescribe the inclusion of the unfunded actuarial liability in the financial statements, the existence and amount of this balance should be considered in determining future resource demands on the University. This liability increased by $20,132,000 at June 30, 2010, and $21,229,000 at June 30, 2009, primarily due to increases in OPEB, and does not include the impact of the healthcare trend rate assumption.

Deferred revenue represents amounts paid by students, auxiliary enterprise customers, grantors, and contractors and the University has not met all of its requirements for revenue recognition (Note 8). These amounts will be recognized as revenue in future periods after all conditions have been satisfied. The decrease in deferred revenue of $629,000 between Fiscal Year 2010 and 2011 and the increase of $16,136,000 between Fiscal Year 2009 and 2010 are primarily attributable to levels of research funding.

The University's net assets may have restrictions imposed by external parties, such as donors, or by their nature are invested in capital assets (property, plant, and equipment). To help understand these restrictions, the University's net assets are shown in four categories, as displayed in Figure 1.

A portion of net assets are restricted for either expendable or nonexpendable purposes and then more specifically by programmatic restrictions. The programmatic category of the restriction is shown on the statement of net assets. A nonexpendable restriction requires the original principal to be set aside for perpetual investment (as an endowment). The majority of the endowment assets benefiting the University are held by the University of Colorado Foundation, which is a discretely presented component unit (Note 17) and not included in the above amounts. An expendable restriction allows the University to spend the full amount, but only for the purposes identified by the entity providing the money. Unrestricted net assets, as defined by GAAP, are available for spending for any lawful purpose under the full discretion of management. However, the University has placed internal limitations on future use by designating unrestricted net assets for certain purposes in keeping with management's plans to conserve resources in the current budgetary environment (Note 11).

Figure 3. Summary of Revenues, Expenses, and Changes in Net Assets as of June 30, 2011, 2010, and 2009 (in thousands)

	2011	2010	2009
Operating revenues	$ 2,420,456	2,163,732	2,075,950
Operating expenses	2,496,981	2,285,433	2,184,317
Operating Loss	**(76,525)**	**(121,701)**	**(108,367)**
Nonoperating revenues (net of expenses)	279,878	338,554	64,891
Income before Other Revenues	**203,353**	**216,853**	**(43,476)**
Other revenues	57,643	38,136	41,392
Increase (Decrease) in Net Assets	**260,996**	**254,989**	**(2,084)**
Net assets, beginning of year	2,384,663	2,129,674	2,131,758
Net Assets, End of Year	**$ 2,645,659**	**2,384,663**	**2,129,674**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Figure 3 illustrates the University's summary of revenues, expenses, and changes in net assets. A key component of this summary is the differentiation of operating and nonoperating activities. Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are paid to acquire or produce goods and services provided in return for operating revenues and to carry out the mission of the University. Nonoperating revenues are received when goods and services are not provided. Federal Pell Grant revenue of $46,280,000 in Fiscal Year 2011 and $40,139,000 in Fiscal Year 2010 was required to be reported as nonoperating beginning in Fiscal Year 2010.

Figure 4 provides an illustration of gross operating and nonoperating revenues by major sources. These sources include both State appropriated and non-appropriated funds (Note 12). Appropriated funds primarily include tuition (which includes State stipends), fee-for-service contract revenues, and academic fees. In November 1992, Colorado voters passed Section 20, Article X of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax, and debt limitations that apply to all the local governments and the State of Colorado, including the University. In Fiscal Year 2005, the Colorado State Legislature determined in Section 23-5-101.7 of the Colorado Revised Statutes that an institution of higher education may be designated as an "enterprise" for the purposes of TABOR so long as the institution's governing board retains authority to issue revenue bonds on its behalf and the institution receives less than 10 percent of its total annual revenue in grants as defined by TABOR. Further, so long as it is so designated as an enterprise, the institution shall not be subject to any provisions of TABOR. In July 2005, the University Board of Regents (the Regents) designated the University as a TABOR enterprise pursuant to the statute. During the Fiscal Years ended June 30, 2011 and 2010, the University believes it has met all requirements of TABOR enterprise status. The amount of State grants received by the University was 1.04 percent and 1.57 percent during the Fiscal Years ended June 30, 2011 and 2010, respectively. The ability of the Regents to increase tuition rates is limited by the State, although the University's operations no longer impact the State's TABOR spending limits due to the University's enterprise status.

As illustrated in Figure 4, the University experienced increases in all operating revenue sources in Fiscal Year 2011 and a mix of increases and decreases in operating revenue for 2010. The increase in tuition and fees revenues for both fiscal years reflects a combination of rate increases and increased enrollment. The COF provides stipends to qualified undergraduate students; the receiving students then use the stipends to pay a portion of their tuition. In Fiscal Years 2011 and 2010, the University applied $50,617,000 and $38,073,000, respectively, of COF stipends against student tuition bills (these amounts are included in tuition revenues). Consistent with the University's goal to increase its focus and national role as a comprehensive research institution, the University's largest source of revenue continues to be grants and contracts revenue, which includes federal, state, and local government, and private sources. Grants and contracts revenue from the federal government represents 83 percent and 81 percent of total grants and contract revenues for Fiscal Year 2011 and Fiscal Year 2010, respectively. These funds can only be used for the purpose given and have increased in both Fiscal Years 2011 and 2010 as a result of research awards received under the ARRA program and general overall growth in research funds received. These also provide necessary funding for the administrative functions that support the grants through the facilities and administrative reimbursement. In Fiscal Years 2011 and 2010, the University received $165,888,000 and $152,565,000, respectively, of such administrative and facility overhead cost reimbursements. The University pledges portions of this reimbursement revenue and other auxiliary revenues to satisfy its bond obligations, which are commonly referred to as pledged revenues. In Fiscal Years 2011 and 2010, such reimbursements represented 61 percent and 58 percent of its pledged revenues, respectively, thus creating a reliance on continued federal research funding.

The CDHE purchases graduate and specialized education services, such as law and medicine, from public higher education institutions. In Fiscal Years 2011 and 2010, the University received $130,939,000 and $50,138,000, respectively, as fee-for-service contract revenue. The decrease in fee-for-service revenue from Fiscal Year 2009 to Fiscal Year 2010 resulted from cuts made by the State in order to balance the State budget. A portion of these and other cuts were offset by State Fiscal Stabilization Funds (SFSF) received from the federal government in the amount of $120,888,000. These cuts were partially restored in Fiscal Year 2011, thus accounting for the increase.

Figure 4. Operating and Nonoperating Revenues (Excluding Capital) for Years Ended June 30, 2011, 2010, and 2009
(in thousands)

	2011	2010	2009
Operating Revenues			
Student tuition and fees, net	$ 694,477	641,478	604,484
Fee-for-service	130,939	50,138	101,940
Grants and contracts	791,995	734,913	668,624
Sales and services of educational departments	151,164	138,683	130,057
Auxiliary enterprises, net	180,892	179,811	174,780
Health services	422,491	375,345	348,509
Other operating	48,498	43,364	47,556
Total Operating Revenues	**2,420,456**	**2,163,732**	**2,075,950**
Nonoperating Revenues			
Federal Pell Grant	46,280	40,139	24,131
State appropriations	15,674	17,150	17,997
Gifts	89,544	87,951	77,919
Investment income (loss), net	133,665	103,486	(95,754)
Royalty income, net	3,037	2,465	4,181
State fiscal stabilization funds	10,910	120,888	49,995
Other nonoperating, net	4,565	6,771	6,013
Total Nonoperating Revenues	**303,675**	**378,850**	**84,482**
Total Noncapital Revenues	**$ 2,724,131**	**2,542,582**	**2,160,432**

The majority of health services include medical practice plan revenues earned through UPI (Notes 1 and 16), which has experienced continued clinical growth over the last three years. The University has also experienced continued growth in its auxiliary operations serving students, such as housing and bookstores, consistent with the increase in the number of students.

The increase in sales and services of educational departments of $12,481,000 from Fiscal Year 2010 to 2011 is primarily due to increased operations of Hemophilia and Graduate Medical Education.

The increase in Pell funding from Fiscal Year 2010 to Fiscal Year 2011 is due to a combination of increased enrollment, and an increase in the number of students eligible for Pell grants due to economic conditions. The increase from Fiscal Year 2009 to Fiscal Year 2010 is due to similar factors, in addition to an increase in the maximum Pell award per student of $4,731 to $5,350.

The University received $15,674,000 and $17,150,000 in Fiscal Years 2011 and 2010, respectively, in State appropriations funded by State of Colorado tobacco litigation settlement monies.

Gifts increased approximately 2 percent between Fiscal Year 2011 and 2010. Gifts include amounts received through distributions from the University's supporting foundations and amounts received directly by the University. Between Fiscal Year 2010 and 2009, gifts increased approximately 13 percent, primarily due to a gift-in-kind of software licenses received by CU-Boulder.

The variance in investment income is explained above in the "Statement of Net Assets" section.

On February 17, 2009, ARRA was signed into law. ARRA is a $787 billion economic package designed to stimulate the national economy out of a continued recession. Included in the stimulus package was $144 billion of federal funds allocated to state governments, via the SFSF, to mitigate the impacts of cuts made to their budgets resulting from the recession. The State of Colorado received $760 million from the SFSF over a three year period of which $622 million was allocated for education stabilization. In Fiscal Years 2011, 2010, and 2009, the University received $10,910,000, $120,888,000, and $49,995,000, respectively, from the SFSF. The changes in SFSF received is the result of the timing of distributions of funding from the federal stimulus program. In accepting these funds, certain stipulations were placed on the use of the funds, including taking steps to mitigate tuition and fee increases for in-state students. As noted earlier, the State must expend these stimulus funds by October 2011.

In addition to operating and nonoperating revenues, the University had capital revenues in the amounts depicted in Figure 5. As a result of construction and renovation of certain buildings, the University recognized capital contributions from the State of $4,130,000 and $12,199,000 in Fiscal Year 2011 and 2010, respectively. Capital contributions are related to the construction of educational buildings at the CU Anschutz Medical Campus and the University of Colorado Colorado Springs (UCCS) for which the financing was provided by the State through the issuance of Certificates of Participation. In Fiscal Year 2006, the State (not the University) issued $192,625,000 of Certificates of Participation, Series 2005B (2006 COP) to fund construction of several educational buildings on the CU Anschutz Medical Campus. These buildings serve as collateral for the 2006 COP. In Fiscal Year 2009, the State issued $230,845,000 of Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 (2009 COP) to fund additional construction activity for nearly half of the State-funded higher education institutions. UCCS was allocated $17,085,000 from the

Figure 5. Capital Revenues for Years Ended June 30, 2011, 2010, and 2009 (in thousands)

		2011	2010	2009
Capital contributions from the State	$	4,130	12,199	8,818
Capital student fee (net)		10,144	10,385	7,730
Capital appropriations		2,399	8,792	21,437
Capital grants and gifts		40,901	6,753	3,344
Gain on disposal of capital assets		18,471	791	21,241
Total Capital Revenues	**$**	**76,045**	**38,920**	**62,570**

proceeds of the 2009 COP for the renovation of Centennial Hall. Columbine Hall was used as collateral for the 2009 COP. The University also received additional appropriations from the State of $2,399,000 in Fiscal Year 2011 compared to $8,792,000 in Fiscal Year 2010. These monies are used for various controlled maintenance and other capital construction activity. Capital additions were funded with the capital revenues and other existing resources. These funding dynamics resulted in more capital projects being funded from capital gifts as well as the continuation of the student fee dedicated to buildings which began in Fiscal Year 2007. Capital grants and gifts increased $34,148,000 in Fiscal Year 2011 due to ARRA funding on the BioTechnology building and the JILA building extension, private gifts on ATLAS and C4C buildings and the ALsam foundation gifts for the Pharmaceutical Research building. The gain on disposal of capital assets is due to the sale of the Given Institute Building and the North Pavilion Building in Fiscal Year 2011 and the sale of the UPI building in Fiscal Year 2009.

The programmatic uses of resources are displayed in Figure 6 and demonstrate that the focus is basically unchanged over the past three fiscal years. Total educational and general programs overall have grown by 7 percent and 4 percent in Fiscal Years 2011 and 2010, respectively, due to increases in instruction and research. Cost management measures in place for the past several fiscal years were continued and expanded in Fiscal Year 2011 as State budget cuts have impacted the University's operations. In implementing these measures the focus is more on targeted decreases in support and other services in planning for anticipated cuts in State funding in the next few years in hopes that programmatic costs for services, such as instruction, would be less affected. Research has continued to increase from Fiscal Year 2009 due to one-time ARRA funded stimulus grants and general overall growth in research funds received. The amounts shown for student aid do not reflect the actual resources dedicated to student aid. The majority of the University's student aid resources are netted against tuition and fee revenues as a scholarship allowance (Note 13). The University's scholarship allowance was $137,037,000 and $123,492,000 in Fiscal Years 2011 and 2010, respectively.

Increases in auxiliary enterprises expenses from Fiscal Year 2009 to Fiscal Year 2011 are primarily attributable to the expansion of housing operations and other student auxiliary operations as student enrollment grows. Increases in expenses related to health services, which are primarily related to UPI, are consistent with the associated increases in health services revenue discussed earlier in this section.

CAPITAL ASSET AND DEBT MANAGEMENT

The University had $4,003,658,000 and $3,687,306,000 of plant, property, and equipment at June 30, 2011 and 2010, respectively, offset by accumulated depreciation of $1,469,085,000 and $1,355,323,000, respectively. The major categories of plant, property, and equipment at June 30, 2011 and 2010 are displayed in Figure 7. Related depreciation charges of $140,025,000 and $124,313,000 were recognized in the Fiscal Years 2011 and 2010, respectively. Detailed financial activity related to the changes in capital assets is presented in Note 5. Figure 8 details the University's current construction commitments.

On October 28, 2010, the University issued $96,790,000 of fixed rate coupon revenue bonds, which provided new funds of $39,885,000 and $56,905,000 towards refinancing. The Tax Exempt bonds of $56,905,000 bear interest rates from 2 to 5 per-

Figure 6. Expense Program Categories for Years Ended June 30, 2011, 2010, and 2009 (in thousands)

		2011	2010	2009
Instruction	$	716,349	676,943	644,669
Research		529,463	467,343	422,961
Public service		94,954	88,549	86,643
Academic, institutional, and plant support		349,445	330,827	353,572
Student aid and other services		98,268	103,845	97,454
Total Education and General		**1,788,479**	**1,667,507**	**1,605,299**
Depreciation		140,025	124,313	123,157
Auxiliary enterprises		159,274	149,720	137,758
Health services		409,203	343,893	318,103
Total Operating Expenses	**$**	**2,496,981**	**2,285,433**	**2,184,317**

Figure 7. Capital Asset Categories (before depreciation) for Years Ended June 30, 2011, 2010, and 2009
(in thousands)

	2011	2010	2009
Land	$ 57,641	57,369	56,096
Construction in progress	301,193	307,184	173,099
Buildings and improvements	2,824,189	2,559,570	2,427,992
Equipment	442,025	425,437	416,101
Software	62,926	33,917	15,803
Library and other collections	315,684	303,829	291,741
Total Capital Assets (gross)	**$ 4,003,658**	**3,687,306**	**3,380,832**

cent, the Direct Payment Build America bonds of $35,510,000 bear interest rates of 0.755 to 5.601 percent, and the Direct Payment Qualified Energy Conservation Bonds of $4,375,000 bear interest rates of 1.155 to 5.601 percent. The proceeds will be used to refinance existing debt, purchase and remodel property in Boulder, add usable space to the CU Anschutz Medical Campus Dental and Pharmacy facilities, exercise a purchase option and expand production capacity on the Central Utility Plant (CUP) at CU Anschutz Medical Campus, make energy conservation improvements on two research facilities at CU Anschutz Medical Campus and pay for capitalized interest and closing costs. The revenue bonds all have fixed rate coupons, and the sources of funds to repay the new refunding bonds are the same as previous debt. For the new money projects, repayment will be from overhead charged to sponsored research, in addition to user fees charged for the CUP refinancing and expansion.

At June 30, 2011 and 2010, the University had debt (or similar long-term obligations) of $1,152,486,000 and $1,152,753,000, respectively, in the categories illustrated in Figure 9. The University decreased its outstanding debt in Fiscal Year 2011 by $267,000 or 0.02 percent, primarily resulting from the payment of debt. The University increased its outstanding debt in Fiscal Year 2010 by $185,423,000, or 19 percent, primarily resulting from new bond issuances of $239,365,000 as offset by normal annual debt service payments. Capital leases include a $10,272,000 lease agreement with the Auraria Higher Education Center associated with the build-out of educational space at CU Denver. The net decrease in capital leases of $36,515,000 is primarily due to the lease purchase agreement associated with a central utility plant (CUP) located on the CU Anschutz Medical Campus. The CUP delivers steam and chilled water to the campus. During Fiscal Year 2011, the University purchased the CUP from the lessor by using a portion of the proceeds from the new Tax-Exempt University Enterprise Refunding Revenue Bond, Series 2010B. More detailed information about the University's debt is included in Note 9.

Figure 8. Current Construction Projects as of June 30, 2011 **(in thousands)**

Campus/Project Description	Financing Sources	Value*
CU-Boulder:		
Housing Williams Village Projects	Bond proceeds	$ 46,705
Housing Kittredge West Renovation	Bond proceeds and campus cash resources	22,800
Renovate Smith/Buckingham	Bond proceeds	58,276
Williard Hall Renovation	Campus cash resources	7,175
Basketball/Volleyball Practice Facility	Bond proceeds and campus cash resources	11,040
New Power Plant	Bond proceeds and campus cash resources	91,100
Joint Institute of Laboratory Astrophysics (JILA)	Governmental grants and contracts, and campus cash resources	37,125
Biotechnology Building Systems	Governmental grants and contracts, bond proceeds, and campus cash resources	194,900
CU Denver:		
CU Anschutz Medical Campus Center for BioEthics and Humanities, new building	Private gifts	8,255
1475 Lawrence Court Remodel	Campus cash resources	20,403
CU Anschutz Medical Campus Health and Wellness Center	Campus cash resources, private gifts, and bond proceeds	37,721
School of Dental Medicine Building Fourth Floor Addition	Campus cash resources	12,410
RCI Energy Conservation Project	Campus cash resources	6,402

** Value represents budgeted costs for project in thousands*

Figure 9. Debt Categories for years Ended June 30, 2011, 2010, and 2009 (in thousands)

	2011	2010	2009
Revenue bonds	$ 1,134,996	1,098,748	910,228
Capital leases	17,490	54,005	57,102
Total Long-term Debt	**$ 1,152,486**	**1,152,753**	**967,330**

The Regents have adopted a debt management policy that includes limitations on the use of external debt. The University Treasurer will report to the Regents, prior to the issuance of new debt, the effect that the new debt will have on the University's debt capacity ratio, in contrast to the 7 percent limit currently established by the Regents. The ratio is calculated as maximum annual debt service as a percentage of the University's unrestricted current fund expenditures plus mandatory transfers. State statute sets the maximum for this ratio at 10 percent in C.R.S. 23-5-129.5 (2) (d). A component of this policy is debt capacity, which is the calculated ratio of the University's debt service requirement as compared to certain unrestricted revenues. The University maintained its debt capacity limits. The University minimizes financing costs by monitoring current market conditions and by maintaining a bond rating of AA-, Aa2, and AA+ (Standard & Poor's, Moody's, and Fitch, respectively).

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Public institutions are facing a great deal of uncertainty as the nation deals with the ongoing effects of the 2008 financial crisis. The University has been taking actions to adjust for changes in the recently negative economic environment. Student enrollment, tuition revenue, sponsored research, auxiliary operating revenues, and private support have all increased over the prior year, allowing the University to adapt to the State's economic challenges.

Enrollment has increased over the past three years. Total headcount enrollment was 56,311 in fall 2009, 57,361 in fall 2010, and 57,739 in fall 2011. Each campus had nonresident enrollment increases as well as growth in new freshmen and transfer students. Graduate student enrollment has remained level after increases in the two prior years.

The University has positioned itself to operate with reduced State support. From Fiscal Year 2010 through Fiscal Year 2012, the University's State support has been reduced from $209,757,000 to $145,776,000, a decrease of $63,981,000. The University received one-time funding from ARRA to maintain funding at the original Fiscal Year 2010 levels of $209,757,000 through Fiscal Year 2011. During this time, the University took actions to reduce its operating budgets and increase its efficiency. The University took a leadership position in seeking legislation to increase flexibility and efficiency. These efforts include streamlining operations, as was accomplished through the adoption of the University of Colorado Fiscal Procedures, and finding new ways to lower operating costs, such as through the implementation of CU Marketplace—the University's new eProcurement system. In addition to these efforts, the University has increased tuition to keep pace with reduced State support, mandated cost increases, and campus renewal projects. Through all of these efforts, the University is determined to continue its stewardship of its financial resources.

Economic challenges will continue in Fiscal Year 2013. State revenues are not increasing at the same rate as statewide Medicaid caseload or K–12 enrollment growth. State support for these mandated expenses requires a larger share of the available revenues. Higher education funding continues to be vulnerable because it continues to be one of the only flexible components of the State budget that is not protected through the constitution or federal requirements.

UNIVERSITY OF COLORADO
FINANCIAL STATEMENTS

June 30, 2011 and 2010

UNIVERSITY OF COLORADO

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010 (*in thousands*)

		2011		2010	
		University	Component Units	University	Restated Component Units
Assets					
Current Assets					
Cash and cash equivalents	$	78,865	21,235	44,482	34,269
Investments		272,088	1,496	250,396	1,006
Accounts, contributions, and loans receivable, net		243,045	29,622	211,615	16,577
Inventories		9,250	–	11,151	–
Other assets		4,422	668	4,489	2,487
Total Current Assets		**607,670**	**53,021**	**522,133**	**54,339**
Noncurrent Assets					
Investments and restricted cash		1,262,151	1,100,878	1,201,273	934,218
Assets held under split-interest agreements		–	61,928	–	53,570
Accounts, contributions, and loans receivable, net		32,080	28,707	32,989	36,074
Other assets		17,060	5,595	15,150	5,882
Capital assets, net		2,534,573	63,915	2,331,983	65,955
Total Noncurrent Assets		**3,845,864**	**1,261,023**	**3,581,395**	**1,095,699**
Total Assets	**$**	**4,453,534**	**1,314,044**	**4,103,528**	**1,150,038**
Liabilities					
Current Liabilities					
Accounts payable	$	63,751	11,024	69,997	6,388
Accrued expenses		170,520	–	170,168	–
Compensated absences and other postemployment benefits		23,981	–	17,642	–
Deferred revenue		117,235	1,168	116,151	1,330
Bonds, leases, and notes payable		46,821	918	41,428	797
Split-interest agreements		–	3,774	–	3,397
Custodial funds		–	7,021	–	6,780
Other liabilities		41,062	–	37,404	–
Total Current Liabilities		**463,370**	**23,905**	**452,790**	**18,692**
Noncurrent Liabilities					
Compensated absences and other postemployment benefits		213,705	–	138,993	–
Deferred revenue		3,662	–	5,375	–
Bonds, leases, and notes payable		1,105,665	70,705	1,111,325	71,245
Split-interest agreements		–	18,798	–	17,594
Custodial funds		–	240,040	–	199,255
Other liabilities		21,473	2,271	10,382	1,883
Total Noncurrent Liabilities		**1,344,505**	**331,814**	**1,266,075**	**289,977**
Total Liabilities	**$**	**1,807,875**	**355,719**	**1,718,865**	**308,669**

See accompanying notes to basic financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010 (*in thousands*)

	2011		2010	
	University	Component Units	University	Restated Component Units
Net Assets				
Invested in capital assets, net of related debt	$ 1,441,393	(698)	1,351,486	83
Restricted for nonexpendable purposes (endowments)				
Instruction	–	182,955	–	167,074
Research	3,278	16,504	3,029	18,490
Academic support	22,896	14,234	19,063	13,826
Scholarships and fellowships	24,585	102,365	21,636	97,283
Capital and other	26,068	6,466	2,399	6,317
Total restricted for nonexpendable purposes	76,827	322,524	46,127	302,990
Restricted for expendable purposes				
Instruction	19,229	264,790	16,649	207,839
Research	25,896	49,355	23,226	45,482
Academic support	17,191	44,886	13,929	36,410
Student loans and services	38,580	–	38,743	–
Scholarships and fellowships	17,477	114,205	15,102	93,623
Auxiliary enterprises	144,627	–	156,298	–
Capital	40,831	76,371	26,261	82,985
Other	16,777	4,539	13,498	5,092
Total restricted for expendable purposes	320,608	554,146	303,706	471,431
Unrestricted	806,831	82,353	683,344	66,865
Total Net Assets	**$ 2,645,659**	**958,325**	**2,384,663**	**841,369**

See accompanying notes to basic financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended June 30, 2011 and 2010 (*in thousands*)

	2011		2010	
	University	Component Units	University	Restated Component Units
Operating Revenues				
Student tuition (net of scholarship allowances of $120,506 in 2011 and 108,027 in 2010; pledged revenues $63,267of in 2011 and $58,011 in 2010)	$ 632,571	–	580,106	–
Student fees (net of scholarship allowances of $12,141 in 2011 and $11,286 in 2010; pledged revenues of 7,578 in 2011 and $8,621 in 2010)	61,906	–	61,372	–
Fee-for-service contracts	130,939	–	50,138	–
Federal grants and contracts (pledged revenues of $144,111 in 2011 and $129,437 in 2010)	653,938		597,124	–
State and local grants and contracts (pledged revenues of $9,229 in 2011 and $9,650 in 2010)	42,876	–	47,363	–
Nongovernmental grants and contracts	95,181	–	90,426	–
Sales and services of educational departments (pledged revenues of $7,455 in 2011 and $8,505 in 2010)	151,164	–	138,683	–
Auxiliary enterprises (net of scholarship allowances of $2,744 in 2011 and $2,534 in 2010; pledged revenues of $40,025 in 2011 and $48,536 in 2010)	180,892	–	179,811	–
Health services	422,491	–	375,345	–
Contributions	–	103,758	–	88,536
Other operating revenues (pledged revenues of $1,684 in 2011 and $1,566 in 2010)	48,498	20,408	43,364	18,348
Total Operating Revenues	**2,420,456**	**124,166**	**2,163,732**	**106,884**
Operating Expenses				
Education and general				
Instruction	716,349	–	676,943	–
Research	529,463	–	467,343	–
Public service	94,954	–	88,549	–
Academic support	130,607	–	121,285	–
Student services	82,505	–	78,810	–
Institutional support	110,455	125,359	124,045	97,267
Operation and maintenance of plant	108,383	–	85,497	–
Student aid	15,763	–	25,035	–
Total education and general expenses	1,788,479	125,359	1,667,507	97,267
Depreciation	140,025	3,185	124,313	3,252
Auxiliary enterprises	159,274	–	149,720	–
Health services	409,203	–	343,893	–
Total Operating Expenses	**2,496,981**	**128,544**	**2,285,433**	**100,519**
Operating Income (Loss)	**$ (76,525)**	**(4,378)**	**(121,701)**	**6,365**

See accompanying notes to basic financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended June 30, 2011 and 2010 (*in thousands*)

		2011		2010	
		University	Component Units	University	Restated Component Units
Nonoperating Revenues (Expenses)					
Federal Pell Grant	$	46,280	–	40,139	–
State appropriations		15,674	–	17,150	–
Gifts		89,544	–	87,951	–
Investment income (net of investment expenses of $6,873 in 2011 and $6,534 in 2010; pledged revenues of $42 in 2011 and $25 in 2010)		133,665	125,616	103,486	80,444
Royalty income (net of royalty expense of $4,536 in 2011 and $3,004 in 2010; pledged revenues of $115 in 2011 and $134 in 2010)		3,037	–	2,465	–
Gain on disposal of capital assets		18,471	–	791	–
Loss on debt extinguishment		(1,870)	–	(1,152)	–
Interest expense on capital asset-related debt		(40,398)	(4,282)	(38,622)	(4,419)
State fiscal stabilization funds		10,910	–	120,888	–
Other nonoperating revenues (net expenses of $27 in 2011 and $11 in 2010; pledged revenues of $103 in 2011 and $36 in 2010)		4,565	–	5,458	–
Net Nonoperating Revenues (Expenses)		**279,878**	**121,334**	**338,554**	**76,025**
Income Before Other Revenues		**203,353**	**116,956**	**216,853**	**82,390**
Other Revenues					
Capital contributions from the State		4,130	–	12,199	–
Capital student fee (net of scholarship allowance of $1,646 in 2011 and $1,645 in 2010)		10,144	–	10,385	–
Capital appropriations		2,399	–	8,792	–
Capital grants and gifts		40,901	–	6,753	–
Additions to permanent endowments		69	–	7	–
Total Other Revenues		**57,643**	**–**	**38,136**	**–**
Increase in Net Assets		**260,996**	**116,956**	**254,989**	**82,390**
Net assets, beginning of year		2,384,663	841,369	2,129,674	758,979
Net Assets, End of Year	**$**	**2,645,659**	**958,325**	**2,384,663**	**841,369**

See accompanying notes to basic financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010 (*in thousands*)

	2011	2010
	University	
Cash Flows from Operating Activities		
Tuition and fees	$ 820,762	691,148
Grants and contracts	775,291	728,976
Sales and services of educational departments	151,164	138,683
Auxiliary enterprise charges	179,268	181,641
Health services	418,960	372,091
Other receipts	46,226	52,232
Payments to employees and benefits	(1,788,566)	(1,501,055)
Payments to suppliers	(469,442)	(610,899)
Payments for scholarships and fellowships	(15,763)	(25,035)
Total Cash Flows Provided by Operating Activities	**117,900**	**27,782**
Cash Flows from Noncapital Financing Activities		
Federal Pell Grant	46,280	40,139
State appropriations	15,674	17,150
Gifts and grants for other than capital purposes	89,544	71,179
State fiscal stabilization fund receipts	10,910	120,888
Endowment additions	69	7
Agency transactions	2,554	71
Direct lending receipts	384,844	324,414
Direct lending disbursements	(383,852)	(323,453)
Total Cash Flows Provided by Noncapital Financing Activities	**166,023**	**250,395**
Cash Flows from Capital and Related Financing Activities		
State capital contributions	4,130	12,199
Capital grants and gifts received	10,144	17,138
Proceeds from capital debt	103,154	246,739
Bond issuance costs paid	(1,215)	–
Principal paid on capital debt	(96,527)	(59,199)
Interest paid on capital debt	(60,807)	(48,342)
Proceeds from sale of capital assets	23,527	3,545
Purchases and construction of capital assets	(287,019)	(298,932)
Total Cash Flows Used for Capital and Related Financing Activities	**(304,613)**	**(126,852)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	4,408,913	3,314,594
Purchase of investments	(4,394,295)	(3,432,291)
Interest on investments	37,419	41,087
Royalty income	7,572	5,469
Royalty fees paid	(4,536)	(3,004)
Securities lending transaction	–	(88,456)
Loans made	–	(300)
Total Cash Flows Provided by (Used for) Investing Activities	**55,073**	**(162,901)**
Net Increase (Decrease) in Cash and Cash Equivalents	**34,383**	**(11,576)**
Cash and cash equivalents, beginning of year	44,482	56,058
Cash and Cash Equivalents, End of Year	**$ 78,865**	**44,482**

See accompanying notes to basic financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010 (*in thousands*)

		2011	2010
		University	
Reconciliation of Net Operating Loss to Net Cash Provided by Operating Activities:			
Operating loss	$	(76,525)	(121,701)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation expense		140,025	124,313
Receipts of items classified as nonoperating revenues		4,565	5,458
Changes in assets and liabilities			
Receivables		(32,722)	(23,902)
Inventories		1,901	(271)
Other assets		(1,532)	3,346
Accounts payable		(9,384)	(797)
Accrued expenses		257	8,447
Deferred revenue		(629)	16,136
Compensated absences and other postemployment benefits		81,051	20,132
Other liabilities		10,893	(3,379)
Net Cash Provided by Operating Activities	**$**	**117,900**	**27,782**

Noncash Transactions			
Donations of capital assets	$	10,840	13,504
State-funded acquisitions of capital assets		2,399	8,792
Lease-financed acquisitions		2,272	162
Unrealized gains on investments		97,189	68,106
Amortization of premiums		(4,945)	(3,220)
Amortization of deferred loss		(1,890)	(941)

See accompanying notes to basic financial statements.

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

GOVERNANCE

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

- **University of Colorado Boulder (CU-Boulder)**

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

- **University of Colorado Denver | Anschutz Medical Campus**

  Originally operated as two separate campuses, the Health Sciences Center and the Denver campus were established in 1883 and 1974, respectively. In 2004, the two campuses were institutionally merged under the name University of Colorado Denver. The consolidated institution is an urban comprehensive research university offering a full range of undergraduate, graduate, and professional degree programs in life sciences, professional programs, and liberal arts. In 2007 the Health Sciences Center was renamed the Anschutz Medical Campus in recognition of several large gifts by businessman Philip Anschutz that helped make the building of the campus possible. The campuses are currently referred to collectively as University of Colorado Denver | Anschutz Medical Campus and separately as the University of Colorado Denver (CU Denver) and the University of Colorado Anschutz Medical Campus (CU Anschutz Medical Campus).

- **University of Colorado Colorado Springs (UCCS)**

  Established as a separate campus in 1965, UCCS is a comprehensive graduate research university (with selective admission standards) offering a comprehensive array of undergraduate, master, and doctoral degree programs.

To accomplish its mission, the University's 5,619 instructional faculty serve 57,739 students through 390 degree programs in 28 schools and colleges.

BASIS OF PRESENTATION AND FINANCIAL REPORTING ENTITY

Blended Component Units

The University's financial reporting entity includes the operations of the University and all related entities for which the University is financially accountable and that provide services entirely to the University, referred to as blended component units. Financial accountability may stem from the University's ability to appoint a majority of the governing board of the related organization, its ability to impose its will on the related organization, its ability to access assets, or its responsibility for debts of the related organization. The University has the following blended component units:

- **Buffalo Power Corporation**

  Established in 1991, Buffalo Power is a Colorado nonprofit corporation organized to facilitate the construction and financing of a cogeneration plant project (plant). Buffalo Power Corporation's directors are appointed by the Regents. The plant is designed to supply steam and electric power to CU-Boulder. Excess electricity produced by the plant is sold to third parties by CU-Boulder. There are no assets, liabilities, net assets, revenues, or expenses for Fiscal Years 2011 and 2010. The University appoints a voting majority of Buffalo Power Corporation's governing body and can remove appointed members at will. Additionally, the University is legally entitled to or can otherwise access Buffalo Power Corporation's resources and the services provided are entirely for the University.

- **University of Colorado Finance Corporation**

  Established in 1998, the University of Colorado Finance Corporation is a Colorado nonprofit corporation organized to facilitate the acquisition of personal and real property for the University. There is no financial activity for this corporation for Fiscal Years 2011 and 2010. The University appoints a voting majority of the University of Colorado Finance Corporation's governing body and can remove appointed members at will. Additionally, the University is legally entitled to or can otherwise access the University of Colorado Finance Corporation's resources and the services provided are entirely for the University.

- **University License Equity Holding, Inc. (ULEHI)**

  Originally established in 1992, with a significant reorganization in 2001, ULEHI facilitates certain licensing activities for the University. ULEHI is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. The University appoints a voting majority of ULEHI's governing body, is able to impose its will on the organization, and the organization provides services entirely to the University.

  Detailed financial information may be obtained directly from ULEHI at 4740 Walnut St., Boulder, Colorado 80301.

- **University Physicians, Inc. (UPI)**

  Established in 1982, UPI performs the billing, collection, and disbursement services for the professional health services rendered for CU Denver as authorized in Section 23-20-114, Colorado Revised Statutes. UPI, a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code, collects patient and other revenues generated from professional activities by over 1,800 member physicians of the faculty of the School of Medicine. Medical care is provided to patients throughout the Rocky Mountain region through a statewide and regional network of services with over 160 sites of practice. In 1997, UPI acquired a 30 percent interest in the University of Colorado Hospital Authority's investment in TriWest Healthcare Alliance Corp. (TriWest). TriWest was formed to deliver health care services to eligible beneficiaries of the Civilian Health and Medical Program of the Uniformed Services within certain specified geographic regions. UPI accounts for its participation in TriWest on the cost basis. The University appoints a majority of UPI's governing body, and is able to impose its will. Additionally, UPI exclusively benefits the University by providing the services described above.

  Detailed financial information may be obtained directly from UPI at P.O. Box 111719, Aurora, Colorado 80042-1719.

Discretely Presented Component Units

The University's financial statements include certain supporting organizations as discretely presented component units (DPCU) of the University (labeled component units). The majority of the resources, or income thereon that the supporting organizations hold and invest, are restricted to the activities of the University by the donors. Management has determined that one of the DPCU reported previously no longer meets the requirements for inclusion under GASB No. 39 "Determining Whether Certain Organizations Are Component Units" (GASB No. 39). As a result, the DPCU has been removed from the financial statement as of July 1, 2009, and beginning net assets have been restated.

Because these restricted resources held by the supporting organizations can only be used by, or for the benefit of, the University, the following supporting organizations are considered DPCU of the University:

- **University of Colorado Foundation (CU Foundation)**

  Established in 1967, the CU Foundation solicits, receives, holds, invests, and transfers funds for the benefit of the University. The CU Foundation, a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code, has a 15-member board of directors, of which a member of the Regents and the president of the University serve as ex-officio non-voting members.

  Under an agreement between the CU Foundation and the University, the CU Foundation provides development and investment services to the University in exchange for a fee.

  Detailed financial information may be obtained directly from the CU Foundation at 4740 Walnut Street, Boulder, Colorado 80301.

- **The University of Colorado Real Estate Foundation (CUREF)**

  Established in August 2002, CUREF solicits and manages real estate investments for the sole benefit of the University. CUREF, a nonprofit entity under Section 501(c)(3) and 509(a)(3) of the Internal Revenue Code, has up to a 14-member board of directors. Nine are voting members, of which four are appointed by the University. There are up to five ex-officio non-voting members.

  In May 2005, Campus Village Apartments, LLC (CVA) was formed with CUREF as the sole shareholder to promote the general welfare, development, growth, and well being of the University, specifically by acquiring, constructing, improving, equipping, and operating a new student housing facility located in Denver, Colorado.

  18th Avenue, LLC (18th Avenue), a Colorado limited liability company, was formed under the laws of the State of Colorado on April 26, 2006, with CUREF as the sole member. 18th Avenue is organized, operated, and dedicated exclusively to promoting CUREF's charitable purposes and to promoting the general welfare, development, growth, and well being of the University of Colorado, and specifically for the primary purpose of acquiring, owning, operating, and maintaining real property consisting of an office building in Denver, Colorado.

  33rd Street, LLC (33rd Street), a Colorado limited liability company, was formed under the laws of the State of Colorado on April 26, 2006, with CUREF as the sole member. 33rd Street is organized, operated, and dedicated exclusively to promoting the general welfare, development, growth, and well being of the University of Colorado, and specifically for the primary purpose of acquiring, owning, operating, and maintaining real property consisting of an industrial building in Boulder, Colorado.

  Partnership Holdings Venture, LLC (PHV LLC), a Colorado limited liability company, was formed under the laws of the State of Colorado on January 10, 2008, with CUREF as the sole member. PHV LLC is organized, operated, and dedicated solely to promoting the general welfare, development, growth, and well being of the University of Colorado, and specifically for the primary purpose of acquiring, ownership, operation, management, sale, and disposition of investments including membership interest in real estate properties.

  Land Holdings Venture, LLC (LHV LLC), a Colorado limited liability company, was formed under the laws of the State of Colorado on January 10, 2008, with CUREF as the sole member. PHV LLC is organized, operated, and dedicated solely to promoting the general welfare, development, growth, and well being of the University of Colorado, and specifically for the primary purpose of acquiring, ownership, operation, management, sale, and disposition of investments including holdings in land.

  The University of Colorado UK Foundation Limited (CU UK), a charitable company with limited liability, was formed under the laws of England and Wales and incorporated February 25, 2010, with CUREF as the sole shareholder. CU UK's purpose is to advance and promote education for the public benefit, in particular for any educational and charitable purposes connected with the University of Colorado, its affiliates, and its past and present students and staff. CU UK owns property in London.

  Detailed financial information may be obtained directly from CUREF at 1800 Grant Street, Suite 250, Denver, CO 80203.

Joint Ventures and Related Organizations

The University has associations with the following organizations for which it is not financially accountable, or has primary access to the resources. Accordingly, these organizations have not been included in the University's financial statements. Information regarding the nature of the relationships is included in Note 18.

- University of Colorado Hospital Authority (Hospital Authority)
- Auraria Higher Education Center (AHEC)
- University of Colorado Health and Welfare Trust (the Trust)

Relationship to State of Colorado

Article VIII, Section 5 of the Colorado Constitution declares the University to be a state institution. Thus, for financial reporting purposes, the University is included as part of the State's primary government.

TAX-EXEMPT STATUS

The income generated by the University, as an instrumentality of the State, is generally excluded from federal income taxes under Section 115(a) of the Internal Revenue Code. The University also has a determination letter from the Internal Revenue Service stating it is exempt under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Income generated from activities unrelated to the University's exempt purpose is subject to tax under Internal Revenue Code Section 511(a)(2)(B). There was no tax liability related to income generated from activities unrelated to the University's exempt purpose as of June 30, 2011 and 2010.

BASIS OF ACCOUNTING

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

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

ACCOUNTING POLICIES

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

Investments, other than University investments held by the CU Foundation, are reported in the financial statements at fair value, which is determined primarily based on quoted market prices as of June 30, 2011 and 2010. Amortized costs (which approximate fair value) are used for money market investments.

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

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

Investments of the CU Foundation, including those held for the University for endowment purposes, are comprised of marketable securities and alternative investments such as interest in private equity partnerships and real estate. All investments are stated at fair value based upon quoted market prices, professional appraisals, other readily determinable information, and information reported by investment managers and reviewed by the CU Foundation management.

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

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

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

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

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

Other Assets consists of prepaid expenses, travel advances, issuance costs, and deferred charges.

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

Intangibles (including software) and renovations to buildings and other improvements that significantly increase the value or extend the useful life of the structure are capitalized. For intangibles and renovations and improvements, the capitalization policy includes items with a value of $75,000 or more. Routine repairs and maintenance are charged to operating expense. Major outlays for capital assets and improvements are capitalized as construction in progress throughout the building project. Interest incurred during the construction phase is included as part of the value of the construction in progress.

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

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

Depreciation is computed using the straight-line method and monthly convention over the estimated useful lives of the assets as displayed in Table 1.1, Asset Useful Lives.

Table 1.1. Asset Useful Lives

Asset Class	Years
Buildings	20–50*
Improvements other than buildings	10–40
Equipment	3–20
Library and other collections	6–15
Software	5–10
Intangibles	Varies

*Certain buildings are componentized, and the components may have useful lives similar to improvements or equipment.

Compensated Absences and Postemployment Benefits and related personnel expenses are recognized based on estimated balances due to employees upon termination or retirement. The limitations on such payments are defined by the rules associated with the personnel systems at the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service. Professional exempt and faculty employees accrue sick leave with pay at the rate of 10 hours per month with a maximum accrual of 960 hours while classified employees earn 6.67 hours per month with a maximum accrual of 360 hours for employees hired after June 30, 1988. Employees hired before June 30, 1988, can accrue up to 360 hours in excess of amount of sick leave earned as of June 30, 1988. Employees earn and accrue vacation leave per the rates in Table 1.2, Compensated Absence Accrual Rates for Vacation. Vacation accruals are paid in full upon separation, whereas only a portion of sick leave is paid upon specific types of separation, such as retirement.

Table 1.2. Compensated Absence Accrual Rates for Vacation

Type of Employee	Days Earned per Month*	Maximum Accrual
Classified employees hired before January 1, 1968	1.25–1.75 days	30–42 days
Classified employees hired on or after January 1, 1968	1.00–1.75 days	24–42 days
Professional exempt and faculty employees	1.83 days	44 days**

*Rates are for full-time employees; part-time employees earn at pro-rata based on percentage of appointment.

**Effective September 1, 1976, vacation accrual in excess of 44 days, earned in accordance with prior policies, will be carried forward; however, persons with unused vacation in excess of 44 days may not accumulate additional vacation time by failure to use vacation earned after that date.

The liability for compensated absences is expected to be funded by various sources of revenue that are available in future years when the liability is paid.

Postemployment Benefits consist of University-provided post-retirement healthcare and life insurance benefits for retired employees in accordance with the Regents' authority, as a single-employer plan. Substantially all University employees may become eligible for those benefits if they reach normal retirement age while working for the University. The University's contributions are made on a pay-as-you-go basis. The University's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC) of the University, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or fund excess) of the plan over a period not to exceed 30 years.

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

Bonds, Leases, and Notes Payable are debt by borrowings or financing usually of buildings, equipment, or capital construction.

Bonds are addressed in Note 9 and represent borrowings made by the University to finance capital construction.

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

Split-interest Agreements are beneficial interests in various agreements which include gift annuities, charitable remainder annuity trusts and unitrusts, and a pooled income fund. The CU Foundation typically serves as trustee, although certain trusts are administered by outside trustees.

For trusts administered by the CU Foundation, specified earnings are typically paid to a named beneficiary. After termination of the trusts, the assets revert to the CU Foundation to create an endowment to support University activities or to be temporarily restricted for other purposes at the University. Assets received under such agreements are typically marketable equity and fixed-income securities, are recorded at their market value, and are included in investments in the accompanying financial statements. The estimated net present value of the obligation to named beneficiaries is recorded as a liability under split-interest agreements. A risk-free rate, using U.S. Treasury bonds at the date of the gift, is used in conjunction with actuarially determined life expectancies to calculate present values. The fair value of assets received in excess of the obligation is recognized as contribution revenue at the date of the gift. Changes in the value of the investments are combined with the changes in the estimated liability and are recorded in the accompanying financial statements.

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

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

Other Liabilities are addressed in Note 10 and consist of risk financing, construction contract retainage, funds held for others, Alternate Medicare Plan, Early Retirement Incentive Plan, and miscellaneous.

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

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

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

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

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

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

Classification of Revenues and Expenses in the accompanying financial statements has been made according to the following criteria:

Operating revenues are derived from activities associated with providing goods and services for instruction, research, public service, health services, or related support to entities separate from the University and that are exchange transactions. Examples include student tuition and fees, fee-for-service contracts, sales and services of auxiliary enterprises, healthcare and patient services, grants, and contracts. Tuition and fee revenue for sessions that are conducted over two fiscal years is allocated on a pro-rata basis. Operating revenues also include contributions to the DPCU, which are derived from their fundraising mission.

Other operating revenues include rental income, charges for services, transcript and diploma fees, other miscellaneous fees, and miscellaneous revenues from UPI.

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

Nonoperating revenues and expenses include all revenues and related expenses that do not meet the definition of operating revenues, capital revenues, or endowment additions. They are primarily derived from activities that are non-exchange transactions (e.g., gifts), from activities defined as such by the GASB cash flow standards (e.g., investment income) and also federal funds allocated to state governments, via the State Fiscal Stabilization Fund (SFSF), and insurance recoveries.

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

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

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

Donor Restricted Endowment disbursements of the net appreciation (realized and unrealized) of investments of endowment gifts are permitted by state law, except where a donor has specified otherwise. The amount of earnings and net appreciation available for spending by the University and the CU Foundation is based on a spending rate set by the CU Foundation board on an annual basis. For the years ended June 30, 2011 and 2010, the authorized spending rate was equal to the greater of 4 percent of the current market value of the endowment or 4.5 percent of the endowment's trailing 36-month average fair market value. Earnings in excess of the amount authorized for spending are available in future years and are included in the value of the related investment. Earnings authorized to be spent are recognized in the University's financial statements as investment or gift revenue for University or CU Foundation-owned endowments, respectively. In Fiscal Years 2011 and 2010, there was $8,410,000 and $6,185,000, respectively, in net appreciation of investments available for authorization for expenditure as reported in restricted expendable net assets.

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

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

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

NEW ACCOUNTING PRONOUNCEMENT

Effective July 1, 2010, the University early adopted the provisions of GASB No. 61 "The Financial Reporting Entity: Omnibus." This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies what qualifies as a major component unit. It also requires additional disclosure. As such, detailed disclosures for the CU Foundation and CUREF may be found throughout the Notes as they have been deemed major by the University. Additional disclosure relating to the rationale for inclusion of the component units has been added. There was no change in the University's component units as a result of this implementation, and summary financial information for all the DPCU is presented in Note 17.

RESTATEMENT OF DPCU

Per GASB No. 39, management evaluates annually the criteria of certain organizations for which the University is not financially accountable. As part of the evaluation for Fiscal Year 2011, it was determined that an entity previously presented as a DPCU no longer met the significant financial resources criterion. Therefore, the entity has been removed from the University's financial reporting entity effective July 1, 2009. The impact on net assets of the removal of the entity was a decrease of $53,000.

NOTE 2—CASH AND CASH EQUIVALENTS

The University's and DPCU cash and cash equivalents are detailed in Table 2, Cash and Cash Equivalents.

Table 2. Cash and Cash Equivalents (in thousands)

		2011	2010
University			
Cash on hand (petty cash and change funds)	$	390	328
Deposits with U.S. financial institutions		78,403	44,037
Deposits with foreign financial institutions		72	117
Total Cash and Cash Equivalents—University	**$**	**78,865**	**44,482**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. To manage custodial credit risk, deposits with U.S. and foreign financial institutions are made in accordance with University and State policy, including the Public Deposit Protection Act (PDPA). PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal depository insurance. Deposits collateralized under the PDPA are considered to be collateralized with securities held by the pledging institution in the University's name. Deposits with foreign financial institutions are not PDPA-eligible deposits and thus are exposed to custodial credit risk and require separate authorization as depositories by the State. During the years ended June 30, 2011 and 2010, all deposits with foreign financial institutions were authorized. Of the University's total cash and cash equivalents, approximately $72,000 and $117,000 related to deposits in foreign institutions are subject to custodial credit risk at June 30, 2011 and 2010, respectively. Custodial credit risk information is not available for the CU Foundation.

NOTE 3—INVESTMENTS

The University's investments generally include direct obligations of the U.S. Government and its agencies, commercial paper, municipal and corporate bonds, asset-backed securities, mortgage-backed securities, mutual funds, repurchase agreements, equities and alternative non-equity securities. CU Foundation investments are similar to the University's but also include alternative non-equity securities. Endowments are pooled to the extent possible under gift agreements. The CU Foundation manages certain of these endowments for the University in accordance with their investment policy. Details of investments by type for both the University and the CU Foundation are included in Table 3.1, Investments.

Table 3.1. Investments (in thousands)

Investment Type	2011	2010
University		
U.S. government securities	$ 148,157	265,400
Commercial paper	499	13,530
Corporate bonds	182,219	206,129
Corporate equities	130,583	85,954
Municipal bonds	1,378	3,842
Mutual funds	832,626	616,905
Repurchase agreements	15,878	15,458
Asset-backed securities	106,900	119,962
Alternative non-equity securities:		
Absolute return fund	44,197	17,224
Hedge fund	–	35,537
Oil and gas	5,877	5,843
Private equity	34,559	38,741
Real estate	17,687	11,884
Venture capital	13,561	10,657
Other	118	4,603
Total Investments—University	**$ 1,534,239**	**1,451,669**
CU Foundation		
Cash equivalents	$ 13,504	47,853
Equity securities:		
Domestic	250,773	129,085
International	191,336	154,033
Fixed-income securities	178,280	177,197
Alternative non-equity securities:		
Real estate	59,663	36,356
Private equity	143,326	160,582
Hedge funds	53,216	53,312
Absolute return funds	127,135	106,670
Venture capital	51,472	32,627
Oil and gas	23,976	25,486
Other	1,373	4,847
Total Investments—CU Foundation	**$ 1,094,054**	**928,048**

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

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

For financial statement purposes, investment income (loss) is reported on a total return basis and is allocated among operational units based on average daily balances, using amortized costs. Average daily balances approximated $1,120,367,000 and $1,037,420,000 for the years ended June 30, 2011 and 2010, respectively. The total return on this pool was 10.2 percent and 9.2 percent for the years ended June 30, 2011 and 2010, respectively.

CUSTODIAL CREDIT RISK

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Therefore, exposure arises if the securities are uninsured, not registered in the University's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the University's name. Open-ended mutual funds and certain other investments are not subject to custodial risk because ownership of the investment is not evidenced by a security. None of the University's investments are subject to custodial risk. The CU Foundation does not have a policy concerning custodial credit risk.

INTEREST RATE RISK

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. Interest rate risk only applies to debt investments. The University, except for UPI, manages interest rate risk in its investment portfolios by managing the duration, the maximum maturity, or both. University investment policies establish duration and maturity guidelines for each portfolio. The duration method uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. UPI manages interest rate risk using weighted average maturity. Weighted average maturity is a measure of the time to maturity in years that has been weighted to reflect the dollar size of the individual investment within an investment type. The University's investment policy mitigates interest rate risk through the use of maturity limits for each of the investment segment pools. The CU Foundation does not have a policy concerning interest rate risk.

A summary of the fair value of the University's debt investments and interest rate risk as of June 30, 2011 and 2010 is shown in Table 3.2, Debt Investments and Interest Rate Risk.

The University has investments in asset-backed securities, which consist mainly of mortgages, home equity loans, student loans, automobile loans, equipment trusts, and credit card receivables. These securities are based on cash flows from principal and interest payments on the underlying securities. An asset-backed security has repayments that are expected to significantly vary with interest rate changes. The variance may present itself in terms of variable repayment amounts and uncertain early or extended repayments.

Table 3.2. Debt Investments and Interest Rate Risk (in thousands and years)

Investment Type		2011	2011	2010	2010
		Amount	*Duration*	*Amount*	*Duration*
University					
U.S. government securities	$	141,533	4.34	244,937	3.18
Bond mutual funds		127,481	2.38	104,798	1.53
Corporate bonds		105,436	5.82	125,444	4.84
Municipal bonds		1,378	17.65	3,842	10.98
Asset-backed securities:					
Fixed-rate securities		120,867	–	102,544	–
Variable-rate securities		2,255	–	37,963	–
Collateralized mortgage obligations		58,349	–	13,951	–
Total asset-backed securities		181,471	14.13	154,458	2.59
		Amount	*Weighted Average Maturity*	*Amount*	*Weighted Average Maturity*
U.S. government and agency securities–UPI	$	6,569	3.97	19,276	5.36
Commercial paper–UPI		499	0.35	13,496	0.19
Corporate bonds–UPI		76,783	2.63	78,371	3.29
Money market mutual funds–UPI		–	–	79	–
Asset-backed securities–UPI		185	1.04	992	5.23
Total Debt Investments—University	**$**	**641,335**		**745,693**	
		Amount	*Duration*	*Amount*	*Duration*
CU Foundation					
U.S. government agencies	$	58,350	4.76	101,920	4.81
Municipal bonds		–	–	620	0.35
Corporate bonds		7,400	3.21	6,930	3.08
Commercial paper		–	–	11,660	0.02
Repurchase agreements		–	–	11,760	0.02
Asset-backed securities		7,160	1.54	6,930	1.43
Bond mutual funds		16,450	4.40	–	–
Money market mutual funds		12,730	0.13	–	–
Total Debt Investments—CU Foundation	**$**	**102,090**		**139,820**	

CREDIT QUALITY RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk only applies to debt investments. This risk is assessed by national rating agencies, which assign a credit quality rating for many investments. The University's investment policies for the Treasury pool do not permit investments in debt securities that are below investment grade at the time the security is purchased. University policy allows no more than 20 percent of investments to be rated below A (Standard and Poor's) or A3 (Moody's) at the time of purchase. There are two other investment policies tailored to non-pooled investments. Those policies do not restrict investments to a particular credit quality standard. Credit quality ratings are not required for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government. The CU Foundation does not have a policy concerning credit quality risk. A summary of the University's debt investments and credit quality risk as of June 30, 2011, and 2010 is shown in Table 3.3, Debt Investments and Credit Quality Risk.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to magnitude of an entity's investment in a single issuer other than the federal government. At June 30, 2011, 6 percent of the University's total investments are in Fannie Mae (7 percent in 2010). The University's policy is that exposure of the portfolio to any one issuer, other than securities of the U.S. government or agencies, or government-sponsored corporations, shall not exceed 10 percent of the market value of the fixed income portfolio.

Table 3.3. Debt Investments and Credit Quality Risk (in thousands)

	2011			2010		
	Unrated	Rated		Unrated	Rated	
Investment Type	*Fair Value (in thousands)*	*Fair Value (in thousands)*	*% of Rated Value by Credit Rating*	*Fair Value (in thousands)*	*Fair Value (in thousands)*	*% of Rated Value by Credit Rating*
University						
U.S. government securities	$ 44,188	36,335	92% Aaa 2% Aa 6% A	$ 57,101	113,725	98% Aaa 2% Aa
Bond mutual funds	127,481	–	–	105,628	–	–
Commercial paper	–	499	100% A	–	13,496	100% A
Corporate bonds	4,183	178,036	24% Aaa 10% Aa/AA 43% A 23% Baa/Ba/B	4,047	202,082	8% Aaa 31% Aa/AA 42% A 19% Baa/Ba/B
Money market mutual funds	64,241	320,308	100% Aaa	75,450	229,896	100% Aaa
Municipal bonds	70	1,308	74% AAA 16% A 10% B	59	3,783	6% AAA 50% Aa 44%A
Repurchase agreements	15,878	–	–	15,458	–	–
Asset-backed securities	54,784	52,116	47% AAA/A 19% Aa/A 16% Baa/Ba/B 18% Caa/Ca/D	41,817	78,144	72% AAA/A 9% Aa/A 12% Baa/Ba/B 7% Caa/Ca
Total Debt Investments— University	**$ 310,825**	**588,602**		**299,560**	**641,126**	
CU Foundation						
U.S. government agencies	$ –	58,350	100% AAA	–	101,920	100% AAA
Municipal bonds	–	–	–	–	620	100% A
Corporate bonds	–	7,400	30% AAA 46% Aa/A 20% BBB 4% <BBB	–	6,930	64% AAA 16% Aa 19% Baa/Ba 1% B
Commercial paper	–	–	–	–	11,660	100% AA+
Repurchase agreements	–	–	–	–	11,760	100% AA+
Asset-backed securities	–	7,160	100% AAA	–	6,930	95% AAA 2% Aa/A 3% <B
Bond mutual funds	16,450	–	–	–		–
Money market mutual funds	–	12,730	100% AAA	–		–
Total Debt Investments— CU Foundation	**$ 16,450**	**85,640**		**–**	**139,820**	

SPLIT-INTEREST AGREEMENTS

Assets held by the CU Foundation under split-interest agreements are included in investments and consisted of the following as of June 30, 2011 and 2010, as shown in Table 3.4, CU Foundation Investments Held under Split-interest Agreements.

Table 3.4. CU Foundation Investments Held under Split-interest Agreements (in thousands)

Type	**2011**	**2010**
Charitable remainder trusts	$ 58,718	53,276
Charitable gift annuities and pooled income funds	3,210	294
Total Investments Held under Split-interest Agreements	**$ 61,928**	**53,570**

NOTE 4 – ACCOUNTS, CONTRIBUTIONS, AND LOANS RECEIVABLE

Table 4.1, Accounts, Contributions, and Loans Receivable, segregates receivables as of June 30, 2011 and 2010, by type.

Table 4.1. Accounts, Contributions, and Loans Receivable (in thousands)

		2011			
Type of Receivable		**Gross Receivables**	**Allowance**	**Net Receivables**	**Net Current Portion**
University					
Student accounts	$	47,188	18,117	29,071	29,070
Federal government		71,704	–	71,704	71,704
Other governments		24,348	–	24,348	24,348
Private sponsors		37,855	–	37,855	37,855
Patient accounts		55,848	5,800	50,048	50,048
DPCU		16,388	–	16,388	16,388
Interest		2,461	–	2,461	2,461
Other		13,788	1,506	12,282	11,171
Total accounts receivable		269,580	25,423	244,157	243,045
Loans		34,129	3,161	30,968	–
Total Receivable—University	**$**	**303,709**	**28,584**	**275,125**	**243,045**

		2010			
Type of Receivable		**Gross Receivables**	**Allowance**	**Net Receivables**	**Net Current Portion**
University					
Student accounts	$	35,600	13,208	22,392	22,390
Federal government		57,234	–	57,234	57,234
Other governments		26,689	–	26,689	26,689
Private sponsors		31,156	12	31,144	31,144
Patient accounts		52,260	5,743	46,517	46,517
DPCU		10,538	–	10,538	10,538
Interest		3,404	–	3,404	3,404
Other		16,316	1,857	14,459	13,399
Total accounts receivable		233,197	20,820	212,377	211,315
Student loans		35,188	2,961	32,227	300
Total Receivable—University	**$**	**268,385**	**23,781**	**244,604**	**211,615**

CONCENTRATION OF CREDIT RISK

UPI grants credit without collateral to its patients. The mix of gross receivables from patients and third-party payers as of June 30, 2011 and 2010 is detailed in Table 4.2, UPI Concentration of Credit Risk.

Table 4.2. UPI Concentration of Credit Risk

Category	**2011**	**2010**
Managed care	49.4%	50.0%
Medicare	13.2	13.9
Medicaid	19.2	20.1
Other third-party payers	11.1	9.3
Self-pay	7.1	6.7
Total	**100.0%**	**100.0%**

NOTE 5–CAPITAL ASSETS

Table 5, Capital Assets, presents changes in capital assets and accumulated depreciation by major asset category for the years ended June 30, 2011 and 2010.

The total interest expense related to capital asset debt incurred by the University during the years ended June 30, 2011 and 2010 approximated $50,770,000 and $48,944,000, respectively. Of this amount, approximately $10,372,000 and $10,322,000, respectively, was capitalized as part of the value of construction in progress.

The University had insurance recoveries of $1,169,000 and $2,592,000 in the years ended June 30, 2011 and 2010 respectively, which are included in nonoperating revenues.

Table 5. Capital Assets (in thousands)

Category		Balance 2010	Additions	Retirement	Transfers	Balance 2011
University						
Nondepreciable capital assets						
Land	$	57,369	941	669	–	57,641
Construction in progress		307,184	266,144	139	(271,996)	301,193
Collections		12,705	622	–	150	13,477
Total nondepreciable capital assets		377,258	267,707	808	(271,846)	372,311
Depreciable capital assets						
Buildings		2,388,524	19,450	4,944	246,676	2,649,706
Improvements other than buildings		171,046	583	165	3,019	174,483
Equipment		425,437	44,499	21,236	(6,675)	442,025
Software		33,917	246	63	28,826	62,926
Library and other collections		291,124	15,186	4,103	–	302,207
Total depreciable capital assets		3,310,048	79,964	30,511	271,846	3,631,347
Less accumulated depreciation						
Buildings		763,734	77,804	4,526	–	837,012
Improvements other than buildings		73,110	7,531	110	–	80,531
Equipment		311,099	30,802	17,461	–	324,440
Software		15,423	10,792	63	–	26,152
Library and other collections		191,957	13,096	4,103	–	200,950
Total accumulated depreciation		1,355,323	140,025	26,263	–	1,469,085
Net depreciable capital assets		1,954,725	(60,061)	4,248	271,846	2,162,262
Total Net Capital Assets—University	**$**	**2,331,983**	**207,646**	**5,056**	**–**	**2,534,573**

Category		Balance 2009	Additions	Retirement	Transfers	Balance 2010
University						
Nondepreciable capital assets						
Land	$	56,096	–	–	1,273	57,369
Construction in progress		173,099	263,507	–	(129,422)	307,184
Collections		11,576	1,155	26	–	12,705
Total nondepreciable capital assets		240,771	264,662	26	(128,149)	377,258
Depreciable capital assets						
Buildings		2,273,286	3,744	300	111,794	2,388,524
Improvements other than buildings		154,706	27	51	16,364	171,046
Equipment		416,101	35,198	25,853	(9)	425,437
Software		15,803	18,114	–	–	33,917
Library and other collections		280,165	15,691	4,732	–	291,124
Total depreciable capital assets		3,140,061	72,774	30,936	128,149	3,310,048
Less accumulated depreciation						
Buildings		693,525	70,452	243	–	763,734
Improvements other than buildings		64,631	8,524	45	–	73,110
Equipment		302,185	32,100	23,186	–	311,099
Software		15,205	218	–	–	15,423
Library and other collections		183,670	13,019	4,732	–	191,957
Total accumulated depreciation		1,259,216	124,313	28,206	–	1,355,323
Net depreciable capital assets		1,880,845	(51,539)	2,730	128,149	1,954,725
Total Net Capital Assets—University	**$**	**2,121,616**	**213,123**	**2,756**	**–**	**2,331,983**

NOTE 6 – ACCRUED EXPENSES

Table 6.1, Accrued Expenses, details accrued expenses as of June 30, 2011 and 2010 by type.

OPERATING LEASES

Table 6.1. Accrued Expenses (in thousands)

Type		2011	2010
University			
Accrued salaries and benefits		166,797	166,246
Accrued interest payable		2,694	2,599
Other accrued expenses		1,029	1,323
Total Accrued Expenses—University	**$**	**170,520**	**170,168**

The University leases various buildings and equipment under operating lease rental agreements. Operating leases do not give rise to property rights or meet other capital lease criteria and, therefore, the related assets and liabilities are not recorded in the accompanying financial statements. For the years ended June 30, 2011 and 2010, total rental expense under these agreements approximated $4,722,000 and $6,222,000 for the University, respectively. Future minimum payments for these operating leases are shown in Table 6.2, University Operating Leases Minimum Lease Obligations.

Table 6.2. University Operating Leases Minimum Lease Obligations (in thousands)

Years Ending June 30		Minimum Lease Obligation
2012	$	8,548
2013		6,482
2014		5,862
2015		5,469
2016		5,013
2017–2021		4,588
2022–2026		1,223
2027–2030		489
Total Operating Lease Obligations	**$**	**37,674**

NOTE 7 – COMPENSATED ABSENCES AND OTHER POSTEMPLOYMENT BENEFITS

Table 7, Compensated Absences and Other Postemployment Benefits, presents changes in compensated absences and other postemployment benefits other than pension benefits for the years ended June 30, 2011 and 2010.

Table 7. Compensated Absences and Other Postemployment Benefits (in thousands)

		2011	2010
Compensated Absences			
Beginning of the year	$	123,613	114,261
Additions		106,723	100,692
Adjustments/reduction		(98,213)	(91,340)
End of the year		132,123	123,613
Current compensated absences		8,667	7,527
Postemployment Benefits			
Beginning of the year		33,022	22,242
Annual required contribution		40,717	21,853
Interest on net obligation		3,563	1,112
Adjustment to annual required contribution		(4,861)	(1,434)
Annual OPEB cost (expense)		39,419	21,531
Error in prior year valuations		46,163	–
Contributions made during the year		(13,041)	(10,751)
End of the year		105,563	33,022
Current postemployment benefits		15,314	10,115
Total Compensated Absences and Other Postemployment Benefits	**$**	**237,686**	**156,635**

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

During the years ended June 30, 2011 and 2010, approximately 4,000 and 3,800 retirees respectively met the eligibility requirements and are receiving benefits under the University's single-employer postemployment benefit (non-pension) program. This program was established by the Regents who have the authority to amend the program provisions. Under this program, the University subsidizes a portion of healthcare and life insurance premiums on a pay-as-you-go basis. Contributions approximated $13,041,000 and $10,751,000 during the years ended June 30, 2011 and 2010, respectively. A separately issued report is not available as the plan is unfunded and therefore no trust exists.

Funded Status and Funding Progress. As of July 1, 2010, the most recent actuarial valuation date, the plan was 0 percent funded. For the years ended June 30, 2011 and 2010, the actuarial accrued liability for benefits was $343,144,000 and $196,715,000, respectively. The actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $343,144,000 and $196,715,000, respectively. The covered payroll (annual payroll of active employees covered by the program) was $1,023,525,000 and $898,899,000, and the ratio of the UAAL to the covered payroll was 33.5 percent and 21.9 percent, respectively.

Actuarial valuations of an ongoing program involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive program (the program as understood by the employer and the program members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and program members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The University utilized a different firm to conduct the July 1, 2010 actuarial valuation (the valuation). During the course of preparing the valuation, management determined, based on the long-term rate of return on investments, that the discount rate used in the calculation should be lowered from 5 percent to 4.5 percent. This change in assumption has been accounted for prospectively. It was also determined that healthcare trend rates disclosed in prior years' financial statements had erroneously not been utilized in the calculation of the actuarial accrued liability and, by default, in the determination of the net other postemployment benefit obligation (NOO).

Including the healthcare trend rate assumption increased the NOO at July 1, 2010, by approximately $46,163,000. Management determined this error was not of sufficient magnitude to require restatement of prior year financial statements. As a result, the impact of the error is reflected in current year activity.

Also in the July 1, 2010 valuation, the projected unit credit actuarial cost method was used. The healthcare trend assumption reflects healthcare cost inflation expected to impact the plan based on forecast information in published papers from industry experts (actuaries, health economists, etc.). This research suggests a 9 percent long term average increase for all healthcare benefits, trending down to an ultimate 5 percent increase for 2019 and later years. It was assumed that all members would be entitled to the maximum life insurance benefit amount; therefore no salary increase rate is assumed. The UAAL is being amortized as a level percentage of projected payroll on an open basis over a period of 30 years.

PERA POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and $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 maximum subsidy is based on the recipient having 20 years of service credit and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed in Note 15, PERA-Defined Benefit Pension Plan. Beginning July 1, 2004, State agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The University contributed $336,000, $381,000, and $354,000 as required by statute in Fiscal Years 2011, 2010, and 2009, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2010, there were 48,455 enrolled participants including spouses and dependents, from all contributors to the plan. At December 31, 2010, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.35 billion, a funded ratio of 17.5 percent and a 42-year amortization period. The actuarial valuation was based on the entry age cost method, an 8 percent investment rate of return, a 4.5 percent projection of salary increases (assuming a .75 percent inflation rate), a 3.5 percent annual medical claims increase, no post-retirement benefit increases, and a level dollar amortization on an open basis over 30 years.

NOTE 8 – DEFERRED REVENUE

As of June 30, 2011 and 2010, the types and amounts of deferred revenue are shown in Table 8, Deferred Revenue.

Table 8. Deferred Revenue (in thousands)

	2011		2010	
Type	**Total**	**Current Portion**	**Total**	**Current Portion**
University				
Tuition and fees	$ 22,512	22,512	20,488	20,488
Auxiliary enterprises	18,807	15,145	20,431	15,056
Grants and contracts	73,127	73,127	70,991	70,991
Miscellaneous	6,451	6,451	9,616	9,616
Total Deferred Revenue–University	**$ 120,897**	**117,235**	**121,526**	**116,151**

NOTE 9 – BONDS, LEASES, AND NOTES PAYABLE

As of June 30, 2011 and 2010, the categories of long-term obligations are summarized in Table 9.1, Bonds, Leases, and Notes Payable.

Table 9.1. Bonds, Leases, and Notes Payable (in thousands)

Type	Interest Rates	Maturity	2011	2010
University				
Revenue bonds				
Enterprise system (including premium of $37,687 in 2011 and $36,268 in 2010 and deferred loss of $12,731 in 2011 and $8,510 in 2010)	2.25%–5.75%	6/1/39	$ 1,117,651	1,080,828
UPI variable demand bonds	0.8%*	1/1/25	17,345	17,920
Total revenue bonds			1,134,996	1,098,748
Other capital lease obligations				
Central utility plant	6.00%	12/31/22	–	37,305
Other lease obligations	2.87–13.95%	Various	17,490	16,700
Total other capital lease obligations			17,490	54,005
Total Bonds, Leases, and Notes Payable—University			**$ 1,152,486**	**1,152,753**

* Interest on the UPI Variable Rate Demand Bonds is set at an adjustable rate as discussed below under Revenue Bonds. The rates reflected in this table are as of June 30, 2011, however the average interest rate for 2011 was 1.62%.

Table 9.2, Changes in Bonds, Leases, and Notes Payable, presents changes in bonds, leases, and notes payable for the years ended June 30, 2011 and 2010.

Table 9.2. Changes in Bonds, Leases, and Notes Payable (in thousands)

Type	Balance 2011	Additions	Retirements	Balance 2011	Current Portion
University					
Revenue bonds	$ 1,070,990	96,790	57,740	1,110,040	42,056
Plus unamortized premiums	36,268	6,364	4,945	37,687	3,246
Less deferred loss	8,510	6,111	1,890	12,731	–
Net revenue bonds	1,098,748	97,043	60,795	1,134,996	45,302
Capital leases	54,005	2,272	38,787	17,490	1,519
Total Bonds, Leases, and Notes Payable–University	**$ 1,152,753**	**99,315**	**99,582**	**1,152,486**	**46,821**
Type	**Balance 2010**	**Additions**	**Retirements**	**Balance 2009**	**Current Portion**
University					
Revenue bonds	$ 887,565	239,365	55,940	1,070,990	34,915
Plus unamortized premiums	30,016	9,472	3,220	36,268	3,184
Less deferred loss	7,353	2,098	941	8,510	–
Net revenue bonds	910,228	246,739	58,219	1,098,748	38,099
Capital leases	57,102	162	3,259	54,005	3,329
Total Bonds, Leases, and Notes Payable—University	**$ 967,330**	**246,901**	**61,478**	**1,152,753**	**41,428**

REVENUE BONDS

A general description of each revenue bond issue, original issuance amount, and the amount outstanding as of June 30, 2011 and 2010 is detailed in Table 9.3, Revenue Bonds Detail.

Table 9.3. Revenue Bonds Detail (in thousands)

Issuance Description	Original Issuance Amount	Outstanding Balance 2011	Outstanding Balance 2010
University			
Enterprise system revenue bonds:			
Refunding Series 1995A–			
Used to refund all of the Refunding Series 1986, 1989, 1990, and 1992B	$ 32,940	3,265	3,995
Refunding Series 2001A–			
Used to refund all of the Student Recreation Center and Refunding Series 1989, Auxiliary Facilities System Refunding Series 1992A, Research Building Revolving Fund (RBRF) Series 1989 and RBRF Series 1992, and a portion of the Enterprise System Tax Exempt Commercial Paper	34,840	–	1,007
Refunding and Improvement Series 2001B–			
Used to refund all of the Tax Exempt Commercial Paper and fund capital improvements at CU-Boulder (includes premium)	51,320	2,037	3,994
Series 2002A–			
Used to fund capital improvements at CU Denver (includes premium)	101,875	3,325	10,024
Series 2002B–			
Used to fund capital improvements at CU-Boulder (includes premium)	40,055	4,542	5,933
Series 2003A–			
Used to fund capital improvements at CU-Boulder, UCCS, and CU Denver	64,260	34,861	52,660
Series 2004–			
Used to fund capital improvements at CU-Boulder and UCCS	24,360	18,815	19,760
Series 2005A–			
Used to fund capital improvements at CU-Boulder, UCCS, CU Denver, and refund 1995 RBRF Bonds (includes premium)	230,025	208,232	216,092
Series 2005B–			
Used to fund capital improvements at UCCS and CU Denver	25,225	22,965	23,548
Series 2006A–			
Used to fund capital improvements at CU-Boulder, UCCS, and CU Denver	101,425	95,391	98,142
Refunding Series 2007A–			
Used to refund all of the revenue bond Refunding Series 1999A and Certificates of Participation Series 2003A and 2003B and a portion of revenue bond Refunding Series 1995A, Refunding and Improvement Series 2001B, Series 2002A, and 2002B	184,180	169,276	172,769
Series 2007B–			
Used to fund acquisition and capital improvements at CU-Boulder, Williams Village	63,875	59,637	61,345
Series 2009A–			
Used to finance the acquisition, renovation, and equipping of certain facilities of CU-Boulder, UCCS, and CU Denver	165,635	163,029	165,492
Series 2009B-1–			
Used to construct the CU-Boulder Systems Biotechnology Building, basketball and volleyball practice facility, renovate housing facilities, and construct CU Denver Pharmaceutical Research Center	76,725	75,688	80,987
Series 2009B-2–			
Build America Bonds used to construct the CU-Boulder Systems Biotechnology Building, basketball and volleyball practice facility, renovate housing facilities, and construct CU Denver Pharmaceutical Research Center	138,130	138,130	138,130
Series 2009C–			
Used to refund Enterprise System Refund Series 1997, Enterprise System Revenue Refund Bonds Series 2001A for years 2012 through 2016 and 2026, and Enterprise System Revenue Bonds Series 2002A for years 2014 through 2018	24,510	25,442	26,950

Table 9.3 continues next page

Table 9.3. Revenue Bonds Detail (continued) (in thousands)

Issuance Description	Original Issuance Amount	Outstanding Balance 2011	Outstanding Balance 2010
Series 2010A–			
Taxable Build American Bonds used to acquire and retrofit 3665 Discovery Drive, add to Dental Medicine Building, finish School of Pharmacy Building, purchase and expand CU Anschutz Medical Campus CUP capacity	35,510	34,980	–
Series 2010B–			
Used to refund Enterprise System Revenue Bonds Series 2002A and Enterprise System Revenue Bonds Series 2003A	56,905	53,661	–
Series 2010C–			
Taxable Qualified Energy Conservation Bonds used to fund energy improvements to two buildings at CU Anschutz Medical Campus	4,375	4,375	–
Total enterprise system revenue bonds		1,117,651	1,080,828
Series 2002–UPI Variable Rate Demand Bonds–			
Used to finance construction of UPI's administrative office building	20,500	17,345	17,920
Total revenue bonds		1,134,996	1,098,748
Less premium		37,687	36,268
Plus deferred loss		12,731	8,510
Total Outstanding Revenue Bond Principal—University	**$**	**1,110,040**	**1,070,990**

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

The Enterprise System Revenue Bonds are secured by a pledge of all net revenues of certain auxiliary enterprise facilities. As of June 30, 2011 and 2010, total net pledged revenues approximate $273,609,000 and $264,521,000, respectively.

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

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

UPI variable rate demand bonds, Series 2002, were issued on behalf of UPI by the Fitzsimons Redevelopment Authority. The bonds are currently rated AA-/A1+. The bonds bear interest at a variable municipal bond interest rate that is reset weekly and are estimated to have an average interest rate of 3.50 percent over the life of the bonds. The variable weekly interest rate was 1.25 percent at December 19, 2002 (bond issuance date) and was 0.08 percent at June 30, 2011. The average interest rate for 2011 was 1.62 percent. The interest payments in the debt service requirements schedule are calculated based on the estimated average interest rate over the life of the bonds. Proceeds from the sale of these bonds were used to fund the development, construction, and equipping of UPI's previously-owned administration building and the development and construction of two new street-access entry points to that building site. In December 2010, UPI replaced Allied Irish Bank as the underlying credit support for this variable debt. An agreement was reached with US Bank, providing for a four-year term with an option for a one-year extension. UPI is subject to certain financial covenants, including the maintenance of 60 days cash on hand (defined as cash plus readily marketable securities) and a debt service coverage ratio of 1.25. UPI management believes it is in compliance with its debt service requirements and financial covenants.

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

Table 9.4. Revenue Bonds Future Minimum Payments (in thousands)

	University		
Years Ending June 30	Principal	Interest	Total
2012	$ 42,056	53,642	95,698
2013	63,430	51,815	115,245
2014	45,135	49,714	94,849
2015	45,650	47,809	93,459
2016	45,340	45,724	91,064
2017–2021	242,700	196,742	439,442
2022–2026	278,490	133,764	412,254
2027–2031	204,935	69,014	273,949
2032–2036	135,760	20,136	155,896
2037–2039	6,544	553	7,097
Total	**$1,110,040**	**668,913**	**1,778,953**

OTHER CAPITAL LEASES

The University had a capital lease agreement to lease purchase a central utility plant (CUP) to deliver steam and chilled water to the CU Anschutz Medical Campus. The CUP capital lease agreement provided for biannual payments through December 2022 with an effective interest rate of 6 percent. In December 2010, the University purchased the CUP from the lessor by using a portion of the proceeds from the new Tax-Exempt University Enterprise Refunding Revenue Bond, Series 2010B. The CUP portion of the new bond was $37,845,000 with a premium of $4,071,000. This resulted in a reduction of the capital lease liability by $37,305,000 and a deferred loss of $3,931,000. As of June 30, 2011 and 2010, the CUP capital lease had an outstanding liability approximating $0 and $37,305,000, respectively, with underlying gross capitalized asset cost approximating $0 and $47,385,000, respectively.

As of June 30, 2011 and 2010, the University had an outstanding liability for all other capital leases approximating $17,490,000 and $16,700,000, respectively, with underlying gross capitalized asset cost approximating $20,963,000 and $19,972,000, respectively.

Future minimum payments for capital lease obligations are detailed in Table 9.5, Capital Leases.

Table 9.5. Capital Leases (in thousands)

	University		
Years Ending June 30	Principal	Interest	Total
2012	$ 1,519	860	2,379
2013	1,576	791	2,367
2014	1,518	720	2,238
2015	1,265	654	1,919
2016	1,104	599	1,703
2017–2021	4,136	2,309	6,445
2022–2026	4,525	1,196	5,721
2027–2031	1,847	100	1,947
Total	**$ 17,490**	**7,229**	**24,719**

STATE OF COLORADO CERTIFICATES OF PARTICIPATION

On December 14, 2005, the State, acting by and through the Regents, issued Certificates of Participation, Series 2005B with an approximate par value of $192,625,000 and a premium of $7,600,600. The certificates have interest rates ranging from 3.75 to 5.25 percent and mature in November 2030. Annual lease payments are made by the State and are subject to annual appropriations by the Legislature. As a result, this liability is recognized by the State and not included in the University's financial statements. As of June 30, 2011 and 2010, the University had underlying gross capitalized assets consisting of seven academic buildings on the CU Anschutz Medical Campus costing approximately $188,800,000.

On October 23, 2008, the State issued State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008 with an approximate par value of $230,845,000 and a premium of $1,883,800 and a discount of $1,702,900. The certificates have interest rates ranging from 3.0 to 5.5 percent and mature in November 2027. Annual lease payments are made by the State and are subject to annual appropriations by the Legislature. As a result, this liability is recognized by the State and not included in the University's financial statements.

The certificates are secured by the buildings or equipment acquired with the lease proceeds and any unexpended lease proceeds. The proceeds are being used to fund various capital projects for the benefit of certain State-supported institutions of higher education in Colorado, including UCCS. The underlying capitalized assets are contributed to the University from the State. The University has recognized capital contributions from the State and related capital assets of approximately $4,130,000 and $12,199,000, during the years ended June 30, 2011 and 2010, respectively.

EXTINGUISHMENT OF DEBT

Previous revenue bond issues and certificates of participation, considered to be extinguished through in-substance defeasance under generally accepted accounting principles, are not included in the accompanying financial statements. The amount of debt in this category, covered by assets placed in trust to be used solely for future payments, amounted to approximately $187,420,000 and $173,505,000 as of June 30, 2011 and 2010, respectively. A portion of 2010B was used to purchase the CUP and the remaining debt issued in Fiscal Year 2011 was used to defease existing debt is listed in the financial statement footnotes as the 2010B Enterprise Refunding Bonds, with a face amount of $19,060,000. The 2010B Enterprise Refunding Bonds were used to defease debt in the amount of $18,785,000, and the proceeds from the new debt were placed with an escrow agent and will be used to make all future debt service payments. At the end of Fiscal Year 2011 there was a remaining balance of $18,620,000 on this issue. The difference between cash flows required to service the old debt was $949,126 higher than the debt service required to service the new debt. The economic gain from this transaction was $838,666.

NOTE 10 – OTHER LIABILITIES

Table 10.1, Other Liabilities, details other liabilities as of June 30, 2011 and 2010.

Table 10.1. Other Liabilities (in thousands)

	2011		2010	
Type	**Total**	**Current Portion**	**Total**	**Current Portion**
University				
Risk financing	$ 16,394	5,778	17,471	7,205
Construction contract retainage	11,391	11,391	9,822	9,822
Funds held for others	17,052	17,052	14,765	14,765
Miscellaneous	17,698	6,841	5,728	5,612
Total Other Liabilities—University	**$ 62,535**	**41,062**	**47,786**	**37,404**

RISK FINANCING-RELATED LIABILITIES

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; medical malpractice; employee occupational injuries; graduate medical students' health; and natural disasters. The University finances these risks through various self-insurance programs. The University finances the cost and risks associated with employee health benefit programs through the Trust, a related organization as discussed in Note 18 to the financial statements. Under the terms of the Trust, the University is self-insured for medical claims beginning July 1, 2010. However, the risk of loss has been transferred to the Trust. Therefore, no liability was reported as of June 30, 2011 and 2010, for unpaid claims. The University does not purchase excess insurance coverage for its self-insured health benefit programs.

The University utilizes a protected self-insurance program for its property, liability, and workers' compensation risks. The University has established a separate self-insurance program for the purpose of providing professional liability coverage for CU Denver and the Hospital Authority (Note 18). A separate self-insurance program has also been established to provide health insurance for graduate medical students and eligible dependents at CU Denver.

All self-insurance programs, other than employee health benefit programs, assume losses up to certain limits and purchase a defined amount of excess insurance for losses over those limits. These limits range from $100,000 to $1,000,000 per occurrence.

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

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

Changes in the balances of risk financing-related liabilities for the years ended June 30, 2011 and 2010 are presented in Table 10.2, Risk Financing-related Liabilities.

Table 10.2. Risk Financing-related Liabilities (in thousands)

	Property, General Liability, and Workers' Compensation	**CU Denver Professional Liability**	**Graduate Medical Student Health Benefits**	**Total**
Balance as of June 30, 2009	**$ 11,663**	**5,065**	**1,604**	**18,332**
Fiscal Year 2010:				
Claims and changes in estimates	5,905	273	6,280	12,458
Claim payments	(6,007)	(750)	(6,562)	(13,319)
Balance as of June 30, 2010	**$ 11,561**	**4,588**	**1,322**	**17,471**
Fiscal Year 2011:				
Claims and changes in estimates	4,659	1,865	6,320	12,844
Claim payments	(6,244)	(1,327)	(6,350)	(13,921)
Balance as of June 30, 2011	**$ 9,976**	**5,126**	**1,292**	**16,394**

EARLY RETIREMENT INCENTIVE PROGRAM

The University provides an early retirement incentive program (the program) to tenured professors who are at least 55 years of age and whose age and years of service total at least 70. These professors must also be participants in the University's Option Retirement Plan. The program provides eligible participants with an incentive equal to twice the professor's base salary and supplemental pay. In return, the participants will retire and relinquish tenure immediately. In the current fiscal year, 48 professors have participated in the program. Benefits under the program are payable over a five-year period. Utilizing a discount rate of 5 percent, the University has recorded an early termination liability for the program of $8,978,000 in miscellaneous other liabilities. Participation in this program does not impact the Optional Retirement Plan or Other Postemployment Benefits.

ALTERNATE MEDICARE PLAN

The University provides an Alternate Medicare Plan (AMP) to retirees aged 65 and over. The AMP is available to the employee and eligible spouse/same gender domestic partner. Coverage is not provided for dependent children. The AMP provides a monthly cash payment of approximately $140 for a retiree and approximately $238 for a retiree plus spouse/same gender domestic partner to offset medical plan costs for non-university Medicare Risk or Medicare-Eligible plan. No retiree contribution is permitted. As these monthly cash payments are not restricted as to use, they are considered a pension rather than a postemployment benefit. As of June 30, 2011, based on the July 1, 2010, actuarial valuation, the unfunded actuarial accrued liability was $20,900,000 and the associated pension liability and expense was $4,100,000 recorded in miscellaneous other liabilities.

DIRECT LENDING

The University participates in two student lending programs operated by the federal government, Direct Student Loan and the State School as Lender. These programs enable eligible students or parents to obtain a loan to pay for the student's cost of attendance directly through the University rather than through a private lender. The University is responsible for handling the complete loan process, including funds management as well as promissory note functions.

For the Direct Lending program, the University is not responsible for collection of these loans or for defaults by borrowers and therefore these loans are not recognized as receivables in the accompanying financial statements. Direct lending activity during the years ended June 30, 2011 and 2010 was $380,420,000 and $320,088,000, respectively.

NOTE 11 – UNRESTRICTED NET ASSETS

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

As of June 30, 2011 and 2010, all of the University's unrestricted net assets have been designated by management for the following purposes and amounts detailed in Table 11, Designations of Unrestricted Net Assets.

Table 11. Designations of Unrestricted Net Assets
(in thousands)

Designation Description	2011	2010
Accounts receivable	$ 155,965	129,758
Auxiliary facilities operating reserves	88,907	88,383
Capital-related activities	260,778	128,857
Faculty start-up and research initiatives	86,602	72,532
Inventories and prepaids	2,075	1,431
Investment pool	40,446	45,223
Regent designated endowments	–	21,357
Risk financing activities	33,223	28,657
Service center reserves	8,818	15,510
Technology transfer office	10,452	12,434
University Physicians, Inc.	119,565	139,202
Total Designated Unrestricted Net Assets	**$ 806,831**	**683,344**

NOTE 12 – SPENDING LIMITATIONS

In November 1992, the Colorado voters passed Section 20, Article X of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax, and debt limitations that apply to all local governments and the State of Colorado, including the University. In Fiscal Year 2005, the Colorado State Legislature determined in Section 23-5-101.7 of the Colorado Revised Statutes that an institution of higher education may be designated as an enterprise for the purposes of TABOR so long as the institution's governing board retains authority to issue revenue bonds on its behalf and the institution receives less than 10 percent of its total annual revenues in grants as defined by TABOR. Further, so long as it is so designated as an enterprise, the institution shall not be subject to any of the provisions of TABOR.

In July 2005, the Regents designated the University as a TABOR enterprise pursuant to the statute. During the years ended June 30, 2011 and 2010, the University believes it has met all requirements of TABOR enterprise status. Specifically, the Regents retain the authority to issue revenue bonds and the amount of state grants received by the University was 1.04 percent and 1.57 percent during the years ended June 30, 2011 and 2010, respectively, as shown in Table 12.1, TABOR Enterprise State Support Calculation.

Table 12.1. TABOR Enterprise State Support Calculation
(in thousands)

	2011	2010
Capital appropriations	$ 2,399	8,792
Tobacco Litigation Settlement Appropriation	15,674	17,150
State appropriations for CU Anschutz Medical Campus COP annual payments for debt service	9,695	13,142
State COP Issuance for UCCS–Science Building	750	1,394
Total State Grants	**$ 28,518**	**40,478**
Total TABOR enterprise revenues	$ 2,734,000	2,583,000
Ratio of state grants to total revenues	1.04%	1.57%

A portion of the University is subject to revenue and expense limitations imposed by the Colorado State Legislature through the annual appropriation process. For years ended June 30, 2011 and 2010, respectively, the University's appropriated funds included $50,617,000 and $38,073,000 received for students that qualified for stipends from the College Opportunity Fund and $130,939,000 and $50,138,000 as fee-for-service contract revenue, as well as certain cash funds as specified in the State's annual appropriations bill.

Appropriated cash funds include the student-paid portion of tuition, certain fees, and certain other revenue sources, which are recognized in various revenue lines, as appropriate, in the accompanying financial statements.

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

For the years ended June 30, 2011 and 2010, expenses were within the appropriated spending authority. Table 12.2, Appropriated Funds, details the related activities for the years ended June 30, 2011 and 2010.

Table 12.2. Appropriated Funds (in thousands)

Description		2011	2010
Total appropriation	$	897,388	866,901
Actual appropriated revenues		898,301	820,933
Actual appropriated expenditures and transfers		897,388	866,901
Net increase (decrease) in appropriated net assets	**$**	**913**	**(45,968)**

NOTE 13–SCHOLARSHIP ALLOWANCES

During the years ended June 30, 2011 and 2010, scholarship allowances were provided by the following funding sources in amounts detailed in Table 13, Scholarship Allowances.

NOTE 14–HEALTH SERVICES REVENUE

Health services revenue is recorded net of contractual adjustments approximating $572,165,000 and $492,817,000 and bad debt expense on uncollectible patient account receivables approximating $14,991,000 and $14,375,000 for the years ended June 30, 2011 and 2010, respectively. Charity care provided during the years ended June 30, 2011 and 2010, for which no reimbursement was received, measured at established rates, totaled approximately $38,168,000 and $32,113,000, respectively.

NOTE 15–RETIREMENT PLANS AND INSURANCE PROGRAMS

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

Table 13. Scholarship Allowances (in thousands)

		2011			2010		
Funding Source Description		**Tuition and Fees**	**Auxiliary Enterprise Revenues**	**Total**	**Tuition and Fees**	**Auxiliary Enterprise Revenues**	**Total**
University general resources	$	45,581	1,184	46,765	42,417	1,080	43,497
University auxiliary resources		8,283	177	8,460	7,899	233	8,132
Colorado Commission on Higher Education financial aid program		15,742	240	15,982	14,854	218	15,072
Federal programs, including Federal Pell grants		50,275	905	51,180	40,813	694	41,507
Other State of Colorado programs		198	6	204	182	4	186
Private programs		114	–	114	2,675	77	2,752
Gift fund		14,100	232	14,332	12,118	228	12,346
Total Scholarship Allowances	**$**	**134,293**	**2,744**	**137,037**	**120,958**	**2,534**	**123,492**

PERA-DEFINED BENEFIT PENSION PLAN

The PERA plan provides income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple-employer plan administered by PERA. PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

New State employees, excluding four-year college and university employees, are allowed 60 days to elect to participate in PERA's defined contribution retirement plan. If that election is not made, the employee becomes a member of PERA's defined benefit plan. Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to the defined contribution plan are the same as the contributions to the PERA defined benefit plan.

Based on changes in the 2010 legislative session, slightly different plan requirements were in effect until December 31, 2010. The following requirements were effective at June 30, 2011.

Plan members are eligible to receive a monthly retirement benefit when they meet age and service requirements based on their original hire date as follows:

- Hired before July 1, 2005—age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with five years of service.
- Hired between July 1, 2005 and December 31, 2006—any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between January 1, 2007 and December 31, 2010—any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For employees hired before January 1, 2007, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010 if the member has less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016—any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2017—any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

Members with five years of service credit at January 1, 2011, are also eligible for retirement benefits without a reduction for early retirement based on their original hire date, as follows:

- Hired before January 1, 2007—age 55 and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010–age 55 and age plus years of service equals 85 or more. For members hired before January 1, 2007, age plus years of service increase to 85 for members with less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016—age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017—age 60 and age plus years of service equals 90.

Most members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods if salaries used were from the last three years of employment. For retirements after January 1, 2009, four periods are used and are ranked from lowest to highest with the maximum increase between years limited to 15 percent. For members hired on or after January 1, 2007, the maximum increase between ranked periods is 8 percent. Notwithstanding any other provisions, members first eligible for retirement after January 2, 2011 have a maximum increase between periods of 8 percent.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007—the lesser of 2 percent or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007—the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ration increase does not apply for three years when a negative return on investment occurs.

Table 15. University Contributions to PERA (in thousands)

Program	Basis	2011	2010	2009
Health Care Trust Fund	1.02% after July 1, 2004	$ 336	381	354
Defined Benefit Plan	The balance remaining	32,925	37,398	34,694
Total University Contribution		**$ 33,261**	**37,779**	**35,048**

Members who are disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under the age of 18 (23 if a full-time student) may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

The total payroll of employees covered by PERA was approximately $278,497,000 and $279,135,000 for the years ended June 30, 2011 and 2010, respectively. From January 1, 2010, through June 30, 2010, the University contributed 13.85 percent. From July 1, 2010, through December 31, 2010, the University contributed 11.35 percent. From January 1, 2011, through June 30, 2011 the University contributed 12.25 percent. During the years ended June 30, 2011 and 2010, the University contributed a total of 11.80 percent and 13.40 percent, respectively, of the employee's gross covered wages to PERA in accordance with the following allocations and amounts detailed in Table 15, University Contributions to PERA. These contributions met the contribution requirement for each year.

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

Most employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2010 Senate Bill 10-146 requires members in the State to pay 2.5 percent additional member contributions through June 30, 2011. Employer contributions for members will be reduced by 2.5 percent. Senate Bill 11-076 continued these contribution rates through June 30, 2012.

From July 1, 2010, to December 31, 2010, the State contributed 11.35 percent of the employee's salary. From January 1, 2011, through June 30, 2011, the State contributed 12.25 percent. During all of Fiscal Year 2010–11, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. As of December 31, 2010, the division of PERA in which the State participates has a funded ratio of 62.8 percent and a 47 year amortization period based on current contribution rates. The funded ratio on the market value of assets is lower at 61.3 percent.

In the 2004 legislative session, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

In the 2006 legislative session, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage point through 2013 resulting in a cumulative increase of three percentage points. For State employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to State employees' salaries, and used by the employer to pay the SAED.

In the 2010 legislative session, the General Assembly extended both the AED and SAED. The AED will continue to increase at a rate of .4 percent of salary from calendar years 2013 through 2017. The SAED will continue to increase by one-half percentage point from calendar years 2014 through 2017. Both the AED and the SAED will be reduced by one-half percentage point when funding levels reach 103 percent, and both will be increased by one-half percentage point when the funding level subsequently falls below 90 percent. Neither the AED nor the SAED may exceed 5 percent.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The University's contributions to the PERA defined benefit plan and/or the defined contribution plan for the fiscal years ending June 30, 2011, 2010, and 2009 were $32,925,000, $37,398,000, and $34,694,000 respectively. These contributions met the contribution requirement for each year.

DEFINED CONTRIBUTION PLAN

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent of their salary. For Fiscal Years 2009–10 and 2010–11 the legislature temporarily increased the required contribution rate to 10.5 percent. At December 31, 2010, the plan had 3,479 participants.

VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

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 2010, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution with a temporarily increase to 10.5 percent for Fiscal Years 2010–11 and 2011–12) to a maximum of $16,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $5,500 contribution in 2010, for total contributions of $22,000. Contributions and earnings are tax deferred. At December 31, 2010, the plan had 18,215 participants.

PERA also offers a voluntary 401K plan entirely separate from the defined benefit pension plan, the deferred compensation plan, and the defined contribution plan. Certain agencies and institutions of the State offer 403(b) or 401(a) plans.

UNIVERSITY OPTIONAL RETIREMENT PLAN

Under the University's optional retirement plan, certain members of the University are required to participate in a defined contribution retirement plan administered by the University for the benefit of full-time faculty and exempt staff members. The state constitution assigns the authority to establish and amend plan provisions to the Regents. The contribution requirements of plan members and the University are established and may be amended by the Regents. Generally, employees are eligible for participation in the plan after completing one year of service and are vested immediately upon participation. For the years ended June 30, 2011 and 2010, the University's contribution to the defined contribution retirement plan was equal to 10 percent of covered payroll and the employee contribution was equal to 5 percent of covered payroll. The University's contribution under the optional retirement plan during the years ended June 30, 2011 and 2010, approximated $72,364,000 and $67,803,000, respectively. The employees' contribution under the optional retirement plan approximated $36,069,000 and $33,732,000 during the years ended June 30, 2011 and 2010, respectively.

Participants in the University's optional retirement plan choose to invest all contributions with one or more of three designated vendors. In addition, participants in the University's optional retirement plan are covered under federal Social Security. Federal Social Security regulations required both the employer and employee to contribute 6.2 percent of covered payroll to Social Security during the year ended June 30, 2010. The first half of Fiscal Year 2011 the Social Security rate remained at 6.2 percent of covered payroll. The second half of Fiscal Year 2011, the employee percentage dropped temporarily to 4.2 percent which will remain in effect until December 31, 2011.

UPI RETIREMENT PLAN

UPI sponsors a defined contribution retirement plan for its permanent employees that is administered by the Teachers Insurance Annuities Association's College Retirement Equities Fund. The board of directors for UPI has the authority to amend plan provisions. Employees are eligible for participation in the plan after completing one year of service. On behalf of eligible employees, UPI contributed an amount equal to 7 percent of eligible employees' salaries for the years ended June 30, 2011 and 2010. UPI's contributions for covered payroll to the retirement plan for the years ended June 30, 2011 and 2010, approximated $1,620,000 and $1,647,000, respectively.

HEALTH INSURANCE PROGRAMS

The University's contributions to its various health insurance programs approximated $97,188,000 and $86,832,000 during the years ended June 30, 2011 and 2010, respectively.

NOTE 16 – SEGMENT INFORMATION

As of June 30, 2011 and 2010, the University has one segment, UPI.

UPI has identifiable activities for which UPI Variable Rate Demand bonds approximating $17,345,000 and $17,920,000 are outstanding as of June 30, 2011 and 2010, respectively. The activities of this segment include all the University of Colorado Denver School of Medicine's faculty practice plan.

Summary financial information as of and for the years ended June 30, 2011 and 2010, is presented in Table 16, Segment Financial Information.

Table 16. Segment Financial Information (in thousands)

As of and for the year ended June 30	2011	2010
Condensed Statement of Net Assets		
Assets		
Cash and cash equivalents	$ 66,440	46,171
Short-term investments	13,722	15,650
Other current assets	49,704	46,710
Total current assets	129,866	108,531
Investments	79,170	94,433
Capital assets, net	45,207	36,567
Other noncurrent assets	3,041	1,821
Total noncurrent assets	127,418	132,821
Total Assets	**$ 257,284**	**241,352**
Liabilities		
Accounts payable and accrued expenses	$ 29,539	24,712
Bonds, leases, and notes payable	742	672
Total current liabilities	30,281	25,384
Bonds, leases, and notes payable	16,886	17,628
Total noncurrent liabilities	16,886	17,628
Total Liabilities	**$ 47,167**	**43,012**
Net Assets		
Invested in capital assets, net of related debt	$ 27,579	18,266
Unrestricted	182,538	180,074
Total Net Assets	**$ 210,117**	**198,340**
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Patient revenues	$ 415,591	369,391
Depreciation expense	(2,912)	(896)
Other operating expenses	(398,367)	(351,284)
Operating income	14,312	17,211
Nonoperating revenues (expenses)		
Investment income	6,520	11,264
Interest expense on capital asset-related debt	(443)	(34)
Other nonoperating expenses	(8,612)	(3,039)
Total nonoperating revenues (expenses)	(2,535)	8,191
Increase in Net Assets	**11,777**	**25,402**
Net Assets, beginning of year	198,340	172,938
Net Assets, end of year	**$ 210,117**	**198,340**
Condensed Statement of Cash Flows		
Net cash flows provided by (used for)		
Operating activities	$ 19,058	14,496
Non-capital financing activities	(8,613)	(3,040)
Capital and related financing activities	(12,647)	(28,650)
Investing activities	22,471	17,200
Net Increase in Cash and Cash Equivalents	**20,269**	**6**
Cash and cash equivalents, beginning of year	46,171	46,165
Cash and Cash Equivalents, End of Year	**$ 66,440**	**46,171**

NOTE 17 – DISCRETELY PRESENTED COMPONENT UNITS

Summary financial information as of and for the years ended June 30, 2011 and 2010, for the University's DPCU are presented in Table 17, DPCU Summary Financial Statements.

Table 17. DPCU Summary Financial Statements (in thousands)

Condensed Statement of Net Assets	As of and for the year ended June 30, 2011		
	CU Foundation	CUREF	Total
Assets			
Current assets			
Cash and cash equivalents	$ 14,348	4,522	18,870
Restricted cash	–	2,365	2,365
Short-term investments	–	1,496	1,496
Accounts and contributions receivable, net	29,383	239	29,622
Other current assets	85	583	668
Total current assets	43,816	9,205	53,021
Noncurrent assets			
Investments	1,094,054	6,824	1,100,878
Assets held under split-interest agreements	61,928	–	61,928
Contributions receivable, net	27,383	1,324	28,707
Other assets	–	5,595	5,595
Capital assets, net	2,537	61,378	63,915
Total noncurrent assets	1,185,902	75,121	1,261,023
Total Assets	**$ 1,229,718**	**84,326**	**1,314,044**
Liabilities			
Current liabilities			
Accounts payable	$ 2,310	760	3,070
Account payable—University	7,954	–	7,954
Deferred revenue	396	772	1,168
Bonds and leases payable	701	217	918
Split-interest agreements	3,774	–	3,774
Custodial funds	7,021	–	7,021
Total current liabilities	22,156	1,749	23,905
Noncurrent liabilities			
Bonds and leases payable	2,032	68,673	70,705
Split-interest agreements	18,798	–	18,798
Custodial funds	240,040	–	240,040
Other liabilities	2,227	44	2,271
Total noncurrent liabilities	263,097	68,717	331,814
Total Liabilities	**$ 285,253**	**70,466**	**355,719**
Net Assets			
Invested in capital assets, net of related debt	$ (196)	(502)	(698)
Restricted for nonexpendable purposes	322,524	–	322,524
Restricted for expendable purposes	549,165	4,981	554,146
Unrestricted	72,972	9,381	82,353
Total Net Assets	**$ 944,465**	**13,860**	**958,325**
Statements of Revenue, Expenses, and Changes in Net Assets			
Operating revenues			
Contributions	$ 102,077	1,681	103,758
University support	5,100	–	5,100
Other revenue	6,100	9,208	15,308
Total operating revenues	113,277	10,889	124,166
Operating expenses			
Institutional support			
Gifts and income distributed to University and related parties	98,402	370	98,772
Other program services	7,846	5,028	12,874
Support services	13,301	412	13,713
Depreciation	631	2,554	3,185
Total operating expenses	120,180	8,364	128,544
Operating Income (Loss)	**(6,903)**	**2,525**	**(4,378)**
Nonoperating revenues (expenses)			
Investment income (loss)	125,332	284	125,616
Interest expense on capital asset-related debt	(331)	(3,951)	(4,282)
Increase (Decrease) in Net Assets	**118,098**	**(1,142)**	**116,956**
Net assets, beginning of year	826,367	15,002	841,369
Net Assets, End of Year	**$ 944,465**	**13,860**	**958,325**

Table 17 (continued). DPCU Summary Financial Statements (in thousands)

Condensed Statement of Net Cash Flows	**As of and for the year ended June 30, 2011**		
	CU Foundation	**CUREF**	**Total**
Net cash flows provided by (used for)			
Operating activities	$ 23,953	2,256	26,209
Non-capital financing activities	13,507	117	13,624
Capital and related financing activities	(611)	–	(611)
Investing activities	(49,670)	(2,894)	(52,564)
Net Increase in Cash and Cash Equivalents	**(12,821)**	**(521)**	**(13,342)**
Cash and cash equivalents, beginning of the year	27,169	5,043	32,212
Cash and Cash Equivalents, End of Year	**$ 14,348**	**4,522**	**18,870**

Condensed Statement of Net Assets	**As of and for the year ended June 30, 2010**		
	CU Foundation	**CUREF**	**Total**
Assets			
Current assets			
Cash and cash equivalents	27,169	5,043	32,212
Restricted cash	–	2,057	2,057
Short-term investments	–	1,006	1,006
Accounts and contributions receivable, net	16,362	215	16,577
Other current assets	2,017	470	2,487
Total current assets	45,548	8,791	54,339
Noncurrent assets			
Investments	928,048	6,170	934,218
Assest held under split-interest agreements	53,570	–	53,570
Contributions receivable, net	34,321	1,753	36,074
Other assets	–	5,882	5,882
Capital assets, net	3,124	62,831	65,955
Total noncurrent assets	1,019,063	76,636	1,095,699
Total Assets	**$1,064,611**	**85,427**	**1,150,038**
Liabilities			
Current liabilities			
Accounts payable	$ 1,870	838	2,708
Accounts payable–University	3,680	–	3,680
Deferred revenue	469	861	1,330
Bonds and leases payable	598	199	797
Split-interest agreements	3,397	–	3,397
Custodial funds	6,780	–	6,780
Total current liabilities	16,794	1,898	18,692
Noncurrent liabilities			
Bonds and leases payable	2,746	68,499	71,245
Split-interest agreements	17,594	–	17,594
Custodial funds	199,255	–	199,255
Other liabilities	1,855	28	1,883
Total noncurrent liabilities	221,450	68,527	289,977
Total Liabilities	**$ 238,244**	**70,425**	**308,669**
Net Assets			
Invested in capital assets, net of related debt	$ (220)	303	83
Restricted for nonexpendable purposes	302,990	–	302,990
Restricted for expendable purposes	467,478	3,953	471,431
Unrestricted	56,119	10,746	66,865
Total Net Assets	**$ 826,367**	**15,002**	**841,369**

Table 17 (continued). DPCU Summary Financial Statements (in thousands)

	As of and for the year ended June 30, 2010		
	CU Foundation	**CUREF**	**Total**
Statement of Revenues, Expenses, and Changes in Net Assets			
Operating revenues			
Contributions	$ 88,273	263	88,536
University support	5,100	–	5,100
Other revenue	3,725	9,523	13,248
Total operating revenues	97,098	9,786	106,884
Operating expenses			
Institutional support			
Gifts and income distributed to University and related parties	70,682	565	71,247
Other program services	7,631	5,812	13,443
Support services	11,997	580	12,577
Depreciation	756	2,496	3,252
Total operating expenses	91,066	9,453	100,519
Operating Income	**6,032**	**333**	**6,365**
Nonoperating revenues (expenses)			
Investment income	80,156	288	80,444
Interest expense on capital asset-related debt	(410)	(4,009)	(4,419)
Increase (Decrease) in Net Assets	**85,778**	**(3,388)**	**82,390**
Net assets, beginning of year	740,589	18,390	758,979
Net Assets, End of Year	**$ 826,367**	**15,002**	**841,369**

Condensed Statement of Net Cash Flows	As of and for the year ended June 30, 2010		
	CU Foundation	**CUREF**	**Total**
Net cash flows provided by (used for)			
Operating activities	$ 11,174	667	11,841
Non-capital financing activities	13,985	18	14,003
Capital and related financing activities	(523)	–	(523)
Investing activities	(27,047)	(1,494)	(28,541)
Net Increase in Cash and Cash Equivalents	**(2,411)**	**(809)**	**(3,220)**
Cash and cash equivalents, beginning of the year	29,580	5,852	35,432
Cash and Cash Equivalents, End of Year	**$ 27,169**	**5,043**	**32,212**

UNIVERSITY OF COLORADO FOUNDATION

Distributions made by the CU Foundation to the University during the years ended June 30, 2011 and 2010, were approximately $96,524,000 and $63,453,000, respectively. This amount has been recorded as University gift revenue and DPCU operating expense in the accompanying financial statements and does not include undistributed income on University endowments. As of June 30, 2011 and 2010, the University has recorded an accounts receivable from the CU Foundation of $16,388,000 and $10,506,000, respectively. As of June 30, 2011 and 2010, the University recorded an accounts payable to the CU Foundation of $0 and $51,000, respectively. Beginning July 1, 2007, the University also contracts with the CU Foundation to manage a portion of its investments. As of June 30, 2011 and 2010, respectively, $111,154,000 and $88,609,000 is being managed by the CU Foundation.

The University is the ultimate beneficiary of substantially all restricted and trust funds held by the CU Foundation and is income beneficiary of a significant portion of endowment funds held by the CU Foundation. In addition, the University contracts with the CU Foundation to manage its endowments. The University has endowments and other assets held by the CU Foundation approximating $123,668,000 and $107,047,000 as of June 30, 2011 and 2010, respectively. The CU Foundation retained an investment management fee equal to 1 percent. The University paid a fee to the CU Foundation for development services of $5,100,000 during the years ended June 30, 2011 and 2010.

THE UNIVERSITY OF COLORADO REAL ESTATE FOUNDATION

For the years ended June 30, 2011 and 2010, CUREF distributed approximately $370,000 and $565,000, respectively, reported as operating expense, to the University, which recognized an equal amount of gift revenue. CUREF has a line of credit with the University in the amount of $7,000,000, which matures on July 3, 2013. Interest rates are determined at the time a draw on the line of credit is made. Interest only payments are due June 1 and December 1 until maturity of the loan. During the year ended June 30, 2011, $350,000 was drawn and remained outstanding at year end. Interest on the line of credit is computed at 2 percent per annum. No draws were made and no amounts were owed under the line of credit for or as of June 30, 2010.

CUREF has a long-term agreement with the University to rent portions of a building owned by CUREF. For the years ended June 30, 2011 and 2010, the University paid approximately $1,355,000 and $1,200,000, respectively, in rent of which approximately $177,000 was prepaid at June 30, 2011 and 2010, to CUREF, which recognized an equal amount of other operating revenues.

NOTE 18 – RELATED ORGANIZATIONS, JOINT VENTURES, AND JOINTLY GOVERNED ORGANIZATIONS

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

In accordance with 1991 State legislation, the Hospital Authority was established as a separate and distinct entity. Detailed financial information may be obtained directly from the Hospital Authority at Mail Stop F-401, P.O. Box 6506, Aurora, Colorado 80045.

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

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

Total payments issued by the Hospital Authority to CU Denver approximated $32,872,000 and $31,674,00 for years ended June 30, 2011 and 2010, respectively. Total payments issued by CU Denver to the Hospital Authority for the years ended June 30, 2011 and 2010 approximated $10,428,000 and $10,822,000, respectively.

During the years ended June 30, 2011 and 2010, UPI recognized approximately $27,993,000 and $26,757,000, respectively, in health services revenue from the Hospital Authority in support of clinical and academic missions. UPI also received approximately $28,041,000 and $24,381,000 during the years ended June 30, 2011 and 2010, respectively, from the Hospital Authority for amounts earned for services performed by UPI faculty members but required to be processed through the Hospital Authority (such as the State of Colorado medically indigent program, Ryan White, and other miscellaneous programs).

In 1997, UPI assumed a 30 percent participation in the Hospital Authority's investment in TriWest Healthcare Alliance Corp. (TriWest) for $994,000. The Hospital Authority purchased the minority interest in TriWest for approximately $3,300,000. UPI received $948,000 and $946,000 in dividends from TriWest during the years ended June 30, 2011 and 2010, respectively. UPI has also signed an agreement to assume the Hospital Authority's network management commitment to TriWest for a fee and has also signed a provider service agreement with TriWest.

AURARIA HIGHER EDUCATION CENTER

AHEC, established by legislation in 1974, is jointly governed and utilized by CU Denver, the Community College of Denver, and Metropolitan State College of Denver. The institutions share the costs of operating common educational, library, and other auxiliary facilities. Costs of the common facilities are shared in accordance with an operating agreement between AHEC and the respective institutions. During the years ended June 30, 2011 and 2010, the University incurred expenses related to the common facilities approximating $7,996,000 and $7,684,000, respectively, for payments to AHEC.

During the year ended June 30, 2009, CU Denver entered into a $10,272,000 site lease agreement with the AHEC associated with the build-out of educational space on CU Denver. In addition, AHEC acquired land and CU Denver entered into a second site lease of $1,974,000 as a share of the cost of this land. As of June 30, 2011, and 2010, the University paid base rent to AHEC of approximately $1,086,000 and $1,085,000, respectively, and the University had underlying gross capitalized assets costing approximately $10,272,000.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

The Trust was formed June 28, 2010. Trust members are the University, the Hospital Authority, and UPI. The purpose of the Trust is to provide healthcare benefits to the employees of the Trust members on a self-insured basis effective July 1, 2010. The University does not have financial accountability over the Trust. As of June 30, 2011, the Trust held investments of $6,571,000 and had net assets of $2,804,000. During Fiscal Year 2011, the Trust paid medical claims on behalf of the University of $75,431,000, and collected employer contributions of $74,367,000 and employee contributions of $10,589,000. Self-insured risks are transferred to the pool.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

Contracts have been entered into for the purpose of planning, acquiring, constructing, and equipping certain building additions and other projects with outstanding amounts totaling approximately $122,687,000 and $135,926,000, as of June 30, 2011 and 2010, respectively. These additions will be funded or financed by donor contributions, appropriations from the State, issuance of revenue bonds, and other financings. As of June 30, 2011 and 2010, the amount of capital construction appropriations authorized from the State for these projects approximated $3,299,000 and $61,065,000, respectively.

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

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

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

NOTE 20 – SUBSEQUENT EVENTS

On April 8, 2011, the Regents approved the sale of the former Ninth Avenue campus for $34,800,000. An amount of $325,000 was put into escrow within five days of the execution of the purchase and sale agreement (the agreement). As part of the agreement, there is a 150-day Investigation Period which was scheduled to end September 6, 2011. Prior to the expiration of the Investigation Period, the buyer can terminate the agreement and the $325,000 escrow would be returned. Under the terms of the contract the buyer could extend the Investigation Period for two additional 30-day periods at a cost of $60,000 per 30-day extension. The buyer exercised one of these extension options and extended the Investigation Period through October 6, 2011. The buyer subsequently requested that the purchase and sale agreement be modified to allow for a no cost extension of the Investigation Period through October 17, 2011. That request was granted. The buyer then asked for a further no cost extension of the Investigation Period through November 11, 2011. That request was also granted by the University. Following the Investigation Period, a 120-day Rezoning Period will begin at which time the buyer will place an additional $300,000 in escrow that becomes nonrefundable unless the buyer terminates the contract within the next 120 days. In the event the agreement is completed, the amounts placed in escrow will be credited against the purchase price. As part of the agreement, the buyer is purchasing the property in "as-is" condition and will be responsible for all remaining site remediation.

The long-term sovereign credit of the United States of America was placed on negative CreditWatch by Standard & Poor's effective July 14, 2011. On August 5, 2011, Standard & Poor's reduced that credit rating from AAA to AA+ with a negative outlook. The related sovereign short-term credit rating, A-1+, remained unchanged and was removed from the CreditWatch negative status. The University's portfolio holds U.S. Treasury, U.S. Government Agency, and U.S. Government Sponsored Enterprise securities that are affected by the sovereign credit rating of the United States of America. The investment policies and guidelines of the University required no actions as a result of this downgrade. Additionally, no actions were necessary with respect to the securities placed in escrow accounts to defease refunded bonds and leases.

On November 3, 2011, the University issued $203,425,000 par value Enterprise System Revenue Bonds, Series 2011. The proceeds from the bonds will be used to fund various capital projects at the Boulder and Colorado Springs campuses. These bonds are special limited obligations of the University, payable solely from net revenues, as defined. The bonds mature at varying dates with the final bonds maturing June 1, 2041. No proceeds were used to refund currently outstanding debt.

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FUNDING STATUS OF OTHER POSTEMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL)–Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as Percentage of Covered Payroll ([B-A]/C)
July 1, 2010	–	$343,144,000	$343,144,000	0.00%	1,023,525,000	33.53%
July 1, 2008	–	$196,714,735	$196,714,735	0.00%	$898,898,961	21.88%
July 1, 2007	–	195,972,332	195,972,332	0.00%	831,242,265	23.58%

FUNDING STATUS OF ALTERNATE MEDICAL PLAN

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL)–Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as Percentage of Covered Payroll ([B-A]/C)
July 1, 2010	–	$22,200,000	$22,200,000	0.00%	–	0.00%

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's 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 the financial statements of the business-type activities and aggregate discretely presented component units of the University of Colorado (the University), a component unit of the State of Colorado, as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated November 14, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of University Physicians, Inc. (UPI), a blended component unit, and the University of Colorado Foundation (CU Foundation) and the Colorado Real Estate Foundation (CUREF), discretely presented component units, as described in our report on the University of Colorado's financial statements. The financial statements of UPI, CU Foundation, and CUREF were not audited in accordance with *Government Auditing Standards.*

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting 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 University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying findings and recommendations section, as Recommendation No. 1, that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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.*

We noted certain matters that we reported to management of the University in the findings and recommendations section as Recommendations No. 2 and No. 3. In addition, certain other matters were reported to management of the University in a separate letter dated November 14, 2011.

The University's responses to the deficiencies identified in our audit are described in the findings and recommendations section of this report. We did not audit the University's responses and, accordingly, we express no opinion on them.

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

Clifton Gunderson LLP

Greenwood Village, Colorado
November 14, 2011

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Required Communications to the Legislative Audit Committee

November 14, 2011

Members of the Legislative Audit Committee:

This letter is to provide you with information about significant matters related to our audit of the financial statements of the University of Colorado (the University) for the year ended June 30, 2011.

We have reported in the findings and recommendations section, certain matters concerning internal control conditions noted during our audit. In addition, we have provided a separate letter, dated November 14, 2011, concerning other internal control conditions that we noted during our audit.

The following are our observations arising from the audit that are relevant to the University's Board of Regents responsibilities in overseeing the financial reporting process.

Auditor's Responsibilities Under Generally Accepted Auditing Standards. Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, that have been prepared by management, with the Board of Regent's oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve the Board of Regents or management of their responsibilities.

Other Information in Documents Containing Audited Financial Statements. In connection with the University's financial statements, we did not perform any procedures or corroborate other information included in the report. However, we read management's discussion and analysis of financial conditions and results of operations and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

Significant Issues Discussed With Management Prior to Retention. We discuss various matters with management prior to retention as the University's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Consultations With Other Accountants. We were informed by management that it made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

Qualitative Aspects of Accounting Practices.

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the University are described in Note 1 to the financial statements. There were no significant accounting policies or their application which were either initially selected or changed during the year. As discussed in Note 1, the University adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. As discussed in this note, there was no change in the University's component units as a result of this implementation. Therefore, the adoption of this standard did not have a material effect on the basic financial statements.

We noted no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The following is a description of significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

- As discussed in Note 7, as it relates to the postemployment benefits other than pensions (OPEB), the healthcare trend rate disclosed in prior years' financial statements had erroneously not been utilized in the calculation of the actuarial accrued liability. As such, this impacted the annual OPEB cost recognized in prior years. The result included approximately $46 million in additional costs that were recognized in the current year that should have been recognized in prior years. Management determined this error by the actuary was not material to the financial statements as a whole; thus, the prior year financial statements were not restated.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The following are management's descriptions of the processes utilized in forming estimates for the allowance for uncollectible receivables, the periods to depreciate capital assets owned by the University, the incurred but not reported self-insured liability, the liability for other postemployment benefits, accrued compensated absences, and contractual allowances under third-party reimbursement programs and net patient service revenue (health service revenue):

- Accounts, contributions, and loans receivable are recorded net of estimated uncollectible amounts, approximating anticipated losses. Individual accounts are written off against the allowance when collection of the account appears doubtful.

- Capital assets are depreciated using the straight-line method and monthly convention over the estimated useful lives of the assets. Estimated useful lives range from 3 to 50 years.

- Reserves for unpaid claims under the University's self-insurance programs are actuarially reviewed and evaluated for adequacy each year and are reported on an undiscounted basis.

- Other postemployment benefit expense is calculated based on the annual required contribution (ARC) of the University, an amount actuarially determined.

- Compensated absences and related personnel expenses are recognized based on estimated balances due to employees upon termination or retirement. The limitations on such payments are defined by the rules associated with the personnel systems at the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service.

- Health service revenue from contractual arrangements is recognized by University Physicians, Inc. (UPI) as a result of providing care to patients covered under various third parties such as Medicare and Medicaid, private insurance companies, and managed care programs, primarily from fixed-rate agreements. Health services revenue is reported at the estimated net realizable amounts due from third-party payers and others for services rendered.

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

Difficulties Encountered in Performing the Audit. We encountered no significant difficulties in dealing with management related to the performance of our audit.

Corrected Misstatements. There were no misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

Uncorrected Misstatements. Page 70 summarizes uncorrected misstatements, other than those that are trivial, aggregated by us during our current audit and pertaining to the most recent period presented in the financial statements. Management has determined that these uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations from Management. We have requested and received representations from management.

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

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

Clifton Gunderson LLP

UNIVERSITY OF COLORADO
SUMMARY OF AUDIT DIFFERENCES
Year ended June 30, 2011

		Adjustments on financial statement captions						
		Change in net assets unadjusted audit differences arising in		Balance sheet				
Adj. no.	Description	Current period	Prior period	Net assets	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities
1	Operating expense	$ 13,893,376	—	13,893,376	—	—	—	—
	Construction in progress	—	—	—	—	14,931,926	—	—
	Accounts payable	—	—	—	—	—	(28,825,302)	—
	To accrue for projected error in unrecorded liabilities related to operating expenses and construction in progress.							
2	Operating expense	(46,163,000)	—	(46,163,000)	—	—	—	—
	Beginning net assets	—	46,163,000	46,163,000	—	—	—	—
	To reflect prior period error in OPEB liability calculation.							
3	Operating revenue	6,160,648	—	6,160,648	—	—	—	—
	Operating expense	(6,160,648)	—	(6,160,648)	—	—	—	—
	To reclassify bad debt expense to a contra-revenue account.							
4	Operating expense	(2,900,000)	—	(2,900,000)	—	—	—	—
	Beginning net assets	—	2,900,000	2,900,000	—	—	—	—
	To reflect prior period error in Alternate Medicare Plan liability calculation.							
		$ (35,169,624)	49,063,000	13,893,376	—	14,931,926	(28,825,302)	—

Amounts above are shown as debits or (credits).

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

- University of Colorado Boulder
- University of Colorado Denver | Anschutz Medical Campus
- University of Colorado Colorado Springs

State-funded student financial assistance is received at both the University of Colorado Denver Campus and the University of Colorado Anschutz Medical Campus.

Our financial and compliance examination of the various state-funded student financial assistance programs at the University for the year ended June 30, 2011 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education's (CCHE) Financial Aid Policy. The state-funded student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2011.

State-Funded Student Financial Assistance Programs

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

- Colorado Need-Based Grants awards comprise:
  - Colorado Student Grant
  - Colorado Graduate Grant
  - Colorado Leveraging Educational Assistance Partnership (CLEAP) (reported separately on the accompanying statement of appropriations, expenditures, transfers, and reversions)
  - Supplemental Leveraging Assistance Partnership (SLEAP) (reported separately on the accompanying statement of appropriations, expenditures, transfers, and reversions)
- Colorado Work-Study
- Governor's Opportunity Scholarships
- Loan Match

UNIVERSITY OF COLORADO
STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS
INTRODUCTION
Year ended June 30, 2011

The total state-funded student financial assistance programs expenditures made by the University were approximately $19.6 million during the year ended June 30, 2011.

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

Authorizations and expenditures for state-funded student financial programs assistance are detailed by program in the accompanying statement of appropriations, expenditures, transfers, and reversions for the year ended June 30, 2011. The University also obtained authorizations for federal student financial aid funds as follows:

Pell Grants	$45,276,746
Direct Loan	380,567,762
Federal Family Education Loans	44,177
Supplemental Educational Opportunity Grant	1,301,404
College Work-Study	2,592,308
National Smart Grant	2,481,310
Academic Competitiveness Grant	1,542,253
Teacher Education Assistance for College and Higher Education Grant	226,112
Health Professions Student Loans	1,957,697
Nursing Student Loans	1,829,648
Nursing Faculty loan Program (NFLP)	575,792
Scholarships for Disadvantaged Students	235,770

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the state-funded student financial assistance programs (the Statement) of the University of Colorado (the University), a component unit of the State of Colorado, for the year ended June 30, 2011. The Statement is the responsibility of the University's management. Our responsibility is to express an opinion on the Statement based on our audit.

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

As described in the notes to the Statement, the Statement was prepared in accordance with the format set forth in the Colorado Department of Higher Education (CDHE) *Audit Guide*, and in conformity with the provisions of the Colorado Commission on Higher Education (CCHE) Student Financial Aid Policy*.* The Statement is a summary of cash activity of the state-funded student financial assistance programs with the exception of the Colorado Work-Study program, and does not present certain transactions that would be included in the statement of the state-funded student financial assistance programs if it was presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America. Accordingly, the accompanying statement is not intended to and does not present the financial position, changes in financial position or cash flows of the University in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly the appropriations, expenditures, transfers, and reversions of the state-funded student financial assistance programs of the University for the year ended June 30, 2011, in accordance with the format set forth in the CDHE *Audit Guide*, and in conformity with the provisions of the CCHE Student Financial Aid Policy, as described in Note 1 to the Statement.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 14, 2011 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

The introduction has not been subjected to auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on it.

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

Clifton Gunderson LLP

Greenwood Village, Colorado
November 14, 2011

UNIVERSITY OF COLORADO
STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND REVERSIONS
Year ended June 30, 2011

		Total Financial Aid	Colorado Need-Based Grants	CLEAP	SLEAP	Colorado Work-Study	Governor's Opportunity Scholarships	Loan match
Appropriations:								
Original official allocation notice	$	19,503,952	15,839,211	307,790	240,114	2,801,187	315,650	-
Additional funds reallocated by CDHE		124,794	25,000	27,040	-	72,140	-	614
Funds released to CDHE		(69,240)	-	-	-	-	(69,240)	-
Total appropriations		19,559,506	15,864,211	334,830	240,114	2,873,327	246,410	614
Total expenditures		19,559,506	15,864,211	334,830	240,114	2,873,327	246,410	614
Reversions	$	-	-	-	-	-	-	-

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

(1) Basis of Presentation

The University of Colorado (the University) is governed by the University's Board of Regents. The University comprises the system office and the following three accredited campuses:

- University of Colorado Boulder
- University of Colorado Denver | Anschutz Medical Campus
- University of Colorado Colorado Springs

The accompanying statement of appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format as prescribed by the Colorado Department of Higher Education (CDHE) *Audit Guide* and in conformity with the provision of the Colorado Commission on Higher Education (CCHE) Student Financial Aid Policy. The purpose of the Statement is to present, in summary form, the state-funded student financial assistance activities of the University's three accredited campuses for the year ended June 30, 2011.

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

(2) Basis of Accounting

All state-funded student financial assistance is expensed on a cash basis, except for the Colorado Work-Study program. Colorado Work-Study wages are recorded on the accrual basis recognizing expenses when the services are performed.

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

The University's various state-funded student financial assistance programs include the following: the Colorado Need-Based Grant awards comprise the Colorado Student Grant, the Colorado Graduate Grant, the CLEAP (reported separately on the Statement) and the SLEAP (reported separately on the Statement); Colorado Work-Study, the Governor's Opportunity Scholarships, and the loan match.

UNIVERSITY OF COLORADO
STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND REVERSIONS BY CAMPUS
Year ended June 30, 2011

Boulder		**Total Financial Aid**	**Colorado Need-Based Grants**	**CLEAP**	**SLEAP**	**Colorado Work-Study**	**Governor's Opportunity Scholarships**	**Loan match**
Appropriations:								
Original official allocation notice	$	7,681,377	5,832,343	197,481	74,887	1,469,666	107,000	-
Additional funds reallocated by CDHE		88,049	25,000	17,349	-	45,700	-	-
Funds released to CDHE		(42,800)	-	-	-	-	(42,800)	-
Total appropriations		7,726,626	5,857,343	214,830	74,887	1,515,366	64,200	-
Total expenditures		7,726,626	5,857,343	214,830	74,887	1,515,366	64,200	-
Reversions	$	-	-	-	-	-	-	-
Denver								
Appropriations:								
Original official allocation notice	$	8,295,159	7,237,170	64,468	127,189	753,982	112,350	-
Additional funds reallocated by CDHE		6,278	-	5,664	-	-	-	614
Funds released to CDHE		-	-	-	-	-	-	-
Total appropriations		8,301,437	7,237,170	70,132	127,189	753,982	112,350	614
Total expenditures		8,301,437	7,237,170	70,132	127,189	753,982	112,350	614
Reversions	$	-	-	-	-	-	-	-

(Continued)

UNIVERSITY OF COLORADO
STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND REVERSIONS BY CAMPUS
Year ended June 30, 2011

Colorado Springs	Total Financial Aid	Colorado Need-Based Grants	CLEAP	SLEAP	Colorado Work-Study	Governor's Opportunity Scholarships	Loan match
Appropriations:							
Original official allocation notice	$ 3,527,416	2,769,698	45,841	38,038	577,539	96,300	-
Additional funds reallocated by CDHE	30,467	-	4,027	-	26,440	-	-
Funds released to CDHE	(26,440)	-	-	-	-	(26,440)	-
Total appropriations	3,531,443	2,769,698	49,868	38,038	603,979	69,860	-
Total expenditures	3,531,443	2,769,698	49,868	38,038	603,979	69,860	-
Reversions	$ -	-	-	-	-	-	-

See accompanying independent auditor's report on the statement of appropriations, expenditures, transfers, and reversions of the state-funded financial assistance programs.

UNIVERSITY OF COLORADO
STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS
AUDIT COMMENTS AND RECOMMENDATIONS
Year ended June 30, 2011

There are no audit comments and recommendations related to the state-funded student financial assistance programs.

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

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