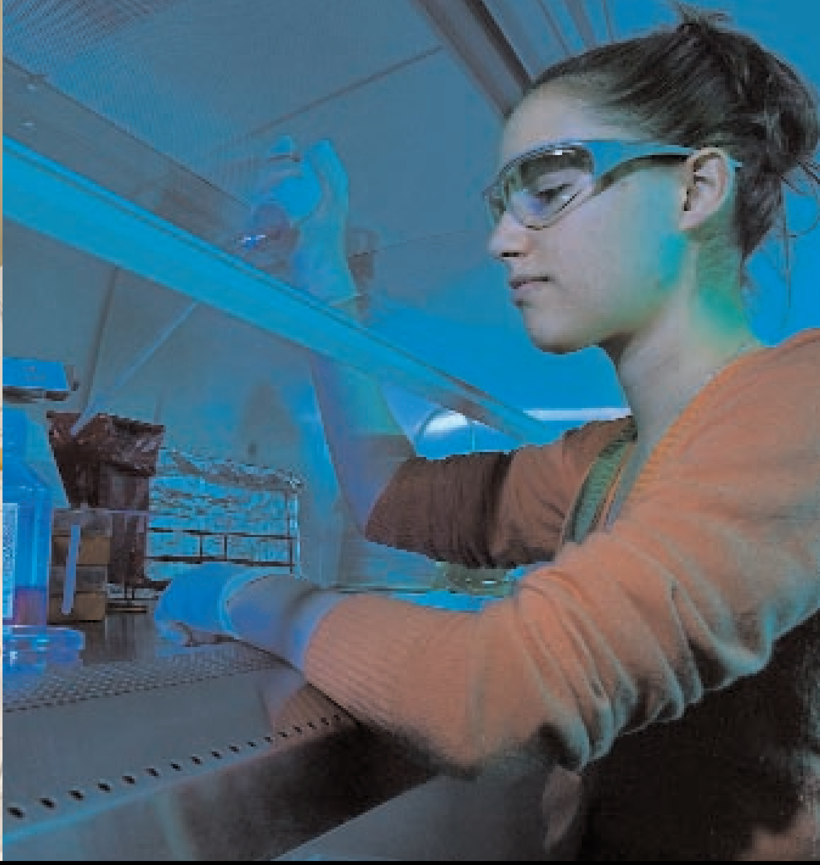

University of Colorado

Boulder • Colorado Springs • Denver and Health Sciences Center

Annual Financial Report • 2006

University of Colorado Board of Regents, November 2006

(Back, Left to Right) Dr. Peter Steinhauer, Paul Schauer, Jerry Rutledge, Tom Lucero, Patricia Hayes (Chair), *(Front)* Gail Schwartz, Steve Bosley (Vice Chair), Cindy Carlisle, Michael Carrigan

On the Cover:

(Top left) Assistant Professor of Architecture Kat Vlahos and her graduate students have surveyed and documented dozens of ranches across Colorado, exploring the relationship between architecture and environment, immersing themselves in the cultural significance of Colorado's ranches, and working to preserve the state's ranching heritage in the process.

(Top right) Melissa Mahoney, assistant professor of chemical and biological engineering, was named one of the top 35 young innovators in technology, business, and the arts in the October 2005 issue of *Technology Review*, an MIT publication. Mahoney's research focuses on the development of polymer-based protein and cell delivery systems to enhance the success of transplanted neural tissue. Her long-term goal is to improve the treatment of neurodegenerative illnesses, such as Parkinson's Disease, and strokes affecting the central nervous system.

(Bottom left) University of Colorado medical students are using a groundbreaking video-based curriculum developed by Associate Professors Carol Kamin, EdD and Robin Deterding, MD to learn how to diagnose pediatric patients. Called Project L.I.V.E. (Learning through Interactive Video Education), the curriculum uses videotaped case reenactments and distance-learning technology to help students gain experience with important diagnoses they might not otherwise encounter during a traditional pediatric clinical rotation.

(Bottom right) CU student Adrienne Martinez studies outside the Norlin Library. New construction is ongoing at all three CU universities, with the opening of the ATLAS and Wolf Law buildings on the Boulder campus, the construction of the El Pomar Engineering Center on the Colorado Springs campus, and the construction of the research towers on the Fitzsimons campus of CU-Denver and Health Sciences Center.

FROM THE PRESIDENT

Over the past 130 years, the University of Colorado has earned a world-class reputation in several academic and research disciplines. The most recent validation came this fall, when CU-Boulder was ranked the 34th best university in the world by the Institute for Higher Education in China. Our academic and medical programs at the Colorado Springs and Denver and Health Sciences Center campuses have also earned top national rankings.

The talent and productivity of our faculty have garnered $640 million in research awards, $10 million more than last year. For the 2006 academic year, our universities are welcoming the largest and most talented freshmen class in CU's history. The campuses have also reported enrollment increases among students of color, particularly at the downtown Denver campus, with a 122 percent increase in African American first-time freshman students.

These measures complement the generosity of our donors, the contributions of our many partners, and the support of the state. We're currently raising twice as much as we were a year ago. Together, these investments put us on a trajectory toward world-class academics and research.

All these signs point to a renewed belief in the University of Colorado. We have moved quickly to provide an open environment where we resolve problems with decisive action and set a high standard for integrity.

The CU Foundation has moved forward with a new operating agreement with the university to redefine our fundraising relationship by establishing new standards for a far more effective partnership. We have adopted all the recommendations of the state auditor, some of which are the toughest standards in the state. It is what Coloradans expect from us.

This great university is moving forward in an open, transparent, and accountable fashion we all can be proud of. If you have any questions regarding the university's financials, please feel free to contact me at officeofthepresident@cu.edu.

Sincerely,

Hank Brown

Hank Brown
President

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' 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, 2006 and 2005, 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 2006 or 2005 financial statements of University Physicians, Inc. (UPI), a blended component unit, which represents 5%, 6%, and 13%, respectively, for 2006, and 5%, 6%, and 12%, respectively, for 2005, of the assets, net assets, and revenues of the business-type activities of the University. In addition, we did not audit the 2006 or 2005 financial statements of the University of Colorado Foundation (CU Foundation) and the University of Colorado Real Estate Foundation (CUREF), which represents approximately 100% of the assets, net assets, and revenues of the aggregate discretely presented component units for 2006 and 2005. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for UPI, CU Foundation, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the basic 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 as of June 30, 2006 and 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We and the other auditors 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.

KPMG LLP

November 22, 2006

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 and accountable manner. It provides an objective analysis of the University's financial position and results of operations as of and for the years ended June 30, 2006 and 2005 (Fiscal Year 2006 and 2005, respectively), with comparative information for Fiscal Year 2004. University management is responsible for the completeness and fairness of this discussion and analysis and the financial statements.

UNDERSTANDING THE UNIVERSITY

The presented information relates to the financial activities of the primary reporting entity of the University, a comprehensive degree-granting research university in the State of Colorado (State). The University comprises the administration, the following three campuses, and blended component units.

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

With more than 51,600 students and 2,956 full-time instructional faculty, the University is the largest institution of higher education in Colorado with baccalaureate, graduate, and professional education programs. As discussed in Note 1, each of the three campuses bring a unique character to the overall University in order to meet the specialized needs of its communities.

In addition, the University has three supporting foundations which are included as discretely presented component units in the University's financial statements (Notes 1 and 19).

UNDERSTANDING THE FINANCIAL STATEMENTS

Financial highlights are presented in this discussion and analysis to help your assessment of the University's financial activities. Since this presentation includes highly summarized data, it should be read in conjunction with the financial statements, which have the following five other parts.

- ***Report of Independent Auditors*** presents an unqualified opinion prepared by our auditors (an independent certified public accounting firm, KPMG LLP) on the fairness (in all material respects) of our financial statements.
- ***Statement of Net Assets*** presents the assets, liabilities, and net assets of the University at a point in time (June 30, 2006 and 2005). Its purpose is to present a financial snapshot of the University. It aids readers in determining the assets available to continue the University's operations; how much the University owes to vendors, investors, and lending institutions; and a picture of net assets and their availability for expenditure in the University.
- ***Statement of Revenues, Expenses, and Changes in Net Assets*** presents the total revenues earned and expenses incurred by the University for operating, nonoperating, and other related activities during a period of time (the years ended June 30, 2006 and 2005). Its purpose is to assess the University's operating results.
- ***Statement of Cash Flows*** presents cash receipts and payments of the University during a period of time (the years ended June 30, 2006 and 2005). Its purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.
- ***Notes to the Financial Statements*** present additional information to support the financial statements and are commonly referred to as Note(s). Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

We suggest that you combine this financial analysis with relevant nonfinancial indicators to assess the overall health 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 Information and Analysis (see www.cu.edu/system_info).

FINANCIAL HIGHLIGHTS

Sustained increases in net assets over time are one indicator of financial health. The University has sustained increases in its net assets during Fiscal Years 2006, 2005, and 2004. For the years ended June 30, 2006, 2005, and 2004, the University's net assets increased by approximately $132,858,000, $144,523,000, and $193,766,000, respectively. These increases are primarily attributable to the increases in our investments and capital assets of approximately $136,896,000 and $351,211,000 for Fiscal Years 2006 and 2005, respectively, as offset by the increase in our long-term debt financing of those capital assets. The following sections provide further explanation of these drivers of the University's financial health.

STATEMENT OF NET ASSETS

Figure 1 illustrates the University's condensed statement of net assets and demonstrates that the University has grown over the past three fiscal years with its mix of assets, liabilities, and net assets primarily changing in the last fiscal year due to a revenue bond issue. 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.

Overall the University has grown in size, but the mix of assets, liabilities, and net assets is basically unchanged over the past three fiscal years.

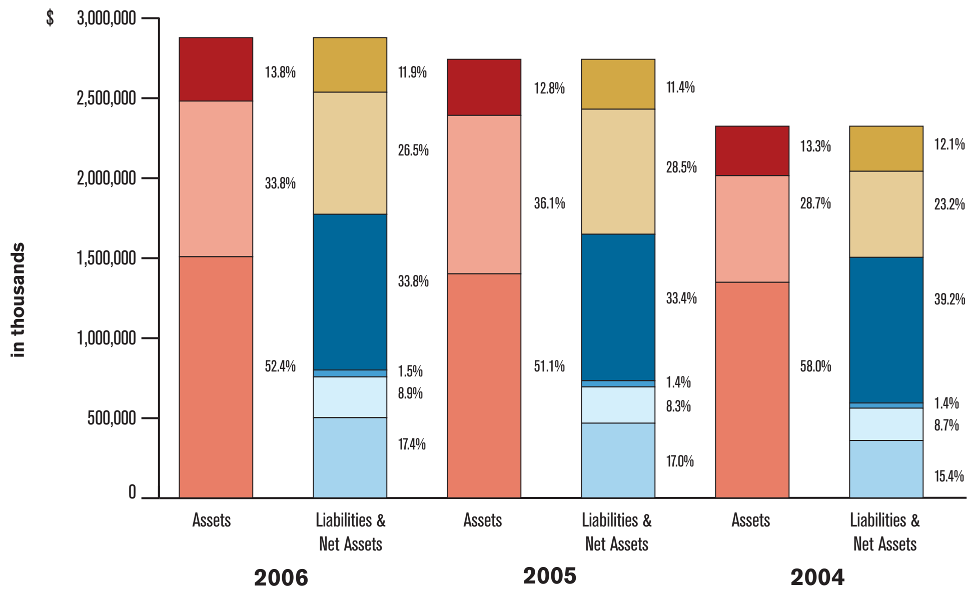

Figure 1. Condensed Statement of Assets, Liabilities, and Net Assets as of June 30, 2006, 2005, and 2004
(all dollars in thousands)

					Increase (Decrease)			
					2006 vs 2005		2005 vs 2004	
		2006	2005	2004	Amount	Percent	Amount	Percent
Assets								
Current Assets	$	396,271	350,608	309,239	$ 45,663	13.0%	$ 41,369	13.4%
Noncurrent, Noncapital Assets		972,970	990,200	666,618	(17,230)	(1.7%)	323,582	48.5%
Net Capital Assets		1,515,138	1,400,018	1,346,896	115,120	8.2%	53,122	3.9%
Total Assets	$	2,884,379	2,740,826	2,322,753	$ 143,553	5.2%	$ 418,073	18.0%
Liabilities								
Current Liabilities	$	341,021	311,748	281,805	$ 29,273	9.4%	$ 29,943	10.6%
Noncurrent Liabilities		763,101	781,679	538,072	(18,578)	(2.4%)	243,607	45.3%
Total Liabilities	$	1,104,122	1,093,427	819,877	$ 10,695	1.0%	$ 273,550	33.4%
Net Assets								
Invested in Capital Assets, Net of Related Debt	$	981,247	915,344	910,007	$ 65,903	7.2%	$ 5,337	0.6%
Restricted for Nonexpendable Purposes		43,127	38,651	32,484	4,476	11.6%	6,167	19.0%
Restricted for Expendable Purposes		255,031	226,733	202,515	28,298	12.5%	24,218	12.0%
Unrestricted		500,852	466,671	357,870	34,181	7.3%	108,801	30.4%
Total Net Assets	$	1,780,257	1,647,399	1,502,876	$ 132,858	8.1%	$ 144,523	9.6%
Total Net Assets and Liabilities	$	2,884,379	2,740,826	2,322,753	$ 143,553	5.2%	$ 418,073	18.0%

In analyzing the University's assets, the majority (approximately 80 percent) of the University's non-capital assets are investments, with a balance of $1,097,403,000 and $1,075,627,000 at the end of Fiscal Years 2006 and 2005, 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 safety and liquidity requirements are also met.

The University's other non-debt-related liabilities are 38 and 35 percent, respectively, of total liabilities with $424,620,000 and $380,694,000 of liabilities at June 30, 2006 and 2005, respectively. These liabilities are comprised of amounts due to vendors and others as categorized in Figure 2.

The three largest categories of non-debt-related liabilities are accrued salaries and benefits, accrued compensated absences, and deferred revenue. For each category, the increase in Fiscal Years 2006 and 2005 is a result of the University's overall programmatic growth. Accrued salaries and benefits represent amounts earned by University employees but not paid at fiscal year end. Accrued compensated absences estimate the amount payable to employees in the future for their vested rights under the University's various leave programs. This estimate is based on personnel policies that define the amount of vacation and sick leave to which each employee is entitled. Deferred revenue represents amounts prepaid by students, auxiliary enterprise customers, grantors, and contractors (or amounts received before the University met all of its requirements for earning the amounts). These amounts will be recognized as revenue in future periods after all conditions have been satisfied.

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). The University's net assets have four categories, as displayed in Figure 1.

Net assets are restricted on a global basis 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, Inc., which is a discretely presented component unit not included in the above

The categories and mix of other liabilities reflects the nature of our operations and has remained stable over the last three years.

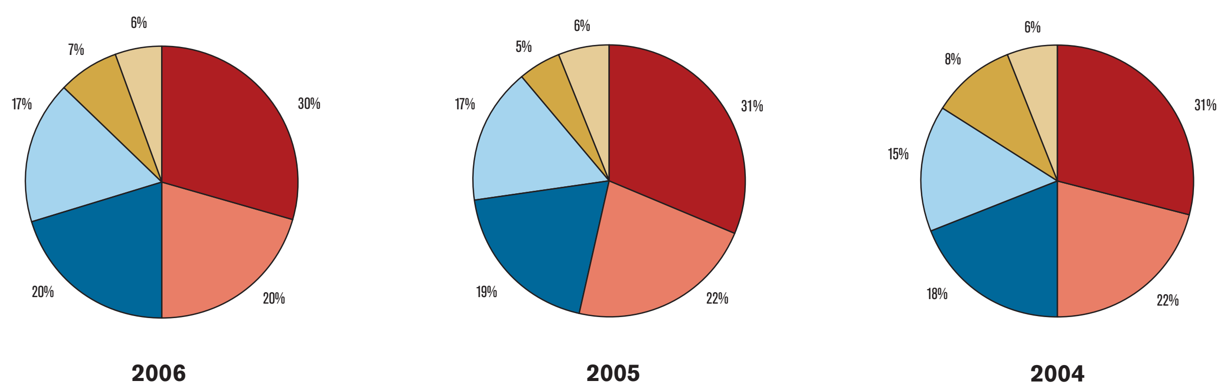

Figure 2. Composition of Other Liabilities (Non-debt-related) as of June 30, 2006, 2005, and 2004 *(all dollars in thousands)*

					Increase (Decrease)			
					2006 vs 2005		2005 vs 2004	
		2006	2005	2004	Amount	Percent	Amount	Percent
Accrued Salaries and Benefits	$	124,214	115,325	106,774	$ 8,889	7.7%	$ 8,551	8.0%
Accrued Compensated Absences		86,500	83,890	78,384	2,610	3.1%	5,506	7.0%
Deferred Revenue		86,150	73,715	64,258	12,435	16.9%	9,457	14.7%
Accounts Payable to Vendors		71,678	62,585	54,147	9,093	14.5%	8,438	15.6%
Miscellaneous Liabilities		32,772	22,731	29,063	10,041	44.2%	(6,332)	(21.8%)
Risk Financing Related		23,306	22,448	21,291	858	3.8%	1,157	5.4%
Total Other Liabilities	$	424,620	380,694	353,917	$ 43,926	11.5%	$ 26,777	7.6%

figures but discretely included in the financial statements (Note 20). Unrestricted net assets are usually available for spending for any lawful purpose under the full discretion of management. However, the University has placed some limitations on future use by designating unrestricted net assets for certain purposes (Note 11).

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

A shown in Figure 3, the University's condensed statement of revenues, expenses, and changes in net assets, the University's net assets increased by approximately 8 and 10 percent during Fiscal Years 2006 and 2005, respectively.

A key component of this statement is the differentiation of operating and nonoperating activities. Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are paid to acquire or produce goods and services provided in return for operating revenues, and to carry out the mission of the University. Nonoperating revenues are received when goods and services are not provided.

Legislation passed in Fiscal Year 2004 provided for a change in the funding mechanism of higher education beginning in July 2005. The State no longer provides state appropriations to public institutions of higher education. The College Opportunity Fund provides stipends to qualified undergraduate students; the receiving students then use the stipends to pay a portion of their tuition. In addition, the Colorado Department of Higher Education (CDHE) acting through the Colorado Commission on Higher Education (CCHE) purchases certain educational services, including graduate and specialized education such as law and medicine, from public higher education institutions. In Fiscal Year 2006, the University applied $63,396,000 of College Opportunity Fund stipends against student tuition bills (as such this amount is included in tuition revenues). In addition, the University received $95,708,000 as fee-for-service contract revenue. Since these new funding mechanisms were in place, the University recognized no state appropriations in Fiscal Year 2006 compared to the state appropriations of $150,673,000 and $155,173,000 received in Fiscal Years 2005 and 2004, respectively.

Figure 4 provides a graphic display of operating and nonoperating revenues by major sources. These sources include both state-appropriated and non-appropriated funds (Note 12). Appropriated funds include both state appropriations and certain cash funds, including tuition. Thus, the ability of the University Board of Regents (Regents) to increase tuition rates is limited by the State, although the University's operations no longer impact the State's Taxpayer's Bill of Rights (TABOR) spending limits due to the University's enterprise status.

Operating revenues have grown at a faster rate than operating expenses due to management cost containment efforts. FY 2006 nonoperating revenues decreased because of no state appropriations for operations. FY 2005 and 2004 nonoperating revenues have experienced increases as a result of our investment strategies and investment in intellectual property. Other revenues have decreased due to a one-time contribution of capital assets from governmental and private resources in FY 2004.

Figure 3. Condensed Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2006, 2005, and 2004 *(all dollars in thousands)*

				Increase (Decrease)			
				2006 vs 2005		2005 vs 2004	
	2006	2005	2004	Amount	Percent	Amount	Percent
Operating revenues	$ 1,726,205	1,515,413	1,421,580	$ 210,792	13.9%	$ 93,833	6.6%
Operating expenses	1,762,745	1,688,196	1,569,395	74,549	4.4%	118,801	7.6%
Operating Loss	(36,540)	(172,783)	(147,815)	136,243	(78.9%)	(24,968)	16.9%
Nonoperating revenues (net of expenses)	111,075	294,206	268,369	(183,131)	(62.2%)	25,837	9.6%
Income before Other Revenues, Expenses, Gains, or Losses	74,535	121,423	120,554	(46,888)	(38.6%)	869	0.7%
Other revenues	58,323	23,100	73,212	35,223	152.5%	(50,112)	(68.4%)
Increase in Net Assets	132,858	144,523	193,766	(11,665)	(8.1%)	(49,243)	(25.4%)
Net assets, beginning of year	1,647,399	1,502,876	1,309,110	144,523	9.6%	193,766	14.8%
Net Assets, end of year	$ 1,780,257	1,647,399	1,502,876	$ 132,858	8.1%	$ 144,523	9.6%

As illustrated Figure 4, the University experienced increases in all operating revenue sources in Fiscal Years 2006 and 2005. In Fiscal Year 2006, the increase in tuition and fees revenues reflects rate increases. In Fiscal Year 2005, the increase in tuition and fees revenues reflects both enrollment and approved rate increases. (Trend analysis of both factors are included in Figures 12 and 13 toward the end of this discussion.) Consistent with the University's goal to increase its focus and national role as a research institution, the University increased grants and contracts revenue by 1 and 6 percent in Fiscal Years 2006 and 2005, respectively. The majority of health services represents medical practice plan revenues earned through University Physicians, Incorporated (Note 1), which has experienced steady clinical growth over the last three years.

The University maintained Fiscal Year 2005's 8 percent growth in gifts in Fiscal Year 2006. The University continued to experience positive investment outcomes with an increase in investment income of $19,045,000 and $5,105,000, or 38 and 12 percent, in Fiscal Years 2006 and 2005, respectively. The University recognized one-time other nonoperating revenue

The State of Colorado changed its funding mechanism to the University in Fiscal Year 2006 and replaced state appropriations with student stipends, which are included as student tuition revenue, and fee-for-service contracts.

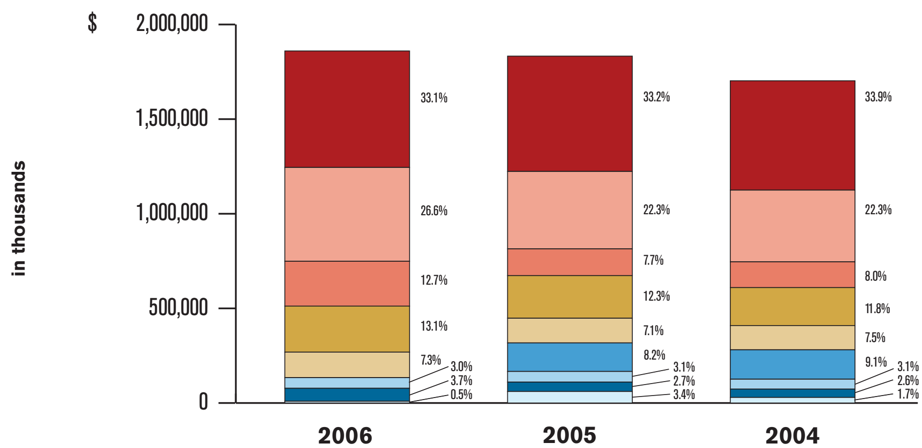

Figure 4. Operating and Nonoperating Revenues for years ended June 30, 2006, 2005, and 2004 *(all dollars in thousands)*

	2006	2005	2004	Increase (Decrease) 2006 vs 2005 Amount	2006 vs 2005 Percent	2005 vs 2004 Amount	2005 vs 2004 Percent
Operating Revenues							
Grants and contracts	$ 615,459	609,369	577,672	$ 6,090	1.0%	$ 31,697	5.5%
Student tuition and fees, net	495,655	409,136	379,103	86,519	21.1%	30,033	7.9%
Other operating	236,873	141,135	135,851	95,738	67.8%	5,284	3.9%
Health services	243,169	225,205	200,819	17,964	8.0%	24,386	12.1%
Auxiliary enterprises, net	135,049	130,568	128,135	4,481	3.4%	2,433	1.9%
Total Operating Revenues	1,726,205	1,515,413	1,421,580	210,792	13.9%	93,833	6.6%
Nonoperating Revenues							
State appropriations	–	150,673	155,173	(150,673)	(100.0%)	(4,500)	(2.9%)
Gifts	56,271	56,278	51,983	(7)	0.0%	4,295	8.3%
Investment income, net	68,533	49,488	44,383	19,045	38.5%	5,105	11.5%
Other nonoperating, net	9,167	61,071	29,513	(51,904)	(85.0%)	31,558	106.9%
Total Nonoperating Reveues	133,971	317,510	281,052	(183,539)	(57.8%)	36,458	13.0%
Total Revenues (noncapital)	$ 1,860,176	1,832,923	1,702,632	$ 27,253	1.5%	$ 130,291	7.7%

from the sale of intellectual property receivable (patent fees to be paid in future years) of $44,000,000 in Fiscal Year 2005 and a technology transfer legal settlement (to reimburse the University for past unpaid patent fees) of approximately $28,306,000 in Fiscal Year 2004.

In addition to operating and nonoperating revenues, the University had capital revenues in the amounts depicted in Figure 5. The Regents have authorized the construction of educational buildings at the UCDHSC Fitzsimons campus for which the financing was provided by the State. In Fiscal Year 2006, the State (not the University) entered into a lease-purchase agreement of $192,625,000, which is collaterized by these University buildings. As a result of construction of these buildings, the University recognized capital contributions from the State of $46,451,000 in Fiscal Year 2006. In Fiscal Year 2004, the receipt of equipment related to a federally sponsored research program valued at approximately $50,108,000 was recognized as capital gifts. Otherwise, there has generally been a steady decline in capital revenues over the last three fiscal years.

The programmatic uses of expenses are displayed in Figure 6, which demonstrates that the programmatic focus is basically unchanged over the past three fiscal years while the programs overall have grown by 4 and 8 percent in Fiscal Years 2006 and 2005, respectively. Due to decreasing State support, cost management measures implemented in Fiscal Year 2004 were continued into Fiscal Years 2005 and 2006. The objectives of such measures were to expand programmatic costs to meet increased demand for services, while limiting increases in support services costs.

The University received a one-time contribution of equipment related to a federally sponsored research program in Fiscal Year 2004, which is the primary factor contributing to the increase. Similar to state (noncapital) appropriations, the capital appropriations have been reduced over the last three fiscal years.

Figure 5. Capital Revenues for years ended June 30, 2006, 2005, and 2004 *(all dollars in thousands)*

				Increase (Decrease)			
				2006 vs 2005		2005 vs 2004	
	2006	2005	2004	Amount	Percent	Amount	Percent
Grants and gifts	$ 10,042	16,208	70,451	$ (6,166)	(38.0%)	$ (54,243)	(77.0%)
Capital contributions from State	46,451	–	–	46,451	100.0%	–	–
Appropriations	1,704	1,037	2,744	667	64.3%	(1,707)	(62.2%)
Total Capital Revenues	**$ 58,197**	**17,245**	**73,195**	**$ 40,952**	**237.5%**	**$ (55,950)**	**(76.4%)**

The University's focus on programs (as illustrated by its expense categories) has remained stable over the last three fiscal years as overall the programs have grown.

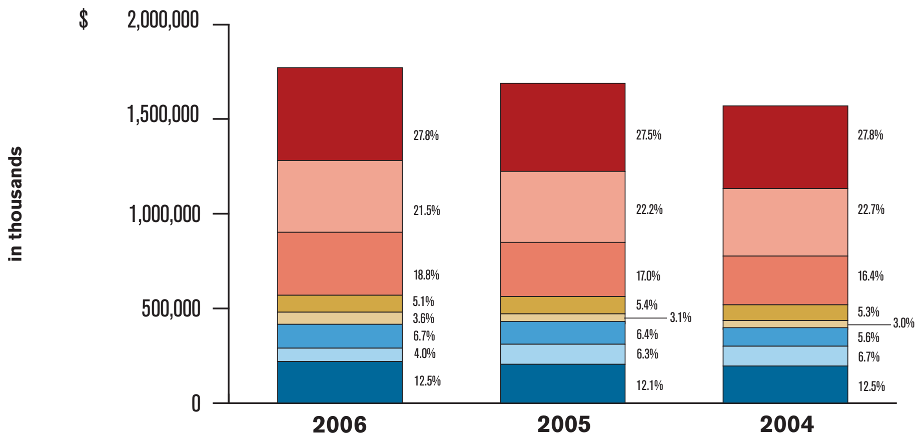

Figure 6. Expense Program Categories for years ended June 30, 2006, 2005, and 2004 *(all dollars in thousands)*

				Increase (Decrease)			
				2006 vs 2005		2005 vs 2004	
	2006	2005	2004	Amount	Percent	Amount	Percent
Instruction	$ 490,277	464,743	436,598	$ 25,534	5.5%	$ 28,145	6.4%
Research	378,894	374,753	356,280	4,141	1.1%	18,473	5.2%
Academic, Institutional, and Plant Support	300,030	285,817	257,146	14,213	5.0%	28,671	11.1%
Student Aid and Other Services	89,277	91,239	83,439	(1,962)	(2.2%)	7,800	9.3%
Public Service	64,187	52,436	46,568	11,751	22.4%	5,868	12.6%
Total Education and General	1,322,665	1,268,988	1,180,031	53,677	4.2%	88,957	7.5%
Depreciation	117,385	108,038	88,535	9,347	8.7%	19,503	22.0%
Auxiliary enterprises	102,871	105,971	104,436	(3,100)	(1.9%)	1,535	1.5%
Health services	219,755	205,024	196,372	14,731	7.2%	8,652	4.4%
Miscellaneous	69	175	21	(106)	(60.6%)	154	733.3%
Total Operating Expenses	$ 1,762,745	1,688,196	1,569,395	$ 74,549	4.4%	$ 118,801	7.6%

In Fiscal Years 2006 and 2005, depreciation expense increased by $9,347,000 and $19,503,000, respectively, due to two factors. First, in Fiscal Year 2005, the University recognized additional depreciation of approximately $36,693,000 related to the change in estimated useful lives for the buildings and improvements on UCDHSC's 9th Avenue campus. The change in life was triggered by the State legislative requirement that the Regents approve a third-party master developer agreement to carry out the sale and redevelopment of the campus by June 30, 2006. The current plans indicate that the 9th Avenue campus will no longer be in use by Fiscal Year 2008. Second, depreciation expense increased as the result of the new acquisitions of capital assets (discussed more in the following section).

CAPITAL ASSET AND DEBT MANAGEMENT

The University had $2,455,771,000 and $2,244,687,000 of plant, property, and equipment at June 30, 2006 and 2005, respectively, offset by accumulated depreciation of $940,633,000 and $844,669,000, respectively. The major categories of plant, property, and equipment at June 30, 2006 and 2005 are displayed in Figure 7. Related depreciation charges of $117,385,000 and $108,038,000 were recognized in Fiscal Years 2006 and 2005, respectively. Detailed financial activity related to the changes in capital assets is presented in Note 5.

In Fiscal Years 2006 and 2005, the University put into service capital construction projects of $66,507,000 and $77,418,000, respectively. In addition, another $206,603,000 and $100,102,000 of construction activity was in progress at June 30, 2006 and 2005, respectively. Major projects are detailed in Figure 8.

The University has completed construction projects in each of the last three fiscal years, continuing its trend of physical facility investment.

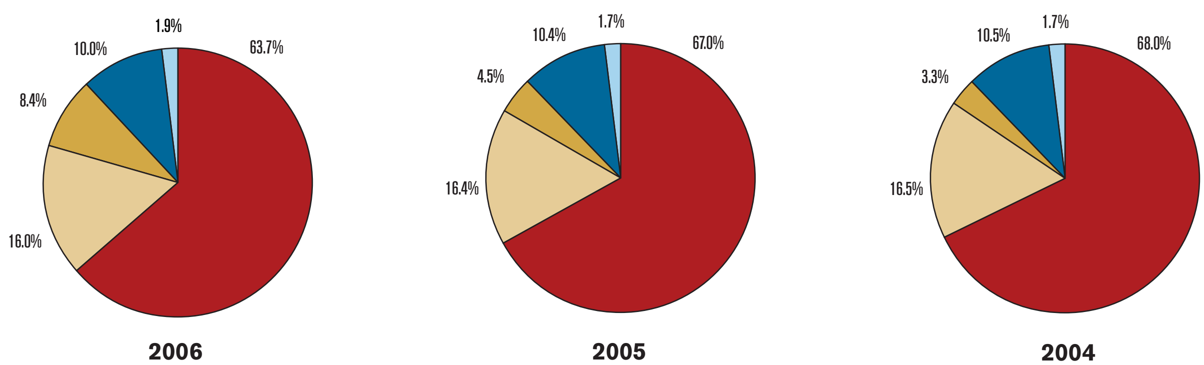

Figure 7. Capital Asset Categories (before depreciation) for years ended June 30, 2006, 2005, and 2004
(all dollars in thousands)

					Increase (Decrease)					
					2006 vs 2005			2005 vs 2004		
		2006	2005	2004		Amount	Percent		Amount	Percent
Buildings and Improvements	$	1,565,017	1,503,011	1,422,943	$	62,006	4.1%	$	80,068	5.6%
Equipment		392,065	370,027	345,047		22,038	6.0%		24,980	7.2%
Construction in progress		206,603	100,102	68,302		106,501	106.4%		31,800	46.6%
Library and other collections		246,062	232,629	220,061		13,433	5.8%		12,568	5.7%
Land		46,024	38,918	36,514		7,106	18.3%		2,404	6.6%
Total Capital Assets (gross)	$	2,455,771	2,244,687	2,092,867	$	211,084	9.4%	$	151,820	7.3%

Figure 8. Current Construction Project Details *(in thousands)*

Campus/Project Description	Project Status	Financing Sources	Value*
CU-Boulder:			
• Alliance for Teaching, Learning, and Society (ATLAS) Center, new building to support information technology curriculums	In progress	State appropriations, bond proceeds, and campus cash resources	$ 27,047
• Business School renovation and addition	In progress	State appropriations and bond proceeds	34,300
• Ekeley sciences building renovation	Delayed to 2007	Campus cash resources	13,950
• Ketchum arts & sciences building restoration	Delayed to 2007	Campus cash resources	8,090
• Outdoor recreation improvements	In progress	Bond proceeds	5,713
• Visual Arts Complex	In progress	Campus cash resources	7,168
• Energy savings and conservation projects	In progress	Bond proceeds and campus cash resources	6,320
• Laboratory for Atmospheric and Space Physics Technology Research Center addition	2006	Bond proceeds	12,051
• Wolf Law Building, new building	In progress	State appropriations, bond proceeds, and campus cash resources	43,412
• Information technology upgrade	In progress	Campus resources	13,524
• An extensive renovation to student housing centers, which has been segregated into the following phases:		Bond proceeds and campus cash resources	
–Phase II	2004		5,704
–Phase III	2005		770
–Phase IV	2006		
–Future Phases	In progress		34,752
• CU-Boulder Research Laboratory, new research building	2004	Bond proceeds and campus cash resources	8,200
• Folsom Stadium improvements to enlarge seating capacity and facilities management shop space	2004	Bond proceeds	45,574
UCDHSC:			
• Barbara Davis Center for Childhood Diabetes (Fitzsimons), providing clinical, research, and educational space:		Private donations, federal grants, and bond proceeds	
–Phase I & II	2005		22,539
–Phase III	In progress		6,442
• State-of-the art biomedical research facilities with research laboratory modules, lab support space, research offices, and academic auditorium space:		Bond proceeds, federal awards, gifts, and campus cash resources	
–Research Complex I	2004		214,688
–Research Complex II	In progress		205,820
• Oral Health Building to provide space for patient care and instruction	2006	Private resources and Certificates of Participation (COP) proceeds	26,680
• Fitzsimons Campus Academic Expansion:		State of Colorado lease-purchase agreements	
–Academic Office West	In progress		41,069
–Education Facility II and Bridge and Academic Office East	In progress		75,714
–Fitzsimons Library	In progress		34,999
–Education Complex 1B	In progress		32,581
–Facilities Support Building	In progress		15,707
–Environmental Health and Safety II	In progress		1,806
• Fitzsimons infrastructure development:		Campus cash resources	
–Phase 8	In progress		4,357
–Phase 9	In progress		5,424
• Fitzsimons parking facility	In progress	Bond proceeds and campus cash resources	23,000
• Fitzsimons Building 500 phase 3 remodel	In progress	Campus cash resources	9,000
• Fitzsimons Center for BioEthics and Humanities, new building	In progress	Campus cash resources	5,436
• Given's Institute remodel	In progress	Campus cash resources	4,835
• Administration building for University Physicians, Inc.	2004	Bond proceeds	20,500
CU-Colorado Springs:			
• Dwire Hall, renovation and upgrade of the classroom library facility	In progress	State appropriations and campus cash resources	10,084
• Heller Center, new building for humanities and arts center	In progress	Campus cash resources	5,400
• Parking facility to address the campus's growing needs:		Bond proceeds	
–Phase I	2005	Bond proceeds	6,743
–Phase II	2006	Bond proceeds	4,000
• Recreation Center, new building	In progress	Bond proceeds and campus cash resources	12,000
• Science and Engineering Building (Phase I), new building	In progress	Campus cash resources	38,251
• Housing facilities to address the campus's growing student housing needs	2005	Bond proceeds	18,040
• Cragmor administrative building renovation	2004	State appropriations and COP proceeds	3,500
• University Hall, new building for nursing and engineering programs	2004	COP proceeds	7,925

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

The University plans to continue its investment in property, plant and equipment with an approved Fiscal Year 2007 capital projects budget of $95,889,000 as detailed in Figure 9. This budget includes $23,309,000 from state support available for construction projects, and the rest of these projects will be funded by existing resources of the campus or through additional financing to be issued in Fiscal Year 2007.

As a result of the University's efforts to identify alternative financing sources for its capital improvements to offset the lack of State capital support, the University financed the capital projects detailed in Figure 10 during Fiscal Years 2006, 2005, and 2004. Figure 10 also includes Fiscal Year 2007 financing done prior to the issuance of this report (Note 22).

At June 30, 2006 and 2005, the University had debt (or similar long-term obligations) of $679,502,000 and $712,733,000, respectively, in the categories illustrated in Figure 11. More detail about the University's debt is included in Note 9.

The Regents have adopted a debt management policy that includes limitations on the use of external debt. A component of this policy is debt capacity, which is the calculated ratio of our debt service requirement as compared to certain unrestricted revenues. The University minimized financing costs due to current market conditions and by maintaining a bond rating of AA- and Aa3 (Standard & Poors and Moody's, respectively). The University maintained its debt capacity limits. Although the University increased its outstanding debt by 53 percent in Fiscal Year 2005, it decreased its outstanding debt in Fiscal Year 2006 by 5 percent.

Figure 9. Fiscal Year 2007 Capital Projects Budget
(in thousands)

Continuing projects (described in Figure 8)	$	48,307
UCDHSC administrative and educational buildings refinancing from capital lease and interim internal financing		36,500
UCDHSC Fitzsimons, PASCAL II addition		5,700

Figure 10. Capital Projects Financed by Debt
(in thousands)

Issuance Description / Construction Project (See Figure 8 for Project Description)		Allocated Proceeds
Fiscal Year 2007 Revenue Bonds:		
• CU-Boulder Arnett Hall	$	13,000
• CU-Boulder Leeds School of Business		34,225
• CU-Boulder Recreation Facilities		5,700
• UCDHSC Downtown Denver Building		36,500
• CU-Colorado Springs Recreation Center		12,000
Total 2007 Revenue Bonds issuance		101,425
Fiscal Year 2006 Revenue Bonds:		
• UCDHSC Fitzsimons Parking Structure I		23,900
• CU-Colorado Springs energy Savings Projects		1,325
Total 2006 Revenue Bonds issuance		25,225
Fiscal Year 2005 Revenue Bonds:		
• UCDHSC Fitzsimons Research Complex II		141,770
• CU-Boulder Wolf Law Building		40,400
• CU-Boulder Alliance for Teaching, Learning, and Society (ATLAS) Center		27,900
• CU-Colorado Springs Housing		18,040
• CU-Boulder Laboratory for Atmospheric and Space Physics Technology Research Center addition		13,022
• CU-Boulder Energy Savings and Conservation Projects		6,320
• CU-Colorado Springs Parking Facility Phase II		4,000
Total 2005 Revenue Bonds issuance*		251,452
Fiscal Year 2004 Revenue Bonds:		
• UCDHSC Fitzsimons Research Complex 1		31,660
• UCDHSC Fitzsimons Barbara Davis Center for Childhood Diabetes		20,000
• CU-Boulder Research Laboratory		6,600
• CU-Colorado Springs Parking		6,000
Total 2004 Revenue Bonds issuance		64,260
Fiscal Year 2004 Certificates of Participation:		
• UCDHSC Fitzsimons Oral Health Building		25,000
• CU-Colorado Springs University Hall		7,925
• CU-Colorado Springs Cragmor Building		2,550
Total 2004 Certificates of Participation Issuance		35,475

** Proceeds do not include $2,933,000 used to pay prior year revenue bonds.*

The University's overall bonds and lease obligations have grown over the last three years as the University has financed its capital investments.

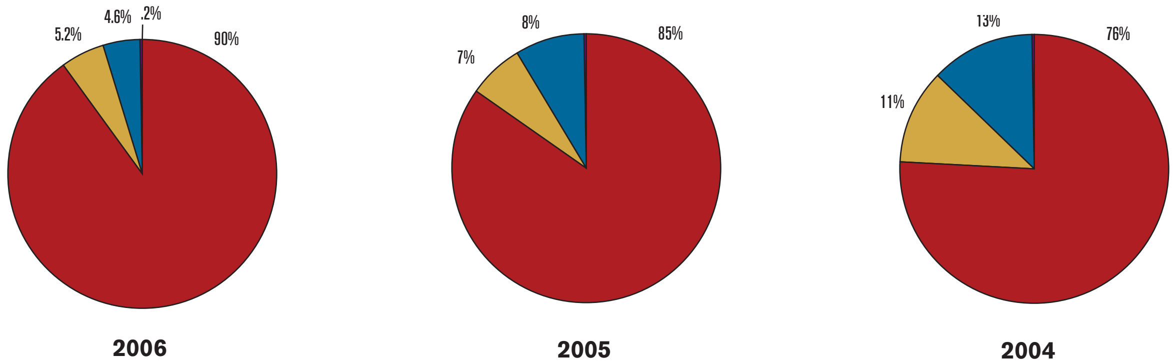

Figure 11. Debt Categories for years ended June 30, 2006, 2005, and 2004 *(all dollars in thousands)*

					Increase (Decrease)			
					2006 vs 2005		2005 vs 2004	
		2006	2005	2004	Amount	Percent	Amount	Percent
Revenue Bonds	$	612,488	604,913	354,517	$ 7,575	1.3%	$ 250,396	70.6%
Certificates of Participation		35,655	47,100	52,725	(11,445)	(24.3%)	(5,625)	(10.7%)
Other Capital Lease Obligations		31,223	60,543	58,386	(29,320)	(48.4%)	2,157	3.7%
Notes Payable		136	177	332	(41)	(23.2%)	(155)	(46.7%)
Total Long-term Debt	$	679,502	712,733	465,960	$ (33,231)	(4.7%)	$ 246,773	53.0%

WHERE DO WE GO FROM HERE

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University expects to receive $72,900,000 of its tuition revenue in Fiscal Year 2007 from the College Opportunity Fund. The University's fee-for-service contract with CDHE acting through CCHE for Fiscal Year 2007 provides for $105,500,000. In total, this represents a growth of 12 percent in funding from the State in Fiscal Year 2007 as compared to Fiscal Year 2006.

Figure 12 depicts the three-year trend of tuition and fee rate increases for the predominant undergraduate degree program (arts & sciences and nursing for the general campuses and health sciences center, respectively). Actual tuition rates vary by campus, school, and degree level.

Another factor in the University's ability to generate tuition and fees (and its overall economic position) relates to its ability to recruit and retain high-quality students. As depicted in Figure 13, student enrollment remains relatively stable.

The University continues to wrestle with the implications of a slow economic recovery in the State and reduced state funding. In response, the University is strategically evaluating its tuition and fee structures with the Regents and the Legislature.

Grants and contracts revenues provide the University with resources to maintain its national role as a research institution. In fiscal year 2006, 86 percent of its grants and contracts revenues were from federal sources. These resources also benefit the University in that the contracts typically allow for reimbursement of its administrative and facility overhead

Figure 12. Undergraduate Tuition and Fees Rate Increases

	In-state			Out-of-state		
	2007	2006	2005	2007	2006	2005
CU-Boulder	5.0%	23.8%	8.0%	3.1%	6.4%	5.6%
CU-Colorado Springs	3.0%	17.8%	7.3%	1.0%	0.0%	8.0%
UCDHSC-Denver	3.2%	23.3%	12.8%	5.3%	1.0%	4.0%
UCDHSC-Health Sciences Center	2.5%	12.6%	7.4%	2.3%	1.9%	12.4%

Rates shown for the predominant undergraduate degree program (arts & sciences and nursing for the general campuses and health sciences center, respectively). Actual tuition rates vary by campus, school, and degree level.

Figure 13. Fall Enrollment Figures

	2006 Census	2005 Actual	2004 Actual	2006 Census vs. 2005 Actual	2005 Actual vs. 2004 Actual
Resident					
CU-Boulder	20,301	20,322	20,376	(21)	(54)
CU-Colorado Springs	7,033	7,106	7,194	(73)	(88)
UCDHSC-Denver	11,459	11,250	11,458	209	(208)
UCDHSC-Health Sciences	2,536	2,491	2,438	45	53
Total Resident	41,329	41,169	41,466	160	(297)
Nonresident					
CU-Boulder	9,094	8,793	9,380	301	(587)
CU-Colorado Springs	514	461	435	53	26
UCDHSC-Denver	866	820	888	46	(68)
UCDHSC-Health Sciences Center	319	306	279	13	27
Total Nonresident	10,793	10,380	10,982	413	(602)
Total CU	52,122	51,549	52,448	573	(899)

costs. In fiscal year 2006, the University received $119,042,000 of such administrative and facility overhead costs reimbursements. The University pledges this reimbursement revenue and other auxiliary revenues to satisfy its bond obligations, which is commonly referred to as pledged revenues. In fiscal year 2006, such reimbursements represented 62 percent of its pledged revenue, thus creating a reliance on continued federal research funding. In response, the University is strategically monitoring federal research appropriations for signs of significant budget reductions in future fiscal years.

The University experienced 8 and 10 percent growth in net assets in Fiscal Years 2006 and 2005, respectively. Specifically, the University had an increase in net assets of $132,858,000 and income before other revenues of $74,535,000 over the last fiscal year despite the current economic environment. To date in Fiscal Year 2007, the University's financial position remains stable due to revenues being in line with expectations and expenses being lower than expectations as a result of management's coupling of cost-containment strategies and focused programmatic investments. The University has budgeted for Fiscal Year 2007 to continue its prudent use of resources, alternative financing for capital projects, and cost-containment strategies. As demonstrated by the University's financial monitoring processes, management will continue to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues and maintain this financial position.

UNIVERSITY OF COLORADO
FINANCIAL STATEMENTS

June 30, 2006 and 2005

UNIVERSITY OF COLORADO

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005 (*in thousands*)

		2006		2005	
		University	Component Units	University	Component Units
Assets					
Current Assets					
Cash and cash equivalents	$	46,920	17,725	27,690	9,416
Investments		169,510	6,857	144,812	31,652
Accounts, contributions, and loans receivable, net		167,620	15,292	165,681	14,034
Inventories		8,502	–	8,476	–
Other assets		3,719	486	3,949	603
Total Current Assets		**396,271**	**40,360**	**350,608**	**55,705**
Noncurrent Assets					
Investments		927,893	755,673	930,815	668,931
Accounts, contributions, and loans receivable, net		35,389	16,312	50,192	15,945
Other assets		9,688	6,309	9,193	4,294
Capital assets, net		1,515,138	112,809	1,400,018	95,385
Total Noncurrent Assets		**2,488,108**	**891,103**	**2,390,218**	**784,555**
Total Assets	**$**	**2,884,379**	**931,463**	**2,740,826**	**840,260**
Liabilities					
Current Liabilities					
Accounts payable	$	71,678	4,602	62,585	4,188
Accrued expenses		126,561	–	119,639	–
Accrued compensated absences		5,717	–	5,872	–
Accounts payable-University		–	2,828	–	–
Deferred revenue		79,633	662	66,912	1,268
Bonds, notes, and leases payable		23,765	1,280	29,434	1,425
Split-interest agreements		–	3,265	–	3,372
Custodial funds		–	5,586	–	4,690
Other liabilities		33,667	481	27,306	422
Total Current Liabilities		**341,021**	**18,704**	**311,748**	**15,365**
Noncurrent Liabilities					
Accrued compensated absences		80,783	–	78,018	–
Deferred revenue		6,517	139	6,803	122
Bonds, notes, and leases payable		655,737	121,951	683,299	123,253
Split-interest agreements		–	26,307	–	27,384
Custodial funds		–	106,779	–	85,028
Other liabilities		20,064	2,293	13,559	3,951
Total Noncurrent Liabilities		**763,101**	**257,469**	**781,679**	**239,738**
Total Liabilities	**$**	**1,104,122**	**276,173**	**1,093,427**	**255,103**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005 (*in thousands*)

	2006		2005	
	University	Component Units	University	Component Units
Net Assets				
Invested in capital assets, net of related debt	$ 981,247	735	915,344	8,276
Restricted for nonexpendable purposes (endowments)				
Instruction	–	102,052	–	92,360
Research	3,343	23,697	3,268	22,672
Academic support	17,476	12,618	13,311	11,993
Capital and other	2,112	5,886	3,135	6,310
Scholarships and fellowships	20,196	62,256	18,937	56,585
Total restricted for nonexpendable purposes	43,127	206,509	38,651	189,920
Restricted for expendable purposes				
Instruction	14,333	170,853	20,265	167,076
Research	20,299	44,322	8,345	30,376
Academic support	14,580	28,970	6,511	26,908
Student loans and services	40,713	–	39,944	–
Capital	14,430	34,092	22,360	27,457
Scholarships and fellowships	16,491	108,015	14,446	96,702
Auxiliary enterprises	121,989	–	99,392	–
Other	12,196	3,684	15,470	–
Total restricted for expendable purposes	255,031	389,936	226,733	348,519
Unrestricted	500,852	58,110	466,671	38,442
Total Net Assets	**$ 1,780,257**	**655,290**	**1,647,399**	**585,157**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

June 30, 2006 and 2005 (*in thousands*)

	2006		2005	
	University	Component Units	University	Component Units
Operating Revenues				
Student tuition (net of scholarship allowances of $68,142 in 2006 and $46,687 in 2005; pledged revenues of $45,497 in 2006 and $37,102 in 2005)	$ 454,827	–	370,953	–
Student fees (net of scholarship allowances of $6,485 in 2006 and $5,216 in 2005; pledged revenues of $4,845 in 2006 and $4,643 in 2005)	40,828	–	38,183	–
Fee for service contract	95,708	–	–	–
Federal grants and contracts (pledged revenues of $98,601 in 2006 and $100,369 in 2005)	531,031	–	536,350	–
State and local grants and contracts (pledged revenues of $5,382 in 2006 and $3,926 in 2005)	30,810	–	23,844	–
Nongovernmental grants and contracts	53,618	–	49,175	–
Sales and services of educational departments (pledged revenues of $6,160 in 2006 and $7,179 in 2005)	105,301	–	104,754	–
Auxiliary enterprises (net of scholarship allowances of $1,562 in 2006 and $2,091 in 2005; pledged revenues of $28,629 in 2006 and $30,227 in 2005)	135,049	–	130,568	–
Health services (pledged revenues of $121 in 2005)	243,169	–	225,205	–
Contributions	–	60,867	–	54,059
Other operating revenues (pledged revenues of $2,345 in 2006 and $2,154 in 2005)	35,864	25,621	36,381	20,691
Total Operating Revenues	**1,726,205**	**86,488**	**1,515,413**	**74,750**
Operating Expenses				
Education and General				
Instruction	490,277	–	464,743	–
Research	378,894	–	374,753	–
Public service	64,187	–	52,436	–
Academic support	95,857	–	85,779	–
Student services	64,582	–	63,186	–
Institutional support	104,981	82,610	101,796	114,011
Operation and maintenance of plant	99,192	–	98,242	–
Student aid	24,695	–	28,053	–
Total Education and General expenses	1,322,665	82,610	1,268,988	114,011
Depreciation	117,385	3,132	108,038	2,921
Auxiliary enterprises	102,871	–	105,971	–
Health services, net	219,755	–	205,024	–
Other operating expenses	69	–	175	–
Total Operating Expenses	**1,762,745**	**85,742**	**1,688,196**	**116,932**
Operating Income (Loss)	**$ (36,540)**	**746**	**(172,783)**	**(42,182)**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

June 30, 2006 and 2005 (*in thousands*)

	2006		2005	
	University	Component Units	University	Component Units
Nonoperating Revenues (Expenses)				
State appropriations	$ –	–	150,673	–
Gifts	56,271	3,500	56,278	3,600
Investment income (net of investment expenses of $5,130 in 2006 and $4,142 in 2005)	68,533	69,802	49,488	51,994
Royalty income (loss)(net of royalty expense of $6,822 in 2006 and $6,962 in 2005; pledged revenues of $92 in 2006 and $94 in 2005)	(298)	–	51,078	–
Loss on disposal of capital assets	(1,021)	–	(2,911)	–
Interest expense on capital asset related debt	(21,875)	(3,915)	(20,393)	(4,066)
Other nonoperating revenues (net of expenses of $80 in 2005; pledged revenues of $23 in 2006)	9,465	–	9,993	–
Net Nonoperating Revenues	**111,075**	**69,387**	**294,206**	**51,528**
Income Before Other Revenues	**74,535**	**70,133**	**121,423**	**9,346**
Capital contributions from state	46,451	–	–	–
Capital appropriations	1,704	–	1,037	–
Capital grants and gifts	10,042	–	16,208	–
Additions to permanent endowments	126	–	5,855	–
Total Other Revenues	**58,323**	**–**	**23,100**	**–**
Increase in Net Assets	**132,858**	**70,133**	**144,523**	**9,346**
Net Assets, beginning of year	1,647,399	585,157	1,502,876	575,811
Net Assets, end of year	**$ 1,780,257**	**655,290**	**1,647,399**	**585,157**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF CASH FLOWS

June 30, 2006 and 2005 (*in thousands*)

	2006	2005
	University	
Cash Flows from Operating Activities		
Tuition and fees	$ 490,863	409,687
Grants and contracts	728,929	611,030
Payments to suppliers	(424,827)	(415,889)
Payments for utilities	(53,060)	(45,368)
Payments to employees	(933,358)	(889,433)
Payments for benefits	(197,740)	(182,915)
Payments for scholarships and fellowships	(22,700)	(25,808)
Loans issued to students and employees	(8,752)	(8,234)
Collection of loans to students and employees	9,456	9,922
Auxiliary enterprise charges	151,565	132,061
Sales and services of educational departments	101,007	104,454
Patient services	240,658	218,151
Other receipts	47,055	44,921
Total Cash Flows Provided by (Used for) Operating Activities	**129,096**	**(37,421)**
Cash Flows from Noncapital Financing Activities		
State appropriations	–	150,673
Gifts and grants for other than capital purposes	54,482	54,552
Endowment additions	126	5,855
William D. Ford direct lending receipts	102,515	99,599
William D. Ford direct lending disbursements	(102,437)	(99,618)
PLUS loans receipts	46,053	43,970
PLUS loans disbursements	(45,993)	(43,986)
Agency transactions	8,907	(494)
Total Cash Flows Provided by Noncapital Financing Activities	**63,653**	**210,552**
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	25,254	267,474
Capital grants and gifts received	10,042	16,208
State capital contributions	46,451	–
Proceeds from sale of capital assets	59	1,416
Purchases and construction of capital assets	(238,135)	(162,101)
Principal paid on capital debt	(31,284)	(25,070)
Interest paid on capital debt	(39,367)	(22,245)
Total Cash Flows Provided by (Used for) Capital and Related Financing Activities	**(226,980)**	**75,682**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	4,030,331	3,540,094
Purchase of investments	(4,054,129)	(3,840,359)
Interest on investments	82,686	51,443
Royalty income	6,525	26,540
Royalty expense	(6,822)	(6,962)
Investment management fees paid	(5,130)	(4,142)
Total Cash Flows Provided by (Used for) Investing Activities	**53,461**	**(233,386)**
Net Increase in Cash and Cash Equivalents	**19,230**	**15,427**
Cash and cash equivalents, beginning of year	27,690	12,263
Cash and cash equivalents, end of year	**$ 46,920**	**27,690**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF CASH FLOWS

June 30, 2006 and 2005 (*in thousands*)

		2006	2005
		University	
Reconciliation of net operating loss to net cash used by operating activities:			
Operating loss	$	(36,540)	(172,783)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation expense		117,385	108,038
Provision for doubtful receivables		2,388	1,837
Receipts of items classified as nonoperating revenues		10,417	10,516
Changes in assets and liabilities			
Receivables		12,376	(13,506)
Loans to students and employees		(651)	(936)
Inventories		26	(815)
Other assets		(634)	5,247
Accounts payable		(1,897)	8,705
Accrued expenses		8,945	9,458
Deferred revenue		12,435	5,506
Accrued compensated absences		2,611	1,201
Other liabilities		2,235	111
Net Cash Provided by (Used for) Operating Activities	**$**	**129,096**	**(37,421)**

Noncash Transactions			
Donations, lease-financed acquisitions, state-funded acquisitions of capital assets, unrealized gains	$	31,782	6,494

See accompanying notes to 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. It is governed by a nine-member Board of Regents (the Regents) elected by popular vote in the State of Colorado's (the State) 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 administration and the following three campuses, each with its unique mission as detailed below:

- University of Colorado at 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 at Denver and Health Sciences Center (UCDHSC)

  Originally operated as two separate campuses, the Health Sciences Center and the Denver campus were established in 1883 and 1974, respectively. On July 1, 2004, the two campuses were merged into the single operations of University of Colorado at Denver and Health Sciences Center. UCDHSC 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.

- University of Colorado at Colorado Springs (CU-Colorado Springs)

  Established as a separate campus in 1965, CU-Colorado Springs is a comprehensive baccalaureate university with selective admission standards.

To accomplish these roles, the University's 2,956 full-time instructional faculty serve more than 51,600 students through more than 240 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. The project is designed to supply steam and electric power to CU-Boulder. Excess electricity produced by the project is sold to third parties. Buffalo Power Corporation's directors are appointed by the Regents.

- The University of Colorado Finance Corporation

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

- University of Colorado Insurance Pool (UCIP)

  Established in 1993, UCIP is a public entity insurance pool operated for the benefit of the University and the University of Colorado Hospital Authority which insures property, liability, and workers' compensation risks under the regulatory authority of the Colorado Division of Insurance. Effective September 30, 1996, the University discontinued utilizing UCIP for its insurance and began utilizing a protected self-insurance program (Note 10). UCIP is responsible for claims covered under the terms of its policies. When all of UCIP's liabilities are discharged, UCIP will be legally dissolved. Detailed financial information may be obtained directly from UCIP at 4001 Discovery Drive, Suite 230, Boulder, Colorado 80303.

- 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. Detailed financial information may be obtained directly from ULEHI at 4001 Discovery Drive, Suite 390B, Boulder, Colorado 80303.

- University Physicians, Inc. (UPI)

  Established in 1982, UPI performs the billing, collection, and disbursement services for the professional health services rendered for UCDHSC 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 940 member physicians of the faculty of the UCDHSC 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. Detailed financial information may be obtained directly from UPI at P.O. Box 876, Aurora, Colorado 80040.

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. 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 discretely presented component units (DPCU) of the University:

- Coleman Colorado Foundation (Coleman Foundation)

  Established in August 2001, the Coleman Foundation is a nonprofit entity under Sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code and was established to support the University's operational unit, the University of Colorado Coleman Institute for Cognitive Disabilities, and related activities and professorships. A five-member board of directors governs the Coleman Foundation.

- University of Colorado Foundation (CU Foundation)

  Established in 1967, the CU Foundation solicits, collects, and invests donations for 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. The CU Foundation's reporting entity includes the Alumni Association of the University of Colorado at Boulder (Boulder Alumni Association) and Bear Creek I, LLC (Bear Creek).

  The Boulder Alumni Association connects alumni, students, friends, and all members of the University community to each other and to the University through activities and programs that stimulate interest, loyalty, and support for the University.

  In June 2002, the CU Foundation established Bear Creek, a Colorado limited liability company, whose sole member is the CU Foundation. Bear Creek was established for the purpose of financing, developing, and operating a student residence center on land located at CU-Boulder. The terms of the operating agreement provide Bear Creek with the use of the University's land in exchange for net cash flow of the housing project as defined in the agreement.

  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 509(a)(3) of the Internal Revenue Code, has up to a 14-member board of directors, of which up to nine are voting members who may not be University employees and up to five are ex-officio non-voting members who may be University employees.

  In May 2005, Campus Village Apartments, LLC (Campus Village) 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. Detailed financial information may be obtained directly from CUREF at 4740 Walnut Street, Boulder, Colorado 80301.

Joint Ventures and Related Organizations

The University has associations with the following organizations for which it is not financially accountable, nor 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 20.

- University of Colorado Hospital Authority (Hospital Authority)
- Auraria Higher Education Center (AHEC)

Relationship to State of Colorado

The University of Colorado is an institution of higher education of the State of Colorado (State). Thus, for financial reporting purposes, the University is included as part of the State of Colorado'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, 2006 and 2005.

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. All changes in accounting are discussed in Note 12.

ACCOUNTING POLICIES

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

Investments reported in the financial statements are at fair value, which is determined primarily based on quoted market prices as of June 30, 2006 and 2005. 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. These policies are implemented using individual securities, mutual funds, commingled funds, and alternative investments for the endowments.

Investments of the DPCU 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, and other readily determinable information.

Endowments and similar gift instruments owned by the University and the DPCU are primarily recorded as investments in the accompanying financial statements. True endowment funds are subject to the restrictions of donor gift instruments requiring the principal 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 DPCU upon the death of the designated beneficiary. Annuity funds are used to account for property contributed to the University or DPCU 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 and are referred to as quasi-endowments.

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

Contributions receivable for the DPCU 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 and Coleman Foundation use the allowance method to determine the uncollectible portion of the unconditional contributions receivable. The allowance is based on management's analysis of the historical collectibility of contributions pledged. These promises to give are recorded at the net present value of the expected future cash flows using a risk-free interest rate.

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 the first-in, first-out, average cost, or retail method.

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, except for UPI, includes all items with a value of $5,000 or more, and an estimated useful life of greater than one year. UPI capitalizes assets with a value of $1,000 or greater, and an estimated useful life of greater than one year.

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

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, Asset Useful Lives.

Accrued 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. Vacation accruals are paid in full upon separation whereas only a portion of sick leave is paid upon specific types of separation, such as retirement.

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

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

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 held by one of the DPCU, which include gift annuities, charitable remainder annuity trusts and unitrusts, and a pooled income fund. The DPCU typically serves as trustee, although certain trusts are administered by outside trustees. For trusts administered by the DPCU, specified earnings are typically paid to a named beneficiary. After termination of the trusts, the assets revert to the DPCU 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, was 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.

TABLE 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

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

In cases where a split-interest agreement is administered by an outside trustee, the DPCU 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 DPCU becomes aware of its interest in the trust. Under certain circumstances, the DPCU accepts and manages trust funds for which the DPCU or University has beneficial interest but is not the sole beneficiary of the trust. Funds received for which the DPCU or the University 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 DPCU for endowments legally owned by other entities, including the University (Note 19).

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

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

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

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 that are exchange transactions. Examples include student tuition and fees, fee-for-service contract, sales and services of auxiliary enterprises, healthcare and patient service, grants, contracts, and interest on student loans. Operating revenues also include contributions to DPCU, which are derived from their fundraising mission.

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. All other expenses are deemed nonoperating.

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 from sources defined as such by other GASB standards (e.g., state appropriations).

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 update fixed-rate agreements for Medicare and Medicaid, respectively, annually. 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 of Colorado 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, 2006 and 2005, the authorized spending rate was equal to the greater of 4 percent of the prior month's market value or 4.5 percent of the average market value of endowment investments at the end of the previous three years. Earnings in excess of the amount authorized for spending are available in future years and are included in the value of the related investment. Earnings authorized to be spent are recognized in the University's financial statements as investment or gift revenue for University or CU Foundation-owned endowments, respectively.

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 are 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.

NOTE 2–CASH AND CASH EQUIVALENTS

The University's and DPCUs' cash and cash equivalents are detailed in Table 2.1, Cash and Cash Equivalents.

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, 2006 and 2005, all deposits with foreign financial institutions were authorized. Of the University's total cash and cash equivalents, approximately $91,000 and $67,000 related to deposits in foreign institutions are subject to custodial credit risk at June 30, 2006 and 2005, respectively. Custodial credit risk information is not available for the DPCU.

TABLE 2.1 Cash and Cash Equivalents *(in thousands)*

Type	2006	2005
University		
Cash on hand (petty cash and change funds)	$ 269	281
Deposits with U.S. financial institutions	46,560	27,342
Deposits with foreign financial institutions	91	67
Total Cash and Cash Equivalents–University	**$ 46,920**	**27,690**
Discretely Presented Component Units		
Deposits with U.S. financial institutions	$ 17,725	9,416
Total Cash and Cash Equivalents–DPCU	**$ 17,725**	**9,416**

NOTE 3–INVESTMENTS

The University's investments generally include direct obligations of the U.S. Government and its agencies, commercial paper, corporate bonds, asset-backed securities, mortgage-backed securities, money market funds, commingled and mutual funds, repurchase agreements, guaranteed investment contracts, and equities. 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.

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

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

For financial statement purposes, investment income is reported on a total return basis and is allocated among operational units based on average daily balances, using amortized costs. Average daily balances approximated $713,282,000 and $631,052,000 for the years ended June 30, 2006 and 2005, respectively. The total return on this pool was 7.0 and 6.0 percent for the years ended June 30, 2006 and 2005, 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. The University does not have a policy concerning custodial credit risk. Table 3.1, Investments, lists the fair value of the major types of investments owned by the University. None of the University's investments are subject to custodial risk. Custodial credit risk information is not available for the DPCU.

TABLE 3.1 Investments *(in thousands)*

Investment Type	2006	2005
University		
U.S. government and agency securities	$ 102,224	95,373
Corporate equity securities	17,754	16,110
Corporate bonds and commercial paper	86,942	87,776
Repurchase agreements	155,717	226,227
Asset-backed securities	148,406	114,808
Open-ended mutual funds	481,933	452,294
Endowment-related investments held by CU Foundation	104,138	82,406
Other	289	633
Total Investments–University	**$1,097,403**	**1,075,627**
Discretely Presented Component Units		
Cash and cash equivalents	$ 5,260	5,449
Equity securities		
Domestic	183,246	214,431
International	153,844	93,982
Fixed-income securities	117,580	82,141
Alternative non-equity securities	291,442	267,011
Guaranteed investment contracts	11,158	37,569
Total Investments–DPCU	**$ 762,530**	**700,583**

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.

A summary of the fair value of the University's debt investments and interest rate risk as of June 30, 2006 and 2005, is shown in Table 3.2, Debt Investments and Interest Rate Risk. Interest rate risk information is not available for the DPCU.

As disclosed in Table 3.2, Debt Investments and Interest Rate Risk, the University has investments in asset backed securities. The securities 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.

TABLE 3.2 Debt Investments and Interest Rate Risk *(in thousands and years)*

Investment Type	2006		2005	
University	*Amount*	*Duration*	*Amount*	*Duration*
U.S. government and agency securities	$ 96,242	5.009	$ 89,765	4.796
Corporate bonds	50,467	5.050	55,123	4.792
Asset-backed securities				
Fixed-rate securities	79,023	–	69,427	–
Variable-rate securities	51,353	–	37,141	–
Collateralized mortgage obligations	17,060	–	7,916	–
Total Asset-backed securities	147,436	2.360	114,484	5.800
Bond mutual funds	32,526	2.790	32,250	2.050
Commercial paper	147	0.220	–	–
University Physicians Inc.	*Amount*	*Weighted Average Maturity*	*Amount*	*Weighted Average Maturity*
U.S. government and agency securities	$ 1,436	1.37	$ 1,473	2.04
Federal agency paper	4,586	2.13	4,173	3.01
Commercial paper	–	–	1,992	0.24
Corporate bonds	36,649	2.13	30,998	2.38
Asset-backed securities	95	1.00	95	1.00
Bond mutual funds (Non 2a7 like pools)	–	–	320	0.50

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.

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). 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. A summary of the University's debt investments and credit quality risk as of June 30, 2006 and 2005 is shown in Table 3.3, Debt Investments and Credit Quality Risk. Credit quality risk is not available for the DPCU.

SECURITY LENDING

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

The custodian, acting as lending agent, lends the University's securities for collateral of 102 percent to broker-dealers and other entities (borrowers) with a simultaneous agreement to return the collateral for the same security in the future. Acceptable forms of collateral are cash, irrevocable standby letters of credit, and obligations issued or guaranteed by the U.S. Government or its agencies. If the fair value of a loaned security increases, the borrower is required to deliver additional collateral to the custodian to protect the University. For both term and open loans collateralized by cash from the borrower, the collateral is invested in high-quality, U.S. dollar-denominated, short-term money market instruments that can have fixed, variable, or floating rates of interest. Collateral is invested in diversified instruments to provide adequate liquidity and to avoid concentration by issuer or industry except that no concentration limits are set for obligations of the U.S. Government or its agencies. The University does not have the ability to pledge or sell securities under a security lending agreement unless the borrower defaults. As of June 30, 2006 and 2005, the University had no securities on loan.

Table 3.3 Debt Investments and Credit Quality Risk

	2006			2005		
	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*
U.S. government agencies	$ 3,066	30,905	100% AAA/Aaa	$ 27,208	66,306	100% AAA/Aaa
Repurchase agreements	155,717	–	N/A	226,227	–	–
Commercial paper	147	–	N/A	992	992	100% A-1
Corporate bonds	2,183	84,612	13% AAA	2,039	83,754	9% AAA
			28% Aa/AA			58% Aa/A
			30% A			1% A-1
			23% BBB/Baa			23% Baa
			6% Ba/Caa			9% Ba/Caa
Asset-backed securities	48,323	99,208	95% AAA/Aaa	44,771	69,808	90% AAA/Aaa
			5% AA/BB			8% AA/BB
						2% A-1
Money market mutual funds	32,266	183,404	100% Aaa	47,291	146,934	100% Aaa
Bond mutual funds	32,526	–	N/A	32,577	–	NA

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

SPLIT-INTEREST AGREEMENTS

Assets held by the DPCU under split-interest agreements are included in investments and consisted of the following as of June 30, 2006 and 2005, as shown in Table 3.4, DPCU Investments Held Under Split-Interest Agreements.

TABLE 3.4 DPCU Investments Held Under Split-Interest Agreements *(in thousands)*

Type		2006	2005
Beneficial interests in perpetual trusts held by others	$	198	52
Charitable unitrusts and other life income		42,480	44,085
Charitable annuity trusts		5,049	5,160
Charitable gift annuities and pooled income funds		1,005	996
Total Investments Held Under Split-Interest Agreements	**$**	**48,732**	**50,293**

NOTE 4–ACCOUNTS, CONTRBUTIONS, AND LOANS RECEIVABLE

Table 4.1, Accounts, Contributions, and Loans Receivable, segregates receivables as of June 30, 2006 and 2005 by type.

During previous years, the DPCU recorded contributions receivable from a single donor of approximately $65,000,000 that are expected to be received over a five-year period. As of June 30, 2005, the DPCU have collected approximately $47,800,000, respectively, of this pledge. At June 30, 2005, the remaining balance was $0 because $17,200,000 was distributed to the University of Colorado Hospital. In 2001, The Coleman Foundation received a pledge from another single donor of $250,000,000 (Note 19).

TABLE 4.1 Accounts, Contributions, and Loans Receivable *(in thousands)*

		2006			
Type of Receivable		**Gross Receivables**	**Allowances**	**Net Receivables**	**Net Current Portion**
University					
Student accounts	$	27,277	9,948	17,329	17,327
Federal government		37,094	–	37,094	37,094
Other governments		20,302	–	20,302	20,302
Private sponsors		21,857	–	21,857	21,857
Patient accounts		39,266	7,441	31,825	31,825
DPCU		8,447	–	8,447	8,447
Interest		4,326	–	4,326	4,310
Other		28,655	1,805	26,850	26,458
Total Accounts Receivable		187,224	19,194	168,030	167,620
Student loans		37,621	2,642	34,979	–
Total Loans Receivable		37,621	2,642	34,979	–
Total Receivable–University	**$**	**224,845**	**21,836**	**203,009**	**167,620**
Discretely Presented Component Units					
Contributions*	$	276,542	251,342	25,200	13,004
Interest		143	–	143	143
Other		6,261	–	6,261	2,145
Total Receivable–DPCU	**$**	**282,946**	**251,342**	**31,604**	**15,292**

		2005			
Type of Receivable		**Gross Receivables**	**Allowances**	**Net Receivables**	**Net Current Portion**
University					
Student accounts	$	25,149	8,284	16,865	16,854
Federal government		39,582	–	39,582	39,580
Other governments		12,249	–	12,249	12,249
Private sponsors		61,596	–	61,596	45,096
Patient accounts		36,756	5,586	31,170	31,170
DPCU		5,742	–	5,742	5,742
Interest		3,918	–	3,918	3,918
Other		12,442	1,557	10,885	10,417
Total Accounts Receivable		197,434	15,427	182,007	165,026
Student loans		34,310	3,104	31,206	–
Other loans receivable		2,660	–	2,660	655
Total Loans Receivable		36,970	3,104	33,866	655
Total Receivable–University	**$**	**234,404**	**18,531**	**215,873**	**165,681**
Discretely Presented Component Units					
Contributions*	$	281,170	251,428	29,742	13,849
Interest		108	–	108	108
Other		129	–	129	77
Total Receivable–DPCU	**$**	**281,407**	**251,428**	**29,979**	**14,034**

*The allowance on the contributions receivable is comprised of uncollectible and unamortized discount of $249,527,000 and $1,815,000 as of June 30, 2006, respectively, and $249,843,000 and $1,585,000 as of June 30, 2005, respectively.

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, 2006 and 2005 is detailed in Table 4.2, UPI Concentration of Credit Risk.

TABLE 4.2 UPI Concentration of Credit Risk

Category	2006	2005
Managed care	53.5%	50.7%
Medicare	13.7	15.3
Medicaid	12.6	11.9
Other third-party payers	4.5	7.9
Self-pay	15.7	14.2
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, 2006 and 2005.

The total interest expense related to capital asset debt incurred by the University during the years ended June 30, 2006 and 2005 approximated $37,344,000 and $24,067,000, respectively. Of this amount, approximately $3,272,000 and $1,896,000, respectively, was capitalized as part of the value of construction in progress. Interest expense incurred by the DPCU and capitalized for the year ended June 30, 2006 was $1,762,000. DPCU incurred no capitalized interest expense during the year ended June 30, 2005.

TABLE 5 Capital Assets *(in thousands)*

Category	Balance 2005	Additions	Retirements	Transfers	Balance 2006
University					
Nondepreciable Capital Assets					
Land	$ 38,918	9,859	2,753	–	46,024
Construction in progress	100,102	173,008	–	(66,507)	206,603
Collections	8,078	220	–	–	8,298
Total Nondepreciable Capital Assets	147,098	183,087	2,753	(66,507)	260,925
Depreciable Capital Assets					
Buildings	1,397,349	26,946	31,803	52,980	1,445,472
Improvements other than buildings	105,662	141	(215)	13,527	119,545
Equipment	370,027	37,730	15,692	–	392,065
Library and other collections	224,551	13,573	360	–	237,764
Total Depreciable Capital Assets	2,097,589	78,390	47,640	66,507	2,194,846
Less Accumulated Depreciation					
Buildings	428,348	67,924	6,349	–	489,923
Improvements other than buildings	41,255	4,938	(36)	–	46,229
Equipment	236,261	33,235	14,748	–	254,748
Library and other collections	138,805	11,288	360	–	149,733
Total Accumulated Depreciation	844,669	117,385	21,421	–	940,633
Net Depreciable Capital Assets	1,252,920	(38,995)	26,219	66,507	1,254,213
Total Net Capital Assets–University	**$ 1,400,018**	**144,092**	**28,972**	**–**	**1,515,138**
Discretely Presented Component Units					
Nondepreciable Capital Assets					
Land	$ 19,822	350	6,751	–	13,421
Construction in progress	4,740	26,448	–	–	31,188
Total Nondepreciable Capital Assets	24,562	26,798	6,751	–	44,609
Depreciable Capital Assets					
Buildings	71,648	89	–	–	71,737
Improvements other than buildings	601	130	–	–	731
Equipment	6,185	290	–	–	6,475
Total Depreciable Capital Assets	78,434	509	–	–	78,943
Less Accumulated Depreciation					
Buildings	4,640	2,045	–	–	6,685
Improvements other than buildings	193	61	–	–	254
Equipment	2,778	1,026	–	–	3,804
Total Accumulated Depreciation	7,611	3,132	–	–	10,743
Net Depreciable Capital Assets	70,823	(2,623)	–	–	68,200
Total Net Capital Assets–DPCU	**$ 95,385**	**24,175**	**6,751**	**–**	**112,809**

TABLE 5 Capital Assets (continued) *(in thousands)*

Category	Balance 2004 (restated)	Additions	Retirements	Transfers	Balance 2005
University					
Nondepreciable Capital Assets					
Land	$ 36,514	2,404	–	–	38,918
Construction in progress	68,302	109,427	209	(77,418)	100,102
Collections	7,847	231	–	–	8,078
Total Nondepreciable Capital Assets	112,663	112,062	209	(77,418)	147,098
Depreciable Capital Assets					
Buildings	1,327,561	5,677	2,557	66,668	1,397,349
Improvements other than buildings	95,382	1,679	2,149	10,750	105,662
Equipment	345,047	33,615	8,635	–	370,027
Library and other collections	212,214	12,863	526	–	224,551
Total Depreciable Capital Assets	1,980,204	53,834	13,867	77,418	2,097,589
Less Accumulated Depreciation					
Buildings	374,864	54,686	1,202	–	428,348
Improvements other than buildings	37,292	4,538	575	–	41,255
Equipment	205,438	37,854	7,031	–	236,261
Library and other collections	128,377	10,960	532	–	138,805
Total Accumulated Depreciation	745,971	108,038	9,340	–	844,669
Net Depreciable Capital Assets	1,234,233	(54,204)	4,527	77,418	1,252,920
Total Net Capital Assets–University	**$ 1,346,896**	**57,858**	**4,736**	**–**	**1,400,018**
Discretely Presented Component Units					
Nondepreciable Capital Assets					
Land	$ 12,859	6,963	–	–	19,822
Construction in progress	482	4,740	–	(482)	4,740
Total Nondepreciable Capital Assets	13,341	11,703	–	(482)	24,562
Depreciable Capital Assets					
Buildings	68,992	2,174	–	482	71,648
Improvements other than buildings	592	9	–	–	601
Equipment	5,888	732	435	–	6,185
Total Depreciable Capital Assets	75,472	2,915	435	482	78,434
Less Accumulated Depreciation					
Buildings	2,694	1,946	–	–	4,640
Improvements other than buildings	146	47	–	–	193
Equipment	2,237	928	387	–	2,778
Total Accumulated Depreciation	5,077	2,921	387	–	7,611
Net Depreciable Capital Assets	70,395	(6)	48	482	70,823
Total Net Capital Assets–DPCU	**$ 83,736**	**11,697**	**48**	**–**	**95,385**

NOTE 6–ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Table 6.1, Accounts Payable and Accrued Expenses, details the accounts payable and accrued expenses as of June 30, 2006 and 2005 by type.

OPERATING LEASES

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, 2006 and 2005, total rental expense under these agreements approximated $6,181,000 and $6,985,000 for the University, respectively. Future minimum payments for these operating leases are shown in Table 6.2, Operating Leases Minimum Lease Obligations.

NOTE 7–ACCRUED COMPENSATED ABSENCES

Table 7, Accrued Compensated Absences, presents changes in accrued compensated absences for the years ended June 30, 2006 and 2005.

NOTE 8–DEFERRED REVENUE

As of June 30, 2006 and 2005, the types and amounts of deferred revenue are shown in Table 8, Deferred Revenue.

TABLE 6.1 Accounts Payable and Accrued Expenses
(in thousands)

Type		2006	2005
University			
Accounts payable vendors	$	70,736	62,585
Accounts payable–DPCU		942	–
Accrued salaries and benefits		124,214	115,325
Accrued interest payable		1,164	3,187
Other accrued expenses		1,183	1,127
Total Accounts Payable and Accrued Expenses–University	**$**	**198,239**	**182,224**
Discretely Presented Component Units			
Accounts payable vendors	$	4,602	4,188
Accounts payable University		2,828	–
Total Accounts Payable–DPCU	**$**	**7,430**	**4,188**

TABLE 6.2 University Operating Leases Minimum Lease Obligations *(in thousands)*

Years Ending June 30		Minimum Lease Obligation
2007	$	4,910
2008		3,364
2009		2,385
2010		1,573
2011		887
2012 – 2016		754
Total Operating Lease Obligations	**$**	**13,873**

TABLE 8 Deferred Revenue *(in thousands)*

		2006		2005	
Type		Total	Current Portion	Total	Current Portion
University					
Tuition and fees	$	16,527	16,527	12,061	12,061
Auxiliary enterprises		19,625	13,108	17,681	10,878
Grants and contracts		42,426	42,426	37,088	37,088
Miscellaneous		7,572	7,572	6,885	6,885
Total Deferred Revenue–University	**$**	**86,150**	**79,633**	**73,715**	**66,912**
Discretely Presented Component Units					
Miscellaneous	$	801	662	1,390	1,268
Total Deferred Revenue–DPCU	**$**	**801**	**662**	**1,390**	**1,268**

TABLE 7 University Accrued Compensated Absences *(in thousands)*

	Balance 2004	Additions	Adjustments/Reductions	Balance 2005	Additions	Adjustments/Reductions	Balance 2006
$	78,384	66,879	61,373	83,890	69,520	66,910	86,500

NOTE 9–BONDS, NOTES, AND LEASES PAYABLE

As of June 30, 2006 and 2005, the categories of long-term obligations are detailed in Table 9.1, Bonds, Notes, and Leases Payable.

Table 9.2, Changes in Bonds, Notes, and Leases Payable, presents changes in bonds, notes, and leases payable for the years ended June 30, 2006 and 2005.

REVENUE BONDS

A general description of each revenue bond issue, original issuance amount, and the amount outstanding as of June 30, 2006 and 2005 is detailed in Table 9.3, Revenue Bonds Detail.

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, 2006 and 2005, total net pledged revenues, including the subordinate pledge, approximate $191,574,000 and $185,815,000, 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

TABLE 9.1 Bonds, Notes, and Leases Payable *(in thousands)*

Type	Interest Rates	Final Maturity	Balance 2006	Balance 2005
University				
Revenue Bonds				
Enterprise System (including premium of $17,063 in 2005 and $4,442 in 2004)	3.50%–7.00%	6/1/28	$ 593,028	584,973
UPI Variable Demand Bonds	2.35%*	1/1/25	19,460	19,940
Total Revenue Bonds			612,488	604,913
Certificates of Participation				
Cogeneration Plant Series 1996	4.63–6.00%	12/1/05	–	7,515
Master Lease Purchase Series 1998A	3.90–5.25%*	7/1/18	2,375	5,575
Master Lease Purchase Series 2003A and 2003B	2.00–4.125%	6/1/33	33,280	34,010
Total Certificates of Participation			35,655	47,100
Other Capital Lease Obligations				
Central Utility Plant	6.00%	12/31/22	29,234	30,265
Other Lease Obligations	2.87–13.95%	Various	1,989	30,278
Total Other Capital Lease Obligations			31,223	60,543
Notes Payable	5.00–6.00%	12/31/09	136	177
Total Bonds, Notes, and Leases Payable–University			**$ 679,502**	**712,733**
Discretely Presented Component Units				
Revenue Bonds				
Student Housing Series 2002 (including premium of $140 in 2006 and $146 in 2005)	2.50–5.38%	7/1/32	$ 68,030	69,236
Student Housing Facility Series 2005	3.205%*	7/1/37	50,365	50,365
Total Revenue Bonds			118,395	119,601
Capital Leases	7.50%	9/1/14	4,836	5,077
Total Bonds, Notes, and Leases Payable–DPCU			**$ 123,231**	**124,678**

*Interest on the UPI Variable Rate Demand Bonds, the Master Lease Purchase Certificates of Participation, and the Student Housing Faculty Series 2005 Bonds are set at an adjustable rate as discussed below under Revenue Bonds and Certificates of Participation, respectively; the rates reflected in this table are as of June 30, 2006.

TABLE 9.2 Changes in Bonds, Notes, and Leases Payable *(in thousands)*

Type		Balance 2005	Additions	Retirements	Balance 2006	Current Portion
University						
Revenue Bonds	$	587,850	25,225	16,300	596,775	18,900
Plus Unamortized Premiums		17,063	29	1,379	15,713	1,293
Net Revenue Bonds		604,913	25,254	17,679	612,488	20,193
Certificates of Participation		47,100	–	11,445	35,655	1,750
Other Capital Lease Obligations		60,543	954	30,274	31,223	1,779
Notes Payable		177	–	41	136	43
Total Bonds, Notes, and Leases Payable–University	**$**	**712,733**	**26,208**	**59,439**	**679,502**	**23,765**
Discretely Presented Component Units						
Revenue Bonds	$	119,455	–	1,200	118,255	1,000
Plus Unamortized Premium		146	–	6	140	–
Net Revenue Bonds		119,601	–	1,206	118,395	1,000
Capital Leases		5,077	–	241	4,836	280
Total Bonds, Notes, and Leases Payable–DPCU	**$**	**124,678**	**–**	**1,447**	**123,231**	**1,280**

Type		Balance 2004	Additions	Retirements	Balance 2005	Current Portion
University						
Revenue Bonds	$	350,075	254,385	16,610	587,850	16,120
Plus Unamortized Premiums		4,442	13,089	468	17,063	1,378
Net Revenue Bonds		354,517	267,474	17,078	604,913	17,498
Certificates of Participation		52,725	–	5,625	47,100	9,195
Other Capital Lease Obligations		58,386	4,837	2,680	60,543	2,700
Notes Payable		332	–	155	177	41
Total Bonds, Notes, and Leases Payable–University	**$**	**465,960**	**272,311**	**25,538**	**712,733**	**29,434**
Discretely Presented Component Units						
Revenue Bonds	$	69,090	50,365	–	119,455	1,200
Plus Unamortized Premium		151	–	5	146	–
Net Revenue Bonds		69,241	50,365	5	119,601	1,200
Capital Leases		5,254	–	177	5,077	225
Total Bonds, Notes, and Leases Payable–DPCU	**$**	**74,495**	**50,365**	**182**	**124,678**	**1,425**

TABLE 9.3 Revenue Bonds Detail *(in thousands)*

Issuance Description		Original Issuance Amount	Outstanding Balance 2006	Outstanding Balance 2005
University				
Enterprise System Revenue Bonds:				
Refunding Series 1995A –				
Used to refund all of the Refunding Series 1986, 1989, 1990 and 1992B	$	32,940	19,355	21,450
Refunding and Improvement Series 1997 –				
Used to refund all of the Series 1986 and fund capital improvements at CU-Boulder and CU-Colorado Springs		12,760	1,225	1,415
Refunding Series 1999A –				
Used to refund all of the Adjustable Tender Series 1996A		22,495	20,575	21,030
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, RBRF Series 1992, and a portion of the Enterprise System Tax Exempt Commercial Paper		34,840	18,046	21,846
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	47,466	49,097
Series 2002A –				
Used to fund capital improvements at UCDHSC (includes premium)		101,875	93,076	95,687
Series 2002B –				
Used to fund capital improvements at CU-Boulder (includes premium)		40,055	40,101	40,104
Series 2002C –				
Used to fund capital improvements at CU-Boulder (includes premium)		5,670	3,225	4,258
Series 2003A –				
Used to finance capital improvements at CU-Boulder, CU-Colorado Springs, and UCDHSC		64,260	60,879	62,862
Series 2004 –				
Used to fund improvements at CU-Boulder, CU-Colorado Springs, and UCDHSC		24,360	23,280	24,110
Series 2005A –				
Used to fund capital improvements at CU-Boulder, CU-Colorado Springs, UCDHSC, and refund 1995 RBRF Bonds (includes premium)		230,025	240,547	243,114
Series 2005B –				
Used to fund capital improvements at CU-Colorado Springs and UCDHSC		25,225	25,253	–
Total Enterprise System Revenue Bonds			593,028	584,973
UPI Variable Rate Demand Bonds –				
Used to finance construction of UPI's administrative office building		20,500	19,460	19,940
Total Revenue Bonds			612,488	604,913
Less Premium			15,713	17,063
Total Outstanding Revenue Bond Principal–University			**596,775**	**587,850**
Discretely Presented Component Units				
Student Housing Series 2002 –				
Used to finance Williams Village student housing		69,090	68,030	69,236
Student Housing Facility Series 2005 –				
Used to finance construction of housing facility adjacent to Auraria Higher Education Center		50,365	50,365	50,365
Total Revenue Bonds			**118,395**	**119,601**
Less Premium			140	146
Total Outstanding Revenue Bond Principal–DPCU			**118,255**	**119,455**

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 bear interest at a variable municipal bond interest rate that is reset weekly. In addition, UPI has entered into a five-year renewable letter of credit agreement with Allied Irish Bank allowing the bonds to be remarketed using Allied Irish Bank's national credit rating. UPI is required to carry an annual $28,000,000 unrestricted operating reserve and UPI management believes it has met all of the financial ratio requirements.

Colorado Educational and Cultural Facilities Authority (the Authority) issued $69,090,000 of Series 2002 Student Housing Revenue Bonds. The Authority then loaned the proceeds of the bonds to Bear Creek. The Student Housing revenue bonds are special limited obligations of the Authority and are payable solely from 1) revenue payable under the Loan Agreement dated as of June 1, 2002 (the Loan Agreement), between the Authority and Bear Creek, including certain Net Pledged Revenues, as defined, as evidenced by a separate promissory note dated the date of issuance of the Student Housing revenue bonds; 2) funds held by the trustee of the Student Housing revenue bonds pursuant to the Loan Agreement; and 3) in certain events, monies derived under a Commitment of Support entered into by and between the CU Foundation and the Authority and assigned to the trustee of the Student Housing revenue bonds. The CU Foundation entered into a Commitment of Support with the Authority pursuant to which the CU Foundation agrees that as long as any of the Student Housing revenue bonds are outstanding, it will contribute such amount as may be necessary to make up any deficiency in the Student Housing revenue bonds on the business day preceding any date on which a payment is due on the Student Housing revenue bonds. The Loan Agreement and other agreements contain certain financial and nonfinancial covenants that include the generation of revenue in each fiscal year that the student housing facility is in operation in an amount at least equal to 120 percent of the actual annual debt service.

The Student Housing revenue bonds are payable annually, commencing July 1, 2005, and are subject to optional, mandatory, and extraordinary redemption prior to the stated maturity. Payment of the principal and interest on the Student Housing revenue bonds when due is insured by a financial guaranty insurance policy.

The Authority also issued $50,365,000 of Series 2005 Variable Rate Student Housing Facility Revenue Bonds. The Authority then loaned these bond proceeds to Campus Village. The assets of Campus Village are not available to satisfy the claims of creditors of any affiliate of Campus Village, including CUREF, and the assets of any affiliate of Campus Village, including CUREF, are not available to satisfy the claims of any creditors of Campus Village. The bonds payable are secured by a letter of credit held with Citibank, N.A. The letter of credit expires on May 25, 2010, and provides for the renewal or replacement of such upon that date. Under the letter of credit agreement, Campus Village is required to pay annual letter of credit fees and quarterly remarketing fees equal to 1.24 and 0.125 percent, respectively, of the outstanding principal balance.

The Variable Rate Student Housing revenue bonds are payable annually, commencing July 1, 2008, with interest payments due monthly at a variable rate established by the remarketing agent.

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			Discretely Presented Component Units		
Years Ending June 30	Principal	Interest	Total	Principal	Interest	Total
2007	$ 18,900	28,815	47,715	1,000	4,890	5,890
2008	20,405	28,018	48,423	1,525	4,857	6,382
2009	22,020	27,090	49,110	1,865	4,794	6,659
2010	21,960	26,043	48,003	2,010	4,726	6,736
2011	21,945	24,994	46,939	2,175	4,650	6,825
2012 – 2016	114,665	108,552	223,217	13,445	21,792	35,237
2017 – 2021	124,860	79,656	204,516	17,455	18,357	35,812
2022 – 2026	151,350	46,254	197,604	22,385	13,872	36,257
2027 – 2031	72,090	15,940	88,030	28,530	8,311	36,841
2032 – 2036	28,580	2,513	31,093	21,615	2,310	23,925
2037	–	–	–	6,250	–	6,250
Total	**$ 596,775**	**387,875**	**984,650**	**118,255**	**88,559**	**206,814**

CERTIFICATES OF PARTICIPATION

Certificates of participation have been issued to finance lease purchase agreements for a cogeneration plant (1996 Series); the acquisition and refinancing of equipment (1998A Series); and capital improvements and acquisitions (2003A and 2003B Series). The certificates are secured by the buildings or equipment acquired with the lease proceeds and any unexpended lease proceeds. Annual lease payments are subject to annual appropriations by the Regents. The underlying capitalized assets have an approximate gross cost of $38,262,000 and $86,635,000 as of June 30, 2006 and 2005, respectively. The certificates contain optional redemption provisions allowing the University to redeem, at various dates, portions of the outstanding certificates at prices varying from 100 to 102 percent of the principal amount of the certificates redeemed.

At any time, the certificates for the 1998A Series bear interest at adjustable rates equal to comparable rates for tax-exempt obligations (market rate). The interest is payable monthly and may be reset at the following four defined periods as elected by the University: daily, weekly, short-term (more than weekly and less than semi-annually), or long-term (more than semi-annually and less than the maturity period). The interest rate period during the years ended June 30, 2006 and 2005 was weekly.

TABLE 9.5 Certificates of Participation *(in thousands)*

Years Ending June 30		Principal	Interest	Total
2007	$	1,750	1,672	3,422
2008		1,820	1,597	3,417
2009		1,120	1,535	2,655
2010		820	1,501	2,321
2011		850	1,472	2,322
2012 – 2016		4,790	6,812	11,602
2017 – 2021		6,045	5,551	11,596
2022 – 2026		7,730	3,880	11,610
2027 – 2031		7,695	1,849	9,544
2032 – 2036		3,035	230	3,265
Total	**$**	**35,655**	**26,099**	**61,754**

Principal is payable annually or semiannually subject to annual appropriation by the Regents. Future minimum payments for certificates of participation are detailed in Table 9.5, Certificates of Participation.

During the year ended June 20, 2004, the University effectively entered into a capital lease agreement to lease purchase a central utility plant (CUP) to deliver steam and chilled water to the UCDHSC Fitzsimons campus. As of June 30, 2006 and 2005, the CUP capital lease had an outstanding liability approximating $29,234,000 and $30,265,000, respectively, with underlying gross capitalized asset cost approximating $35,003,000 and $32,685,000, respectively. The CUP capital lease agreement provides for biannual payments through December 2022 with an effective interest rate of 6 percent. Beginning in 2011, the University has the ability to purchase the CUP from the lessor in accordance with an established purchase price schedule.

As of June 30, 2006 and 2005, the University had an outstanding liability for all other capital leases approximating $1,989,000 and $30,278,000, respectively, with underlying gross capitalized asset cost approximating $3,188,000 and $35,498,000, respectively. At June 30, 2006 and 2005, the DPCU had an outstanding liability for capital leases approximating 4,836,000 and $5,077,000, respectively, with underlying gross capitalized asset cost approximating $5,750,000.

Future minimum payments for capital lease obligations are detailed in Table 9.6, Capital Leases.

NOTES PAYABLE

As of June 30, 2006 and 2005, the University had outstanding notes payable issued for the acquisition of land for the site of student housing known as Williams Village at CU-Boulder with amounts outstanding of $136,000 and $177,000, respectively. The notes payable are payable from student housing revenue. Future minimum payments of the notes payable are detailed in Table 9.7, Notes Payable Future Minimum Payments.

TABLE 9.6 Capital Leases *(in thousands)*

		University			Discretely Presented Component Units		
Years Ending June 30		Principal	Interest	Total	Principal	Interest	Total
2007	$	1,778	1,786	3,564	280	533	813
2008		1,702	1,690	3,392	344	498	842
2009		1,584	1,599	3,183	416	455	871
2010		1,538	1,510	3,048	497	404	901
2011		1,516	1,423	2,939	589	343	932
2012 – 2016		8,195	5,774	13,969	2,710	552	3,262
2017 – 2021		10,950	3,017	13,967	–	–	–
2022 – 2026		3,960	236	4,196	–	–	–
Total	**$**	**31,223**	**17,035**	**48,258**	**4,836**	**2,785**	**7,621**

TABLE 9.7 Notes Payable Future Minimum Payments
(in thousands)

Years Ending June 30	Principal	Interest	Total
2007	$ 43	7	50
2008	45	5	50
2009	48	2	50
Total	**$ 136**	**14**	**150**

STATE OF COLORADO CERTIFICATES OF PARTICIPATION

On December 14, 2005, the State of Colorado, acting by and through the Regents, issued certificates of participation with an approximate par value of $192,625,000 and an approximate 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 of Colorado and are subject to annual appropriations by the Legislature. As a result, this liability is recognized by the State of Colorado 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 finance the costs of acquisition, construction, improvement, and equipping of buildings associated with UCDHSC Fitzsimons academic projects, which include seven buildings on the Fitzsimons campus. 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 $46,451,000 during the year ended and as of June 30, 2006.

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 $1,910,000 as of June 30, 2005. No such debt was outstanding as of June 30, 2006.

NOTE 10–OTHER LIABILITIES

Table 10.1, Other Liabilities, details other liabilities as of June 30, 2005 and 2004.

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 cost and risks associated with employee health benefit programs through the purchase of commercial insurance.

The University utilizes a protected self-insurance program for its property, liability, and workers' compensation risks. The University has established a separate self-insurance program for the purpose of providing professional liability coverage for UCDHSC and the Hospital Authority (Note 21). A separate self-insurance program has also been established to provide health insurance for graduate medical students and eligible dependents at UCDHSC.

All self-insurance programs assume losses up to certain limits and purchase a defined amount of excess insurance for losses over those limits. These limits range from $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.

TABLE 10.1 Other Liabilities *(in thousands)*

	2006		2005	
Type	Total	Current Portion	Total	Current Portion
University				
Risk financing	$ 23,306	9,089	22,448	8,901
Construction contract retainage	5,422	1,354	3,837	3,825
Funds held for others	22,481	22,481	13,682	13,682
Miscellaneous	2,522	743	898	898
Total Other Liabilities–University	**$ 53,731**	**33,667**	**40,865**	**27,306**
Discretely Presented Component Units				
Funds held for others	$ 2,774	481	3,188	422
Miscellaneous	–	–	1,185	–
Total Other Liabilities–DPCU	**$ 2,774**	**481**	**4,373**	**422**

TABLE 10.2 Risk Financing-related Liabilities *(in thousands)*

		Property, General Liability and Workers' Compensation	UCDHSC Professional Liability	Graduate Medical Students' Health Benefits	Total
Balance 2004	**$**	**12,842**	**7,638**	**811**	**21,291**
Fiscal Year 2005					
Claims and changes in estimates		8,810	(225)	5,166	13,751
Claim payments		(6,732)	(857)	(5,005)	(12,594)
Balance 2005	**$**	**14,920**	**6,556**	**972**	**22,448**
Fiscal Year 2006					
Claims and changes in estimates		6,073	965	5,723	12,761
Claim payments		(5,272)	(960)	(5,671)	(11,903)
Balance 2006	**$**	**15,721**	**6,561**	**1,024**	**23,306**

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 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, 2006 and 2005 are presented in Table 10.2, Risk Financing-related Liabilities.

DIRECT LENDING

CU-Boulder and UCDHSC participate in the federal government's Direct Loan Program. This program provides loans from the federal government to qualifying students and their families for educational purposes. While the University helps students obtain these loans, the University is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers, as the U.S. Department of Education performs these functions. The amount of direct loans during the years ended June 30, 2006 and 2005 is detailed in Table 10.3, Direct Lending.

TABLE 10.3 Direct Lending *(in thousands)*

Campus		2006	2005
CU-Boulder	$	106,820	106,268
UCDHSC		41,610	37,336
Total Direct Lending	**$**	**148,430**	**143,604**

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, 2006 and 2005, 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	2006	2005
Accounts receivable	$ 81,148	94,698
Accumulated unrealized gain on investments	21,864	19,067
Auxiliary facilities operating reserves	31,552	28,567
Campus operating reserves	10,345	16,455
Capital-related activities	99,556	108,132
Faculty start-up and research initiatives	75,959	60,530
Inventories and prepaids	10,918	10,469
Investment pool	42,393	27,247
Purchase commitments	3,652	4,849
Quasi-endowments	22,613	21,341
Risk financing activities	18,435	14,774
Service center reserves	1,704	2,896
Technology transfer office	11,128	2,861
University Physicians, Inc.	69,585	54,785
Total Designated Unrestricted Net Assets	**$ 500,852**	**466,671**

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 the all local governments and the State of Colorado, including the University. During the years ended June 2006 and 2005, the Colorado State Legislature determined that in Section 23-5-101.7 of the Colorado Revised Statutes 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 from all Colorado state and local governments combined. Further, so long as it is so designated as an enterprise, the institution shall not be subject to any of the revenue limitations of TABOR.

In July 2005, the Regents designated the University as a TABOR enterprise pursuant to the statute. During the years ended June 30, 2006 and 2005, 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 0.46 and 8.12 percent during the years ended June 30, 2006 and 2005, respectively, as shown in Table 12.1, TABOR Enterprise State Support Calculation.

A portion of the University is subject to revenue and expense limitations imposed by the Colorado State Legislature through the annual appropriation process. For the year ended June 30, 2006, the University's appropriated funds included $63,396,000 received from students that qualified for stipends from the College Opportunity Fund and $95,708,000 as fee-for-service contract revenue, as well as certain cash funds as specified in the State's annual appropriations bill. Since these new funding mechanisms were in place, the University recognized no state appropriations in Fiscal Year 2006. For year ended June 30, 2005, the University's appropriated funds include the appropriation from the State's General Fund of $150,673,000, as well as certain cash funds as specified in the State's annual appropriations bill.

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

All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. 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, 2006 and 2005, appropriated expenses were within the authorized spending authority. Table 12.2, Appropriated Funds, details the related activities for the years ended June 30, 2006 and 2005.

TABLE 12.1 TABOR Enterprise State Support Calculation *(in thousands)*

	2006	2005
State Grants:		
State appropriations	$ –	150,673
Capital appropriations	1,704	1,037
State appropriations for Fitzsimons Certificate of Participation	6,986	–
Total State Grants	8,690	151,710
Total Revenues (gross operating, nonoperating and other revenues)	$ 1,901,100	1,867,207
Ratio of State Grants to Total Revenues	0.46%	8.12%

TABLE 12.2 Appropriated Funds *(in thousands)*

Description	2006	2005
Total appropriation	$ 615,831	612,270
Actual appropriated revenues	606,037	606,502
Actual appropriated expenditures and transfers	599,512	606,825
Net increase (decrease) in appropriated net assets	6,525	(323)

TABLE 13 Scholarship Allowances *(in thousands)*

		2006			2005		
Funding Source Description		**Tuition and Fees**	**Auxiliary Enterprise Revenues**	**Total**	**Tuition and Fees**	**Auxiliary Enterprise Revenues**	**Total**
University general resources	$	27,769	665	28,434	13,254	588	13,842
University auxiliary resources		4,819	159	4,978	3,545	236	3,781
Colorado Commission on Higher Education financial aid program		8,534	120	8,654	6,424	156	6,580
Federal programs, including Pell grants		24,324	450	24,774	20,948	781	21,729
Other State of Colorado programs		132	2	134	1,547	103	1,650
Private programs		4,401	7	4,408	2,301	5	2,306
Gift funds		4,648	159	4,807	3,884	222	4,106
Total Scholarship Allowances	**$**	**74,627**	**1,562**	**76,189**	**51,903**	**2,091**	**53,994**

NOTE 13–SCHOLARSHIP ALLOWANCES

During the years ended June 30, 2006 and 2005, scholarship allowances were provided by 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 $252,206,000 and $220,445,000 and bad debt expense on uncollectible patient account receivables approximating $13,775,000 and $8,238,000 as of June 30, 2006 and 2005, respectively. Charity care provided during the years ended June 30, 2006 and 2005, for which no reimbursement was received, measured at established rates, totaled approximately $19,900,000 and $16,200,000, respectively.

NOTE 15–ON-BEHALF PAYMENTS

On-behalf payments occur when a third party, instead of the University, pays the salary and benefits (or portion thereof) for a University employee. The University receives on-behalf payments from the Hospital Authority and other sponsors. On-behalf payments for University faculty salaries and benefits during the years ended June 30, 2006 and 2005 were approximately $3,037,000 and $3,339,000, respectively.

NOTE 16–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.

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 legislation by the General Assembly. The State and other employers' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203 or at www.copera.org.

Plan members vest after five years of service and are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with five years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of five years of service credit and their age plus years of service equals 80 or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

The total payroll of employees covered by PERA was approximately $219,601,000 and $215,062,000 for the years ended June 30, 2006 and 2005, respectively. Employees contribute 8 percent of their gross covered wages to an individual account in the plan. During the years ended June 30, 2006, 2005, and 2004, the University contributed a total of 10.66, 10.16, and 10.15 percent, respectively, of the employee's gross covered wages to PERA in accordance with the following allocations and amounts detailed in Table 16, University Contributions to PERA. These contributions met the contribution requirement for each year.

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

VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

On January 1, 2001, the Matchmaker Program established a State match for PERA members' voluntary contributions to other tax-deferred retirement plans: PERA's voluntary 401(k) plan, the State's 457 deferred compensation plan, and a 403(b) plan of certain agencies and institutions of the State.

The PERA Board sets the level of the match annually, based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan assets is 110 percent of the actuarially accrued plan liabilities. This condition was not met during the years ended June 30, 2006 and 2005.

UNIVERSITY OPTIONAL RETIREMENT PLAN

Under the University's optional retirement plan, certain members of the University participate in a defined contribution retirement plan administered by the University for the benefit of full-time faculty and unclassified staff members. The 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. For the years ended June 30, 2006 and 2005, 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, 2006 and 2005 approximated $49,453,000 and $46,771,000, respectively. The employees' contribution under the optional retirement plan approximated $24,622,000 and $23,297,000 during the years ended June 30, 2006 and 2005, 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 the plan during the years ended June 30, 2006 and 2005.

TABLE 16 University Contributions to PERA *(in thousands)*

Program	Basis	2006	2005	2004
Health Care Trust Fund	1.02% after January 1, 2004; 1.1% between July 1, 2004 and January 1, 2003	$ 239	223	2,298
Matchmaker Program (see Voluntary Tax-deferred Retirement Plans above)	The amount needed to meet the match requirement established by the PERA Board	–	–	1,690
Defined Benefit Plan	The balance remaining	23,174	21,628	17,217
Total University Contribution		**$ 23,413**	**21,851**	**21,205**

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. UPI contributed an amount equal to 7 percent of eligible employees' salaries for the years ended June 30, 2006 and 2005. UPI's contributions for covered payroll to the retirement plan for the years ended June 30, 2006 and 2005 approximated $1,374,000 and $1,381,000, respectively.

CU FOUNDATION RETIREMENT PLAN

The CU Foundation sponsors a 401(k) plan for the benefit of its employees. Under the 401(k) plan, the CU Foundation matches employee contributions up to 6 percent of the employee's salary. For the years ended June 30, 2006 and 2005, the CU Foundation's matching contributions approximated $397,000 and $421,000, respectively.

CUREF RETIREMENT PLAN

Starting July 1, 2004, CUREF established a 401(k) safe-harbor plan for the benefit of substantially all full-time employees. Under the 401(k) plan, CUREF matches employee contributions up to 6 percent of the employee's salary. Participating employees immediately vest in employer contributions. For the years ended June 30, 2006 and 2005, CUREF's matching contributions approximated $24,000 and $26,000, respectively.

HEALTH INSURANCE PROGRAMS

The University's contributions to its various health insurance programs approximated $42,549,000 and $35,138,000 during the years ended June 30, 2006 and 2005, respectively.

NOTE 17–POST-EMPLOYMENT BENEFITS

UNIVERSITY POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE PLAN

The University provides certain post-retirement health care and life insurance benefits for retired employees in accordance with the Regents' authority. Substantially all of the University's employees may become eligible for those benefits if they reach normal retirement age while working for the University. During the years ended June 30, 2006 and 2005, approximately 3,300 and 3,160 retirees, respectively, met the eligibility requirements and are receiving benefits. Under this program, the University subsidizes a portion of health care and life insurance premiums by charging them as a current expense. These costs approximated $5,353,000 and $4,031,000 during the years ended June 30, 2006 and 2005, respectively.

PERA POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

PERACare (formerly know as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established PERACare and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the years ended June 30, 2006 and 2005, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

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

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2005, there were approximately 41,080 enrollees in the plan.

Life Insurance Program

During the years ended June 30, 2006 and 2005, PERA provided its members access to two group decreasing-term life insurance plans offered by Prudential and Anthem Life (formerly know as Rocky Mountain Life). Effective April 1, 2005, PERA consolidated the two plans, and UnumPovident became the administrator. Members who transition to the new plan may continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means.

NOTE 18–SEGMENT INFORMATION

As of June 30, 2006 and 2005, the University has one segment, UPI.

UPI has identifiable activities for which UPI Variable Rate Demand bonds approximating $19,460,000 and $19,940,000 are outstanding as of June 30, 2006 and 2005, respectively. The activities of this segment include all the UCDHSC's School of Medicine's faculty practice plan.

Summary financial information as of and for the years ended June 30, 2006 and 2005, respectively, is presented in Table 18, Segment Financial Information.

TABLE 18 Segment Financial Information *(in thousands)*

As of and for the year ended June 30	2006	2005
Condensed Statement of Net Assets	**UPI**	**UPI**
Assets		
Cash, cash equivalents, and equity in pooled cash and investments	$ 37,299	18,926
Short-term investments	10,036	14,290
Other current assets	32,408	35,272
Total current assets	79,743	68,488
Investments	42,040	39,407
Capital assets, net	17,548	18,847
Other noncurrent assets	1,426	1,371
Total noncurrent assets	61,014	59,625
Total Assets	**$ 140,757**	**128,113**
Liabilities		
Accounts payable and accrued expenses	$ 19,266	17,103
Bonds, notes, and leases payable	276	457
Total current liabilities	19,542	17,560
Bonds, notes, and leases payable	19,421	19,895
Total noncurrent liabilities	19,421	19,895
Total Liabilities	**$ 38,963**	**37,455**
Net Assets		
Invested in capital assets, net of related debt	$ (2,150)	(1,505)
Restricted for capital	6	306
Unrestricted	103,938	91,857
Total Net Assets	**$ 101,794**	**90,658**
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues	$ 238,206	220,588
Depreciation expense	(1,576)	(1,654)
Other operating expenses	(224,828)	(207,802)
Operating Income	11,802	11,132
Nonoperating Revenues (Expenses)		
Investment income	2,158	1,885
Interest expense on capital asset-related debt	(635)	(432)
Other nonoperating expenses	(2,189)	(3,352)
Total Nonoperating Revenues (Expenses)	(666)	(1,899)
Increase in Net Assets	**11,136**	**9,233**
Net Assets, beginning of year	90,658	81,425
Net Assets, end of year	**$ 101,794**	**90,658**
Condensed Statement of Cash Flows		
Net Cash Flows Provided by (Used for)		
Operating activities	$ 18,403	7,655
Non-capital financing activities	(2,190)	(2,828)
Capital and related financing activities	(1,546)	(1,756)
Investing activities	3,706	3,912
Net Increase in Cash and Cash Equivalents	**18,373**	**6,983**
Cash and Cash Equivalents, beginning of year	18,926	11,943
Cash and Cash Equivalents, end of year	**$ 37,299**	**18,926**

NOTE 19–DISCRETELY PRESENTED COMPONENT UNITS

Summary financial information as of and for the years ended June 30, 2006 and 2005, respectively, for the University's DPCU are presented in Table 19, DPCU Summary Financial Statements.

UNIVERSITY OF COLORADO FOUNDATION

Distributions made by the CU Foundation to the University during the years ended June 30, 2006 and 2005 were approximately $51,661,000 and $48,738,000, 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, 2006 and 2005, the CU Foundation recorded an accounts payable to the University and the University has recorded an equal accounts receivable from the CU Foundation of $8,447,000 and $5,742,000, respectively. As of June 30, 2006, the CU Foundation recorded an accounts receivable from the University and the University has recorded an equal accounts payable to the CU Foundation of approximately $942,000. There was no accounts receivable as of June 30, 2005.

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. The University has endowments held by the CU Foundation approximating $104,299,000 and $82,742,000 as of June 30, 2006 and 2005, respectively.

Bear Creek

During the year ended June 30, 2002, CU-Boulder and Bear Creek entered into an operating agreement whereby Bear Creek would construct and operate a student residence center on certain campus land, commonly referred to as Williams Village. The terms of the operating agreement provide the CU Foundation with the use of the University's land in exchange for net cash flow of the housing project as defined in the agreement. During the years ended June 30, 2006 and 2005, the University recognized related revenue of $917,000 and $786,000, respectively. During the years ended June 30, 2006 and 2005, the University made irrevocable gifts to Bear Creek of approximately $3,500,000 and approximately $3,600,000, respectively, to facilitate its housing operations.

COLEMAN COLORADO FOUNDATION

The Coleman Foundation received a January 2001 private donor pledge of $250,000,000 benefiting the University's Coleman Institute for Cognitive Disabilities. The ultimate timing to be contributed to the Coleman Foundation can be altered by the donors. As of June 30, 2006 and 2005, the donor deferred all scheduled payments, except the initial payment, and as a result, the pledge receivable has been recorded with a full allowance.

Distributions made by the Coleman Foundation to the University during the years ended June 30, 2006 and 2005 were approximately $1,000,000 and $1,800,000, respectively. All contributions have been recorded as University gift revenue and DPCU operating expense in the accompanying financial statements. The CU Foundation received a partial pledge contribution, which created an endowment fund. As of June 30, 2006 and 2005, this related endowment was valued at approximately $10,830,000 and $10,111,000, respectively.

THE UNIVERSITY OF COLORADO REAL ESTATE FOUNDATION

For the years ended June 30, 2006 and 2005, CUREF distributed approximately $93,000 and $86,000, respectively, reported as operating expense, to the University, which recognized an equal amount of gift revenue. CUREF has a $7,000,000 line of credit with an interest rate that is determined at the time a draw on the line of credit is made with the University. During the respective years ended June 30, 2006 and 2005, approximately $120,000 and $1,185,000, including accrued interest of $5,000, were drawn and owed under the line of credit. Amounts drawn and repaid during the year ended June 30, 2006 totaled approximately $1,317,000. No repayments were made during the year ended June 30, 2005.

CUREF has a long-term agreement with the University to rent portions of a building owned by CUREF. For the years ended June 30, 2006 and 2005, the University paid approximately $375,000 and $378,000, respectively, in rent to CUREF, which recognized an equal amount of other operating revenues.

NOTE 20–RELATED ORGANIZATIONS AND JOINT VENTURES

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

In accordance with 1991 State legislation, the Hospital Authority was established as a separate and distinct entity, where the University does not control the appointment of staff nor does it assume responsibility for the debts of the Hospital Authority. The Hospital Authority is not considered a component unit of the University because the University is not financially accountable for the Hospital Authority and its resources are not restricted to the University. Detailed financial information may be obtained directly from the Hospital Authority at Mail Stop F-401, P.O. Box 6506, Aurora, Colorado, 80045.

UCDHSC and UPI have several types of financial transactions with the Hospital Authority. On an annual basis, UCDHSC 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, UCDHSC 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

TABLE 19 DPCU Summary Financial Statements *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2006			
	Coleman Foundation	CU Foundation	CUREF	Total
Assets				
Current Assets				
Cash, cash equivalents, and investments	$ 61	8,920	8,744	17,725
Investments	–	–	6,857	6,857
Accounts and contributions receivable, net	–	14,351	941	15,292
Other assets	–	412	74	486
Total current assets	61	23,683	16,616	40,360
Noncurrent Assests				
Investments	–	751,372	4,301	755,673
Contributions receivable, net	–	16,082	230	16,312
Other assets	–	1,433	4,876	6,309
Capital assets, net	–	65,165	47,644	112,809
Total noncurrent assets	–	834,052	57,051	891,103
Total Assets	**$ 61**	**857,735**	**73,667**	**931,463**
Liabilities				
Current Liabilities				
Accounts payable	$ –	3,170	1,432	4,602
Accounts payable–University		2,828	–	2,828
Deferred revenue	–	529	133	662
Bonds and leases payable	–	1,280	–	1,280
Split-interest agreements	–	3,265	–	3,265
Custodial funds	–	5,586	–	5,586
Other liabilities	–	481	–	481
Total current liabilities	–	17,139	1,565	18,704
Noncurrent Liabilities				
Deferred revenue	–	139	–	139
Bonds and leases payable	–	71,586	50,365	121,951
Split-interest agreements	–	26,307	–	26,307
Custodial funds	–	106,779	–	106,779
Other liabilities	–	2,293	–	2,293
Total noncurrent liabilities	–	207,104	50,365	257,469
Total Liabilities	**$ –**	**224,243**	**51,930**	**276,173**
Net Assets				
Invested in capital assets, net of related debt	$ –	(7,701)	8,436	735
Restricted for nonexpendable purposes	–	206,509	–	206,509
Restricted for expendable purposes	61	388,173	1,702	389,936
Unrestricted	–	46,511	11,599	58,110
Total Net Assets	**$ 61**	**633,492**	**21,737**	**655,290**
Statements of Revenue, Expenses, and Changes in Net Assets				
Operating Revenues				
Contributions	$ 1,000	58,283	1,584	60,867
University support	–	7,462	–	7,462
Other revenue	–	12,228	5,931	18,159
Total operating revenues	1,000	77,973	7,515	86,488
Operating Expenses				
Institutional Support				
Gifts and income distributed to University and related parties	1,000	53,704	93	54,797
Other program services	–	7,297	3,483	10,780
Support services	6	16,705	322	17,033
Depreciation	–	3,006	126	3,132
Total operating expenses	1,006	80,712	4,024	85,742
Operating Income (loss)	**(6)**	**(2,739)**	**3,491**	**746**
Nonoperating Revenues (Expenses)				
Gifts	–	3,500	–	3,500
Investment income	2	68,548	1,252	69,802
Interest expense on capital asset related debt	–	(3,915)	–	(3,915)
Increase in Net Assets	**(4)**	**65,394**	**4,743**	**70,133**
Net Assets, beginning of year	65	568,098	16,994	585,157
Net Assets, end of year	**$ 61**	**633,492**	**21,737**	**655,290**

TABLE 19 (continued) DPCU Summary Financial Statements *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2005			
	Coleman Foundation	CU Foundation	CUREF	Total
Assets				
Current Assets				
Cash, cash equivalents, and investments	$ 65	8,769	582	9,416
Investments	–	–	31,652	31,652
Accounts and contributions receivable, net	–	13,773	261	14,034
Other assets	–	491	112	603
Total current assets	65	23,033	32,607	55,705
Noncurrent Assests				
Investments	–	663,014	5,917	668,931
Contributions receivable, net	–	15,694	251	15,945
Other assets	–	1,608	2,686	4,294
Capital assets, net	–	67,743	27,642	95,385
Total noncurrent assets	–	748,059	36,496	784,555
Total Assets	**$ 65**	**771,092**	**69,103**	**840,260**
Liabilities				
Current Liabilities				
Accounts payable	$ –	3,655	533	4,188
Deferred revenue	–	1,242	26	1,268
Bonds and leases payable	–	1,425	–	1,425
Split-interest agreements	–	3,372	–	3,372
Custodial funds	–	4,690	–	4,690
Other liabilities	–	422	–	422
Total current liabilities	–	14,806	559	15,365
Noncurrent Liabilities				
Deferred revenue	–	122	–	122
Bonds and leases payable	–	72,888	50,365	123,253
Split-interest agreements	–	27,384	–	27,384
Custodial funds	–	85,028	–	85,028
Other liabilities	–	2,766	1,185	3,951
Total noncurrent liabilities	–	188,188	51,550	239,738
Total Liabilities	**$ –**	**202,994**	**52,109**	**255,103**
Net Assets				
Invested in capital assets, net of related debt	$ –	(6,570)	14,846	8,276
Restricted for nonexpendable purposes	–	189,920	–	189,920
Restricted for expendable purposes	65	347,975	479	348,519
Unrestricted	–	36,773	1,669	38,442
Total Net Assets	**$ 65**	**568,098**	**16,994**	**585,157**
Statements of Revenue, Expenses, and Changes in Net Assets				
Operating Revenues				
Contributions	$ 1,472	51,899	688	54,059
University support	–	8,246	–	8,246
Other revenue	–	10,749	1,696	12,445
Total operating revenues	1,472	70,894	2,384	74,750
Operating Expenses				
Institutional Support				
Gifts and income distributed to University and related parties	1,800	85,864	86	87,750
Other program services	–	7,523	1,284	8,807
Support services	4	17,112	338	17,454
Depreciation	–	2,818	103	2,921
Total operating expenses	1,804	113,317	1,811	116,932
Operating Income (loss)	**(332)**	**(42,423)**	**573**	**(42,182)**
Nonoperating Revenues (Expenses)				
Gifts	–	3,600	–	3,600
Investment income	8	51,954	32	51,994
Interest expense on capital asset-related debt	–	(4,066)	–	(4,066)
Increase in Net Assets	**(324)**	**9,065**	**605**	**9,346**
Net Assets, beginning of year	389	559,033	16,389	575,811
Net Assets, end of year	**$ 65**	**568,098**	**16,994**	**585,157**

UCDHSC, 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 UCDHSC or the Hospital Authority.

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

Total payments issued by the Hospital Authority to the UCDHSC approximated $31,950,000 and $27,230,000 for years ended June 30, 2006 and 2005, respectively. Total payments issued by the UCDHSC to the Hospital Authority for the years ended June 30, 2006 and 2005 approximated $8,432,000 and $6,777,000, respectively.

During the years ended June 30, 2006 and 2005, UPI recognized approximately $17,218,000 and $16,684,000, respectively, in health services revenue from the Hospital Authority in support of clinical and academic missions. Additionally, during the years ended June 30, 2006 and 2005, the Hospital Authority reimbursed UPI approximately $2,373,000 and $2,313,000, respectively, for joint patient care and network administrative functions performed by UPI. UPI also received approximately $21,838,000 and $19,839,000 during the years ended June 30, 2006 and 2005, 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 $385,000 and $189,000 in dividends from TriWest during the years ended June 30, 2006 and 2005, 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.

The Hospital Authority is relocating to the Fitzsimons campus in Aurora, Colorado. The new Fitzsimons site will require substantial infrastructure improvements to support the current and future buildings. The Hospital Authority and UCDHSC are sharing in the costs of the infrastructure projects based on estmates of future usage. An agreement governs the sharing of infrastructure costs between the two parties. UCDHSC is responsible for managing the infrastructure improvement projects and is then reimbursed by the Hospital Authority for its share under the agreement. During the year ended June 30, 2005, UCDHSC received $906,000 in reimbursements for the projects. There were no infrastructure reimbursements during the year ended June 30, 2006.

AURARIA HIGHER EDUCATION CENTER

The Auraria Higher Education Center (AHEC), established by legislation in 1974, is jointly governed and utilized by UCDHSC, 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, 2006 and 2005, the University incurred expenses related to the common facilities approximating $4,965,000 and $4,678,000, respectively, for payments to AHEC.

NOTE 21–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 $238,378,000 and $66,212,000, as of June 30, 2006 and 2005, 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, 2006 and 2005, the amount of capital construction appropriations authorized from the State for these projects approximated $2,174,000 and $407,000, 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 statues 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.

The University is in the process of closing and selling the property at the 9th Avenue and Colorado Boulevard campus. As part of this process, the University entered into a sales agreement with a third party in June 2006. In connection with the sales agreement, the University has agreed to environmentally remediate the property. In addition, to complete the sale of the property, the University must relieve the property of two long-term lease commitments and a possible reversionary interest. As the final outcome of the sales process is uncertain, management does not know whether the sales proceeds will cover the costs of remediation and the release of the existing commitments.

NOTE 22–SUBSEQUENT EVENTS

On August 23, 2006, the University issued $101,425,000 of University Enterprise Revenue Bonds, Series 2006A. The proceeds of the bonds will be used to finance capital improvements and acquisitions for a residence hall, outdoor recreation facilities, and the business school at CU-Boulder; a student recreation center at CU-Colorado Springs; and to reimburse the University for the acquisition of two buildings for the UCDHSC Downtown Denver location. The revenue bonds bear interest rates from 4 to 5 percent with final maturity in 2039. The revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the University to redeem, at various dates, portions of the outstanding revenue bonds at prices equal to 100 percent of the principal amount of the revenue bonds redeemed plus accrued interest to the redemption date.

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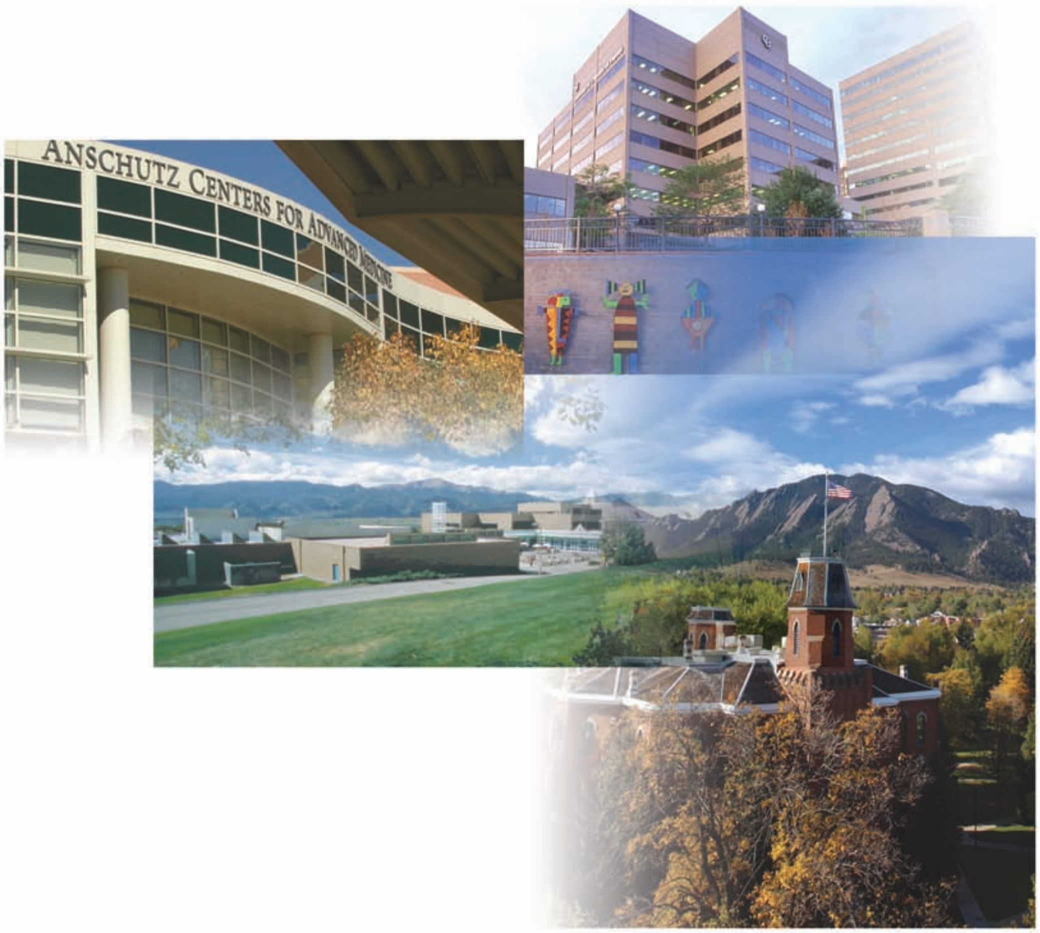

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