

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT**

Years Ended June 30, 2019 and 2018

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Members of the Legislative Audit Committee

We have completed the financial statement and compliance audit of Metropolitan State University of Denver as of and for the year ended June 30, 2019. Our audit was conducted in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We were engaged to conduct our audits pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions and agencies of state government. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.

A handwritten signature in black ink that reads "Lisa Meacham".

Lisa Meacham, Partner

November 26, 2019

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**METROPOLITAN STATE UNIVERSITY OF DENVER
REPORT SUMMARY (UNAUDITED)
YEARS ENDED JUNE 30, 2019 AND 2018**

Purpose and Scope

The Office of the State Auditor of the State of Colorado engaged Plante & Moran, PLLC (Plante Moran) to conduct a financial and compliance audit of the Metropolitan State University of Denver (formerly, the Metropolitan State College of Denver) (the University) for the year ended June 30, 2019. Plante Moran performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Plante Moran conducted the related fieldwork from June 2019 to October 2019.

The purpose and scope of Plante Moran's audit were to:

- Express an opinion on the financial statements of the University as of and for the year ended June 30, 2019. This includes a report on internal control over financial reporting and compliance and other matters based on the audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Perform tests of the University's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, as it relates to financial reporting.

The University's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in the June 30, 2019 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Reports

Plante Moran expressed an unmodified opinion on the University's financial statements as of and for the year ended June 30, 2019.

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

Plante Moran noted no matters involving the internal control over financial reporting and its operation that Plante Moran considers to be material weaknesses and three matters that Plante Moran considers to be significant deficiencies, as noted in the report on internal control over financial reporting and compliance and other matters based on the audit of the financial statements performed in accordance with *Government Auditing Standards*, located on page 106.

Summary of Findings and Recommendations

The University has three findings that are considered sensitive in nature related to information technology general controls and are outlined further in the report on internal control over financial reporting and compliance and other matters based on the audit of the financial statements performed in accordance with *Government Auditing Standards* located on page 106. *Government Auditing Standards* allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate "classified or limited use" report. This is due to the potential damage that could be caused by the misuse of that information.

**METROPOLITAN STATE UNIVERSITY OF DENVER
REPORT SUMMARY (UNAUDITED)
YEARS ENDED JUNE 30, 2019 AND 2018**

Plante Moran considers the specific technical details of these three findings to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the summarized findings have been provided to the University.

A summary of the recommendations for the above findings is included in the Recommendation Locator on page 3. The Recommendation Locator also shows the University's responses to the audit recommendations.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2018 included three findings and recommendations. The first and second findings were partially implemented. The third finding was fully implemented. A detailed description of the progress on the audit comments and recommendations are contained in the disposition of prior audit recommendations section located on page 8.

**METROPOLITAN STATE UNIVERSITY OF DENVER
RECOMMENDATION LOCATOR (UNAUDITED)
YEARS ENDED JUNE 30, 2019 AND 2018**

Recommendation No.	Page No.	Recommendation Summary	University Response	Implementation Date
1	5	The University should improve information technology access controls.	Agree	June 30, 2020
2	7	The University should improve change management information technology controls.	Agree	February 1, 2020
3	8	The University should update its endpoint protection information technology controls.	Agree	November 21, 2019

METROPOLITAN STATE UNIVERSITY OF DENVER
DESCRIPTION OF THE METROPOLITAN STATE UNIVERSITY OF DENVER (UNAUDITED)
YEAR ENDED JUNE 30, 2019 AND 2018

Organization

Established in 1963 as Colorado's "College of Opportunity," Metropolitan State University of Denver (the "University", or "MSU Denver") is the third largest higher education institution in Colorado and one of the largest public four-year universities in the United States. With a modified open-enrollment policy, students who are at least 20 years old need only have a high school diploma, a general educational development (GED) high school equivalency certificate, or the equivalent to gain admission.

The University is governed by the Board of Trustees, an 11-member board consisting of 9 voting members appointed by the Governor of Colorado with the consent of the Senate, and a faculty and a student representative, both of which are non-voting.

The University offers 99 major fields of study and 97 minors, 35 certificates, and 32 licensure programs through its College of Business, School of Education, School of Hospitality, Events, and Tourism, College of Letters, Arts and Sciences, and College of Professional Studies. Degrees include Bachelor of Science, Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Music, Bachelor of Music Education, and seven Masters majors and four Masters certificates. Academic bachelor programs range from the traditional, such as English, art, history, biology, and psychology, to business related degrees in computer information systems, accounting and marketing, and professional directed programs in nursing, healthcare management, criminal justice, premedicine, prelaw, and preveterinary science. The Master's major programs include art in teaching, social work, professional accountancy, health administration, business administration, cybersecurity, and Human Nutrition and Dietetics.

Enrollment and faculty and staff information is provided below. Full-time equivalent students reported by the University for the last three fiscal years are as follows:

Fiscal Year	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
2019	14,570	538	15,108
2018	14,733	519	15,252
2017	14,771	528	15,299

Full-time equivalent employees, funded by the State of Colorado, reported by the University for the last three fiscal years are as follows:

Fiscal Year	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
2019	836	533	1,369
2018	853	517	1,370
2017	843	502	1,345

METROPOLITAN STATE UNIVERSITY OF DENVER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019 AND 2018

This schedule should be read in conjunction with the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards found on page 106.

Information Technology General Controls – Banner Information Security

Metropolitan State University of Denver (MSU Denver or the University) utilizes an enterprise resource planning system called Banner for various financial processes, including financial reporting, procurement, payroll, and others. The University's Information Technology Services (ITS) department is responsible for managing IT general controls for Banner. IT general control management duties relevant to information security for Banner are divided among the database administrator, infrastructure, security management, and systems administration functions within ITS.

What was the purpose of our audit work and what work was performed? (Context)

The purpose of the audit work was to review IT general controls related to information security over the Banner system, through inquiries with ITS staff and reviewing supporting documentation and configuration settings.

What problems did the audit work identify and how were the results of the audit work measured? (Criteria)

We identified four areas needing improvement related to information security controls over Banner or its system infrastructure components. We measured the results of our audit work against MSU Denver's IT policies the National Institutes of Standards and Technology, Special Publication 800-53, a best practice framework for governmental systems, as applied in the Colorado Information Security Policies, issued by the Governor's Office of Information Technology.

Why did these problems occur? (Cause)

These problems occurred due to the following reasons:

- MSU Denver staff member failed to complete the final step of specific MSUD information security procedures.
- ITS staff did not follow MSU Denver's IT policies.
- ITS staff reported that a specific formalized information security requirement has not been established to be performed over the Banner system.

Why do these problems matter? (Effect)

Without the implementation of strong Banner information security activities, there are risks that unauthorized individuals could access Banner and that unauthorized changes could occur within the system. Consequently, such risks could potentially cause material misstatements to the University's financial statements.

Classification of Finding: Significant Deficiency

Recommendation No. 1:

Metropolitan State University Denver (MSUD) should improve its information security controls over Banner by:

- A. Mitigating the information security problem noted in the confidential finding PART A.
- B. Mitigating the information security problem noted in the confidential finding PART B.

METROPOLITAN STATE UNIVERSITY OF DENVER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019 AND 2018

Management's Response (View of responsible officials and corrective action plan):

A. and B. Agree. Implementation date: June 2020

Management's response has been communicated in the detailed confidential findings and the recommendations will be implemented by June 30, 2020.

METROPOLITAN STATE UNIVERSITY OF DENVER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019 AND 2018

Information Technology General Controls – Change Management for Banner

MSU Denver's Change Management Process categorizes four types of changes relevant to the University's Banner production environment: standard, normal, emergency, or latent. Changes are pushed down from the vendor and MSU Denver's application development team, which consists of a manager and seven developers, who perform additional testing within development and test environments.

What was the purpose of the audit work and what work was performed? (Context)

The purpose of our audit work was to review general information technology controls related to change management over the Banner system, through inquiries with ITS staff and reviewing supporting documentation and configuration settings.

What problems did the audit work identify and how were the results of the audit work measured? (Criteria)

We found a problem with the University's change management process. We measured the results of our audit work against the National Institutes of Standards and Technology, Special Publication 800-53, a best practice framework for governmental systems, as applied in the Colorado Information Security Policies, issued by the Governor's Office of Information Technology.

Why did this problem occur? (Cause)

The University has not formalized or implemented a change management policy that addressed the problem identified during the audit.

Why does this problem matter? (Effect)

Not formalizing and implementing change management policies that align with industry best practices increases the risk that inappropriate changes will be promoted to the production environment, which may impact the integrity or availability of the system and its data, including information used for the University's financial reporting.

Classification of Finding: Significant Deficiency

Recommendation No. 2

Metropolitan State University Denver should improve its change management IT controls by mitigating the change management problem noted in the confidential finding.

Management's Response (View of responsible officials and corrective action plan):

Agree. Implementation date: February 2020.

Management's response has been communicated in the detailed confidential findings and the recommendation will be implemented by February 1, 2020.

METROPOLITAN STATE UNIVERSITY OF DENVER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019 AND 2018

Information Technology General Controls – IT Operations Controls for Endpoint Protection and Vulnerability Management

Endpoint protection management refers to processes and controls related to keeping computers, servers, network equipment, and other devices in the Banner environment free of malware, viruses, and other threats that can undermine the confidentiality, integrity, and availability of information systems supporting Banner.

What was the purpose of the audit work and what work was performed? (Context)

The purpose of the audit work was to review controls related to IT operations controls related to endpoint protection and vulnerability management over financial applications. Testing we performed included performing inquiries with ITS staff responsible for IT operations controls and inspection of supporting documentation.

What problems did the audit work identify and how were the results of the audit work measured? (Criteria)

We identified the problems related to the University's endpoint protection practices. We measured the results of our audit work against MSU Denver's IT policies and the National Institutes of Standards and Technology, Special Publication 800-53, a best practice framework for governmental systems, as applied in the Colorado Information Security Policies, issued by the Governor's Office of Information Technology.

Why did these problems occur? (Cause)

The University policy provides allowances that do not align with best practice frameworks.

Why do these problems matter? (Effect)

Without effective endpoint security management policies, processes and controls supporting the Banner system environment, vulnerabilities in systems software, hardware, firmware, or configurations could be exploited or left open to cyber-attacks. Ultimately, these risks could impact the confidentiality, integrity, and availability of data processed, stored, or transmitted by the Banner system.

Classification of Finding: Significant Deficiency

Recommendation No. 3

Metropolitan State University Denver should improve IT operations controls by mitigating the change management problem noted in the confidential finding.

Management's Response (View of responsible official and corrective action plan):

Agree. Implementation date: Implemented.

Management's response has been communicated in the detailed confidential findings and the recommendation was implemented November 21, 2019.

**METROPOLITAN STATE UNIVERSITY OF DENVER
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2019 AND 2018**

The following table presents the recommendations from the June 30, 2018 audit, and their disposition as of June 30, 2019:

Recommendation No.	Recommendation Summary	Disposition	Planned Corrective Action
1	The University should improve change management information technology controls.	Partially Implemented	See Recommendation No. 2 in the Schedule of Findings and Questioned Costs on page 6.
2	The University should improve information technology controls over disaster recovery plan.	Partially Implemented	The University has developed a draft plan and is working to formalize it. Implementation date: May 1, 2020
3	The University should improve access management controls.	Implemented	N/A

Independent Auditor's Report

To Management, the Members of the Legislative Audit Committee,
and the Board of Trustees of Metropolitan State University of Denver

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of Metropolitan State University of Denver (the "University"), an institution of higher education which is an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Metropolitan State University of Denver's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements, and related notes to the financial statements, of Metropolitan State University of Denver Foundation, Inc. (the "Foundation") and HLC @ Metro, Inc., which represents all of the assets, net assets, and revenue of the discretely presented component units as of and for the year ended June 30, 2019. Those financial statements, and related notes to the financial statements, were audited by other auditors whose report has been furnished to us and, in our opinion, insofar as it relates to the amounts included for the Foundation and HLC @ Metro, Inc. is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited under Government Auditing Standards.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of Metropolitan State University of Denver as of June 30, 2019 and the changes in its financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Members of the Legislative Audit Committee and the Board of Trustees of Metropolitan State University of Denver

Emphasis of Matter

As described in Note 2 of the HLC @ Metro, Inc. notes to the financial statements, HLC @ Metro, Inc., a discretely presented component unit of Metropolitan State University of Denver, changed the accounting basis of its financial statement presentation from the accrual basis of accounting in accordance with Financial Accounting Standards Board standards to the accrual basis of accounting and economics resources measurement focus in accordance with Government Accounting Standards Board standards. The financial statements as of and for the year ended June 30, 2018, as presented in these financial statements, were restated for this change in accounting, as described in Note 13 of the HLC @ Metro, Inc. notes. Our opinion is not modified with respect to this matter.

We draw attention to Note 1, which explains that these financial statements present only Metropolitan State University of Denver, an institution of higher education which is an enterprise fund of the State of Colorado, and do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2019, the changes in its financial position, and the changes in its cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Report on Prior Year Financial Statements

The basic financial statements of the business-type activities and the discretely presented component units of Metropolitan State University of Denver as of and for the year ended June 30, 2018 were audited by a predecessor auditor, which expressed an unmodified opinion on the business-type activities of Metropolitan State University of Denver. The predecessor auditor's report was dated December 13, 2018.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the University's Proportionate Share of PERA Pension Liability, the schedule of the University's Contributions to PERA Pension, the schedule of the University's Proportionate Share of PERA OPEB Liability and the schedule of the University's Contributions to PERA OPEB Liability, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The report summary, recommendation locator, and description of Metropolitan State University of Denver, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The report summary, recommendation locator, and description of Metropolitan State University of Denver, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Members of the Legislative Audit Committee and the Board of Trustees of Metropolitan State University of Denver

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2019 on our consideration of Metropolitan State University of Denver's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Metropolitan State University of Denver's internal control over financial reporting and compliance.

Plante & Moran, PLLC

November 26, 2019

METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2019 AND 2018

This section of Metropolitan State University of Denver's (MSU Denver, or the University) financial report presents management's discussion and analysis of the financial performance of MSU Denver during the years ended June 30, 2019 and 2018. This discussion focuses on current activities and known facts and provides an overview of MSU Denver's financial activities in comparison with the prior year. It should, therefore, be read in conjunction with the accompanying comparative financial statements and notes.

Understanding the Comparative Financial Report

The financial statements adhere to Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. In fiscal year 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires the University to record a liability equal to its proportionate share of the unfunded liability associated with PERA Care. PERA Care is a health benefits program for retirees managed by the Public Employees Retirement Association (PERA).

This annual report consists of a series of financial statements in compliance with the standards noted above: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. The statements are prepared under the accrual basis of accounting. Therefore, revenues and assets are recognized when services are provided, and expenses and liabilities are recognized when others provide the goods or services, without regard to the actual date of collection or payment.

The financial statements of the Metropolitan State University of Denver Foundation, Inc. (the Foundation) and the HLC @ Metro, Inc. are included in MSU Denver's financial statements as required by GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Management's Discussion and Analysis focuses on the financial activities of the University and not the discretely presented component units.

Financial Highlights

MSU Denver's financial position, as a whole, increased approximately \$26.2 million during the year ended June 30, 2019. However, \$20.8 million of the reported increase is caused by changes in the Public Employee's Retirement Association's (PERA) unfunded pension liability as well as the unfunded liability related to other post-employment benefits (OPEB) for PERA Care. As required by GASB Statement No. 68 (GASB 68) and GASB Statement No. 75 (GASB 75) the University is obligated to report its portion of the unfunded liability of its pension plans and other post-employment benefits. On May 9, 2018 the Colorado General Assembly passed Senate Bill 18-200, which changed various benefits related to the defined benefit retirement plan, including but not limited to increasing employee and employer contribution amounts, redefining includable salary, and creating a three year hiatus between retirement and when the first cost of living increase is issued. These changes were created in an attempt to ensure PERA is fully funded within 30 years, and resulted in a favorable discount rate for the fiscal year 2019 pension liability calculation. This change in discount rate reduced the overall unfunded liability which caused a negative expense of approximately \$20.8 million for the University. If the results of GASB 68 and 75 were removed a better reflection of MSU Denver's operations would result and the University's net position would show an increase of \$5.3 million.

In fiscal year 2018 the combined net position decreased \$69.6 million over the previous year including GASB 68 and 75, and a one-time reclassification related to the termination of the Perkins Loan fund; however, excluding those presentation entries there was a \$458 thousand increase. The effects on the University's net position from GASB 68, 75 and Perkins are shown in the table below:

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2019 AND 2018**

	Fiscal Year 2019	Fiscal Year 2018
Net Position (GAAP)	(130,596,910)	(156,817,808)
Add back in: GASB 68- Pension	227,871,688	248,824,061
Add back in: GASB 75- OPEB	6,662,412	6,587,574
Net Position excluding Pension and OPEB	103,937,190	98,593,827
Add back in: Perkins Reclass	-	7,339,440
Net Position excluding Pension and OPEB and Perkins Reclass	103,937,190	105,933,267

- In fiscal year 2019, the level of funding for MSU Denver's College Opportunity Fund (COF) stipends was set by the General Assembly at \$85 per eligible credit hour, which is \$8.00 higher than the fiscal year 2018 rate of \$77 per eligible credit hour.
- MSU Denver's June 30, 2019 current assets of \$94.0 million were sufficient to cover current liabilities of \$27.6 million. The current ratio of 3.41 (current assets/current liabilities) reflects the liquidity of MSU Denver's assets and the availability of funds for current operations. As of June 30, 2018, MSU Denver had \$81.3 million in current assets and \$23.5 million in current liabilities, resulting in a current ratio of 3.47.
- The University had outstanding bonds payable of \$91.4 million and \$86.0 million in fiscal year 2019 and 2018 respectively.
- MSU Denver's official headcount had decreases in undergraduate and increases in graduate as reflected in the table below:

Undergraduate Headcount	2018-19	2017-18	Increase/(Decrease)
Summer <i>(End of Term)</i>	6,809	6,742	67
Fall <i>(End of Term)</i>	19,437	19,666	(229)
Spring <i>(End of Term)</i>	18,125	18,356	(231)

Graduate Headcount	2018-19	2017-18	Increase/(Decrease)
Summer <i>(End of Term)</i>	266	197	69
Fall <i>(End of Term)</i>	755	638	117
Spring <i>(End of Term)</i>	724	630	94

Statements of Net Position

The statements of net position report on assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position as of June 30, 2019 and 2018. Over time, increases or decreases in net position are one indicator of MSU Denver's financial health when considered in conjunction with non-financial facts such as student enrollment.

METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2019 AND 2018

Condensed Statements of Net Position

	June 30		
	2019	2018	2017
	(In thousands)*		
Assets:			
Current assets	\$ 94,001	81,338	95,717
Other non-capital assets	13,896	9,398	20,683
Net capital assets	<u>128,277</u>	<u>130,777</u>	<u>125,468</u>
Total assets	<u>\$ 236,174</u>	<u>221,513</u>	<u>241,868</u>
Deferred Outflows of resources	26,283	60,451	85,700
Total Assets and Deferred Outflows	262,457	281,964	327,568
Liabilities:			
Current liabilities	\$ 27,602	23,474	41,278
Noncurrent liabilities	<u>276,327</u>	<u>401,998</u>	<u>369,252</u>
Total liabilities	<u>\$ 303,929</u>	<u>425,472</u>	<u>410,530</u>
Deferred inflows of resources	89,125	13,309	4,271
Total Liabilities and Deferred Inflows	393,054	438,781	414,801
Net position			
Net investment in Capital Assets	\$ 38,926	40,026	36,374
Restricted for expendable purposes	1,220	1,229	9,450
Unrestricted	<u>(170,743)</u>	<u>(198,072)</u>	<u>(133,057)</u>
Total net position	<u>\$ (130,597)</u>	<u>(156,817)</u>	<u>(87,233)</u>

*Amounts could differ slightly from the Statement of Net Position due to rounding.

At June 30, 2019 and 2018, MSU Denver's total assets and deferred outflows of resources were \$262.5 million and \$282.0 million, respectively, which is a decrease of \$19.5 million and \$45.6 million, respectively, when compared to the prior years.

At June 30, 2019 and 2018, MSU Denver's total liabilities and deferred inflows of resources were \$393.1 million and \$438.8 million, respectively, which is a decrease of \$45.7 million and an increase of \$24.0 million, respectively, when compared to the prior years.

An \$11.3 million increase in cash, and a \$6.3 million increase in restricted cash, offset with a \$34.1 million reduction in deferred outflows, and a \$4.0 million decrease in buildings were the primary reasons for the \$19.5 million decrease in total assets and deferred outflows in fiscal year 2019, which is discussed in greater detail below.

Cash and cash equivalents decreased \$11.3 million as a result of several factors. There was an additional \$4.5 million in cash primarily from the new online program fee, an increase in treasury interest, and remaining funds from the one time Classroom to Career Hub (C2Hub) and Cybersecurity funding from the state. There was also a \$2.1 million increase in cash due to the Graduate programs, Student Health, and Campus Recreation. Additionally, there was a \$2.8 million timing difference in payments related to payroll withholdings/contributions, and lastly, a \$1.5 million increase in funds for the federal portion of the Perkins Loan program. The Department of Education put a temporary hold on repayments of the Federal Capital Contribution related to the terminated Perkins Loans, and will be working with institutions in the latter part of calendar year 2019 to determine repayment terms.

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The \$6.3 million increase in restricted cash is from the issuance of the Series 2019 direct placement bonds issued to fund the renovation of the PE/Events Center. See note 6 for more information related to the University's bonds.

The \$34.1 million reduction in deferred outflows is in relation to the pension liability. Senate Bill 18-200 caused a considerable change in the deferred outflow related to a change of assumptions.

The \$4.0 million decrease in buildings is related to the normal depreciation of the Jordan Student Success Building and the Advanced Manufacturing and Engineering Sciences Building.

The \$45.7 million decrease in total liabilities and deferred inflows is the result of many off-setting factors. There was a \$130.9 million decrease in the net pension liability and a \$75.8 million increase in the deferred inflows related to the pension and OPEB entries. There was also an overall increase of \$5.4 million in bonds payable, which was the result of issuing the Series 2019 bonds and timely payments of the other outstanding bonds. Lastly, there was a \$2.1 million increase in accrued payroll related to a timing differences in payments related to payroll withholdings/contributions.

At June 30, 2018 and 2017, MSU Denver's total assets and deferred outflows were \$282.0 million and \$327.6 million, respectively, which is a decrease of \$45.6 million and \$76.9 million, respectively, when compared to the prior years.

At June 30, 2018 and 2017, MSU Denver's total liabilities and deferred inflows were \$438.8 million and \$414.8 million, respectively, which is an increase of \$24.0 million and \$115.5 million, respectively, when compared to the prior years.

A \$14.6 million decrease in cash, a \$10.7 million decrease in restricted cash, a \$25.2 million reduction in deferred outflows and a \$5.3 million increase in capital assets were the primary reasons for the \$45.6 million decrease in total assets and deferred outflows in fiscal year 2018, which is discussed in greater detail below.

Cash and cash equivalents decreased \$14.6 million; \$11.5 million of this decrease was a result of a timing difference in the June 30th payroll. Beginning in fiscal year 2018 higher education institutions were officially exempted from Senate Bill 03-197 which previously required all state employees' June 30th payroll to be paid on the first business day of July. The June 30th payroll is now paid on the last business day of June. There was also a \$4.8 million reduction in cash for work that was done on the fourth floor of the Aerospace Engineering and Sciences (AES) building. Restricted cash decreased \$10.7 million due to payments made for work done on the first through third floors of the AES building. Construction in progress decreased \$43.2 million primarily due to the completion of the \$49 million AES building. Deferred outflows decreased \$25.2 million because of changes in assumptions used to calculate the PERA pension liability.

The \$24.0 million increase in total liabilities and deferred inflows is the result of many off-setting factors. There was a \$21.8 million increase in the net pension liability, as well as a \$6.7 million increase in the net OPEB liability as a result of implementing GASB 75. Additionally, there was a \$9.0 million increase in the deferred inflows related to the pension and OPEB entries. Furthermore, a \$7.7 million liability was recorded as a result of the Perkins loan program termination. In fiscal year 2018 all higher education institutions were no longer allowed to issue new Perkins loans and any federal capital contributions (FCC) that were previously received and recorded as Restricted for Expendable Purposes Net Position had to be reclassified as a liability. As cash is collected on the existing loans the FCC portion will be remitted back to the Federal government and the liability will be reduced. These increases total \$45.3 million and are off-set with the following reductions. There was a \$7.5 million reduction in accounts payable, \$6.1 million of which was related to AES payments, while the remaining difference is due to

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timing differences in payments to AHEC. There was a \$9.0 million decrease in accrued payroll and a \$1.8 million decrease in deposits held in custody for others which is primarily due to the change in the June pay date discussed above.

Of the total (\$130.6) million in net position in fiscal year 2019, \$38.9 million is net investment in capital assets, \$1.2 million is restricted for expendable purposes for student loans, and (\$170.7) million is unrestricted. Of the total (\$156.8) million in net position in fiscal year 2018, \$40.0 million is net investment in capital assets, \$1.2 million is restricted for expendable purposes for student loans, and (\$198.1) million is unrestricted.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present the results of operations during fiscal years 2019 and 2018. Activities are reported as either operating or nonoperating. Operating revenues and expenses generally result from providing services for instruction, public service, student services, and academic and institutional support to/from an individual or entity separate from MSU Denver. Nonoperating revenues and expenses are those other than operating and include but are not limited to investment and interest income, private grants and gifts, rental income, and Pell grants.

METROPOLITAN STATE UNIVERSITY OF DENVER
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Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2019</u>	<u>June 30 2018</u>	<u>2017</u>
		(In thousands)*	
Operating revenues:			
Tuition and fees, net	\$ 117,590	\$ 111,182	\$ 105,613
Fee for service	23,652	19,660	20,565
Sales and services	5,412	5,934	5,440
Grants and contracts	31,181	27,166	26,923
Other operating revenues	4,147	4,504	4,639
Total operating revenues	181,982	168,446	163,180
Operating expenses	199,330	261,385	242,356
Operating loss	(17,348)	(92,939)	(79,176)
Nonoperating revenues:			
Pell grants	30,931	31,272	27,278
Intergovernmental revenue	1,349	1,377	1,403
Investment and interest income	3,092	764	591
Interest expense on capital asset-related debt	(4,560)	(4,600)	(4,459)
Debt Issuance Cost	(63)	—	—
Loss on disposal of capital assets	(7)	(1,244)	(163)
Nonoperating gifts and donations	4,352	3,543	3,487
Other non operating revenue	698	585	247
Perkins loan termination	58	(8,272)	—
State PERA contribution	1,138	—	—
Net nonoperating revenues	36,988	23,425	28,384
(Loss)/Income before other revenues	19,640	(69,514)	(50,792)
Other revenues			
Capital Contributions- State	—	—	6,002
Capital Student Fee, net	6,581	6,436	6,178
Increase/(Decrease) in net position	26,221	(63,078)	(38,612)
Net position at beginning of year	(156,817)	(87,233)	(48,621)
Restatement	—	(6,506)	—
Net position at beginning of year as restated	(156,817)	(93,739)	(48,621)
Net position at end of year	\$ (130,596)	\$ (156,817)	\$ (87,233)

* Amount could differ slightly from Statements of Revenues, Expenses, and Changes in Net Position due to rounding.

Tuition and fees revenue, net, accounted for \$117.6 million of the \$182.0 million in operating revenue in fiscal year 2019. The tuition and fees revenue amount is net of scholarship allowances of \$55.8 million and bad debt of \$3.1 million. Scholarship allowances are defined as the difference between the stated charge of tuition and fees and the amount that is paid by students or third parties making payment on behalf of students.

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Net tuition and fee revenue increased \$6.4 million, or 5.8%, from fiscal year 2018. There was a 3.0% increase in tuition rates in fiscal year 2019 as well as a new Mental Health and Online Program fee, but enrollment continued to see decreases. Scholarship discounts and allowances increased \$2.9 million from fiscal year 2018 primarily due to increases in Colorado Student Grants.

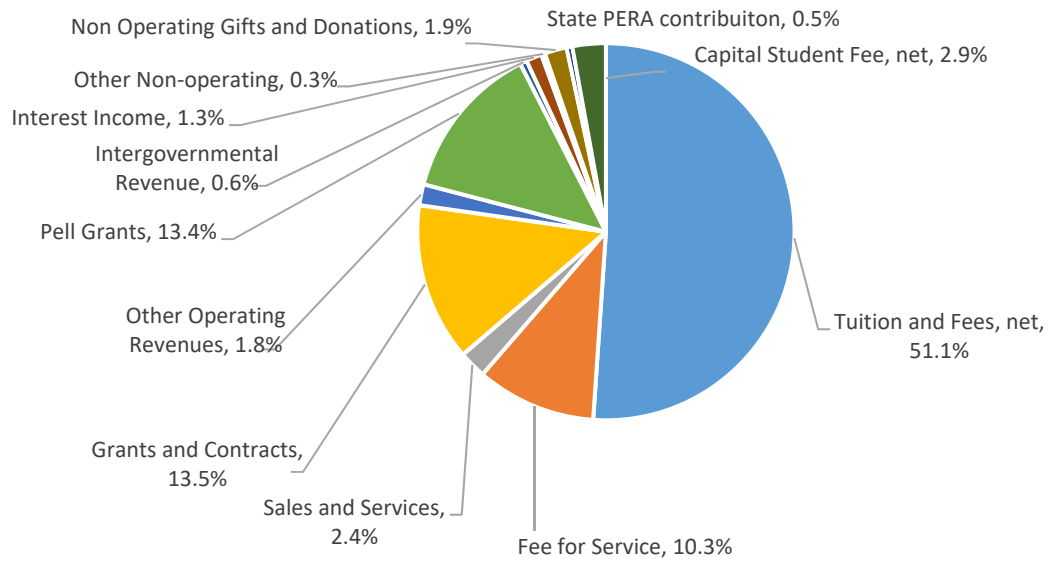
Tuition and fees revenue, net, accounted for \$111.2 million of the \$168.4 million in operating revenue in fiscal year 2018. The tuition and fees revenue amount is net of scholarship allowances of \$52.8 million and bad debt of \$1.6 million. Scholarship allowances are defined as the difference between the stated charge of tuition and fees and the amount that is paid by students or third parties making payment on behalf of students.

Net tuition and fee revenue increased \$5.6 million, or 5.3%, from fiscal year 2017. There was a 6.5% increase in tuition rates in fiscal year 2018, but enrollment continued to see decreases. Scholarship discounts and allowances increased \$4.1 million from fiscal year 2017 due to increases in Pell.

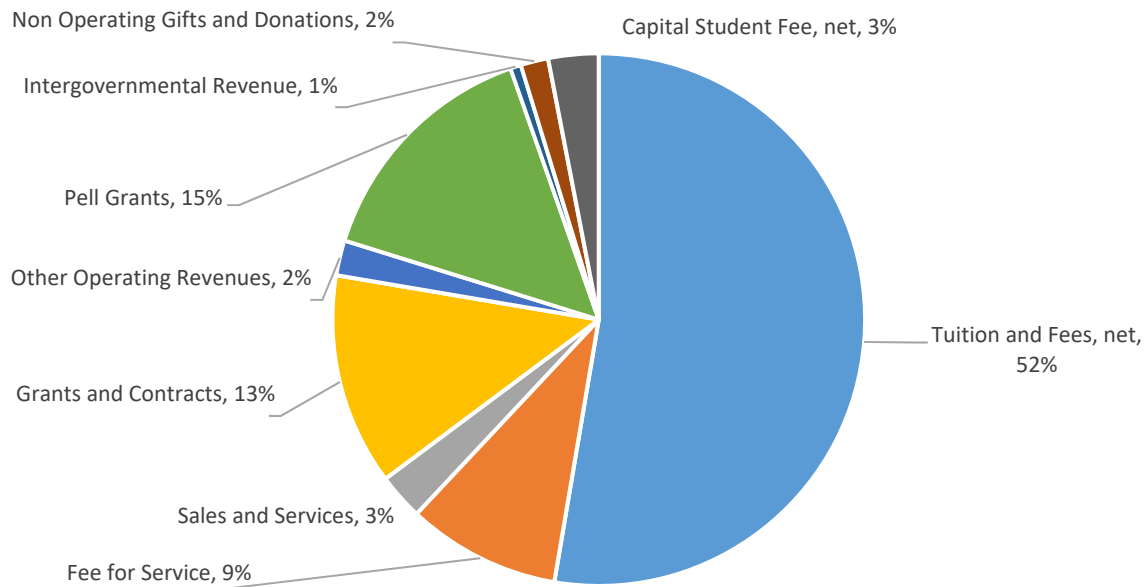
The following are graphic illustrations of total revenue (operating and nonoperating) by source for MSU Denver for fiscal years 2019 and 2018, respectively. Each major revenue component is displayed relative to its proportionate share of total revenue.

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Revenue Sources-2019



Revenue Sources-2018



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There was a \$62.1 million decrease in operating expenses over fiscal year 2018. The entries related to GASB 68 and 75 resulted in a \$75.9 million reduction in operating expense, while true operating expenses increased \$13.9 million.

\$8.6 million of the \$13.9 million increase in operations was due to increases in salaries and benefits, which was from a one-time \$2,000.00 stipend payment to all full time faculty and administrators, a 3% base increase for all classified staff, an increase in minimum wage in January, 2019 from \$10.20 to \$11.10 per hour, and maintaining the University adopted averages of the "College and University Professionals Association" (CUPA) when determining minimum pay.

Another \$3.8 million of the increase was due to increases in materials and supplies; for example, there was an \$800 thousand increase in payments to EAB Global for admission management and research memberships. A \$564 thousand increase in the amounts paid for the on-campus library, and amounts paid for the Auraria controlled maintenance and campus operations. An additional \$500 thousand increase for amounts paid to search firms, an upgrade to the Center for Advanced Visual and Experiential Analysis (CAVEA) display, and professional services for the creation of a data warehouse. There was also a \$1.2 million increase in expenditures related to federal grants which was primarily due to new and continuing Health Resource and Service Administration (HRSA) awards.

Another \$1.1 million increase of the overall \$13.9 million increase in operations was due to an increase in depreciation which was primarily from the Aerospace and Engineering Sciences (AES) Building. The AES building was placed into service in fiscal year 2018 when it only received a half year of depreciation expense; however, fiscal year 2019 it accumulated a full year of depreciation.

In fiscal year 2018, there was a \$19.0 million increase in operating expenses over fiscal year 2017. \$12.0 million of this increase was a result of increases due to GASB 68 and GASB 75 discussed above.

Another factor of the \$19.0 million increase was a \$5.4 million increase in salary and benefits expenses in fiscal year 2018. This increase resulted from a 1% increase for faculty and administrators, a 2.5% increase for classified staff as well as increases in the "College and University Professionals Association" (CUPA) average used to determine minimum pay.

Another \$1.1 million increase of the overall \$19.0 million increase was due to an increase in depreciation primarily due to the completion of the AES building.

Lastly, there was a \$1.2 million increase in payments related to the "Detroit Institute of Music Education" (DIME) Denver and DIME Detroit Music programs. These payments included operational expenses paid to DIME, space renovations, and rental payments.

The tables below show the University's operating expenses both with and without the effects of GASB 68 and 75.

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Total Operating Expenses (including the effects of GASB 68 and 75):

	2019	2018	2017
Instruction	75,595,723	115,087,555	106,107,031
Research	532,327	24,110	34,651
Public Service	2,772,875	2,476,432	1,761,680
Academic Support	23,162,788	32,919,013	30,371,353
Student Services	20,581,418	27,311,974	25,129,557
Institutional Support	25,749,784	32,115,079	29,514,570
Operation of Plant	13,594,772	13,808,027	15,234,399
Scholarships and Fellowships , net	2,891,407	3,001,068	3,188,771
Auxiliary Enterprise Expenditures	25,079,007	26,378,690	23,868,164
Depreciation	9,370,178	8,263,306	7,145,994
Total Operating Expenses	<u>199,330,279</u>	<u>261,385,254</u>	<u>242,356,170</u>

Operating Expenses excluding the effects of GASB 68 and 75:

	2019	2018	2017
Instruction	86,194,320	82,885,967	80,682,606
Research	568,150	22,600	34,651
Public Service	2,974,260	2,128,954	1,513,282
Academic Support	25,774,252	24,537,450	23,825,280
Student Services	22,538,317	18,916,021	18,455,041
Institutional Support	27,842,298	25,530,001	24,484,194
Operation of Plant	13,638,101	13,524,601	14,985,380
Scholarships and Fellowships , net	2,891,407	3,001,068	3,188,771
Auxiliary Enterprise Expenditures	28,416,535	26,378,690	23,868,164
Depreciation	9,370,178	8,263,306	7,145,994
Total Operating Expenses	<u>220,207,818</u>	<u>205,188,658</u>	<u>198,183,363</u>

Statements of Cash Flows

The statements of cash flows present relevant information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities. It also helps the users of financial statements gauge MSU Denver's ability to generate cash flows and meet financial obligations as they mature.

Condensed Statements of Cash Flows

	2019	June 30 2018	2017
		(In thousands)	
Net cash provided by (used in):			
Operating activities	\$ (23,139)	(36,183)	(24,721)
Noncapital financing activities	35,828	30,909	30,969
Capital and related financing activities	1,881	(20,762)	(21,949)
Investing activities	3,084	760	461
Net (decrease)/increase in cash	17,654	(25,276)	(15,240)
Cash and cash equivalents:			
Beginning of year	64,654	89,930	105,170
End of year	<u>\$ 82,308</u>	<u>64,654</u>	<u>89,930</u>

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MSU Denver's cash and cash equivalents increased by \$17.7 million in fiscal year 2019 when compared to fiscal year 2018. This increase is primarily due to the \$8.3 million Series 2019 bonds that were issued for the renovations in the PE/Events Center. This project is expected to be completed in December 2019, and \$7.6 million of bond funding was remaining as of June 30, 2019. There was also approximately \$4.5 million of additional cash as a result of the new online program fee, an increase in state treasury interest and some remaining funds from the one time C2Hub and Cybersecurity funding from the state. An additional \$2.1 million was on hand from the Master's programs, Student Health, and Campus Recreation. There was also approximately \$4.3 million of additional cash due to timing differences related to payments for payroll contributions and the federal capital contributions for the Perkins Loan program.

MSU Denver's cash and cash equivalents decreased by \$25.3 million in fiscal year 2018 when compared to fiscal year 2017. This decrease is primarily due to a timing difference in the June 30th payroll, and payments related to the AES building. In fiscal year 2018 higher education institutions were exempt from delaying their June 30th payroll to July and were allowed to pay their employees on the last business day of June. Furthermore, the AES building was completed and placed into service.

The major sources of unrestricted cash inflows in fiscal year 2019 and 2018 were \$116.1 million and \$111.8 million, respectively from tuition and fees, \$23.7 million and \$19.7 million, respectively, from fee for service revenue, \$30.8 million and \$27.2 million, respectively, from grants and contracts, and \$30.9 million and \$31.2 million, respectively, in Pell grants. The primary outflows are \$141.6 million and \$145.3 million, respectively, for payments to or for employees, \$61.7 million and \$58.0 million, respectively, for payments to suppliers and \$6.2 million and \$20.8 million, respectively, for the acquisition of capital assets.

Capital Assets

At June 30, 2019, the University had \$128.3 million in property, plant, and equipment, net of accumulated depreciation of \$57.3 million. Depreciation charges were \$9.4 million for the current year compared to \$8.3 million in fiscal year 2018 and \$7.1 million in fiscal year 2017.

Details of these assets are shown in the table below:

Capital Assets, Net of Depreciation at Year-End			
	June 30		
	2019	2018	2017
		(in thousands)	
Construction in progress	\$ 3,580	2,032	45,244
Land	1,005	1,005	1,005
Equipment	6,239	5,992	6,872
Buildings	84,679	88,652	42,739
Leasehold/land improvements	32,773	33,096	29,608
Total	<u>\$ 128,276</u>	<u>130,777</u>	<u>125,468</u>

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Debt

In November 2009, MSU Denver issued \$55.2 million of Series 2009 Taxable Institutional Enterprise Revenue Bonds to finance the construction of the University's first brick and mortar building, the Student Success Building (SSB). The SSB added approximately 145,000 square feet of space for classrooms and faculty offices, specifically for MSU Denver students and professors. It also provides students with a central location for student support services. In June 2010, the University issued \$10.6 million in Series 2010 Taxable Institutional Enterprise Revenue Bonds for various major remodeling projects as personnel moved to the SSB (see note 6 for more information on these obligations). These bonds will be paid off using proceeds from a student bond fee approved by the University's students. Both bond issuances are Revenue Zone Economic Development Bonds (RZEDBs) that make them eligible for a 45% bond interest subsidy from the federal government; however, in March 2013, the federal government enacted the Balanced Budget and Emergency Deficit Control Act, and President Obama issued a sequestration order that reduced the subsidy amount the University received on its Recovery Zone Economic Development Bonds (RZEDB). Before sequester, the subsidy paid MSU Denver 45% of the interest amount on both the series 2009 and 2010 bonds. Sequester is scheduled through 2024 with reductions spanning 5.5% to 7.1%. The table below shows MSU Denver's original subsidy payment amounts and the modified payments for each RZEDB.

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Series 2009 Bond Interest Payments and Corresponding Subsidy Receipts

June 30	Interest Payment	Original Interest Subsidy	Original % of Subsidy Payments	Modified Interest Subsidy	Modified	Difference
					% of Subsidy Payments	
2010	1,585,672	713,553	45%	713,553	45%	(0)
2011	3,052,632	1,373,684	45%	1,373,684	45%	(0)
2012	3,039,941	1,367,973	45%	1,367,973	45%	(0)
2013	3,010,744	1,354,835	45%	1,296,222	43%	(58,612)
2014	2,974,155	1,338,370	45%	1,242,007	42%	(96,363)
2015	2,930,379	1,318,671	45%	1,222,408	42%	(96,263)
2016	2,879,805	1,295,912	45%	1,207,790	42%	(88,122)
2017	2,822,365	1,270,064	45%	1,182,430	42%	(87,634)
2018	2,758,975	1,241,539	45%	1,159,597	42%	(81,942)
2019	2,690,669	1,210,801	45%	1,135,731	42%	(75,070)
Total Reduction in Series 2009 Bond Subsidy Payments						(584,006)

Series 2010 Bond Interest Payments and Corresponding Subsidy Receipts

June 30	Interest Payment	Original Interest Subsidy	Original Subsidy % of Interest Payment	Modified Interest Subsidy	Modified	Difference
					% of Subsidy Payments	
2011	543,193	244,437	45%	244,437	45%	(0)
2012	568,015	255,607	45%	255,607	45%	(0)
2013	563,395	253,528	45%	242,549	43%	(10,979)
2014	557,629	250,933	45%	232,866	42%	(18,067)
2015	550,508	247,729	45%	229,644	42%	(18,085)
2016	542,258	244,016	45%	227,423	42%	(16,593)
2017	532,910	239,810	45%	223,263	42%	(16,547)
2018	522,413	235,086	45%	219,570	42%	(15,516)
2019	510,948	229,926	45%	215,671	42%	(14,255)
Total Reduction in Series 2010 Bond Subsidy Payments						(110,042)

In June 2014, the University issued direct placement, Series 2014 Institutional Enterprise Revenue Bonds not to exceed \$4.0 million to help fund the construction of the Regency Athletic Complex (RAC). These bonds worked like a line of credit, where the University drew funds on an as needed basis. As of June 30, 2015, the University drew the full \$4 million. These bonds are paid with available cash funds and fundraising efforts by the University's Foundation.

On January 27, 2016, the University issued \$27.5 million of Series 2016 Institutional Enterprise Revenue Bonds, bearing interest at 2.0% to 5.0%, for the purpose of financing a portion of the construction of the new Aerospace and Engineering Science building (AES). This new facility houses mechanical, electrical and civil engineering technologies; industrial design; and computer science to support an integrated curriculum, and promote collaborative research. The building was placed into service in fiscal year 2018. These bonds are paid with the student bond fee discussed above.

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On January 31, 2019, the University issued direct placement, Series 2019, Bank Qualified Institutional Enterprise Revenue Bonds not to exceed \$8,250,000, at a fixed interest rate of 2.680% per annum. These bonds provided funding for the replacement of the gym bleachers, and a renovation of the main locker rooms, improving the safety and security, as well as improving ADA accessibility. The project is scheduled to be completed by December, 2019. These bonds are also paid with the student bond fee.

At June 30, 2019, the University had \$94.7 million in outstanding debt payment compared to \$91.7 million at June 30, 2018 and \$94.8 million at June 30, 2017. The table below summarizes these amounts by type of debt:

Outstanding Debt at Year-End			
		June 30	
	2019	2018	2017
		(In thousands)	
Series 2009	\$ 44,210	45,685	47,125
Series 2010	8,565	8,802	9,059
Series 2014	2,253	2,638	3,013
Series 2016	25,850	28,878	29,552
Series 2019	8,250	—	—
Capital lease	5,545	5,656	6,038
Total	<u>\$ 94,673</u>	<u>91,659</u>	<u>94,787</u>

Economic Outlook and Metropolitan State University of Denver's Future

In January, 2019 MSU Denver started the process to create its next five year strategic plan. In addition to internal committees the University has engaged external partners, community members and other key stakeholders to develop 5 strategic themes, which centered on excellence in academic practices; infrastructure and operations; innovation; a welcoming and inclusive campus; and student success. These themes will be fine-tuned, and corresponding action plans will be developed. This strategic plan is scheduled to be completed by June 30, 2020, and will guide the University through 2025 by providing a clear direction and a framework for decision making.

In 2007, then President, Stephen Jordan, Ph.D., launched an Hispanic Serving Institute (HSI) initiative designed to increase Hispanic and Latino enrollment to 25 percent of our student body. Back then, Latinos made up 20 percent of Colorado's population; yet MSU Denver's student body was only 13 percent Latino. Our focus has always been to educate the students of Colorado, so efforts were made to ensure our student body reflected the people of Colorado. With a starting point of 12.5 percent Hispanic enrollment in 2008, MSU Denver reached the required 25-percent benchmark for the first time 10 years later in Fall 2018, at 26.4 percent. In February, 2019 MSU Denver was awarded the official Hispanic Serving Institute designation with 5,469 enrolled Hispanic and Latino students, more than any other higher education institute in Colorado.

In September, 2019 the University launched its new brand campaign, "Reimagining Possible".

"This new campaign speaks directly to the excellent people, programs and innovations at MSU Denver," said President Janine Davidson, Ph.D. "It says boldly and proudly that we are reimagining what's possible in higher education – that we open doors, that we connect learners with leaders, and that we are a critical part of growing Colorado's economy and culture."

This campaign will include changes to the University website, new ads on public transit, billboards, in media, and at the airport.

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MSU Denver retained its Taxpayer's Bill of Rights (TABOR) enterprise status during fiscal year 2019 by receiving less than 10% in state funding. The College Opportunity Fund (COF) stipend was set by the General Assembly for fiscal year 2019 at \$85 per eligible credit hour for resident undergraduate students. The stipend was increased to \$94 per eligible credit hour for fiscal year 2020, which is currently appropriated at \$39.0 million, per the long bill. MSU Denver received \$23.7 million in fee-for-service revenue in fiscal year 2019, and is budgeted to receive \$24.9 million in fiscal year 2020.

In fiscal year 2019, MSU Denver raised tuition by 3.0% for undergraduate residents. The University will raise undergraduate tuition 3% in fiscal year 2020, but will still remain the most accessible institution of Higher Education in Colorado.

Beginning in fiscal year 2020 the University is required to adopt GASB Statement No. 84 *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The University is currently evaluating the impact this standard will have on the financial statements once adopted.

Additionally, beginning in fiscal year 2021 the University must adopt GASB Statement No. 87 Lease Accounting. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. This Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard is expected to have a significant effect on the University's financial statements as a result of the leases such as building space, copiers, and computers classified as operating leases disclosed in Note 5. The effects on the statement of revenues, expenses and changes in net position is not expected to be significant.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to MSU Denver at Campus Box 98, P.O. Box 173362, Denver, CO 80217

METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2019 AND 2018

	2019		2018	
	University	Component Unit	University	Component Unit
Assets				
Current assets:				
Cash and cash equivalents	\$ 74,677,547	\$ 230,954	\$ 63,334,280	\$ 136,506
Restricted cash and cash equivalents	-	9,236,305	-	9,019,964
Accounts receivable – student (net of allowance for doubtful accounts of \$3,436,880 and \$2,780,864, respectively)	13,713,869	-	13,010,515	-
Accounts receivable – hotel rooms	-	172,255	-	196,879
Accounts receivable – other	2,763,558	365,095	1,955,917	429,826
Loans receivable	1,326,602	-	1,121,817	-
Prepaid expense	1,482,434	-	1,871,988	-
Investments	36,805	-	43,053	-
Other Assets	-	201,570	-	162,870
Total current assets	94,000,815	10,206,179	81,337,570	9,946,045
Noncurrent assets:				
Restricted cash	7,630,325	-	1,319,601	-
Investments	593,653	-	565,056	-
Prepaid expense	143,249	-	153,710	-
Loans receivable (net of allowance for doubtful accounts \$711,887 and \$566,864, respectively)	5,529,652	-	7,359,984	-
Land	1,005,185	-	1,005,185	-
Construction in progress	3,580,360	297,381	2,031,847	34,877
Depreciable assets, net:				
Equipment	6,238,968	370,678	5,992,202	444,221
Buildings	84,679,404	35,811,381	88,651,608	36,880,377
Leasehold and land improvements	32,772,761	-	33,096,246	-
Total depreciable capital assets, net	123,691,133	36,182,059	127,740,056	37,324,598
Total noncurrent assets	142,173,557	36,479,440	140,175,439	37,359,475
Total assets	236,174,372	46,685,619	221,513,009	47,305,520
Deferred Outflows of Resources				
Deferred pension outflow	25,945,838	-	60,193,346	-
Deferred OPEB outflow	336,997	-	257,307	-
Total deferred outflows of resources	26,282,835		60,450,653	
Total assets and deferred outflows of resources	\$ 262,457,207	\$ 46,685,619	\$ 281,963,662	\$ 47,305,520

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2019 AND 2018

	2019		2018	
	University	Component Unit	University	Component Unit
Liabilities				
Current liabilities:				
Accounts payable	\$ 4,802,729	\$ 223,716	\$ 4,679,685	\$ 190,991
Advance hotel customer deposits	-	110,596	-	120,786
Accrued interest payable	418,589	1,027,074	412,458	1,043,741
Accrued payroll	6,140,430	-	4,073,810	-
Unearned revenue	8,894,092	-	8,415,176	-
Compensated absences	421,305	-	436,438	-
Bonds payable	3,835,000	1,316,822	2,675,000	1,266,822
Capital leases	567,278	-	457,023	-
Deposits held in custody and other current liabilities	2,522,977	492,994	2,324,102	423,889
Total current liabilities	27,602,400	3,171,202	23,473,692	3,046,229
Noncurrent liabilities:				
Net pension liability	164,944,395	-	295,891,215	-
Net OPEB liability	6,747,644	-	6,661,518	-
Compensated absences	3,989,372	-	3,205,065	-
Interest rate swap option liability	-	4,487,433	-	662,406
Bonds payable	87,601,269	48,918,875	83,327,162	50,235,697
Capital leases	4,977,515	-	5,199,397	-
Other non-current liabilities	8,066,627	-	7,713,862	-
Total noncurrent liabilities	276,326,822	53,406,308	401,998,219	50,898,103
Total liabilities	303,929,222	56,577,510	425,471,911	53,944,332
Deferred Inflows				
Deferred pension inflow	88,873,130	-	13,126,192	-
Deferred OPEB inflow	251,765	-	183,367	-
Total deferred inflows	89,124,895	-	13,309,559	-
Total liabilities and deferred inflows	393,054,117	56,577,510	438,781,470	53,944,332
Net position				
Net Investment in Capital Assets	38,925,941	(12,285,237)	41,830,039	(12,672,488)
Restricted for bond requirements	-	6,738,211	-	6,505,667
Restricted for expendable purposes, Loans	1,219,815	—	1,229,000	—
Unrestricted	(170,742,666)	142,568	(199,876,847)	190,415
Total net position	(130,596,910)	(5,404,458)	(156,817,808)	(5,976,406)

See accompanying notes to basic financial statements.

**METROPOLITAN STATE UNIVERSITY OF DENVER
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018 (Restated)</u>
Assets		
Cash and Cash Equivalents	\$ 954,916	\$ 834,281
Funds Held for Distribution to University	173,612	161,905
Funds Held for Alumni Association	259,458	121,928
Investments	8,845,469	9,193,719
Receivable from University	10,630	10,081
Promises to Give, Net	1,279,201	1,874,527
Prepays and other assets	18,455	38,975
Property and Equipment, Net	1,405,602	1,441,002
Beneficial Interest in Charitable Trusts Held by Others	-	151,946
Endowment		
Promises to Give, Net	1,466,302	2,382,674
Investments	15,424,786	10,877,053
Total assets	<u>\$ 29,838,431</u>	<u>\$ 27,088,091</u>
Liabilities and Net Assets		
Accounts Payable and Other Liabilities	\$ 104,921	\$ 137,367
Accounts Payable to University	515,877	333,382
Funds Held for Distribution to University	173,612	161,905
Funds Held for Alumni Association	259,458	121,928
Total liabilities	<u>1,053,868</u>	<u>754,582</u>
Net Assets		
Without Donor Restrictions:		
Undesignated	2,913,054	2,453,552
Board-designated	1,032,500	1,201,567
Invested in property and equipment, net	1,405,602	1,441,002
	<u>5,351,156</u>	<u>5,096,121</u>
With Donor Restrictions	23,433,407	21,237,388
Total Net Assets	<u>28,784,563</u>	<u>26,333,509</u>
Total Liabilities and Net Assets	<u>\$ 29,838,431</u>	<u>\$ 27,088,091</u>

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019		2018	
	University	Component Unit	University	Component Unit
Operating revenues:				
Student tuition and fees, (including gross tuition of \$25,499,003 and \$23,263,023, respectively, pledged for bonds) net of scholarship allowances of \$55,776,378 and \$52,848,387, and bad debt expense of \$3,077,378 and \$1,600,442, respectively	\$ 117,590,413	\$ —	\$ 111,181,871	\$ —
Fee for service	23,651,660	—	19,659,856	—
Room revenue	—	8,163,769	—	8,204,969
Banquet food revenue	—	661,480	—	707,928
Restaurant food revenue	—	508,817	—	435,336
Parking revenue	—	736,312	—	678,731
Sales and services of educational departments	147,868	—	176,339	—
Sales and services of auxiliary enterprises	5,264,618	—	5,757,626	—
Federal grants and contracts	8,519,838	—	6,893,040	—
State grants and contracts	22,358,238	—	20,086,214	—
Local grants and contracts	234,719	—	141,151	—
Private grants and contracts	68,313	—	45,807	—
Operating interest income	232,917	—	209,639	—
Other operating revenues	3,913,694	298,452	4,294,140	225,492
Total operating revenues	181,982,278	10,368,830	168,445,683	10,252,456
Operating expenses:				
Instruction	75,595,723	—	115,087,555	—
Research	532,327	—	24,110	—
Public service	2,772,875	—	2,476,432	—
Academic support	23,162,788	—	32,919,013	—
Student services	20,581,418	—	27,311,974	—
Institutional support	25,749,784	—	32,115,079	—
Operation of plant	13,594,772	—	13,808,027	—
Scholarships and fellowships	2,891,407	—	3,001,068	—
Auxiliary enterprise expenditures	25,079,007	—	26,378,690	—
Hotel salaries and benefits	—	2,804,182	—	2,708,531
Hotel support	—	741,397	—	647,370
Hotel operations	—	1,101,943	—	1,210,851
Franchise fees	—	279,340	—	272,138
Franchise marketing	—	204,721	—	205,071
Franchise shared services	—	1,190	—	1,930
Cost of food, beverage and parking	—	945,200	—	883,664
Professional and contract service fees	—	41,677	—	111,984
Hotel insurance	—	59,354	—	49,856
Fundraising fees and expenses	—	40	—	3,448
Depreciation	9,370,178	1,219,846	8,263,306	1,207,613
Other expenses	—	436,509	—	404,147
Total operating expenses	199,330,279	7,835,399	261,385,254	7,706,603
Operating loss	(17,348,001)	2,533,431	(92,939,571)	2,545,853
Nonoperating revenues (expenses):				
Pell grants	30,931,338	—	31,272,113	—
Intergovernmental revenue (including \$1,348,975 and \$1,376,853, respectively, pledged for bonds)	1,348,975	998,052	1,376,853	993,970
Investment and interest income (including realized interest of \$3,798,963 and \$718,728, respectively, pledged for bonds)	3,091,835	169,163	764,040	58,232
Interest expense on capital asset related debt	(4,560,182)	(3,072,734)	(4,599,796)	(3,121,568)
Debt Issuance Costs	(63,000)	—	—	—
Loss on disposal of fixed assets	(7,210)	(56,628)	(1,243,500)	—
Nonoperating gifts and donations	4,352,473	664	3,543,020	57,466
Perkins Loan termination	58,344	—	(8,271,929)	—
State PERA contribution	1,137,764	—	—	—
Other nonoperating	697,803	—	584,935	—
Net nonoperating revenue	36,988,140	(1,961,483)	23,425,736	(2,011,900)
Loss before other revenues	19,640,139	571,948	(69,513,835)	533,953
Other revenues				
Capital student fees, (including gross fees of \$6,999,534 and \$6,719,248, respectively, pledged for bonds) net of scholarship allowances of \$3,103,568 and \$3,004,064, and bad debt expense of \$199,987 and \$191,979, respectively	6,580,759	—	6,435,641	—
Total other revenues	6,580,759	—	6,435,641	—
Increase/(Decrease) in net position	26,220,898	571,948	(63,078,194)	533,953
Net position at beginning of year	(156,817,808)	(5,976,406)	(87,233,132)	(871,109)
Restatement	—	—	(6,506,482)	(5,639,250)
Net position at beginning of year, as restated	(156,817,808)	(5,976,406)	(93,739,614)	(6,510,359)
Net position at end of year	\$ (130,596,910)	\$ (5,404,458)	\$ (156,817,808)	\$ (5,976,406)

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
DISCRETELY PRESENTED COMPONENT UNIT STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support, Revenue and Gains:						
Contributions	\$ 34,650	\$ 5,593,364	\$ 5,628,014	\$ 64,700	\$ 5,373,771	\$ 5,438,471
Services Received from University	1,689,545	-	1,689,545	1,582,791	-	1,582,791
In-kind Contributions	-	147,245	147,245	-	141,414	141,414
Endowment Management Fees	209,362	-	209,362	182,380	-	182,380
Gross Special Events Revenue	125,332	178,412	303,744	-	56,720	56,720
Less Cost of Direct Benefits to Donors	(150,789)	-	(150,789)	(59,963)	-	(59,963)
Net Special Events Revenue	(25,457)	178,412	152,955	(59,963)	56,720	(3,243)
Net Investment Return	338,065	265,574	603,639	431,478	596,499	1,027,977
Change in Value of Beneficial Interest in Charitable Trust Held by Others	-	60,151	60,151	-	33,543	33,543
Rent and Other Income	316,515	-	316,515	605,058	-	605,058
Net Assets Released from Restrictions	4,048,727	(4,048,727)	-	2,650,720	(2,650,720)	-
Total Support, Revenue, and Gain	6,611,407	2,196,019	8,807,426	5,457,164	3,551,227	9,008,391
Expenses						
Program Services Expense						
Support Provided to University	4,021,777	-	4,021,777	3,176,966	-	3,176,966
CVA Operating Expenses	62,684	-	62,684	56,736	-	56,736
Total Program Services Expense	4,084,461	-	4,084,461	3,233,702	-	3,233,702
Supporting Services Expense						
General and Administrative Costs	530,298	-	530,298	562,897	-	562,897
Donor Development Costs	1,741,614	-	1,741,614	1,582,791	-	1,582,791
Total Supporting Services Expense	2,271,911	-	2,271,911	2,145,688	-	2,145,688
Loss on Uncollectable Promise to Give	-	-	-	-	7,900	7,900
Total Expenses and Losses	6,356,372	-	6,356,372	5,379,390	7,900	5,387,290
Change in Net Assets	255,035	2,196,019	2,451,054	77,774	3,543,327	3,621,101
Net Assets, Beginning of Year	5,096,121	21,237,388	26,333,509	5,018,347	17,694,061	22,712,408
Net Assets, End of Year	<u>\$ 5,351,156</u>	<u>23,433,407</u>	<u>\$ 28,784,563</u>	<u>\$ 5,096,121</u>	<u>\$ 21,237,388</u>	<u>\$ 26,333,509</u>

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 116,129,765	111,827,591
Fee for service	23,651,660	19,659,856
Sales and services	5,372,904	5,871,573
Grants and contracts	30,825,306	27,187,870
Student loans collected	1,505,472	1,538,876
Other operating receipts	5,567,353	5,284,475
Cash payments:		
Payments to or for employees	(141,626,031)	(145,320,941)
Payments to suppliers	(61,674,283)	(58,001,333)
Scholarships disbursed	(2,891,407)	(3,001,068)
Student loans disbursed	—	(1,229,801)
Net cash used in operating activities	<u>(23,139,261)</u>	<u>(36,182,902)</u>
Cash flows from noncapital financing activities:		
Nonoperating gifts and donations	4,212,013	3,319,402
Nonoperating Revenues/(Expenses)	—	(549,976)
Pell grants	30,918,750	31,234,359
Agency (direct lending inflows)	74,847,427	71,559,094
Agency (direct lending outflows)	(74,797,434)	(71,668,252)
Other agency (inflows)	11,755,416	11,208,065
Other agency (outflows)	(11,108,658)	(14,193,978)
Net cash provided by noncapital financing activities	<u>35,827,514</u>	<u>30,908,714</u>
Cash flows from capital and related financing activities:		
Interest subsidy	1,351,402	1,379,167
Insurance proceeds	—	10,475
Debt issuance costs	(63,000)	—
Interest on capital asset related debt	(4,694,945)	(4,754,009)
Proceeds from bond sale	8,250,000	—
Principal paid on bonds	(2,675,000)	(2,605,000)
Principal paid on capital leases	(537,812)	(434,201)
Proceeds for capital student fee	6,459,840	6,390,441
Acquisition of capital assets	(6,209,234)	(20,749,487)
Net cash provided by (used in) capital and related financing activities	<u>1,881,251</u>	<u>(20,762,614)</u>
Cash flows from investing activity:		
Investment earnings	3,072,908	764,039
Collection of loans	15,000	13,750
Sale of investments	36,579	—
Purchase of investments	(40,000)	(17,423)
Net cash provided by investing activities	<u>3,084,487</u>	<u>760,366</u>
Net increase/(decrease) in cash	17,653,991	(25,276,436)
Beginning cash balance	64,653,881	89,930,317
Ending cash balance	\$ <u>82,307,872</u>	<u>64,653,881</u>

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of net operating loss to net cash used in operating activities:		
Operating Income (loss)	\$ (17,348,001)	(92,939,571)
Adjustment to reconcile:		
Depreciation expense	9,370,178	8,263,306
Provision for bad debt	4,329,133	2,189,152
Nonoperating revenue	697,803	584,335
State PERA contribution	1,137,764	—
Decrease (increase) in assets:		
Accounts receivable – student	(4,720,177)	(2,926,997)
Loans receivable	1,312,561	240,038
Prepaid expense	391,853	(66,839)
Accounts receivable – other	(726,923)	1,249,148
Increase in deferred outflows:		
Deferred pension outflow	34,167,818	25,248,831
Increase (decrease) in liabilities/deferred inflows:		
Net pension liability	(130,860,694)	28,416,469
Deferred pension inflow	75,815,337	2,531,297
Accounts payable	(41,541)	(625,758)
Unearned revenue	475,214	596,949
Accrued payroll	2,066,620	(8,850,178)
Other liabilities	793,794	(93,084)
Net cash used in operating activities	<u>\$ (23,139,261)</u>	<u>(36,182,902)</u>
Noncash transactions		
Retirement of capital assets	\$ (7,210)	(1,623,872)
Donation of capital assets	80,942	125,930
Write-off of uncollectible accounts receivable	3,374,832	2,371,511
Write-off of uncollectible loans receivable	153,893	150,087
Amortization of premiums and discounts on debt	140,894	144,688
Unrealized gain on investments	18,927	11,845

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(1) Summary of Significant Accounting Policies

(a) Governance

The accompanying financial statements reflect the financial activities of Metropolitan State University of Denver (the University or MSU Denver) for the fiscal years ended June 30, 2019 and 2018. Effective July 1, 2002, Colorado Revised Statute (C.R.S.) 23-54-102 established the Board of Trustees (Trustees) of the University to serve as the University's governing board. Nine of the eleven Trustees are members outside the University who are appointed by the Governor with the consent of the Senate. The remaining two members consist of a student, elected by the student body, and a faculty member, elected by tenure and tenure track faculty. Both of these members are non-voting members. The Trustees have full authority and responsibility for the control and governance of the University, including such areas as role and mission, academic programs, curriculum, admissions, finance, personnel policies, etc. To exercise their authority appropriately, the Trustees regularly establish policies designed to enable the University to perform its statutory functions in a rational and systematic manner. To assist them in meeting their responsibilities, the Trustees delegate to the President the authority to interpret and administer their policies in all areas of operations.

(b) Reporting Entity

The State of Colorado (the State) is the primary governmental reporting entity for State financial reporting purposes. For financial reporting purposes, the University is included as part of the State's primary government. The financial statements of the University, which is an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Colorado that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted (GAAP) in the United States of America. Financial results for the State of Colorado are presented in separate state-wide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in these state wide financial statements. The accounting policies of the University conform to GAAP, as applicable to government units.

On August 17, 2010, the University's Board of Trustees approved the creation of the Metropolitan State University of Denver Roadrunner Recovery and Reinvestment Act Finance Authority (the Authority), which was responsible for issuing bonds to fund the construction of a Hotel and Hospitality Learning Center (HLC). They also approved the incorporation of a special-purpose nonprofit corporation to be known as "HLC@Metro, Inc." The special-purpose corporation was the most advantageous way to structure the University's relationship with the HLC by obtaining the lowest possible cost of financing, reducing the University's potential exposure for the debt obligations associated with the project, and maintaining the greatest level of control of the project. In October 2010, \$54.9 million in bonds were issued by the Authority and were subsequently transferred to the HLC@Metro, Inc. The Authority had no additional transactions nor did any resources remain with the Authority.

METROPOLITAN STATE UNIVERSITY OF DENVER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, paragraph 47, the discrete presentation of the Metropolitan State University of Denver Foundation, Inc.'s (the Foundation) financial statements appear on separate pages from the financial statements of the University, while the HLC@Metro Inc., financial statements are reported as a separate column on the face of the University's financial statements. The Authority's financial statements would be blended into the University's; however, no transactions were incurred as of June 30, 2019 or 2018. The Foundation, the HLC@Metro, Inc. and the Authority warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationships with the University. Please refer to note 18 for additional discussion.

(c) 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 presented 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. All significant intra-agency transactions have been eliminated.

The University applies all applicable GASB pronouncements.

(d) Accounting Policies/Definitions

Auraria Higher Education Center (AHEC): AHEC is a separate legal entity created by the State of Colorado under Article 70 of Title 23 of the Colorado Revised Statutes (CRS). AHEC plans, manages and operates the physical plant, facilities, buildings, and grounds of the Auraria campus on which MSU Denver, the University of Colorado at Denver (UCD), and the Community College of Denver (CCD) all reside.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents are defined as cash on hand, demand deposits, restricted cash, and certificates of deposit with financial institutions, pooled cash with the Colorado State Treasurer (the Treasurer), and all highly liquid investments with an original maturity of three months or less, except those deposits and investments representing endowments, or those investments intended to be held longer than three months regardless of original maturity date.

Restricted Cash: Restricted cash includes amounts whose use is constrained through either external party restrictions or imposition by law. Restricted purposes include unspent bond proceeds.

Accounts Receivable: Accounts receivable result primarily from tuition, fees, other charges to students, and grants.

Investments: Investments are stated at their fair value, which is determined based on quoted market prices. Changes in fair value of investments are reported as a component of investment income. Non-current investments represent those items that are intended to be held longer than twelve months regardless of their original maturity date.

Classifications of investments as current or noncurrent is based on the maturity of the asset. Current investments are those that are set to mature in a year or less and noncurrent are those with a maturity of greater than a year.

METROPOLITAN STATE UNIVERSITY OF DENVER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Bond Issuance Costs: Bond issuance costs incurred on revenue bonds are expensed in the year the bond issue occurs.

Capital Assets: Equipment, buildings, construction in progress, and leasehold and land improvements are stated at their cost at the date of acquisition or fair value at the date of donation. A physical inventory of all capital assets is taken annually with appropriate adjustments made to the financial records. The University's policy of capitalizing assets is to do so when there is an initial cost or fair value equal to or greater than \$10,000 for assets purchased with non-grant funds. For capital assets purchased with grant funds, a threshold of \$5,000 is used.

Leasehold Improvements: Renovations to buildings and other improvements that significantly increase the value or extend the useful life of the structure are capitalized as leasehold improvements. For renovations and improvements, the capitalization policy includes items with a value of \$50,000 or more. Routine repairs and maintenance are charged to operating expense.

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 3 to 10 years for capitalized computers, 3 years for software, 3 to 50 years for other equipment, 12 years for modular buildings, 27 years for buildings, 2 to 45 years for leasehold/land improvements.

Deferred Outflows of Resources: Consumption of net position that applies to future periods; therefore, expenses/expenditures are not recognized until that time. PERA contributions the University makes subsequent to PERA's measurement date results in a deferred outflow of resources, as does the net difference between projected and actual experience, changes of assumptions or other inputs, and the net difference between projected and actual investment earnings by PERA.

Unearned Revenue: Unearned revenue consists of amounts received from the provision of educational goods and services that have not yet been earned. The University prorates the summer session revenues on the basis of an estimate that half are earned in the current year. Any grant funds received in excess of grant expenditures are also recorded as unearned revenues.

Deposits Held in Custody for Others: Deposits held for others include accounts payable to third parties (on behalf of others) and balances representing the net position owed to the individual or organization for which the University is acting as custodian.

Capital Leases: Capital leases consist of a lease-purchase contract for improvements related to the Science building on the Auraria Campus. The building owned by Auraria Higher Education Center (AHEC), is occupied by the University, the University of Colorado at Denver (UCD), and the Community College of Denver (CCD). The Science building has office space and technologically advanced student labs. Such contracts provide that any commitments beyond the current year are contingent upon funds being appropriated for such purposes.

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Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement Association of Colorado (PERA) and additions to/deductions from PERA fiduciary net position have been determined on the same basis as they are reported by PERA. PERA uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit Costs: For purposes of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Public Employees' Retirement Association of Colorado (PERA) and additions to/deductions from PERA fiduciary net position have been determined on the same basis as they are reported by PERA. PERA uses the economic resources measurement focus and the full accrual basis of accounting. For this purpose, PERA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources: Acquisition of net assets by the University applicable to a future reporting period. Amortization of the University's change in proportionate share of PERA's unfunded pension and other post-employment benefit (OPEB) liabilities results in a deferred inflow of resources as does the changes of assumptions or other inputs of the pension and OPEB plans.

Net Position: Net position is classified in the accompanying financial statements as follows:

- *Net investment in capital assets* represents the total investment in capital assets, net of related debt.
- *Restricted for expendable purposes* represents net resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- *Unrestricted* represents net resources derived from sources such as student tuition and fees, fee-for-service contracts, and College Opportunity Fund (COF) stipends. These resources are used for transactions relating to the educational and general operations of the University to meet current expenses for any purpose. These resources also include those from auxiliary enterprises that are substantially self-supporting activities that provide services for students, faculty, and staff.

Classification of Revenues and Expenses: The University has classified its revenues and expenses as either operating, nonoperating, or other according to the following criteria:

- *Operating revenues and expenses* generally result from providing goods and services for instruction, public service, or related support services to an individual or entity separate from the University. Examples include student tuition and fees, fee-for-service contracts, sales and services of auxiliary enterprises, and grants and contracts. Tuition and fee revenue for the summer term which are conducted over two fiscal years are allocated based on a fifty-fifty proration.
- *Nonoperating revenues and expenses* do not meet the definition of operating revenues, and include federal bond interest subsidies, Pell grants, gifts, investment income, rental income, and interest expense.

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- *Other revenues* consist of capital contributions from the State for the construction of the Aerospace and Engineering Sciences (AES) Building, as well as the capital student fee paid by students for capital improvements.

Scholarship Allowance: Scholarship discounts and allowances are the differences between the stated charge for 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 student's behalf. In the accompanying financial statements, the gross student tuition and fee revenues are reported less the scholarship discounts and allowances. The University's resources provided to students as financial aid are recorded as scholarship allowances to the extent that they are used to satisfy tuition and fees and other student charges. Any excess resources are recorded as student aid operating expenses.

Application of Restricted and Unrestricted Resources: The University's policy is to first apply an expense against restricted resources then towards unrestricted resources when both restricted and unrestricted resources are available to pay an expense.

Compensated Absences Policy: Employees' compensated absences are accrued when earned and are recognized based on vacation and sick leave balances due to employees at year-end upon termination. Employees accrue and vest in vacation and sick leave based on their hire date and length of service. Vacation accruals are paid in full upon separation, whereas only 25% of sick leave is paid upon specific types of separation, such as retirement from the Classified Personnel system. The current portion of compensated absences liability in the statements of net position is calculated based on an estimated average amount for the past three fiscal years.

Income Taxes: As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code (IRC) and a similar provision of State law. However, the University is subject to federal income tax on any unrelated business taxable income. The University did not have any significant unrelated business taxable income in fiscal year 2019 or 2018.

Use of Estimates: The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

(e) Adoption of New Accounting Standards

Effective for the fiscal year ended June 30, 2019, the University adopted GASB Statement No. 88 "Certain Debt Disclosures Relating to Debt, Including Direct Borrowings and Direct Placement, (GASB 88). This statement required additional information related to debt be disclosed in the financial statements. The adoption for GASB 88 has been applied retroactively and impacts note 6 of the financial statements. As of June 30, 2019 the University had two direct placements, and as of June 30, 2018 there was only one.

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(2) Cash and Cash Equivalents and Investments

At June 30, cash on hand and in banks consisted of the following:

	2019	
	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash on hand	\$ —	41,562
Cash in checking and depository accounts at banks	1,748,560	643,315
Total cash on hand and in banks	<u>\$ 1,748,560</u>	<u>684,877</u>

	2018	
	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash on hand	\$ —	45,560
Cash in checking and depository accounts at banks	2,775,729	755,441
Total cash on hand and in banks	<u>\$ 2,775,729</u>	<u>801,001</u>

GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, requires disclosure of credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk for any public entity's investments. GASB Statement No. 72, *Fair Value Measurement and Application*, requires investments to be recorded at fair value.

The University categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. This statement generally requires investments to be measured at fair value; however, investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, etc. This standard establishes a hierarchy of inputs for valuation techniques used to measure fair value. That hierarchy has three levels.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be recovered. To manage custodial credit risk, deposits with 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. As of June 30, 2019, \$250,000 of the cash in checking and depository accounts was covered by federal depository insurance and the remainder by collateral held by the financial institution's agent in the University's name, as required by the PDPA.

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The University deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2019 and 2018, the University had cash on deposit with the State Treasurer of \$81,622,995 and \$63,852,880, respectively, which represented approximately .90 percent of the total \$9,096.5 million and .85 percent of the total \$7,635.8 million of investments in the State Treasurer's Pool (Pool). The \$81,622,995 and \$63,852,880 on deposit as of June 30, 2019 and 2018, respectively, includes \$7,630,325 and \$1,319,601 of restricted cash as of June 30, 2019 and 2018, respectively, which is the unspent proceeds of the Series 2019 bonds in fiscal year 2019 and the unspent proceeds of the Series 2016 bonds in fiscal year 2018 (see note 6 for further information).

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

For the University's deposits with the State Treasury, the University had a net unrealized gain of \$1,149,953 and a net unrealized loss of \$731,405 in fiscal year 2019 and 2018, respectively. These net unrealized gains and losses are included in cash and cash equivalents on the statements of net position.

Additional information on investments of the Pool may be obtained in the State's comprehensive annual financial report for the year ended June 30, 2019.

(a) Other Investments

- 1) As of June 30, 2019 and 2018, the University has invested \$190,634 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established by state statute for government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST is a 2a7-like investment pool, and the University's investment is rated as AAAM by Standard and Poor's. COLOTRUST pooled investments are excluded from the custodial credit risk and interest rate risk disclosure requirements, and is exempt from the fair value requirements of GASB 72. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. At June 30, 2019 and 2018, the fair value of the University's investment remained at \$190,634.
- 2) The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of June 30, 2019, and 2018, the University has reoccurring fair value measurements of \$439,824 and \$417,475, respectively, invested in TIAA/CREF Lifecycle Mutual funds, known as 415(m) funds. This investment is valued using quoted market prices (Level 1 inputs).

All mutual funds are subject to market risk, including possible loss of principal. The specific asset allocations for the Lifecycle funds as of June 30, 2019 and 2018 are reflected in the table below (*percents may not total to 100.00% due to rounding*):

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Current Asset Allocation		
	06/30/19	06/30/18
US Equity	33.49%	34.80%
Fixed Income	35.35%	34.84%
International Equity	14.25%	15.41%
Inflation-Protected Assets	5.48%	5.17%
Short-Term Fixed Income	6.45%	5.67%
Direct Real Estate	4.65%	3.86%
Short-Term Investments, Other Assets & Liabilities, Net	0.33%	0.25%
	100%	100%

(a) Custodial Credit Risk

100% of the investments are held by the custodian brokerage firm in the name of the University. However, as a mutual fund it is not covered by depository insurance.

(b) Credit Quality Risk

The Morningstar Rating is a quantitative assessment of a fund's past performance for both return and risk, as measured from one to five stars. It uses focused comparison groups to better measure fund manager skill. Morningstar rating has ranked this fund five out of five stars for the Retirement, Premier and Institutional categories. This investment is not rated by a different rating agency other than Morningstar.

(c) Foreign Currency Risk

The TIAA/CREF Lifecycle Mutual fund has 14.3% in international equities. It may also invest up to 20% of its bond assets in fixed income securities of foreign issuers, including emerging markets.

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(3) Capital Assets

The following tables, present changes in capital assets and accumulated depreciation for the years ended June 30, 2019 and 2018:

	<u>Balance, June 30, 2018</u>	<u>Additions</u>	<u>CIP transfers</u>	<u>Retirements</u>	<u>Balance, June 30, 2019</u>
Land	1,005,185	-	-	-	1,005,185
Construction in progress (CIP)	2,031,846	4,631,928	(3,083,414)	-	3,580,360
Depreciable capital assets					
Equipment	20,195,155	1,596,107	197,753	(125,441)	21,863,574
Buildings	102,810,082	-	-	-	102,810,082
Leasehold improvements	52,757,758	648,944	2,885,661	-	56,292,363
Less accumulated depreciation:					
Equipment	(14,202,952)	(1,539,885)	-	118,231	(15,624,606)
Buildings	(14,158,474)	(3,972,204)	-	-	(18,130,678)
Leasehold improvements	(19,661,512)	(3,858,090)	-	-	(23,519,602)
Net depreciable capital assets	127,740,057	(7,125,128)	3,083,414	(7,210)	123,691,133
Total capital assets, net	130,777,088	(2,493,200)	-	(7,210)	128,276,678

	<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>CIP transfers</u>	<u>Retirements</u>	<u>Balance, June 30, 2018</u>
Land	1,005,185	-	-	-	1,005,185
Construction in progress (CIP)	45,243,767	9,967,898	(52,729,948)	(449,871)	2,031,846
Depreciable capital assets					
Equipment	21,853,747	1,030,494	988,986	(3,678,072)	20,195,155
Buildings	53,832,734	-	48,977,348	-	102,810,082
Leasehold improvements	45,796,765	4,197,379	2,763,614	-	52,757,758
Less accumulated depreciation:					
Equipment	(14,982,136)	(1,724,886)	-	2,504,070	(14,202,952)
Buildings	(11,093,258)	(3,065,216)	-	-	(14,158,474)
Leasehold improvements	(16,188,308)	(3,473,204)	-	-	(19,661,512)
Net depreciable capital assets	79,219,544	(3,035,433)	52,729,948	(1,174,002)	127,740,057
Total capital assets, net	125,468,496	6,932,465	-	(1,623,873)	130,777,088

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(4) Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2019 is as follows:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>	<u>Amounts due within one year</u>
Bonds payable	\$ 86,002,162	8,250,000	(2,815,893)	91,436,269	3,835,000
Capital lease payable	5,656,420	426,185	(537,812)	5,544,793	567,278
Compensated absences	3,641,503	769,507	(333)	4,410,677	421,305
noncurrent liabilities	<u>95,300,085</u>	<u>9,445,692</u>	<u>(3,354,038)</u>	<u>101,391,739</u>	<u>4,823,583</u>

A summary of the changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>	<u>Amounts due within one year</u>
Bonds payable	\$ 88,750,181	-	(2,748,019)	86,002,162	2,675,000
Capital lease payable	6,038,354	52,267	(434,201)	5,656,420	457,023
Compensated absences	3,720,339	126,010	(204,846)	3,641,503	436,438
Total noncurrent liabilities	<u>98,508,874</u>	<u>178,277</u>	<u>(3,387,066)</u>	<u>95,300,085</u>	<u>3,568,461</u>

(5) Lease Obligations

Operating Leases

The University leases building space, land, copiers, computers, and small off-site storage units under operating lease agreements with AHEC and with private organizations. The University has three ground leases with AHEC totaling \$3.00 for the ground where the HLC, the Student Success Building (SSB) and the Aerospace Building (AES) were built. Total rental payments for the years ended June 30, 2019 and 2018 under all agreements was \$3,240,323 and \$3,137,618, respectively. As of June 30, 2019, minimum future rentals required by these agreements are as follows:

Fiscal year(s) ending:	
2020	2,622,611
2021	2,225,034
2022	1,338,702
2023	1,203,450
2024	898,046
2025 – 2029	<u>1,763,823</u>
Total	<u>\$ 10,051,666</u>

In addition to these operating leases, the University occupies other space on the Auraria Campus owned by AHEC. The use of this space is not formalized under an official lease agreement (with a lease term and future payment obligations) but is rather a component of the shared campus costs and is, therefore, reflected in note 16.

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Capital Leases

During fiscal year 2009, the University entered into a capital lease with AHEC in the amount of \$8,986,165 to finance the construction and acquisition of leasehold improvements for the new Science building on the Auraria Campus. The lease requires annual principal payments and semiannual interest payments. In fiscal years 2019 and 2018, the principal payments totaled \$439,606 and \$417,291, respectively, and interest payments equaled \$294,820 and \$317,342, respectively. In fiscal year 2018, the University entered into a capital lease for a digital computer storage unit. The lease requires annual principal payments with imputed interest payments. In fiscal year 2019 and 2018, the principal payments totaled \$17,417 and \$16,910, respectively, and the interest payments totaled \$1,061 and \$1,568, respectively. In fiscal year 2019, the University entered into a capital lease for a storage array and 4-nodes unit. The lease requires annual principal payments with imputed interest payments. In fiscal year 2019, the principal payment was \$80,789, and the interest payment was \$11,422.

The following is a schedule of future minimum capital lease payments as of June 30, 2019:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year(s) ending June 30:			
2020	\$ 567,278	275,425	842,703
2021	576,107	246,931	823,038
2022	605,168	217,937	823,105
2023	634,290	187,476	821,766
2024	575,727	155,390	731,117
2025 – 2029	<u>2,586,223</u>	<u>276,475</u>	<u>2,862,698</u>
Total	<u>\$ 5,544,793</u>	<u>1,359,634</u>	<u>6,904,427</u>

As of June 30, 2019, assets acquired under a capital lease obligation included leasehold improvements totaling \$8,581,884 and equipment totaling \$496,852, with total accumulated amortization totaling \$4,178,669 and \$52,299, respectively. The associated amortization expense on those assets is included in depreciation expense. During fiscal year 2019, amortization of \$469,039 was recorded.

As of June 30, 2018, assets acquired under a capital lease obligation included leasehold improvements totaling \$8,581,884 and equipment totaling \$52,267, with total accumulated amortization totaling \$3,759,315 and \$2,613, respectively. The associated amortization expense on those assets is included in depreciation expense. During fiscal year 2018, amortization of \$421,967 was recorded.

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(6) Bond Obligations

Total outstanding bonds are summarized below:

Issue	Date issued	Amount issued	June 30	
			2019	2018
2009 Taxable Institutional Enterprise Revenue Bonds	11/17/09	\$ 55,190,000	44,210,000	45,685,000
2010 Taxable Institutional Enterprise Revenue Bonds	6/11/10	10,575,000	8,565,000	8,835,000
Less discount on 2010 Bonds, net of amortization			(31,403)	(32,899)
2014 (Direct Placement) Institutional Enterprise Revenue Bonds	6/13/2014	4,000,000	2,252,540	2,637,540
2016 Institutional Enterprise Revenue Bonds	1/27/2016	27,450,000	25,850,000	26,395,000
Plus premium on 2016 Bonds, net of amortization			2,340,132	2,482,521
2019 (Direct Placement) Bank Qualified Enterprise Revenue Bonds	1/31/2019	8,250,000	8,250,000	
Total			<u>\$ 91,436,269</u>	<u>86,002,162</u>

Non-Direct Placement Bonds

All of the University's non-direct placement bonds were offered for public sale. The principal and interest requirements on all non-direct placement outstanding bonds at June 30, 2019 are summarized in the table below. All non-direct placement debt has a fixed interest rate.

Fiscal year	Principal	Interest	Total
2020	\$ 2,355,000	4,183,752	6,538,752
2021	2,415,000	4,075,462	6,490,462
2022	2,490,000	3,959,415	6,449,415
2023	2,560,000	3,836,672	6,396,672
2024	2,640,000	3,709,415	6,349,415
2025 – 2029	14,605,000	16,236,925	30,841,925
2030 – 2034	17,425,000	11,724,740	29,149,740
2035 – 2039	20,680,000	6,445,690	27,125,690
2040 – 2044	10,405,000	1,729,100	12,134,100
2045 – 2046	3,050,000	154,250	3,204,250
	<u>78,625,000</u>	<u>\$ 56,055,421</u>	<u>134,680,421</u>
Unamortized discount, net	(31,403)		
Unamortized premium, net	<u>2,340,132</u>		
	<u>\$ 80,933,729</u>		

(a) Series 2009

On November 17, 2009, the University issued \$55,190,000 of Series 2009 Taxable Institutional Enterprise Revenue Bonds (Recovery Zone Economic Development Bonds) at par, bearing interest at 2.0% to 6.2%, for the purpose of financing the construction of the SSB. The SSB added approximately 145,000 square feet of space for classrooms and faculty offices, specifically for MSU Denver students and professors. It also provides students with a central location for student support services.

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The bonds are due in semiannual installments beginning in fiscal year 2012 with annual principal payments ranging from \$1,295,000 to \$2,875,000 through December 1, 2039. The interest payments on the bonds are eligible to receive a 45% subsidy from the federal government; however, in fiscal year 2013 the federal government issued a sequestration order which reduced the amount of the subsidy. As of June 30, 2019, the University received \$584,005 less in subsidy payments than what was expected before sequester. As of June 30, 2019 and 2018, the University has received \$11,901,396 and \$10,765,665, respectively, in subsidy payments since the bond's inception. These bonds are collateralized by future revenues the University has pledged. See note 7 for more information on pledged revenues.

(b) Series 2010

On June 11, 2010, the University issued \$10,575,000 of Series 2010 Taxable Institutional Enterprise Revenue Bonds (Recovery Zone Economic Development Bonds), bearing interest at 1.8% to 6.0%, for the purpose of financing significant remodeling work that was done as University personnel moved to the SSB.

The bonds are due in semiannual installments beginning in fiscal year 2012 with annual principal payments ranging from \$240,000 to \$535,000 through December 1, 2040. The interest payments on the bonds are eligible to receive a 45% subsidy from the federal government; however, in fiscal year 2013 the federal government issued a sequestration order which reduced the amount of the subsidy. As of June 30, 2019 the University received \$110,042 less in subsidy payments than what was expected before sequester. As of June 30, 2019 and 2018, the University has received \$2,091,029 and \$1,875,358, respectively, in subsidy payments since the bond's inception. These bonds are collateralized by future revenues the University has pledged. See note 7 for more information on pledged revenues.

The Series 2010 bonds are shown net of unamortized discount of \$31,403.

(c) Series 2016

On January 27, 2016, the University issued \$27,450,000 of Series 2016 Institutional Enterprise Revenue Bonds, bearing interest at 2.0% to 5.0%, for the purpose of financing a portion of the construction of a new Aerospace and Engineering Science building (AES). This new facility houses mechanical, electrical and civil engineering technologies; industrial design; and computer science to support an integrated curriculum, and promote collaborative research. This building was completed in the fall of 2017.

The bonds are due in semiannual installments beginning in fiscal year 2017 with annual principal payments ranging from \$525,000 to \$1,560,000 through December 1, 2045. These bonds are not subject to the bond subsidy payments from the federal government. These bonds are collateralized by future revenues the University has pledged. See note 7 for more information on pledged revenues.

The Series 2016 bonds are shown net of unamortized premium of \$2,340,132.

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Direct Placement Bonds

The University has two direct placement bonds which were not issued to the public for sale and the terms were negotiated directly with the lender. Both of the direct placement bonds are collateralized by future revenues the University has pledged. (See note 7 for more information on pledged revenues). Principal and interest requirements on all non-direct placement outstanding bonds at June 30, 2019 are summarized in the table below. The Series 2019 non-direct placement debt has a fixed interest rate and the Series 2014 has a variable interest rate that is calculated as 65.001% of LIBOR, plus a tax free loan margin of 0.99% per annum. For purposes of this table the rate used to calculate future interest owed on the Series 2014 was the rate that was in effect as of June 30, 2019.

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,480,000	262,976	1,742,976
2021	1,520,000	223,110	1,743,110
2022	1,560,000	182,182	1,742,182
2023	1,605,000	140,126	1,745,126
2024	1,645,000	96,942	1,741,942
2025 – 2029	2,692,540	69,781	2,762,321
	<u>10,502,540</u>	<u>\$ 975,117</u>	<u>11,477,657</u>

(a) Series 2014

On June 13, 2014, the University issued Series 2014 Institutional Enterprise Revenue Bonds not to exceed \$4,000,000, at a variable interest rate equal to 65.001% of LIBOR plus a tax free loan margin of .99% per annum. The purpose of these bonds was to provide funding for the completion of the new athletic fields, which are 12.5 acres with eight tennis courts, a soccer stadium, and baseball and softball diamonds.

These bonds worked like a line of credit, where the University drew funds on an as needed basis. The outstanding principle amount is equal to the amount the University drew down. At the end of fiscal year 2017, the University drew the full \$4 million, and there are no unused lines of credit available. Principal payments became due beginning in fiscal year 2016. The maturity date of these bonds is September 1, 2024. The outstanding bonds are all on parity and subject to the rights of the bondholders embedded in the Master Resolution and supplemental resolutions associated with each bond issue. There are no acceleration clauses. These bonds are not subject to the bond subsidy payments from the federal government.

(b) Series 2019

On January 31, 2019, the University issued Series 2019 Bank Qualified Institutional Enterprise Revenue Bonds not to exceed \$8,250,000, at a fixed interest rate of 2.680% per annum. The purpose of these bonds was to provide funding for the replacement of the gym bleachers, and a renovation of the main locker rooms, improving the safety and security, as well as improving ADA accessibility. The project is scheduled to be completed by December, 2019.

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There are no available lines of credit, and the outstanding bonds are all on parity and subject to the rights of the bondholders embedded in the Master Resolution and supplemental resolutions associated with each bond issue. There are no acceleration clauses. Principal payments become due on December 1, 2019. The maturity date of these bonds is December 1, 2025. These bonds are not subject to the bond subsidy payments from the federal government.

Principal and interest requirements on all outstanding bonds (non-direct and direct placement) at June 30, 2019 are summarized in the table below.

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 3,835,000	4,446,727	8,281,727
2021	3,935,000	4,298,572	8,233,572
2022	4,050,000	4,141,597	8,191,597
2023	4,165,000	3,976,798	8,141,798
2024	4,285,000	3,806,357	8,091,357
2025 – 2029	17,297,540	16,306,706	33,604,246
2030 – 2034	17,425,000	11,724,740	29,149,740
2035 – 2039	20,680,000	6,445,690	27,125,690
2040 – 2044	10,405,000	1,729,100	12,134,100
2045 – 2046	3,050,000	154,250	3,204,250
	89,127,540	\$ 57,030,537	146,158,077
Unamortized discount, net	(31,403)		
Unamortized premium, net	2,340,132		
	\$ 91,436,269		

(7) Pledged Revenue

None of the University's buildings are used as collateral for the bonds; rather the University has pledged future revenues to repay \$89,127,540 in outstanding revenue bonds. Pledged revenue includes 10% of resident and nonresident tuition, all revenues derived from the facilities construction fee, all revenues derived from indirect cost recoveries (overhead) payable to research contracts and grants performed within the University's facilities, all revenues derived from mandatory fees for the provision of student and faculty services at the University, all revenues, net of operation and maintenance expenses, for the provision of continuing education services at the University, interest income, and federal interest subsidy payments received in connection with the bonds.

Proceeds from the bonds provided financing for the construction of the SSB, the RAC, the AES and various major remodeling projects. The total remaining principal and interest payments, (excluding the federal subsidy payments) are expected to be \$146,158,078 payable through fiscal year 2046. The total revenue pledged was \$38,237,607 and \$32,600,012 for June 30, 2019 and 2018, respectively.

The University has also agreed to make the required payments on the outstanding bonds on the HLC in the event the HLC@Metro, Inc. does not satisfy its bond payment obligations. The payments for this debt would also be covered by these pledged revenues. See note 15 for more information on the HLC@Metro, Inc. bond guarantee.

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The following table shows information for pledged revenues for fiscal years 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Tuition	\$ 16,003,009	15,296,838
Mandatory Fees	9,495,994	7,798,022
Facility Fee	6,999,534	6,719,248
Unrestricted Net Income	3,798,963	718,728
Net Continuing Education	-	168,163
Federal Subsidy	1,348,975	1,376,854
Indirect Cost Recovery	591,132	522,159
	<u>\$ 38,237,607</u>	<u>32,600,012</u>

(8) Other Liabilities

The Federal Perkins Loan Program Extension Act of 2015 expired and no additional legislation was passed to continue the extension. Therefore, beginning October 1, 2017, all colleges and universities were no longer allowed to award or disburse any new Perkins loans. As of June 30, 2019 Metropolitan State University of Denver has not liquidated/assigned the outstanding Perkins loans to the Department of Education (DoE) and will continue to service them. However, any excess liquid capital that has been received was allocated between the Federal Capital Contribution (FCC) and the Institutional Capital Contribution (ICC) and the FCC portion has been recorded as an "Other Current Liability". In May, 2019 the Department of Education (ED) posted an announcement delaying the repayment of the FCC back to the ED. This temporary reprieve comes as the ED is exploring options to reimburse institutions their portion of the cancelled loans.

(9) Compensated Absences

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public University and Universities*, require that compensated absences be broken out into current and noncurrent liabilities. Employees may accrue annual and sick leave based on the length of service and, subject to certain limitations regarding the amount, will be paid upon termination. The estimated costs of current compensated absences for which employees are vested for the years ended June 30, 2019 and 2018 are \$421,305 and \$436,438, respectively.

The estimated costs of noncurrent compensated absences for which employees are vested for the years ended June 30, 2019 and 2018 are \$3,989,372 and \$3,205,065, respectively. Fiscal years 2019 and 2018 operating expenses include an increase of \$769,174 in fiscal year 2019, and a decrease of \$78,836 in fiscal year 2018, for the estimated compensated absence liability.

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(10) Defined Contribution Retirement Plan

On September 10, 1993, the Board of Trustees of the State Colleges in Colorado adopted an Optional Retirement Plan (ORP) for faculty and exempt administrative staff under the authority of Senate Bill 92-127. The implementation date was May 1, 1994. Eligible employees were offered the choice of remaining in Public Employees' Retirement Association (PERA) (described in note 11) or participating in the ORP. New faculty and administrative staff members are required to enroll in the ORP unless they have one year or more service credit with PERA at the date of hire.

The ORP is a defined contribution pension plan with three investment managers, Fidelity Investments, TIAA-CREF, and AIG-VALIC, providing a range of investment accounts for participants. The University's required contribution to the ORP is 11.4% of covered payroll, and contribution by employees is 8% of covered payroll.

The University's contributions to the ORP for the fiscal year ended June 30, 2019, and 2018 were \$7,153,697 and \$6,730,772, respectively. The plan members' contributions for the fiscal year ended June 30, 2019, and 2018 were \$5,118,516, and \$4,831,738, respectively. These contributions were equal to the required contributions. All ORP contributions are immediately vested in the employee's account. Normal retirement for the ORP is age 65 with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and investment decisions made by participants for their individual accounts.

(11) Defined Benefit Pension Plan

i) Summary of Significant Accounting Policies

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

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years. The bill was signed into law by Governor Hickenlooper on June 4, 2018. A brief description of some of the major changes to plan provisions required by SB 18-200 for the SDTF are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates for the SDTF by 0.25 percent on July 1, 2019.
- Increases employee contribution rates for the SDTF by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund.

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- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, increases the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the State, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.
- Expands eligibility to participate in the PERA DC Plan to certain new members of the State Division hired on or after January 1, 2019, who are classified State College and University employees. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the SDTF will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

ii) General Information about the Pension Plan

Plan description. Eligible employees of the University are provided with pensions through the State Division Trust Fund (SDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided as of December 31, 2017. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

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

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

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

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As of December 31, 2018, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments in certain years, referred to as annual increases in the C.R.S. Pursuant to SB 18-200, there are no annual increases (AI) for 2018 and 2019 for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 will receive an annual increase, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 1.5 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 will receive the lesser of an annual increase of 1.5 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF. The automatic adjustment provision may raise or lower the aforementioned AI for a given year by up to one-quarter of 1 percent based on the parameters specified C.R.S. § 24-51-413. Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability.

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

Contribution provisions as of June 30, 2019. Eligible employees and MSU Denver are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements for the SDTF are established under C.R.S. § 24-51-401, et seq. and § 24-51-413. Employee contribution rates for the period of July 2018 through June 2019 are summarized in the table below:

	January 1, 2018 Through December 31, 2018	January 1, 2019 Through June 30, 2019	July 1, 2019 Through June 30, 2020
Employee contribution (all employees except State Troopers)	8.00%	8.00%	8.75%
State Troopers Only	10.00%	10.00%	10.75%

Contribution rates for the SDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

The employer contribution requirements for all employees, except State Troopers, are summarized in the table below:

	January 1, 2018 Through December 31, 2018	January 1, 2019 Through June 30, 2019	July 1, 2019 Through June 30, 2020
Employer contribution rate	10.15%	10.15%	10.40%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f)	(1.02)%	(1.02)%	(1.02)%
Amount apportioned to the SDTF	9.13%	9.13%	9.38%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	5.00%	5.00%	5.00%
Total employer contribution rate to the SDTF ¹	19.13%	19.13%	19.38%

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

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As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SDTF is considered a nonemployer contribution for financial reporting purposes. As of December 31, 2018, MSU Denver's proportionate share of this contribution was \$1,137,764.

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the University is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the University were \$8,423,882 and \$8,353,678 for the years ended June 30, 2019 and 2018 respectively.

iii. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019 and 2018, MSU Denver reported a liability of \$164,944,395 and \$295,891,215, respectively for its proportionate share of the net pension liability. The net pension liability for the SDTF as of June 30, 2019 and 2018 was measured as of December 31, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, and 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2018 and 2017. MSU Denver's proportion of the net pension liability was based on MSU Denver's contributions to the SDTF for the calendar year 2018 and 2017 relative to the total contributions of participating employers to the SDTF.

At December 31, 2018 and 2017, MSU Denver's proportion was 1.45 and 1.48 percent, respectively, which was a decrease of 3 basis points. MSU Denver's proportion was 1.49 percent at December 31, 2016, resulting in a decrease of 1 basis point from December 31, 2016 to 2017.

For the year ended June 30, 2019, and 2018, MSU Denver recognized pension expense of (\$11,390,728) and \$64,469,179, respectively. At June 30, 2019 and 2018, MSU Denver reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30 2019		June 30 2018	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 4,716,858		\$ 4,613,634	-
Changes of assumptions or other inputs	8,685,161	85,174,738	51,377,998	-
Net difference between projected and actual earnings on pension plan investments	8,331,561	-	-	11,144,310
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	3,698,392	-	1,981,882
Contributions subsequent to the measurement date	4,212,256		4,201,715	-
Total	25,945,836	88,873,130	60,193,347	13,126,192

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The \$4,212,256 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2020	\$	(37,874,131)
2021		(33,431,199)
2022		2,082,890
2023		2,082,890

Actuarial Assumptions. The total pension liability in the December 31, 2017 and 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

	<u>Dec 31, 2017</u>	<u>Dec 31, 2016</u>
Actuarial cost method	Entry age	Entry age
Price inflation	2.40 percent	2.40 percent
Real wage growth	1.10 percent	1.10 percent
Wage inflation	3.50 percent	3.50 percent
Salary increases, including wage inflation	3.50 – 9.17 percent	3.50-9.17 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent	7.25 percent
Discount rate	4.72 percent	5.26 percent
Post-retirement benefit increases:		
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent compounded annually	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve	Finance by the Annual Increase Reserve

The revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2017 to December 31, 2018:

Discount rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	0% through 2019 and 1.5% compounded annually, thereafter
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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

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

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

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

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

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

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

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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

Discount rate. As of December 31, 2018 and 2017 the discount rate used to measure the total pension liability was 7.25 percent and 4.72 percent, respectively. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the member contribution rates in effect for each year, including scheduled increases in SB 18-200. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200. Employer contributions also include current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- As specified in law, the State will provide an annual direct distribution of \$225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

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Based on the above assumptions and methods, the projection test indicates the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.43 percent were used in the discount rate determination resulting in a discount rate of 4.72 percent, 2.53 percent lower compared to the current measurement date.

Sensitivity of MSU Denver's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability as of June 30, 2018 and 2017, calculated using the discount rate of 7.25 percent and 4.72 percent, respectively, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

As of June 30, 2019	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	205,054,273	164,944,395	131,007,781

As of June 30, 2018	1% Decrease (3.72%)	Current Discount Rate (4.72%)	1% Increase (5.72%)
Proportionate share of the net pension liability	368,109,918	295,891,215	236,604,084

Pension plan fiduciary net position. Detailed information about the SDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

IV. Payables to the pension plan

MSU Denver had a \$659,135 and \$9,470 payable to the SDTF as of June 30, 2019 and 2018, respectively, which was comprised entirely of the June contributions legally required to be made to the plan.

(12) Other Retirement Plans

i) Defined Contribution Retirement Plan (DC Plan)

Plan Description – Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008 which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan). SB 18-200 expands eligibility to participate in the PERA DC Plan to certain new employees hired on or after January 1, 2019, who are classified State College and University employees. The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA's CAFR as referred to above.

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Funding Policy – All participating employees in the PERA DC Plan and the University are required to contribute a percentage of the participating employees' PERA-includable salary to the PERA DC Plan. The employee and employer contribution rates for the period July 2018 through June 2019 are summarized in the tables below:

	January 1, 2018 Through December 31, 2018	January 1, 2019 Through June 30, 2019	July 1, 2019 Through June 30, 2020
Employee Contribution Rates:			
Employee contribution (all employees except State Troopers)	8.00%	8.00%	8.75%
State Troopers Only	10.00%	10.00%	10.75%
Employer Contribution Rates:			
On behalf of all employees except State Troopers)	10.15%	10.15%	10.40%
State Troopers Only	12.85%	12.85%	13.10%

Additionally the employers are required to contribute AED and SAED to the SDTF as follows:

	As of June 30, 2019	As of June 30, 2018
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	5.00%	5.00%
Total employer contribution rate to the SDTF¹	10.00%	10.00%

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.80 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense. As of June 30, 2019 MSU Denver did not have any PERA DC Plan members.

ii) Student Retirement Plan

Beginning in fiscal year 1993, in accordance with the provision of C.R.S. 24-54.6-101, and as provided in Section 403(b) of the IRC, the State of Colorado Department of Higher Education established the Colorado Student Employees Defined Contribution Plan. Student employees taking fewer than six hours each semester are required to participate. The plan requires a 7.5% contribution on the employee's part with no employer contribution. Total current year payroll covered by the plan for the University for the fiscal years ended June 30, 2019 and 2018 was \$1,773,331 and \$2,290,528, respectively. Employee contributions for the fiscal years ended June 30, 2019 and 2018 were 7.5% of the covered payroll in the amount of \$132,971 and \$171,794, respectively.

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13) Optional Investment Plans

i) 401(k) Voluntary Investment Program

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

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

ii) Deferred Compensation Plan

- a) At July 1, 2009, the State's administrative functions for the 457 Plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2018, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by the percentage of their PERA contribution) to a maximum of \$18,500. Participants who are age 50 and older, and contributing the maximum amount allowable were allowed to make an additional \$6,000 contribution in 2018. Special 457(B) catch-up contributions allow a participant for three years prior to the normal retirement age to contribute the lesser of (1) twice the annual limit (\$37,000 in 2018, and \$38,000 in 2019), or (2) the basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age 50 or over catch-up contributions). Contributions and earnings are tax-deferred

Contributions and earnings are tax deferred. At June 30, 2019, the University had 47 accounts with this plan.

- b) On July 1, 2013, the University also established a TIAA/CREF Lifecycle Excess Benefit 415(m) plan. The assets of this plan are owned and controlled by the University and are subject to the claims of the University's creditors; however, given that they are held in trust for the exclusive benefit of the participants and their beneficiaries, the employees have a vested interest. The excess benefits in this plan are not available to employees until termination, retirement, death or unforeseeable emergency. See note 2 for details of this plans' assets. As of June 30, 2019 the 415(m) plan had two participants.

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(14) Defined Benefit Other Post-Employment Benefits (OPEB)

i) Health Care Trust Fund

Summary of Significant Accounting Policies

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

General Information about the OPEB Plan

Plan description. Eligible employees of the University are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

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

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

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

PERA Benefit Structure

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

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

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the University is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from Metropolitan State University of Denver were \$428,417 and \$426,763 for the years ended June 30, 2019 and 2018, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, the University reported a liability of \$6,747,644 and \$6,661,518, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2018. The University's proportion of the net OPEB liability was based on the University's contributions to the HCTF for the calendar year 2018 relative to the total contributions of participating employers to the HCTF.

At December 31, 2018 and 2017, the University's proportion was .50 percent and .51 percent, respectively, which was a decrease of 1.6 and .6 basis points from its proportion measured as of December 31, 2017 and 2016, respectively.

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For the years ended June 30, 2019 and 2018 the University recognized OPEB expense of \$503,251 and \$507,858. At June 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2019		June 30, 2018	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	24,490	10,271	31,503	-
Changes of assumptions or other inputs	47,334	-	-	-
Net difference between projected and actual earnings on OPEB plan investments	38,803	-	-	111,446
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	241,494	-	71,921
Contributions subsequent to the measurement date	226,370	-	225,803	-
Total	336,997	251,765	257,306	183,367

\$226,370 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:		
2020	\$	(28,665)
2021		(28,665)
2022		(28,665)
2023		(28,665)
2024		(25,508)
Thereafter		(970)

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Actuarial assumptions. The total OPEB liability in the December 31, 2017 and 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

	<u>Dec 31, 2017</u>	<u>Dec 31, 2016</u>
Actuarial cost method	Entry age	Entry age
Price inflation	2.40 percent	2.40 percent
Real wage growth	1.10 percent	1.10 percent
Wage inflation	3.50 percent	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent	7.25 percent
Discount rate	7.25 percent	7.25 percent
Health care cost trend rates		
PERA benefit structure:		
Service-based premium subsidy	0.00 percent	0.00 percent
PERACare Medicare plans	5.00 percent	5.00 percent
Medicare Part A premiums	3.25 percent for 2018, gradually rising to 5.00 percent in 2025	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:		
Service-based premium subsidy	0.00 percent	0.00 percent
PERACare Medicare plans	N/A	
Medicare Part A premiums	N/A	N/A

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

The actuarial assumptions used in the December 31, 2017, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as discussed below.

In determining the additional liability for PERACare enrollees who are age sixty-five or older and who are not eligible for premium-free Medicare Part A, the following monthly costs/premiums are assumed for 2018 for the PERA Benefit Structure:

Medicare Plan	Cost for Members Without Medicare Part A	Premiums for Members Without Medicare Part A
Self-Funded Medicare Supplement Plans	\$736	\$367
Kaiser Permanente Medicare Advantage HMO	602	236
Rocky Mountain Health Plans Medicare HMO	611	251
UnitedHealthcare Medicare HMO	686	213

The 2018 Medicare Part A premium is \$422 per month.

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In determining the additional liability for PERACare enrollees in the PERA Benefit Structure who are age sixty-five or older and who are not eligible for premium-free Medicare Part A, the following chart details the initial expected value of Medicare Part A benefits, age adjusted to age 65 for the year following the valuation date:

Medicare Plan	Cost for Members Without Medicare Part A
Self-Funded Medicare Supplement Plans	\$289
Kaiser Permanente Medicare Advantage HMO	300
Rocky Mountain Health Plans Medicare HMO	270
UnitedHealthcare Medicare HMO	400

All costs are subject to the health care cost trend rates, as discussed below.

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2017, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.25%
2023	5.00%	4.50%
2024	5.00%	4.75%
2025+	5.00%	5.00%

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

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

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Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

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

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

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

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

The following health care costs assumptions were updated and used in the measurement of the obligations for the HCTF:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2018 plan year.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

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

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

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

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates. The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

As of June 30, 2019	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.25%	3.25%	4.25%
Ultimate Medicare Part A trend rate	4.00%	5.00%	6.00%
Net OPEB Liability	6,561,315	6,747,644	6,961,955

As of June 30, 2018	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	6,478,234	6,661,518	6,882,271

Discount rate. As of the most recent year, as well as the prior year, the discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2018, measurement date.

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- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

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

As of June 30, 2019	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	7,550,026	6,747,644	6,061,682

As of June 30, 2018	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	7,489,640	6,661,518	5,954,692

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

Payables to the pension plan

MSU Denver had a \$32,904 and \$537 payable to the HCTF as of June 30, 2019 and 2018, respectively, which was comprised entirely of the June contributions legally required to be made to the plan.

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ii) Colorado Higher Education Insurance Benefits Alliance (CHEIBA)

University faculty and exempt administrative staff receive health insurance through the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool.

CHEIBA financial statements are prepared under GAAP using the accrual basis of accounting following governmental accounting standards for a business-type activity. The financial statements can be obtained by contacting Gallagher Benefits Services, Inc.

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

(15) Commitments and Contingent Liabilities

The University entered into a non-exchange financial guarantee with the HLC@Metro Inc. This guarantee is a legal, valid, and binding obligation. As described in note 1b, the HLC@Metro Inc. is a discretely presented component unit of the University. The HLC@Metro Inc. was created as a special purpose corporation to manage the Hospitality Learning Center. This guarantee agreement dated October 1, 2010 with HLC@Metro, Inc., absolutely and unconditionally guarantees to Wells Fargo, HLC@Metro, Inc.'s trustee, the timely payment of all HLC@Metro, Inc.'s debt service payments on its Series 2010 bonds on a gross basis (without netting of any federal subsidy payments received or to be received). The guaranteed amounts are payable solely from available pledged revenues of the University, as discussed in note 7. This guarantee will remain in effect until there are no more outstanding payables on the HLC@Metro Inc.'s series 2010 bonds. Should the University have to step in and make any payments on behalf of the HLC@Metro Inc., the HLC@Metro Inc. is obligated to repay all the payments made on its behalf. As of June 30, 2019, the University has not had to pay any of these payments.

Amounts expended under the terms of certain grants and contracts are subjected to audit and possible adjustment by governmental agencies. In the opinion of management, any adjustments will not have a material or adverse effect on the accompanying financial statements.

The University, in the course of conducting business, is a party to various litigation and other claims. Although the final outcome of these legal actions cannot be determined at this time, management does not believe the ultimate resolution of these matters will have a significant adverse effect on the financial statements of the University.

The University is subject to risks of loss from liability for accidents, property damage, and personal injury. These risks are managed by the State Office of Risk Management, an agency formed in statute. MSU Denver does not retain risk of loss except for damage incurred to property belonging to the State limited to a \$5,000.00 deductible per incident. Pursuant to the Colorado Governmental Immunity Act, CRS 24-10-101, claims that accrued before January 1, 2018 brought under state law are limited to \$350,000 per person and \$990,000 per accident. Claims that accrue after January 1, 2018, and before January 1, 2022 brought under state law are limited to \$387,000 per person and \$1,093,000 per accident.

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The premiums MSU Denver pays to the State Office of Risk Management are based on an assessment of risk exposure and historical claims experience. Liability of State higher education institutions is limited by the Colorado Governmental Immunity Act. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years, nor have there been any significant reductions in insurance coverage from the prior year.

Contracts have been entered into for the purposes of planning, modifying, and equipping certain building additions with outstanding amounts totaling \$810,318 and \$1,766,862 as of June 30, 2019, and 2018, respectively.

(16) Campus Shared Controlled Costs

Legislation enacted in 1974 established AHEC and included the University as one of the constituent institutions, along with the CCD and the UCD. Each institution operates independently as an educational institution responsible to its own governing board while sharing common operations. For the purpose of total financial disclosure, the University's portion of campus-shared costs for the Auraria Campus is as follows:

	Year ended June 30	
	2019	2018
Administration of Auraria Higher Education Center and operation and maintenance of plant	\$ 10,427,896	10,141,336
Controlled Maintenance	947,910	912,143
Library and Media Center	4,727,295	4,485,760
Total	<u>\$ 16,103,101</u>	<u>15,539,239</u>

The University's existing and future commitments to AHEC are established within the Senate Bill 10-1301. The University's ability to fulfill existing and future commitments is contingent upon funds being appropriated for such purposes. For the year ending June 30, 2020, the University's portion of shared costs is estimated to be \$16,957,575 (unaudited).

(17) Legislative Appropriations

The Colorado State Legislature establishes spending authority to the University in its annual Long Appropriations Bill (Long Bill). The Long Bill appropriated funds include re-appropriated funds from the State's College Opportunity Fund as well as cash funds from the student's share of tuition.

For the years ended June 30, 2019 and 2018, appropriated expenses were within the authorized spending authority. For the years ended June 30, 2019 and 2018, the University had a total re-appropriation of \$58,343,983 and \$51,626,603, respectively. For years ended June 30, 2019 and 2018, the University's appropriated funds consisted of \$34,962,323 and \$31,966,747, respectively, received from students that qualified for stipends from the College Opportunity Fund and \$23,651,660 and \$19,659,856, respectively, as fee-for-service contract revenue. As of June 30, 2019 and 2018 the University's total appropriation of cash funds for the student's share of tuition was \$112,664,652 and \$111,744,494, respectively. All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds student fees, grants and contracts, gifts, indirect cost recoveries, auxiliary revenues and other revenue sources.

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(18) Component Unit Disclosures

GASB Statement No. 14, as amended by GASB Statement No. 61 and GASB Statement No. 39, require the inclusion of the Foundation and HLC@Metro, Inc. as discretely presented component units, as well as the inclusion of the Authority as a blended component unit, based on the nature and significance of their relationships with the University.

The Foundation is a not-for-profit corporation formed to promote the welfare, development, growth, and well-being of the University. The Foundation is a separate legal entity, which is fully independent from the University, is not financially dependent upon the University, has a separately elected board of directors, and as such, has substantial autonomy and separate government entity characteristics. The financial statements of the Foundation are prepared on the accrual basis and follow the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*.

On August 17, 2010, the University's Board of Trustees approved the incorporation of the HLC@Metro, Inc., a not-for-profit, special-purpose corporation in order to create the HLC. The HLC@Metro, Inc. has a management agreement with Sage Hospitality to manage the hotel, and a franchise agreement with Marriott to market the hotel. The essence of these agreements is that the hotel is to provide services to the community-at-large, and not to the exclusive or even primary benefit of MSU Denver or MSU Denver's students, faculty, and staff. The financial statements of HLC@Metro, Inc. are prepared on the accrual basis and are prepared in conformity with applicable GASB standards.

The Foundation uses a different GAAP reporting model and, following the GASB Statement No. 39 recommendation, its financial information is not presented on the same page as the University but is reported on separate pages after the University's financial statements. The separate financial statements include the statements of financial position and the statements of activities. In addition, disclosures specific to the Foundation's and the HLC@Metro, Inc.'s financial statements are provided on separate pages after the University's disclosures.

The full annual financial report for the Foundation can be obtained by visiting <https://www.msudenver.edu/giving/msudenverfoundation/reportsandforms/>. The financial report for the HLC@Metro, Inc. can be obtained by calling 303 605-5965.

On August 17, 2010 the University's Board of Trustees approved the formation of the Authority for the purpose of issuing the bonds necessary to fund the hotel/HLC. Pursuant to an intergovernmental agreement between MSU Denver and the HLC@Metro Inc., the Board of Directors of the Authority authorized the issuance of the bonds and transferred the proceeds to the HLC@Metro Inc. Although the Board of Directors of the Authority was responsible for the issuance of the bonds rather than the University's Board of Trustees, the Board of Trustees was authorized to set certain parameter restrictions on the total amount of the bonds issued, the maximum interest rate, and the final maturity date of the bonds.

The Authority's Board of Directors is comprised of three members, two of which are appointed by MSU Denver, and one is appointed by the HLC@Metro Inc. The Authority was established for the primary purpose of issuing bonds and because the University is able to overrule or otherwise modify any decisions relating to that debt, the University is considered to have the authority to impose its will as defined by GASB Statement No. 14. Furthermore, because the bonds are being issued almost exclusively for the benefit of the University the financial transactions should be blended with the University's as opposed to being showed separately.

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The bonds were immediately transferred to the HLC@Metro Inc. in 2010 and the Authority has not had any other transactions since then, therefore there is no impact to the University's financial statements.

(19) Related-Party Transactions

Transactions between the University and its discretely presented component units are considered to be related-party transactions. Amounts reported may differ from the component unit's notes to basic financial statements based on various timing differences, all of which have been substantially reconciled to the component unit's balances.

The University leased office space to the Foundation for \$8,274 for each of the fiscal years ending June 30, 2019 and 2018. During the years ended June 30, 2019 and 2018, the Foundation provided \$3,911,961 and \$3,242,330, respectively, of funding to the University for various purposes, such as scholarships, departmental funding, and other programs.

The University provides employees on a reimbursement basis to the Foundation. For the years ended June 30, 2019 and 2018, these expenses were \$334,664 and \$339,554, respectively. In addition, the University donates development and certain personnel costs to the Foundation, which totaled \$1,831,160 and \$1,582,791 for the years ended June 30, 2019 and 2018, respectively.

At June 30, 2019 and 2018, the University had receivables of \$688,813 and \$441,268, respectively, due from the Foundation. As of June 30, 2019 and 2018, the University had no outstanding payables due to the Foundation.

At June 30, 2019 and 2018, the University had no payables due to the HLC@Metro Inc. As of June 30, 2019 and 2018 there were no receivables due from the HLC@Metro Inc.

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Note 1 - Principal Activity and Significant Accounting Policies

Organization

Metropolitan State University of Denver Foundation (the Foundation) is a Colorado nonprofit organization established to promote the general welfare and development of Metropolitan State University of Denver (the University).

The Foundation is the sole member of 965 Santa Fe, LLC (the LLC), a Colorado limited liability company. The LLC owns and rents the Center for Visual Arts (the CVA) facility to the University.

The consolidated financial statements include the accounts of the Foundation and the LLC because the Foundation has both control and an economic interest in the LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the "Foundation".

Adoption of FASB Accounting Standards Updated

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016, which modifies the presentation and disclosure requirements of not-for-profit entities. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhanced the disclosure requirements for the Foundation's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Foundation's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Foundation's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the consolidated statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative consolidated financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Foundation has elected not to present comparative liquidity information for this amendment.

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to endowment, held on behalf of others or other long-term purposes of the Foundation are excluded from this definition.

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Funds Held for Others

The Foundation serves as a repository of funds raised through the *Colorado Rockies Foundation 50/50 Raffle* on behalf of Metropolitan State University of Denver Alumni Association, a separate Colorado nonprofit organization. Cash held for University consists of receipts for Athletic Fields, HLC@Metro, and athletic camps hosted by the University.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

Property and Equipment

Property and equipment additions over \$5,000 with useful lives exceeding one year are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, at present solely the building at 965 Santa Fe, of thirty years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2019 and 2018.

Property and equipment also includes works of art which are capitalized at original cost, or fair value if donated, and are not depreciated because the Foundation intends to preserve these assets in perpetuity.

Beneficial Interest in Charitable Trust Held by Others

The Foundation was named as an irrevocable beneficiary of a charitable trust held and administered by an independent trustee. The trust was created independently by the donor and was administered by an outside agent designated by the donor. Therefore, the Foundation had neither possession nor control over the assets of the trust. At the date the Foundation received notice of the beneficial interest, a contribution with donor restrictions was recorded in the consolidated statement of activities, and a beneficial interest in charitable trust held by others was recorded in the consolidated statement of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, the beneficial interest in the trust has been reported at fair value in the consolidated statement of financial position.

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During the year ended June 30, 2019, the donor passed away and the Foundation received a full distribution of the remaining fair market value of the trust. The trust assets were transferred to the scholarship endowment.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statements of financial position. Net investment return/(loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- (or certain grantor-) imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment. (Note 8).

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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Donated Professional Services, In-kind Contributions, and Services Received from the University

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated services received from the University are recorded at the respective fair values of the services received (Note 9).

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, which is allocated on a square footage basis, as well as salaries, wages, benefits, and taxes, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Foundation is organized as a Colorado nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(iv), and has been determined not to be a private foundation under Section 509(a)(1). The LLC is treated as a disregarded entity for tax purposes, and is incorporated into the tax return filed by the Foundation.

The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Foundation files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

Management believes that the Foundation has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Foundation's Forms 990, 990-T and other income tax filings required by state, local, or non-U.S. tax authorities are no longer subject to tax examination for years before 2015.

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Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Reclassification

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassification had no impact on previously reported net assets.

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from individuals, corporations, and foundations supportive of the Foundation's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Subsequent Events

The Foundation has evaluated subsequent events through September 24, 2019, the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 954,916
Investments	4,912,456
Receivable from University	10,630
Promises to give due in one year	779,171
Endowment spending-rate distributions and appropriations	375,000
	<u>\$ 7,032,173</u>

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The Foundation's liquidity is structured so its financial assets are available as its general expenditures, liabilities, and other obligations come due. A portion of Foundation's operations is funded by investment income without donor restrictions which is expandable as needed. To manage unanticipated liquidity needs, the Foundation will calculate, on a regular basis, assumed liquidity requirements for the Non-Endowment assets. These projections will provide a net total assumed liquidity dollar amount that the Foundation has readily available for expenditures.

The Foundation's endowment funds consist of donor-restricted and board-designated endowments. Income from earnings are distributed annually from each qualifying endowment fund to its associated expendable account to be available for fulfilling each individual's restricted purpose. The endowment has a spending policy statement, which uses the banded inflation method to determine endowment distributions (Note 7). Although no spending is intended from the board-designated endowment (other than amounts appropriated for general expenditures as part of annual endowment spending appropriation), these amounts could be made available if necessary.

Note 3 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, the Foundation develops inputs using the best information available in the circumstances.

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In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset.

A significant portion of the Foundation's investment assets are classified within Level 1 because they are comprised of open-end mutual funds and investment trusts with readily determinable fair values based on daily redemption values.

The fair value of the Foundation's beneficial interest in a charitable trust held by others is determined by the Foundation using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets, and is based on the fair values of the trust investments as reported by the trustee. The investment in private equity is reported at fair value, as determined by the Foundation, utilizing the most current information provided by the investee. These are considered to be Level 3 measurements.

The Foundation uses net asset value (NAV) per share, or its equivalent, such as member units, as a practical expedient to estimate the fair value of a limited liability company, which does not have a readily determinable fair value. The investment, which is valued using NAV per share as practical expedient is not classified in the fair value hierarchy.

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The following table presents assets measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient, as identified below, at June 30, 2019:

	Total	Fair Value Measurements at Report Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Investments					
Cash and money market funds (at cost)	\$ 747,749	\$ -	\$ -	\$ -	\$ -
Fixed income mutual funds					
U.S. Government securities	1,858,489	1,858,489	-	-	-
Bond	1,403,267	1,403,267	-	-	-
High-yield bond	281,747	281,747	-	-	-
Equity and other mutual funds					
U.S. common stocks	1,973,682	1,973,682	-	-	-
Small to mid-cap equity	812,496	812,496	-	-	-
International equity	707,701	707,701	-	-	-
Emerging market	293,700	293,700	-	-	-
Futures and commodity	322,260	322,260	-	-	-
Real estate investment trusts	126,056	126,056	-	-	-
Limited partnership	248,047	-	-	-	248,047
Private equity	70,275	-	-	70,275	-
	<u>\$ 8,845,469</u>	<u>\$ 7,779,398</u>	<u>\$ -</u>	<u>\$ 70,275</u>	<u>\$ 248,047</u>
Endowment Investments					
Cash and money market funds (at cost)	\$ 1,611,311	\$ -	\$ -	\$ -	\$ -
Fixed income mutual funds					
U.S. Government securities	718,711	718,711	-	-	-
Bond	2,957,949	2,957,949	-	-	-
High-yield bond	687,424	687,424	-	-	-
Equity and other mutual funds					
U.S. common stocks	4,154,365	4,154,365	-	-	-
Small to mid-cap equity	1,775,025	1,775,025	-	-	-
International equity	1,492,787	1,492,787	-	-	-
Emerging market	641,565	641,565	-	-	-
Futures and commodity	869,507	869,507	-	-	-
Real estate investment trusts	277,083	277,083	-	-	-
Limited partnership	239,059	-	-	-	239,059
	<u>\$ 15,424,786</u>	<u>\$ 13,574,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 239,059</u>

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The following table presents assets measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient, as identified below, at June 30, 2018:

	Total	Fair Value Measurements at Report Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Investments					
Cash and money market funds (at cost)	\$ 2,415,647	\$ -	\$ -	\$ -	\$ -
Fixed income mutual funds					
U.S. Government securities	1,524,323	1,524,323	-	-	-
Bond	953,540	953,540	-	-	-
Emerging market funds	-	-	-	-	-
High-yield bond	288,081	288,081	-	-	-
Equity and other mutual funds					
U.S. common stocks	1,543,466	1,543,466	-	-	-
Small to mid-cap equity	931,127	931,127	-	-	-
International equity	544,606	544,606	-	-	-
Emerging market	271,445	271,445	-	-	-
Futures and commodity	540,807	540,807	-	-	-
Preferred stocks	3,208	3,208	-	-	-
Real estate investment trusts	97,973	97,973	-	-	-
Private equity	79,496	-	-	79,496	-
	<u>\$ 9,193,719</u>	<u>\$ 6,698,576</u>	<u>\$ -</u>	<u>\$ 79,496</u>	<u>\$ -</u>
 Cash and money market funds (at cost)	 \$ 429,919	 \$ -	 \$ -	 \$ -	 \$ -
Fixed income mutual funds					
U.S. Government securities	194,265	194,265	-	-	-
Bond	1,866,804	1,866,804	-	-	-
High-yield bond	582,515	582,515	-	-	-
Equity and other mutual funds					
U.S. common stocks	3,114,542	3,114,542	-	-	-
Small to mid-cap equity	1,811,085	1,811,085	-	-	-
International equity	1,084,243	1,084,243	-	-	-
Emerging market	554,187	554,187	-	-	-
Futures and commodity	779,093	779,093	-	-	-
Preferred stocks	7,484	7,484	-	-	-
Real estate investment trusts	193,743	193,743	-	-	-
Limited partnership	259,173	-	-	-	259,173
	<u>\$ 10,877,053</u>	<u>\$ 10,187,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 259,173</u>
 Beneficial interest in charitable trust held by others	 \$ 151,946	 \$ -	 \$ -	 \$ 151,946	 \$ -

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Below is a reconciliation of the beginning and ending balances of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2019 and 2018:

	Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)	
	Beneficial interest in charitable trust	Private equity
<u>Year ended June 30, 2019</u>		
Balance, beginning of year	\$ 151,946	\$ 79,496
Net realized and unrealized gain (loss)	60,151	(9,221)
Distributions	(212,097)	-
Balance, end of year	<u>\$ -</u>	<u>\$ 70,275</u>
Unrealized gain (loss) included in net investment return and change in beneficial interest in the statement of activities relating to assets still held at June 30, 2019	<u>\$ -</u>	<u>\$ (9,221)</u>
<u>Year ended June 30, 2018</u>		
Balance, beginning of year	\$ 118,403	\$ 86,943
Net realized and unrealized gain (loss)	33,543	(7,447)
Balance, end of year	<u>\$ 151,946</u>	<u>\$ 79,496</u>
Unrealized gain (loss) included in net investment return and change in beneficial interest in the statement of activities relating to assets still held at June 30, 2018	<u>\$ 33,543</u>	<u>\$ (7,447)</u>

The Foundation has an investment in a limited liability company that calculates NAV per share, with a fair value of \$487,106 and \$259,173 at June 30, 2019 and 2018, respectively. Redemptions are permitted monthly and quarterly with a 90-day redemption notice. The Foundation has no unfunded commitments as of June 30, 2019. The investment's objective is to provide exposure to European and U.S. sub-investment grade corporate debt while seeking to achieve total returns with modest volatility and focusing on capital preservation and risk mitigation.

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Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2019 and 2018:

	2019	2018
Within one year	\$ 1,114,309	\$ 1,552,105
In one to five years	1,762,634	2,983,327
In more than five years	4,256	6,384
	2,881,199	4,541,816
Less discount to net present value (3.50% - 5.50%)	(110,696)	(228,615)
Less allowance for uncollectable promises to give	(25,000)	(56,000)
	<u>\$ 2,745,503</u>	<u>\$ 4,257,201</u>

Promises to give appear as follows in the consolidated statements of financial position:

	2019	2018
Promises to give, net	\$ 1,279,201	\$ 1,874,527
Endowment promises to give, net	1,466,302	2,382,674
	<u>\$ 2,745,503</u>	<u>\$ 4,257,201</u>

At June 30, 2019 and 2018, four and three donors accounted for 66% and 65% of total promises to give, respectively.

During the year ended June 30, 2018, the Foundation received an intention to give totaling \$2,000,000 for the Endowed Scholarship and Capital Improvement Funds. The donors retain the right to extend the time frame of payments and intend to fulfill the gift from the remainder of their estate, the future value of which is not determinable; therefore, the intention to give has not been recognized.

Note 5 - Property and Equipment

Property and equipment consists of the following at June 30, 2019 and 2018:

	2019	2018
Center for Visual Arts		
Land	\$ 456,400	\$ 456,400
Building	1,023,472	1,023,472
	1,479,872	1,479,872
Less accumulated depreciation	(336,220)	(300,820)
	1,143,652	1,179,052
Nondepreciated artwork	261,950	261,950
	<u>\$ 1,405,602</u>	<u>\$ 1,441,002</u>

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 6 - Leases

During the year ended June 30, 2010, the LLC purchased a commercial building at 965 Santa Fe Drive to house the operations of the CVA. Effective March 1, 2010, the LLC and the University entered into a three-year non-cancellable lease which has since been renewed through June 30, 2021. Under the agreement the University paid annual rent for the years ended June 30, 2019 and 2018 in the amount of \$100,000. In addition to the annual minimum rent, the University reimburses the LLC for actual expenses incurred for the maintenance and operation of the premises, which approximate \$25,000 per year.

Note 7 - Endowment

The Foundation's endowment (Endowment) is composed of 69 individual funds established by donors (Perpetual Endowment) and 134 purpose-restricted quasi-endowment funds (Quasi-Endowment). The funds were established by donors primarily to provide scholarships to eligible students of the University, and to support academic departments, student activities, and other purposes of the University. The Endowment also includes certain net assets without donor restriction that have been designated for endowment by the Board of Directors (Board-Designated Endowment). Perpetual Endowment funds are charitable funds whose principal must be preserved in perpetuity as a condition imposed by the donor. Quasi-Endowment funds are purpose-restricted board-designated gifts whose principal is intended to be maintained in perpetuity, but which may be expended in accordance with the University's spending-rate policy, with no requirement that any such expenditure be replenished. Net assets associated with Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair values of original Permanent Endowment gifts, as of each gift date, absent explicit donor instructions to the contrary. At June 30, 2019 and 2018, there were no contrary donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
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As of June 30, 2019 and 2018, the Foundation had the following endowment net asset composition by type of fund:

	Without Donor Restriction	With Donor Restrictions	Total
<u>June 30, 2019</u>			
Board-designated endowment	\$ 1,000,000	\$ -	\$ 1,000,000
Purpose-restricted quasi-endowment funds	-	7,656,833	7,656,833
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	7,728,867	7,728,867
Accumulated investment gains	23,178	482,210	505,388
	<u>\$ 1,023,178</u>	<u>\$ 15,867,910</u>	<u>\$ 16,891,088</u>
<u>June 30, 2018</u>			
Purpose-restricted quasi-endowment funds	\$ -	\$ 5,802,310	\$ 5,802,310
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	7,093,067	7,093,067
Accumulated investment gains	-	364,350	364,350
	<u>\$ -</u>	<u>\$ 13,259,727</u>	<u>\$ 13,259,727</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2019 and 2018, deficiencies of \$1,742 and \$902 have been reported in net assets with donor restriction on those dates, respectively. The deficiencies resulted from unfavorable market fluctuations. The Foundation has suspended distributions from these funds until such time as the deficiencies are recovered via market returns; however, there is no legal obligation for the Foundation to fund the deficiencies.

Investment and Spending Policies

The Foundation has adopted investment and distribution policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment. Under this policy, as approved by the Board of Directors, endowment assets are invested in a manner intended to maintain or increase the dollar value of the portfolio after annual distribution expenses and fees in order to provide the benefit intended by donors. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
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Effective January 1, 2014, the Foundation adopted a banded inflation method to determine endowment distributions based on the Higher Education Price Index (HEPI), with the resulting rate subject to a minimum of 3% and a maximum of 5%. Barring specific requirements for each individual endowment, distributions from Donor Restricted Endowments are limited to the excess of the fair values of the Donor Restricted Endowments over the sum of the original and subsequent gift amounts. In establishing this policy, the Foundation considered the long-term expected return on the Endowment, and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

Changes in Endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	Without Donor Restriction	With Donor Restrictions	Total
<u>Year ended June 30, 2019</u>			
Endowment net assets, beginning of year	\$ -	\$ 13,259,727	\$ 13,259,727
Net investment return	23,178	265,574	288,752
Contributions	-	2,157,827	2,157,827
Board-designations	1,000,000	-	1,000,000
Distributions from beneficial interest in charitable trusts held by others	-	212,097	212,097
Matching pursuant to donor agreements	-	166,067	166,067
Appropriation of endowment assets pursuant to spending-rate policy	-	(250,343)	(250,343)
Change in donor intent	-	56,961	56,961
Endowment net assets, end of year	<u>\$ 1,023,178</u>	<u>\$ 15,867,910</u>	<u>\$ 16,891,088</u>
<u>Year ended June 30, 2018</u>			
Endowment net assets, beginning of year	\$ -	\$ 11,960,868	\$ 11,960,868
Net investment return	-	596,499	596,499
Contributions	-	682,279	682,279
Matching pursuant to donor agreements	-	368,481	368,481
Appropriation of endowment assets pursuant to spending-rate policy	-	(370,470)	(370,470)
Loss on uncollectable promise to give	-	(7,900)	(7,900)
Change in donor intent	-	29,970	29,970
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 13,259,727</u>	<u>\$ 13,259,727</u>

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2019	2018
Subject to expenditure for specified purpose		
Scholarships	\$ 2,287,429	\$ 2,770,045
Academic, student and other activities	5,062,251	4,626,816
University capital projects	215,817	428,854
	<u>7,565,497</u>	<u>7,825,715</u>
Subject to the passage of time		
Beneficial interests in charitable trusts held by others	-	151,946
	<u>7,565,497</u>	<u>7,977,661</u>
Endowments		
Subject to appropriation and expenditure		
Scholarships	236,076	187,143
Academic, student and other activities	246,134	177,207
	<u>482,210</u>	<u>364,350</u>
Subject to expenditure for specified purpose		
Purpose-restricted quasi-endowments		
Scholarships	6,502,279	5,428,034
Academic, student and other activities	1,154,554	374,276
	<u>7,656,833</u>	<u>5,802,310</u>
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:		
Scholarships	4,108,250	3,511,124
Academic, student and other activities	3,620,617	3,581,943
	<u>7,728,867</u>	<u>7,093,067</u>
Total endowments	<u>15,867,910</u>	<u>13,259,727</u>
	<u>\$ 23,433,407</u>	<u>\$ 21,237,388</u>

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2019 and 2018:

	2019	2018
Satisfaction of purpose restrictions, including		
spending rate distributions		
Scholarships	\$ 1,791,652	\$ 1,657,472
Academic, student and other activities	1,914,602	1,499,879
University capital projects	508,540	182,994
Extension of donor restrictions under challenge match		
Scholarships	(166,067)	(689,625)
	<u>\$ 4,048,727</u>	<u>\$ 2,650,720</u>

Board-designated net assets at June 30, 2019 and 2018 consist of:

	2019	2018
University program	\$ -	\$ 1,000,000
Endowment	1,000,000	-
Matching	32,500	201,567
	<u>\$ 1,032,500</u>	<u>\$ 1,201,567</u>

HLC@Metro transferred excess revenues of \$2,000,000 to the Foundation during the year ended June 30, 2017. The Board of Directors designated \$1,000,000 as reserve funding for the establishment of a new School within the University; this designation was changed to a board-designated endowment for a Dean position during the year ended June 30, 2019. The remaining \$1,000,000 was designated for scholarships and applied to creating matching opportunities for gifts from new or lapsed donors, or stimulating increased levels of support from current donors. During the years ended June 30, 2019 and 2018, \$169,067 and \$689,625, respectively, of the funds were undesignated and used to satisfy the extension of donor restrictions under the challenge match program.

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 9 - In-kind Contributions and Services Received from the University

The Foundation received in-kind contributions, and services from the University as follows during the years ended June 30, 2019 and 2018:

	2019	2018
Program services		
Materials	\$ 56,370	\$ 33,513
Equipment	90,875	125,930
Donor development		
Development office compensation - University	1,689,545	1,582,791
Special events		
Cost of direct benefits to donors	150,789	-
	<u>\$ 1,987,579</u>	<u>\$ 1,742,234</u>

Note 10 - Commitments and Contingencies

The Foundation has agreements with the University to use its best efforts to raise cash and in-kind contributions for University Hospitality Center (HLC@Metro), and for recently completed construction and improvement of the University's athletic fields. The agreements are conditioned on the Foundation's ability to collect donor contributions restricted to the respective projects; as contributions are collected, the Foundation records a liability to HLC@Metro or the University, as appropriate, and a corresponding contribution expense.

The agreements also require HLC@Metro to transfer excess revenues, after paying expenses and funding certain reserves, to the Foundation. The Foundation may use the funds distributed from HLC@Metro's excess revenues to further the general academic objectives and priorities of the University so long as at least 50% of such funds are used for scholarships.

Note 11 - Related Party Transactions

Transactions with the University consist of the following during the years ended June 30, 2019 and 2018:

	2019	2018
Funding provided to the University	\$ 4,021,777	\$ 3,176,966
Payable to the University	689,489	495,287
Payments for salaries and benefits to the University	339,128	339,554
Payments for rent to the University	8,274	8,274
Professional services donated by the University	1,689,545	1,582,791
Support provided by University for Presidential Inauguration	95,819	-
Support provided by University for Athletic Auction	34,313	-
Due from University	10,630	10,081
Reimbursement for CVA operating expenses	27,284	20,706
Reimbursement for CVA rent expense	100,000	100,000

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 12 - Adoption of Accounting Standards Update 2016-14

As of July 1, 2018, for all periods presented, the Foundation adopted the provisions of FASB Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*.

The following balances for the year ended June 30, 2017 were restated as a result of the adoption:

	As Previously Reported	Adoption of ASU 2016-14	As Restated
Unrestricted net assets	\$ 5,094,379	\$ (5,094,379)	\$ -
Temporarily restricted net assets	13,992,375	(13,992,375)	-
Permanently restricted net assets	7,246,755	(7,246,755)	-
Net assets without donor restrictions	-	5,096,121	5,096,121
Net assets with donor restrictions	-	21,237,388	21,237,388

The following balances for the year ended June 30, 2018 were restated as a result of the adoption:

	As Previously Reported	Adoption of ASU 2016-14	As Restated
Unrestricted net assets	\$ 5,017,445	\$ (5,017,445)	\$ -
Temporarily restricted net assets	11,213,398	(11,213,398)	-
Permanently restricted net assets	6,481,565	(6,481,565)	-
Net assets without donor restrictions	-	5,018,347	5,018,347
Net assets with donor restrictions	-	17,694,061	17,694,061

HLC @ METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 ORGANIZATION

On August 18, 2010, the Board of Trustees of the Metropolitan State University of Denver (MSU Denver or the University) voted unanimously to establish a special-purpose corporation (SPC) to own the proposed Hotel and Hospitality Learning Center and provide for its financing, construction, operation, and management. HLC @ Metro, Inc. (hereinafter referred to as HLC), a not-for-profit corporation, the income of which is excluded under Section 115 of the Internal Revenue Code (the Code), was established on August 19, 2010 to fulfill this purpose.

The building of the Hotel and Hospitality Learning Center was financed through issuance of \$49,640,000 Taxable Revenue Build America Bonds (BABS) (Series 2010A bonds), \$4,500,000 Tax-Exempt Revenue Bonds (Series 2010B bonds), and \$745,000 Taxable Revenue Bonds (Series 2010C bonds) for a total of \$54,885,000. The construction cost was estimated at \$45 million and was completed slightly over this amount; with the additional bonds proceeds to be used for debt issuance costs and debt service reserve funds. These bonds were issued by the MSU Denver Roadrunner Recovery and Reinvestment Act Finance Authority (the RRRAFA), which is a political subdivision and a public corporation of the State of Colorado (the State) established to issue these bonds. On October 28, 2010, Series 2010A, B, and C bond proceeds were transferred from the RRRAFA to the HLC.

The Hotel and Hospitality Learning Center at MSU Denver offers the Denver community two resources including: a fully functioning flagged hotel, SpringHill Suites® by Marriott, and a learning laboratory for the University's School of Hospitality, Events and Tourism.

Located in the heart of Denver, the hotel includes 150 hotel rooms and conference facilities. The adjacent hospitality learning center has more than 28,000 square feet of academic space, including classrooms, specialty learning labs, and faculty offices. The hotel is run by the professional hotel management firm, Sage Hospitality, and is providing hands-on training opportunities for students in the School of Hospitality, Events and Tourism.

No taxpayer dollars were used on the approximately \$45 million project; the groundbreaking was held on March 31, 2011 and the opening date was August 3, 2012.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements include accounts of the HLC. The University board of trustees gives the final approval in the appointment process of the HLC board of directors. As of June 30, 2019, three of the nine members are a University Vice President or officer. Accordingly, and in conformity with standards promulgated by the Governmental Accounting Standards Board, the HLC is reported as a component unit of the University in their financial statements for the year ended June 30, 2019.

HLC @ METRO, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The accounting policies of HLC conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units accounted for as a proprietary enterprise fund. The accompanying financial statements are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The statements are prepared in conformity with applicable Governmental Accounting Standards Board (GASB) standards.

During the year, it was determined that HLC is a governmental entity because the University board of trustees gives the final approval in the appointment process of the HLC board of directors. Accordingly, HLC changed the accounting basis of its financial statements from the accrual basis of accounting in accordance with GAAP applicable to nonprofit entities based on Financial Accounting Standards Board (FASB) standards to the accrual basis of accounting and flow of economic resources measurement focus in accordance with GAAP applicable to governmental units accounted for as a proprietary enterprise fund based on Government Accounting Standards Board (GASB) standards. The financial statements were restated for this change in accounting basis. See Note 13 for additional details.

Cash and Cash Equivalents

HLC considers all cash and highly liquid investments with an original maturity of three months or less and which are available for use in current operations to be cash and cash equivalents. Cash and cash equivalents held pursuant to bond requirements are excluded from cash and cash equivalents.

Net Position

Net position is classified in the accompanying financial statements as follows:

Net Investment in Capital Assets represents the total investment in capital assets and any unspent bond proceeds, net of outstanding debt obligations related to those capital assets.

Restricted for Bond Requirements represents the total amount of restricted cash and cash equivalents as stipulated by the Trust Indenture Agreement related to the issuance of the Series 2010 Revenue Bonds, reduced by any accrued interest payable associated with these bonds.

Unrestricted Net Position represents net resources derived from hotel revenue and other sources of income. These resources may be used by the Board of Directors to meet current expenses for any purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted net position are available, restricted resources are considered expended.

HLC @ METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation, if acquired by gift. The HLC follows the accepted industry standard policy of capitalizing only those capital assets with an initial cost or fair value equal to or greater than \$1,000 per item or \$250 per item if each item is part of a bulk purchase of 10 or more items. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The useful lives of acquired assets range from 3 to 40 years; 20 to 40 years for buildings and improvements; and 3 to 10 years for furniture, computers, and equipment. All direct costs associated with the construction of the project were included in establishing the asset valuation. This includes legal fees and any other general and administrative costs that were necessary for the completion of the project.

Accounts Receivable

A summary of accounts receivable balances is as follows:

	2019	2018
Build American Bonds Subsidy	\$ 332,921	\$ 331,501
Due from the Foundation	624	54,018
Receivables of Hotel	203,805	241,186
Less: Allowance for Doubtful Accounts	-	-
Total Accounts Receivable	\$ 537,350	\$ 626,705

The hotel does not have any receivable balances that are greater than 90 days past due.

An allowance for uncollectible accounts is determined based on a specific review of outstanding balances. As of June 30, 2019 and 2018, the allowance for doubtful accounts was \$-0-.

Use of Land

As discussed in Note 7, the University leased land under an operating lease agreement with Auraria Higher Education Center totaling \$1.00 for the ground where the HLC hotel is built. This land was, in turn, subleased by the University to HLC for a period of 50 years for \$1.00 beginning on October 28, 2010.

Accounts Payable

As of June 30, 2019 and 2018, accounts payable primarily consists of amounts due to numerous vendors with small balances from Hotel operations.

HLC @ METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Operating Revenue and Expenses

Operating revenues and expenses generally have the characteristics of exchange revenues.

Hotel Revenue – HLC has performance obligations to provide accommodations and other ancillary services to hotel guests. As compensation for such goods and services, HLC is typically entitled to a fixed nightly fee for an agreed upon period and additional fixed fees for any ancillary services purchased. These fees are generally payable at the time the hotel guest checks out of the hotel. HLC generally satisfies the performance obligations over time, and they recognize the revenue from room sales and from other ancillary guest services on a daily basis, as the rooms are occupied and HLC has rendered the services.

Expenses are recognized by the HLC in the period incurred. Expenses paid in advance but not yet incurred are deferred to the applicable period.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses are those primarily unrelated to the operations of the hotel, and include interest subsidy receipts, contributions, investment income, gains or losses on the disposal of capital assets, and debt interest payments.

Use of Estimates

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

Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

HLC @ METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 CASH AND CASH EQUIVALENTS

At June 30, 2019 and 2018, cash and cash equivalents in banks consisted of the following:

	2019	2018
Cash in Bank Accounts with Trustee (Wells Fargo)	\$ 8,129,393	7,932,784
Cash and Cash Equivalents Invested with State Treasury	1,106,912	1,087,180
Cash for Hotel Operations (Sage)	230,954	136,506
Total Cash and Cash Equivalents	\$ 9,467,259	\$ 9,156,470

Deposits with HLC's operating account are made in accordance with University 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 102% 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 HLC's name.

Cash Invested with State Treasury and Related Unrealized Gains

HLC deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2019 and 2018, HLC had cash on deposit with the State Treasurer of \$1,106,912 and \$1,087,180, which represented approximately .012% of the total \$9,096.5 million and .014% of the total \$7,729.4 million, respectively, in fair value of deposits in the State Treasurer's Pool. As of June 30, 2019, the Pool's resources included \$73.7 million of cash on hand and \$9,022.8 million of investments. As of June 30, 2018, the Pool's resources included \$93.6 million of cash on hand and \$7,635.8 million of investments.

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

For the HLC's deposits with the State Treasury, the net unrealized gain for fiscal year 2019 was \$5,159. The net unrealized loss for fiscal year 2018 was \$12,780. This net unrealized gain and loss is included in cash and cash equivalents on the statement of net position.

Additional information on investments of the State Treasurer's Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2019 and 2018. At June 30, 2019 and 2018, all of the HLC's deposits within the Treasurer's Pool are a part of an internal investment pool and are considered to be cash and cash equivalents.

Additional information on the State Treasurer's pooled cash and investments may be obtained in the State's comprehensive annual financial report for the year ended June 30, 2019 and 2018.

HLC @ METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Restricted Cash and Investments

As required by the Series 2010 Bond resolutions, Wells Fargo established and maintains certain funds:

- (a) The Debt Service Funds are to be used solely for the payment of principal and interest on the bonds to make such payments when due, whether on an interest payment date, redemption date, sinking fund redemption date, maturity date, or otherwise. At June 30, 2019 and 2018, deposits of \$3,599,896 and \$3,522,784, respectively were held in these funds.
- (b) Other Funds required under the bond agreements include an Operating Reserve Fund, Renewal/Replacement Fund, Administrative Expense Fund, Tax/Insurance Fund, Foundation payment Account, Foundation Reserve Account, Cash Trap Fund, Excess Revenue Fund, Available Revenue Fund, and Termination Cost Recovery Fund. At June 30, 2019 and 2018, deposits of \$5,636,409 and \$5,497,180, respectively, were held in these various funds.

At June 30, 2019 and 2018, none of HLC's financial instruments is required to be leveled in the fair value hierarchy.

NOTE 4 CAPITAL ASSETS

Changes in capital assets consist of the following for the year ended June 30, 2019:

	June 30, 2018	Additions	Deletions	June 30, 2019
Building	\$ 42,759,886	\$ -	\$ -	\$ 42,759,886
Furniture and Equipment	2,057,723	99,058	(50,073)	2,106,708
Construction in Progress	34,877	297,381	(34,876)	297,382
	44,852,486	396,439	(84,949)	45,163,976
Accumulated Depreciation	(7,493,011)	(1,219,846)	28,321	(8,684,536)
Net Capital Assets	<u>\$ 37,359,475</u>	<u>\$ (823,407)</u>	<u>\$ (56,628)</u>	<u>\$ 36,479,440</u>

Changes in capital assets consist of the following for the year ended June 30, 2018:

	June 30, 2017	Additions	Deletions	June 30, 2018
Building	\$ 42,759,886	\$ -	\$ -	\$ 42,759,886
Furniture and Equipment	1,907,803	149,920	-	2,057,723
Construction in Progress	34,877	-	-	34,877
	44,702,566	149,920	-	44,852,486
Accumulated Depreciation	(6,285,398)	(1,207,613)	-	(7,493,011)
Net Capital Assets	<u>\$ 38,417,168</u>	<u>\$ (1,057,693)</u>	<u>\$ -</u>	<u>\$ 37,359,475</u>

HLC @ METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 BOND OBLIGATIONS

Total outstanding bonds at June 30 are summarized below:

	Date of Issue	Amount Issued	2019	2018
2010(A) Taxable Revenue Bonds (Build America Bonds)	10/28/2010	\$ 49,640,000	\$ 49,640,000	\$ 49,640,000
2010(B) Tax-Exempt Revenue Bonds	10/28/2010	4,500,000	975,000	2,225,000
Premium and Discount on 2010 Series Bonds, Net of Amortization			(379,303)	(362,481)
			<u>\$ 50,235,697</u>	<u>\$ 51,502,519</u>

Additions and deletions of the bonds, and unamortized discounts and premiums are outlined in the tables below:

	June 30, 2018	Additions	Deletions	June 30, 2019	Due in One Year
2010(A) Taxable Revenue Bonds (Build America Bonds)	\$ 49,640,000	\$ -	\$ -	\$ 49,640,000	\$ 325,000
2010(B) Tax-Exempt Revenue Bonds	2,225,000	-	(1,250,000)	975,000	975,000
Unamortized Premium and Discount on 2010 Series Bonds	(362,481)	(16,822)	-	(379,303)	16,822
	<u>\$ 51,502,519</u>	<u>\$ (16,822)</u>	<u>\$ (1,250,000)</u>	<u>\$ 50,235,697</u>	<u>\$ 1,316,822</u>

	June 30, 2017	Additions	Deletions	June 30, 2018	Due in One Year
2010(A) Taxable Revenue Bonds (Build America Bonds)	\$ 49,640,000	\$ -	\$ -	\$ 49,640,000	\$ -
2010(B) Tax-Exempt Revenue Bonds	3,300,000	-	(1,075,000)	2,225,000	1,250,000
Unamortized Premium and Discount on 2010 Series Bonds	(345,659)	(16,822)	-	(362,481)	16,822
	<u>\$ 52,594,341</u>	<u>\$ (16,822)</u>	<u>\$ (1,075,000)</u>	<u>\$ 51,502,519</u>	<u>\$ 1,266,822</u>

Principal and interest requirements for all Series 2010 bonds, which are due semiannually every March and September, are summarized as follows at June 30, 2019:

Fiscal Year	Principal	Interest	Total
2020	\$ 1,300,000	\$ 3,037,787	\$ 4,337,787
2021	1,350,000	2,980,860	4,330,860
2022	1,385,000	2,919,990	4,304,990
2023	1,425,000	2,845,763	4,270,763
2024	1,475,000	2,766,739	4,241,739
2025-2029	8,225,000	12,473,414	20,698,414
2030-2034	9,980,000	9,635,665	19,615,665
2035-2039	12,235,000	6,042,872	18,277,872
2040-2043	13,240,000	1,604,223	14,844,223
	<u>\$ 50,615,000</u>	<u>\$ 44,307,313</u>	<u>\$ 94,922,313</u>

HLC @ METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 BOND OBLIGATIONS (CONTINUED)

Series 2010 Bonds

The RRRAFA issued Series 2010 bonds on October 28, 2010 for the purpose of constructing the Hotel and Hospitality Learning Center. The proceeds of the bonds and its obligations were transferred to the HLC in fiscal year 2011. The University entered into a guarantee agreement dated October 1, 2010 with the HLC. Per this agreement, the University absolutely and unconditionally guarantees to Wells Fargo, the HLC's trustee, the timely payments of all debt service payments on the Series 2010 bonds on a gross basis (without netting of any federal subsidy payments received or to be received) while said bonds are outstanding in the event HLC does not make the required debt service payments. The guaranteed amounts are payable solely from available pledged revenues of the University. For the year ended June 30, 2019 and 2018, the University was not required to, and did not make, any debt service payments on behalf of the HLC.

Series 2010A

On October 28, 2010, Series 2010A taxable revenue BABS were issued for \$49,640,000, bearing interest rates from 4.04% to 6.45%. The principal and interest are due on a semiannual basis with a maturity date of September 1, 2042. These payments range from \$1,039,426 to \$4,743,189. The bonds are qualified to receive a 35% interest subsidy from the federal government, which was expected to be \$24,742,234 over the life of the bonds. However, due to a government sequestration, the subsidy was reduced by 6.2% and 6.9% as of June 30, 2019 and 2018, respectively. As of June 30, 2019, the government sequestration is anticipated to reduce the total subsidy received by \$1,433,729 over the life of the bonds. A total of \$8,389,741 and \$7,391,689 had been earned as of June 30, 2019 and 2018, respectively. A receivable of \$332,921 and \$331,501 was recorded as of June 30, 2019 and 2018, respectively.

Series 2010B

On October 28, 2010, Series 2010B tax-exempt revenue bonds were issued for \$4,500,000, bearing interest rates from 3% to 4%. The principal and interest are due on a semiannual basis with a maturity date of September 1, 2019. These payments range from \$57,400 to \$1,294,500 with the last payment being a total of \$994,500.

NOTE 6 METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION CONTRIBUTIONS

The Foundation exists for the purpose of soliciting and investing donations for the University. On September 21, 2010, the Foundation's board of directors adopted the Foundation Resolution providing a plan to use its best effort to raise approximately \$12 million in donations, sufficient to retire a portion of the HLC 2010 bonds. However, due to the difficulty of raising the remaining portion of the agreed upon \$12 million, the agreement was amended to include a more attainable fundraising goal of \$3.5 million. For the year ended June 30, 2019 and 2018, the Foundation contributed a total of \$664 and \$57,466, respectively, to the HLC. All amounts contributed by the Foundation for the years ended June 30, 2019 and 2018 were cash contributions to be used for the HLC's debt service requirements. The memorandum of understanding (MOU) between the HLC and Foundation calls for the HLC to distribute excess revenue, as defined by the official statement of the 2010 series bonds, derived from the operation of HLC to the Foundation. As of June 30, 2019 and 2018 HLC disbursed a total of \$-0- of excess revenue to the Foundation.

HLC @ METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 7 GROUND LEASE

As of June 30, 2019 and 2018, the HLC has no lease obligations. Trustees of the University have leased the HLC land from the Auraria Higher Education Center for a period of fifty (50) years in the amount of one dollar (\$1.00) for the term of the lease. This lease is specifically for the purpose of construction and operation of the Hotel and Hospitality Learning Center.

NOTE 8 INCOME TAX STATUS

The income of the HLC is derived from the exercise of essential government functions and, as such, is excluded from federal income tax under Section 115 of the Code; however, it would be subject to tax on any unrelated business income under Section 511(a)(2)(B). HLC believes that there was no unrelated business income for the year ended June 30, 2019 and 2018.

NOTE 9 DERIVATIVE FINANCIAL INSTRUMENT AND DEFERRED INFLOWS OF RESOURCES

On April 4, 2018, HLC entered into a forward starting interest rate swap to economically hedge the cash outflows on its planned issuance of variable rate debt in the future. HLC entered into an interest rate swap with a total notional amount of \$48,660,000, which amortizes each month beginning on October 1, 2020. Under the terms of the swap, HLC pays monthly fixed payments at a rate of 2.41% and receives a variable rate of 80% of one-month LIBOR. The effective date of the swap is September 1, 2020 and the termination date is July 1, 2042.

The interest rate swap agreement is recorded at fair value as an Interest Rate Swap Option liability on the statement of net position, which totaled a liability of \$4,487,433 and \$662,406 as of June 30, 2019 and 2018, respectively. HLC is using this interest rate swap to mitigate its exposure to interest rate fluctuations associated with its variable rate debt. HLC does not use this agreement for speculative or trading purposes.

The fair value of the interest rate bond swap option is classified as a noncurrent liability and the change in fair value of the swap is recorded as a deferred outflow of resources in the statements of net position as of June 30, 2019 and 2018.

NOTE 10 RISK MANAGEMENT

HLC is subject to risks of loss from liability for accident, property damage, and personal injury. To mitigate these risks HLC has purchased insurance coverage at various levels for major lines of insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years, nor have there been any significant reductions in insurance coverage from the prior year.

NOTE 11 COMMITMENTS AND CONTINGENCIES

HLC entered into several agreements with architects, project managers, and purchasing agents to complete a 7-year brand-required refresh of the hotel that began in fiscal year 2019. The total budget of the refresh is \$3.195 million and will be paid out of cash reserves.

In the opinion of HLC's management, there is no pending litigation or other legal claims which would materially affect the financial statements of HLC.

HLC @ METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 12 SUBSEQUENT EVENTS

HLC has evaluated its subsequent events as of October 14, 2019, the date that the financial statements were available to be issued. No events were identified requiring additional disclosure.

NOTE 13 RESTATEMENT

As explained in Note 2, it was determined that HLC is a governmental entity because the University board of trustees gives the final approval in the appointment process of the HLC board of directors. Accordingly, HLC changed the accounting basis of its financial statements from the accrual basis of accounting in accordance with GAAP applicable to nonprofit entities based on Financial Accounting Standards Board (FASB) standards to the accrual basis of accounting and flow of economic resources measurement focus in accordance with GAAP applicable to governmental units accounted for as a proprietary enterprise fund based on Government Accounting Standards Board (GASB) standards. Due to the change in accounting basis, HLC has restated net position as of July 1, 2017 to properly account for bond issuance costs and derecognize a use of land asset as follows:

Net Position, July 1, 2017 as Previously Reported	\$ (871,109)
Recognition of Bond Issuance Costs Incurred in Previous Periods	(859,097)
Derecognition of Use of Land Asset	(4,780,153)
Net Position, July 1, 2017 as Restated	<u>\$ (6,510,359)</u>

**METROPOLITAN STATE UNIVERSITY OF DENVER
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019 AND 2018**

As required by GASB 68 and GASB 75, the schedules below contains 10 years of changes in pension liability, and net OPEB liability, respectively; however, historical information prior to implementing GASB 68 and GASB 75 is neither required nor available.

Ten Year Schedule			
Pension Plan's Fiscal Year Ending December 31,			
	2018	2017	2016
Employer % of collective net pension liability	1.4495925395%	1.4781270908%	1.4924559492%
Employer share of collective net pension liability	164,944,395	295,891,215	274,136,264
Employer's covered payroll	45,816,626	44,952,251	43,902,245
Employer's share of the collective net pension liability as a % of employer's covered payroll	360.01%	658.23%	624.42%
Pension plan's fiduciary net position as a % of total pension liability	55.11%	43.20%	42.59%

Ten Year Schedule- continued				
	2015	2014	2013	2012
Employer % of collective net pension liability	1.5215440022%	1.5816063970%	1.6167918453%	N/A
Employer share of collective net pension liability	160,234,301	148,774,027	144,023,349	N/A
Employer's covered payroll	43,884,297	44,178,569	43,104,113	N/A
Employer's share of the collective net pension liability as a % of employer's covered payroll	365.13%	336.76%	334.13%	N/A
Pension plan's fiduciary net position as a % of total pension liability	56.11%	59.84%	61.08%	N/A

Information is not available prior to 2013. In future reports, additional years will be added until 10 years of historical data are presented.

**METROPOLITAN STATE UNIVERSITY OF DENVER
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019 AND 2018**

Other Post Employment Benefit Plan's Fiscal Year Ending December 31,			
	2018	2017	2016
Employer % of collective net pension liability	0.4959526592%	0.5125821473%	0.5190749732%
Employer share of collective net OPEB liability	6,747,644	6,661,518	6,729,984
Employer's covered payroll	45,816,626	44,952,251	43,902,245
Employer's share of the collective net OPEB liability as a % of employer's covered payroll	14.73%	14.82%	15.33%
Pension plan's fiduciary net position as a % of total OPEB liability	17.03%	17.53%	16.72%

Ten Year Schedule- continued

	2015	2014	2013	2012
Employer % of collective net pension liability	N/A	N/A	N/A	N/A
Employer share of collective net OPEB liability	N/A	N/A	N/A	N/A
Employer's covered payroll	N/A	N/A	N/A	N/A
Employer's share of the collective net OPEB liability as a % of employer's covered payroll	N/A	N/A	N/A	N/A
Pension plan's fiduciary net position as a % of total OPEB liability	N/A	N/A	N/A	N/A

Information is not available prior to 2016. In future reports, additional years will be added until 10 years of historical data are presented.

**METROPOLITAN STATE UNIVERSITY OF DENVER
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019 AND 2018**

Ten Year Schedule						
MSU Denver's Fiscal Year Ending June 30,						
	2019		2018		2017	
	Jan-June 2019	July- Dec 2018	Jan-June 2018	July- Dec 2017	Jan-June 2017	July- Dec 2016
Required employer base contribution	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Portion of Required employer base contribution apportioned to the Health Care Trust Fund	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%
Net required employer base contribution apportioned to the SDTF	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
Required employer Amortization Equalization Disbursement contribution	5.00%	5.00%	5.00%	5.00%	5.00%	4.60%
Required employer Supplemental Amortization Equalization Disbursement contribution	5.00%	5.00%	5.00%	5.00%	5.00%	4.50%
Total Required PERA contribution to the SDTF	19.13%	19.13%	19.13%	19.13%	19.13%	18.23%
	2019		2018		2017	
	July 1, 2018-June 30, 2019	July 1, 2017-June 30, 2018	July 1, 2016-June 30, 2017			
Pension contributions recognized by PERA (not including HCTF)	\$ 8,423,882	\$ 8,353,678	\$ 8,111,165			
Difference between required pension contributions and those recognized by PERA	\$ -	\$ -	\$ -			
OPEB contributions recognized by PERA (only HCTF)	\$ 428,417	\$ 426,763	\$ 426,779			
Difference between required OPEB contributions and those recognized by PERA	\$ -	\$ -	\$ -			
Employer's covered payroll	\$ 46,012,848	\$ 45,201,242	\$ 44,800,352			
Percent of contributions recognized by pension plan of employers covered payroll	18%	18%	18%			
Percent of contributions recognized by OPEB plan of employers covered payroll	1%	1%	1%			

**METROPOLITAN STATE UNIVERSITY OF DENVER
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019 AND 2018**

Ten Year Schedule-continued						
	MSU Denver's Fiscal Year Ending June 30,					
	2016		2015		2014	
	Jan-June 2016	July- Dec 2015	Jan-June 2015	July- Dec 2014	Jan-June 2014	July- Dec 2013
Required employer base contribution	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Portion of Required employer base contribution apportioned to the Health Care Trust Fund	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%
Net required employer base contribution apportioned to the SDTF	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
Required employer Amortization Equalization Disbursement contribution	4.60%	4.20%	4.20%	3.80%	3.80%	3.40%
Required employer Supplemental Amortization Equalization Disbursement contribution	4.50%	4.00%	4.00%	3.50%	3.50%	3.00%
Total Required PERA contribution to the SDTF	18.23%	17.33%	17.33%	16.43%	16.43%	15.53%
	2016		2015		2014	
	July 1, 2015-June 30, 2016		July 1, 2014-June 30, 2015		July 1, 2013-June 30, 2014	
Contributions recognized by PERA (not including HCTF)	\$ 7,443,386		\$ 7,203,967		N/A	
Difference between required contributions and those recognized by PERA	\$ -		\$ -		N/A	
OPEB contributions recognized by PERA (only HCTF)	N/A		N/A		N/A	
Difference between required contributions and those recognized by PERA	N/A		N/A		N/A	
Employer's covered payroll	\$ 43,503,821		\$ 44,356,828		N/A	
Percent of contributions recognized by pension plan of employers covered payroll	17%		16%		N/A	
Percent of contributions recognized by OPEB plan of employers covered payroll	N/A		N/A		N/A	

Information is not available prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented.

METROPOLITAN STATE UNIVERSITY OF DENVER
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019 AND 2018

(A) Significant Changes in Assumptions or Other Inputs Affecting Trends in Actuarial Information related to the pension liability.

Changes in assumptions or other inputs used for the net pension liability during 2019 and 2018 are discussed in note 11. However, significant changes in assumptions or other inputs affecting trends in actuarial information related to the pension liability for the remaining years in the schedules above are discussed below.

2017 Changes in Assumptions or Other Inputs Since 2016

- The single equivalent interest rate (SEIR) for the State Division was lowered from 5.26 percent to 4.72 percent to reflect the changes to the projections valuation basis, a projected year of depletion of the fiduciary net position (FNP), and the resulting application of the municipal bond index rate.
- The municipal bond index rate used in the determination of the SEIR for the State, School, and Judicial Divisions changed from 3.86 percent on the prior measurement date to 3.43 percent on the measurement date

2016 Changes in Assumptions or Other Inputs Since 2015

- The investment return assumption was lowered from 7.50 percent to 7.25 percent.
- The price inflation assumption was lowered from 2.80 percent to 2.40 percent.
- The wage inflation assumption was lowered from 3.90 percent to 3.50 percent.
- The post-retirement mortality assumption for healthy lives for the State and Local Government Divisions was changed to the RP-2014 Healthy Annuitant Mortality Table with adjustments for credibility and gender adjustments of a 73 percent factor applied to ages below 80 and a 108 percent factor applied to age 80 and above, projected to 2018, for males, and a 78 percent factor applied to ages below 80 and a 109 percent factor applied to age 80 and above, projected to 2020 for females.
- The mortality assumption for active members was changed to RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.
- The SEIR for the State and School Divisions was lowered from 7.50 percent to 5.26 percent to reflect the changes to the projection's valuation basis, a projected year of depletion of the FNP, and the resulting application of the municipal bond index rate of 3.86 percent on the measurement date.

2015 Changes in Assumptions or Other Inputs Since 2014

There were no significant changes in terms or assumptions for the December 31, 2015 measurement period for pension compared to the prior year.

(B) Significant Changes in Assumptions or Other Inputs Affecting Trends in Actuarial Information Related to the Other Post-Employment Benefit (OPEB) Liability.

Changes in assumptions or other inputs used for the OPEB liability during 2019 and 2018 are discussed in note 14. However, significant changes in assumptions or other inputs affecting trends in actuarial information related to the OPEB liability for the remaining years in the schedules above are discussed below.

2017 Changes in Assumptions or Other Inputs Since 2016

- There were no changes made to the actuarial methods or assumptions

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management, the Members of the Legislative Audit Committee,
and the Board of Trustees of Metropolitan State University of Denver

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of business-type activities and the discretely presented component units of Metropolitan State University of Denver (the "University"), an institution of higher education, which is an enterprise fund of the State of Colorado, as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 26, 2019. Our report includes a reference to other auditors who audited the financial statements of Metropolitan University of Denver Foundation and HLC @ Metro, Inc., as described in our report on the Metropolitan State University of Denver's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Metropolitan University of Denver Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the schedule of findings and questioned costs on page 5 as recommendations No. 1, No. 2, and No. 3, that we consider to be significant deficiencies.

To Management, the Members of the Legislative Audit Committee,
and the Board of Trustees of Metropolitan State University of Denver

Compliance and Other Matters

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

The University's Responses to Findings

The University's responses to the findings identified in our audit are described in the schedule of findings and questioned costs on page 5. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Purpose of This Report

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

Plante & Moreau, PLLC

November 26, 2019

November 26, 2019

To the Members of the Legislative Audit Committee
and the Board of Trustees of Metropolitan State University of Denver

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver (the "University"), an institution of higher education of the State of Colorado, as of and for the year ended June 30, 2019 and have issued our report thereon dated November 26, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our contract with the State of Colorado, Colorado Office of the State Auditor (OSA), dated May 21, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the University. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the University's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the University, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated November 26, 2019 regarding our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to OSA and MSUD management in our meeting about planning matters on May 28, 2019.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our contract, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the University are described in Note 1 to the financial statements. As described in Note 1, the University changed accounting policies related to GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement*, which was applied retroactively to add additional debt disclosures within Note 6. Additionally, the University adopted GASB 83, *Certain Asset Retirement Obligations*; however, the University concluded the adoption of this standard did not have an impact to the financial statements.

We noted no transactions entered into by the University during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were as follows:

- **Student Accounts Receivable Allowance for Uncollectible Accounts** - The University's management has established the student accounts receivable allowance by applying estimated uncollectible percentages to the balances based upon the aging. The uncollectible percentages were estimated based upon prior experience at the University.
- **Student Loans Receivable Allowance for Uncollectible Accounts** - The University's management has established the student loans receivable allowance by applying estimated uncollectible percentages to the balance upon their status (e.g., current, past due, and in default). The uncollectible percentages were estimated based upon prior experience at the University.
- **Liability for Unused Sick Days** - Management calculated the liability for unused sick days based on eligible service requirements and sick leave years worked. The liability is calculated based upon past historical experience and the limitations related to payments made under the terms offered.
- **Pension and OPEB Liability** - Management's estimate of the unfunded liability for the pension plan and OPEB plan was calculated by multiplying the University's portion of the contributions made to the respective pension plans by the total pension liability of the plans provided by an independent actuary. The independent actuary used a number of assumptions to determine the overall unfunded liability of the plans.

We evaluated the key factors and assumptions used to develop the accounting estimates listed above in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the University, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the University's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 26, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the University's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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

Plante & Morse, PLLC