



METROPOLITAN STATE UNIVERSITY OF DENVER

Financial and Compliance Audit

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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METROPOLITAN STATE UNIVERSITY OF DENVER

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METROPOLITAN STATE UNIVERSITY OF DENVER

Report Summary

Year ended June 30, 2013

Purpose and Scope

The Office of the State Auditor of the State of Colorado engaged KPMG LLP (KPMG) 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, 2013. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from May 2013 to November 2013.

The purpose and scope of our audit were to:

- Express an opinion on the financial statements of the University as of and for the year ended June 30, 2013. 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*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate progress in implementing prior audit findings and recommendations.

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, 2013 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Reports

We expressed an unmodified opinion on the University's financial statements as of and for the year ended June 30, 2013.

No audit adjustments were proposed or made to the financial statements of the University. For the HLC @ Metro, Inc., audit adjustments were made to properly classify final costs of the construction of the Hotel and Hospitality Learning Center. Specifically, the HLC @ Metro, Inc., reclassified \$1.6 million from buildings to furniture and equipment, and expensed \$1.3 million in costs that were not capitalizable. Additionally, in-kind contributions of \$1.1 million were recognized. Related accumulated depreciation of \$217 thousand and depreciation expense of \$194 thousand were also recorded.

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

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misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

We identified four deficiencies in internal control over financial reporting that we consider to be significant deficiencies. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Summary of Key Audit Findings

Controls over the Return of Title IV Funds (Significant Deficiency in Internal Control)

We identified three instances of non-compliance out of 35 (9 percent) return calculations tested for students who withdrew. In each of the three instances, the University used incorrect information when calculating the amount of funds to be returned. Specifically, the tuition rate used was too low, which resulted in \$1,032 less Title IV funds returned to the federal Department of Education than should have been returned, had the correct rate been used.

Management Review Controls over Disbursements and Borrower Data Transmission (Significant Deficiency in Internal Control)

Management did not maintain documented evidence that the review of the disbursement dates established in the Banner system occurred. Additionally, management did not maintain documented evidence that a reconciliation of the Student Account Statements was performed or reviewed. While no evidence of the performance of the controls was maintained, no instances of non-compliance were identified in the compliance test work performed.

Accounting and Financial Reporting for HLC @ Metro, Inc. (Significant Deficiency in Internal Control)

The HLC @ Metro, Inc. (HLC @ Metro) is a special-purpose nonprofit corporation created by the University to finance, manage and operate the Hotel and Hospitality Learning Center (HLC). The HLC @ Metro is presented as a discretely presented component unit within the University's financial statements based on the nature and significance of its relationship with the University. In Fiscal Year 2013, the HLC was completed and placed in service, and operations began in August 2012. University personnel perform accounting services for the HLC @ Metro.

Furniture and equipment related to the HLC were initially not recorded since the University utilized its capitalization policy for the HLC and expensed all individual items less than \$5,000. As a result of our inquiries, University management performed a more detailed analysis to determine which costs should be capitalized as furniture and equipment and which costs should be expensed. Management's analysis revealed that approximately \$1.4 million of furniture and equipment should be recorded as of June 30, 2013.

Additionally, the HLC @ Metro's financial statement disclosures initially prepared and included within the University's financial report omitted certain comparative note disclosures and did not adequately address tax matters. Management also did not reconcile receivable and payable amounts between the University, the HLC @ Metro, and the Metropolitan State University of Denver Foundation, Inc. included in the respective financial statements for each entity.

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Report Summary

Year ended June 30, 2013

Controls over Accuracy of Enrollment Reporting

The University does not have adequate controls in place to ensure that student enrollment data reported to the NSLDS is accurate or reported timely. While the University submitted the Enrollment Reporting roster files for Fiscal Year 2013 within the required timeline and resolved any exceptions identified through the submission, the data submitted was not reviewed for accuracy.

Recommendations and the University's Responses

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

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2012 included no findings and recommendations; however, there was a recommendation from the audit report for the year ended June 30, 2010. The recommendation as of June 30, 2010 was implemented.

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Financial and Compliance Audit

Recommendation Locator

Year ended June 30, 2013

Rec no.	Page no.		Agency response	Implementation date
1	6 - 8	Metropolitan State University of Denver (The University) should implement appropriate internal controls to ensure that all applicable return of Title IV funds calculations are properly reviewed by someone other than the preparer to ensure accuracy and that evidence of the review is maintained.	Agree	Implemented July 1, 2013
2	8 - 9	The University should implement policies and procedures to ensure documented evidence of review of disbursement dates established in the Banner system is maintained. Additionally, the University should implement policies and procedures to document both the performance and review of the SAS reconciliation.	Agree	Implemented July 1, 2013
3	9 - 10	The Controller or Director of Accounting Services of the University should perform a review of the HLC @ Metro's financial statements and note disclosures to ensure that all information presented is complete and accurate and in accordance with U.S. generally accepted accounting principles. An accounting and financial reporting disclosure checklist can be utilized to assist with this review. Management should also ensure that amounts reported in the financial statements of the University, the HLC @ Metro, and the Foundation are reconciled.	Agree	February 2014
4	10 - 12	The University should implement appropriate internal controls to ensure that the student enrollment data reported to the NSLDS is accurate.	Agree	Spring 2014 Semester

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Financial and Compliance Audit

Description of the Metropolitan State University of Denver (Unaudited)

Year ended June 30, 2013

Organization

Established in 1963 as Colorado’s “College of Opportunity,” Metropolitan State University of Denver (the University) 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 members appointed by the Governor of Colorado with the consent of the Senate, and a faculty and a student representative.

The University offers 55 major fields of study and 82 minors through its School of Business; School of Letters, Arts and Sciences; and School of Professional Studies. Degrees include Bachelor of Science, Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Music, Bachelor of Music Education, and three Masters. 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. Master programs include art in teaching, social work, and professional accountancy.

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:

	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal year:			
2013	16,266	660	16,926
2012	16,783	550	17,333
2011	17,223	566	17,789

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

	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal year:			
2013	875	383	1,258
2012	900	368	1,268
2011	901	332	1,233

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Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2013

We have audited the financial statements of the Metropolitan State University of Denver (the University) as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated December 5, 2013. In planning and performing our audit of the financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 University's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated December 5, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since December 5, 2013. We did not audit the financial statements of the Metropolitan State University of Denver Foundation, Inc., a discretely presented component unit, discussed in note 1 to the financial statements. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

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

A deficiency in internal control over financial reporting 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 significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

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

Controls over the Return of Title IV Funds:

Metropolitan State University of Denver (the University) participates in several federal student financial aid programs authorized under Title IV of the Higher Education Act of 1965 (Title IV), including Direct Loans, Pell, and Federal Work Study. Title IV establishes general rules that apply to student financial aid programs and requires that when a student who has received Title IV funds withdraws from an institution, the institution must determine the amount of Title IV aid that shall be returned to the federal government for Title IV programs.

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Findings and Recommendations

Year ended June 30, 2013

What was the purpose of the audit work?

The purpose of the audit work was to assess the adequacy of the University's internal controls over, and compliance with, the return of Title IV funds to the U.S. Department of Education (ED) as required by the office of Management and Budget's *Circular A-133*, when students who receive these funds withdraw from the institution.

What audit work was performed and how were results measured?

We selected a sample of 35 Title IV recipients who withdrew from the University during Fiscal Year 2013 to determine whether adequate controls were implemented by the University to ensure Title IV funds were returned in compliance with federal regulations. Federal regulations mandate that when a student withdraws, any unearned funds must be returned to ED no later than 45 days after the date of the student's withdrawal.

What problem did the work identify?

We identified three instances of non-compliance out of 35 (9 percent) return calculations tested for students who withdrew. In each of the three instances, the University used incorrect information when calculating the amount of funds to be returned. Specifically, the tuition rate used was too low, which resulted in \$1,032¹ less Title IV funds being returned to ED than should have been returned, had the correct rate been used.

Why did the problem occur?

The University did not have adequate supervisory reviews in place over the return of Title IV funds calculations to ensure that both the calculations and data used in the calculations was accurate. Specifically, the University does not have a process in place to review 100 percent of the calculations, and evidence of reviews that were performed is not maintained.

Why does this problem matter?

Failure to properly calculate or initiate refunds in the timeline required increases the risk that Title IV funds will not be returned in accordance with federal regulations.

(CFDA No. 84.063; 84.268; Student Financial Aid Cluster, Special Tests and Provisions. Classification of Finding: Significant Deficiency.)

¹Known questioned costs of \$1,032 assigned to the Student Financial Aid Cluster.

Recommendation No. 1

The University should implement appropriate internal controls to ensure that all applicable return of Title IV funds calculations are properly reviewed by someone other than the preparer to ensure accuracy and that evidence of the review is maintained.

The University's Response

Agree. This issue related to the calculation of Colorado Opportunity Funds (COF) and how they interplay with the institutional charges. With our process, staff make the assumptions that each student receives the full COF

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Findings and Recommendations

Year ended June 30, 2013

payments for the credit hours they were enrolled in. In these cases, for each of the three students, the COF payment was reduced due to the students nearing or reaching their maximum of 145 hours on COF. To address this issue, we have revised our training and added staff to provide training and compliance oversight. Additionally, we have updated our policies and procedures, and will randomly audit 20 percent of the files to ensure that we are calculating returns accurately.

Management Review Controls over Disbursements and Borrower Data Transmission:

The University is required to have controls in place over each compliance requirement applicable to the Student Financial Aid program.

What was the purpose of the audit work?

The purpose of the audit work was to assess the design and implementation and operating effectiveness of the University's internal controls over, and compliance with, the disbursement and borrower data transmission compliance requirements as prescribed by the Office of Management and Budget's *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

What audit work was performed and how were results measured?

We tested the design and implementation of the review of disbursement of financial aid dates within the Banner system. For disbursements to or on behalf of students, University management reviews the disbursement of financial aid dates established in the Banner system to ensure they agree to the approved institutional calendar and are in compliance with Department of Education requirements for disbursing student financial aid payments.

For the borrower data transmission and reconciliation compliance requirement the University is required to reconcile the School Accounts Statements (SAS) to the institution's financial records. We tested the design and implementation of the control of the reconciliation of the SAS. Each month, the Common Origination Distribution System provides institutions with a SAS data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records.

What problem did the work identify?

Management did not maintain documented evidence that the review of the disbursement dates established in the Banner system occurred. Additionally, management did not maintain documented evidence that a reconciliation of the SAS was performed or reviewed. While no evidence of the performance of the control was maintained, no instances of non-compliance were identified in the compliance testwork performed.

Why did the problem occur?

The University does not have policies and procedures in place to ensure that evidence of the review of disbursement dates and the completion of the SAS reconciliations is maintained to document that the control was performed.

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Findings and Recommendations

Year ended June 30, 2013

Why does this problem matter?

Failure to maintain documented evidence of the performance of management review and reconciliation procedures increases the risk of material non-compliance in the Student Financial Aid program.

(CFDA No. 84.063; 84.268; Student Financial Aid Cluster, Special Tests and Provisions. Classification of Finding: Significant Deficiency.)

Recommendation No. 2

The University should implement policies and procedures to ensure documented evidence of review of disbursement dates established in the Banner system is maintained. Additionally, the University should implement policies and procedures to document both the performance and review of the SAS reconciliation.

The University's Response

Agree. The Office of Financial Aid & Scholarships will implement a process to ensure documented evidence of review of disbursement dates established in the Banner system. We will maintain email threads to document the review of our disbursement dates. Additionally, we will implement a process to document both the performance and review of the SAS reconciliation files. We will maintain email threads to document that these files are being reviewed.

Accounting and Financial Reporting for HLC @ Metro, Inc.:

The HLC @ Metro, Inc. (HLC @ Metro) is a special-purpose nonprofit corporation created by the University to finance, manage and operate the Hotel and Hospitality Learning Center (HLC). The HLC @ Metro is presented as a discretely presented component unit within the University's financial statements based on the nature and significance of its relationship with the University. In Fiscal Year 2013, the HLC was completed and placed in service, and operations began in August 2012. University personnel perform accounting services for the HLC @ Metro.

What was the purpose of the audit work?

The purpose of the audit work was to ensure that the financial statements of the HLC @ Metro as presented within the University's financial report were presented fairly in all material respects in accordance with U.S. generally accepted accounting principles.

What audit work was performed and how were results measured?

As part of our fiscal year 2013 audit, we tested the transfer of the construction in progress to completed property and the depreciation expense recorded by the University for the HLC after it was placed into service.

Additionally, we reviewed the HLC @ Metro's financial statements and disclosures included within the University's financial report to ensure they were prepared in accordance with U.S. generally accepted accounting principles.

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Findings and Recommendations

Year ended June 30, 2013

What problem did the work identify?

We determined that furniture and equipment related to the HLC were initially not recorded since the University utilized its capitalization policy for the HLC and expensed all individual items less than \$5,000. As a result of our inquiries, University management performed a more detailed analysis to determine which costs should be capitalized as furniture and equipment and which costs should be expensed. Management's analysis revealed that approximately \$1.4 million of furniture and equipment should be recorded as of June 30, 2013.

Additionally, the HLC @ Metro's financial statement disclosures initially prepared and included within the University's financial report omitted certain comparative note disclosures and did not adequately address tax matters. Management also did not reconcile receivable and payable amounts between the University, the HLC @ Metro and the Metropolitan State University of Denver Foundation, Inc. (Foundation) included in the respective financial statements for each entity.

Why did the problem occur?

The University's capitalization threshold was used without properly considering the financial impact to the HLC @ Metro.

Management of the University did not perform a detailed review of the HLC @ Metro's financial statements and note disclosures. Management also did not ensure that amounts reported by the Foundation were consistent with the amounts reported by the University and the HLC @ Metro.

Why does this problem matter?

The financial statements of the HLC @ Metro that are included within the University's financial report may be materially misstated, note disclosures may not be complete and accurate, and the financial statements may not be presented in accordance with U.S. generally accepted accounting principles.

Recommendation No. 3

The Controller or Director of Accounting Services of the University should perform a review of the HLC @ Metro's financial statements and note disclosures to ensure that all information presented is complete and accurate and in accordance with U.S. generally accepted accounting principles. An accounting and financial reporting disclosure checklist can be utilized to assist with this review. Management should also ensure that amounts reported in the financial statements of the University, the HLC @ Metro, and the Foundation are reconciled.

The University's Response

Agree. University management will perform a more thorough and documented review of the HLC @ Metro, Inc.'s financial statements and note disclosures to ensure, to the best of our ability, the information is complete and accurate.

Controls over Accuracy of Enrollment Reporting:

The University participates in the Student Financial Aid program. Under the loan programs, schools must complete and return within 30 days of the Enrollment Reporting roster file from the Department of Education. Once received, the University must update the roster file for changes in student status, report the date the

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Year ended June 30, 2013

enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the National Student Loan Data System (NSLDS) website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

Unless the University expects to complete its next enrollment reporting roster within 60 days, the University must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

The University accesses the NSLDS website and creates the Enrollment Reporting Summary Report (SCHER1). These reports include the dates the roster files were sent by the University and returned, the number of errors included within the report submission that required correction, date and number of online updates to be made, and the number of letters sent for overdue enrollment reporting rosters.

What was the purpose of the audit work?

The purpose of the audit work was to assess the University's compliance with enrollment reporting requirements as required by the Office of Management and Budget's *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

What audit work was performed and how were results measured?

We selected a sample of 25 students from the Enrollment Reporting Summary Report generated from the NSLDS website who either graduated from, withdrew from, dropped out of, or enrolled but never attended the University during Fiscal Year 2013 to determine whether the information per the NSLDS website agreed to the students' academic files.

What problem did the work identify?

We identified 9 instances of non-compliance out of 25 (36 percent) students selected. We specifically found that, for six instances, the student's status was incorrectly reported by the University. For the remaining three instances, the student's status changed during the semester; however, the NSLDS did not reflect the change in status.

Why did the problem occur?

The University does not have adequate controls in place to ensure that student enrollment data reported to the NSLDS is accurate or reported timely. While the University submitted the Enrollment Reporting roster files for Fiscal Year 2013 within the required timeline and resolved any exceptions identified through the submission, the data submitted was not reviewed for accuracy.

Why does this problem matter?

Failure to properly report student enrollment status increases the risk of material non-compliance with federal Student Financial Aid program requirements.

(CFDA No. 84.063; 84.268; Student Financial Aid Cluster, Special Tests and Provisions. Classification of Finding: Significant Deficiency.)

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Findings and Recommendations

Year ended June 30, 2013

Recommendation No. 4

The University should implement appropriate internal controls to ensure that the student enrollment data reported to the NSLDS is accurate.

The University's Response

Agree. We are aware that there were some discrepancies with the enrollment files submitted to NSLDS from the National Student Clearinghouse (NSC). We are in the process of ensuring we have the appropriate internal controls to ensure that the student enrollment data reported to NSC for NSLDS is accurate. These are the steps we are taking:

1. Networking with other schools to understand how they are sending their data to NSC. According to NSC, every school reports the student status differently.
2. After the collection of information we will work with the Office of Financial Aid to determine how and when the University should report student enrollment data.
3. Work with Administrative Computing to extract the data in a readable format to have the ability to verify it before uploading to NSC.
4. Work with NSC to ensure when the enrollment file is uploaded that it contains accurate student data. There is no clear evidence why the data provided did not match for some student records, which indicates there may have been an error in the data upload.

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Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2013

There were no findings in the June 30, 2012 audit. The following table presents the recommendation still outstanding from the June 30, 2010 audit, and its disposition as of December 5, 2013:

Recommendation No. 4 (From 2010 Audit)	Disposition
The College should establish and maintain documented policies and procedures for preparing the Statement in compliance with NCAA regulations. In addition, athletic program transactions should be properly coded in the accounting system to enable management to determine how the transactions should be reported by sport program and activity.	Implemented



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Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver (formerly, Metropolitan State College of Denver) (the University), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits and the reports of other auditors. We did not audit the financial statements of the Metropolitan State University of Denver Foundation, Inc. (the Foundation), a discretely presented component unit, discussed in note 1 to the financial statements, which represents 20% and 18% of total assets, 37% and 89% of total revenues, and 167% and 137% of net assets of the aggregate discretely presented component units as of and for the years ended June 30, 2013 and 2012, respectively. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the reports of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver as of June 30, 2013 and 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1 to the financial statements, in fiscal year 2013, the University adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

As discussed in note 1, the financial statements of the University, 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 of Colorado as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in note 14 to the Foundation, a discretely presented component unit, the June 30, 2012 financial statements of the Foundation have been restated to correct certain misstatements.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 17 to 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

The description of the Metropolitan State University of Denver on page 5 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.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado
December 5, 2013

METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

This section of Metropolitan State University of Denver's (formerly, Metropolitan State College of Denver) (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, 2013 and 2012. 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 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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 presentation of financial information is in a format comparable to that used by for-profit colleges and universities. The statements are prepared under the accrual basis of accounting. Hence, revenues and assets are recognized when service is 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, improved during the years ended June 30, 2013 and 2012. The combined net position increased \$4.7 million and \$8.2 million, respectively, over the previous year.

- In fiscal year 2013, the level of funding for MSU Denver's College Opportunity Fund (COF) stipends was set by the General Assembly at \$62 per eligible credit hour. This amount was unchanged from fiscal year 2012. The State of Colorado (the State) was able to maintain this level of funding throughout the fiscal year.
- Fiscal year 2011 was the last year the University received State Fiscal Stabilization Funds, which amounted to \$1.4 million. The State Fiscal Stabilization Funds revenue was from the American Recovery and Reinvestment Act (ARRA) and was allocated to help offset the reduction in state funding in fiscal years 2009 through 2011.
- MSU Denver's June 30, 2013 current assets of \$88.9 million were sufficient to cover current liabilities of \$32.2 million. The current ratio of 2.76 (current assets/current liabilities) reflects the liquidity of MSU Denver's assets and the availability of funds for current operations. As of June 30, 2012, MSU Denver had \$81.7 million in current assets and \$28.0 million in current liabilities, resulting in a current ratio of 2.92.

METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

- The University had outstanding bonds payable of \$62.6 million and \$64.2 million in fiscal year 2013 and 2012, respectively.
- MSU Denver's headcount had decreases of 8.3%, 2.2%, and 2.9% in the summer 2012, fall 2012, and spring 2013 terms, respectively, over the previous year's terms.

Statements of Net Position

The statements of net position report on assets, liabilities, and net position (net position represent the excess of total assets over total liabilities) as of June 30, 2013 and 2012. Over time, increases or decreases in net position are one indicator of MSU Denver's financial health when considered in conjunction with nonfinancial facts such as student enrollment.

Condensed Statements of Net Position

	2013	June 30 2012	2011
		(In thousands)	
Assets:			
Current assets	\$ 88,888	81,730	72,599
Noncurrent assets	91,940	91,955	97,936
Total assets	\$ 180,828	173,685	170,535
Liabilities:			
Current liabilities	\$ 32,169	27,998	31,095
Noncurrent liabilities	70,829	72,545	74,515
Total liabilities	\$ 102,998	100,543	105,610
Net position:			
Invested in capital assets	\$ 12,433	9,105	9,858
Restricted for expendable purposes	9,370	9,413	9,412
Unrestricted	56,027	54,624	45,655
Total net position	\$ 77,830	73,142	64,925

At June 30, 2013 and 2012, MSU Denver's total assets were \$180.8 million and \$173.7 million, respectively, which is an increase of \$7.1 million and \$3.2 million, respectively, when compared to the prior years.

A \$3.9 million increase in unrestricted cash and cash equivalents and a \$3.4 million increase in accounts receivable are the primary reasons for the \$7.1 million increase in total assets in fiscal year 2013, which is discussed in greater detail below.

Unrestricted cash and cash equivalents increased \$3.9 million in fiscal year 2013 primarily due to a 13% increase in tuition.

Accounts receivable-student increased \$1.6 million due to the increase in tuition discussed above, but also because of student health insurance. In fall 2012, MSU Denver took over the administration of the student health

METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

insurance. This change resulted in the student health insurance charges being recorded on the University's books and records, thereby increasing the University's receivables.

Accounts receivable – other increased \$1.7 million, which is primarily a result of timing differences in receiving payments from our federal and state awards.

At June 30, 2012 and 2011, MSU Denver's total assets were \$173.7 million and \$170.5 million, respectively, which is an increase of \$3.2 million and \$16.9 million, respectively, when compared to the prior years. A \$9.1 million increase in unrestricted cash and cash equivalents, and a \$6.0 million decrease in noncurrent assets are the primary reasons for the \$3.2 million increase in total assets in fiscal year 2012, which is discussed in greater detail below:

Unrestricted cash and cash equivalents increased \$9.1 million in fiscal year 2012 primarily due to a 22.6% increase in tuition, and a \$7.70 per credit hour increase in the student bond fee.

Restricted cash decreased \$38.5 million during fiscal year 2012 due to expenditures on the Student Success Building (SSB) and the related major remodeling; however, this decrease was offset with increases to buildings, and land and leasehold improvements.

MSU Denver's financial position improved during both fiscal years 2013 and 2012 as evidenced by the increase in net position of \$4.7 million and \$8.2 million, respectively. Of the total \$77.8 million in net position in fiscal year 2013, \$12.4 million is invested in capital assets, \$9.4 million is restricted for expendable purposes for student loans, and \$56.0 million is unrestricted and available for any lawful purpose of MSU Denver. Of the total \$73.1 million in net assets in fiscal year 2012, \$9.1 million is invested in capital assets, net of related debt, \$9.4 million is restricted for expendable purposes for student loans, and \$54.6 million is unrestricted and available for any lawful purpose of MSU Denver.

METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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 2013 and 2012. 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, state fiscal stabilization funds, interest expense on capital asset-related debt and Pell grants.

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

	June 30		
	2013	2012	2011
	(In thousands)		
Operating revenues:			
Tuition and fees, net	\$ 92,621	84,557	77,186
Fee for service	8,657	6,634	10,669
Sales and services	2,929	3,575	4,572
Grants and contracts	19,342	18,273	21,056
Other operating revenues	6,731	5,789	5,350
Total operating revenues	<u>130,280</u>	<u>118,828</u>	<u>118,833</u>
Operating expenses	<u>160,511</u>	<u>148,890</u>	<u>147,391</u>
Operating loss	<u>(30,231)</u>	<u>(30,062)</u>	<u>(28,558)</u>
Nonoperating revenues:			
State fiscal stabilization funds revenue	—	—	1,403
Pell grants	34,356	36,391	36,990
Intergovernmental revenue	1,526	1,622	1,620
Investment and interest income (loss)	(7)	902	1,783
Interest expense on capital asset-related debt	(3,927)	(2,983)	(4,065)
Loss on disposal of capital assets	(110)	(16)	(29)
Nonoperating gifts and donations	2,899	2,363	2,372
Other non operating revenue	182	—	—
Net nonoperating revenues	<u>34,919</u>	<u>38,279</u>	<u>40,074</u>
Increase in net assets	4,688	8,217	11,516
Net position at beginning of year	<u>73,142</u>	<u>64,925</u>	<u>53,409</u>
Net position at end of year	<u>\$ 77,830</u>	<u>73,142</u>	<u>64,925</u>

Tuition and fees revenue, net, accounted for \$92.6 million of \$130.3 million in operating revenue in fiscal year 2013. The tuition and fees revenue amount is net of scholarship allowances of \$51.5 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. Tuition and fees revenue, net, accounted for

METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

\$84.6 million of \$118.8 million in operating revenue in fiscal year 2012. The tuition and fees revenue amount is net of scholarship allowances of \$51.1 million.

Despite small decreases in enrollment in fiscal year 2013, tuition and fee revenue increased \$8.1 million from fiscal year 2012. This increase is due to a 13.0% increase in undergraduate and graduate tuition. Scholarship discounts and allowances increased \$410 thousand from fiscal year 2012 due to the increase in tuition.

In fiscal year 2012 tuition and fees revenue increased \$7.4 million from 2011 due to increases in tuition and fees. Scholarship discounts and allowances increased \$3.7 million from 2011 due to an increase in tuition.

The \$2.0 million increase in fee for service revenue in fiscal year 2013, and the \$4.0 million decrease in fee for service revenue in fiscal year 2012 are a result of changes to the fee for service contract the University has with the State.

State Fiscal Stabilization Funds (SFSF) were federal funds from the American Reinvestment and Recovery Act given to the University in response to the State's economic downturn. The University was allocated a total of \$36.5 million over three years, and in fiscal year 2011, the University drew its last allocation.

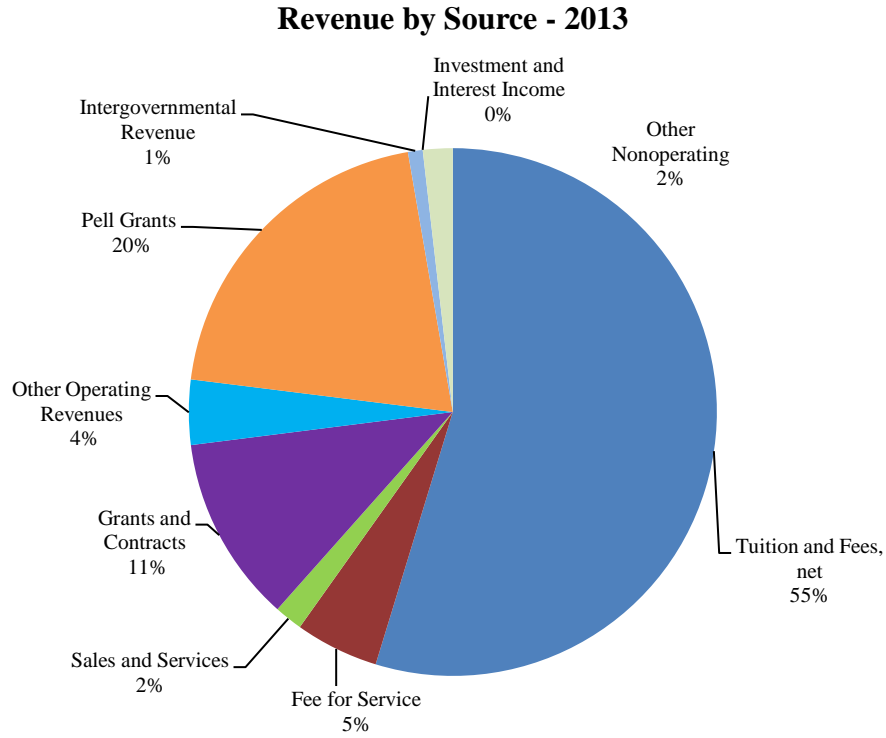
Investment and interest income decreased \$909 thousand and \$881 thousand in fiscal years 2013 and 2012, respectively. The decreases are the result of reduced cash on hand with the Colorado State Treasurer (the Treasurer) and an increased unrealized loss in fiscal year 2013.

METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

The following is a graphic illustration of total revenue (operating and nonoperating) by source for MSU Denver. Each major revenue component is displayed relative to its proportionate share of total revenue.

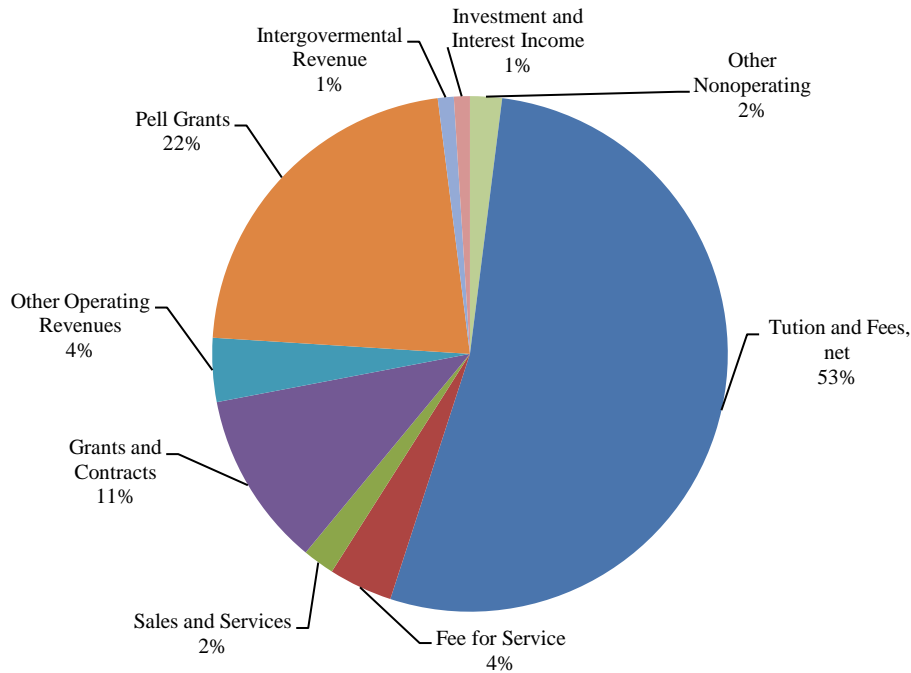


METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

Revenue by Source – 2012



Interest expense on capital asset-related debt increased \$944 thousand in fiscal year 2013 because of a reduction in capitalized interest due to the completion of the Student Success Building. In fiscal year 2012, interest expense on capital asset related debt decreased \$1.1 million, because a significant portion of the interest was capitalized.

For the fiscal years ended June 30, 2013 and 2012, operating expenses totaled \$160.5 million and \$148.9 million, respectively. Of the \$160.5 million total in fiscal year 2013, \$73.4 million was for instruction, \$13.9 million for academic support, \$18.0 million for student services, \$14.3 million for institutional support, \$12.1 million for operation of plant, and \$21.2 million for auxiliary enterprises. The remaining \$7.6 million was for scholarships and other miscellaneous operating expenses. Of the \$148.9 million total in fiscal year 2012, \$71.5 million was for instruction, \$10.5 million for academic support, \$16.7 million for student services, \$13.7 million for institutional support, \$11.3 million for operation of plant, and \$18.6 million for auxiliary enterprises. The remaining \$6.6 million was for scholarships and other miscellaneous operating expenses.

Overall operating expenses show an increase of \$11.6 million over fiscal year 2012 due to several factors. There was a \$5.6 million increase in salary and benefit expenses in fiscal year 2013. This increase resulted from a 2% pay increase for all exempt staff as well as the University paying an additional 2.5% in retirement benefits for those employees enrolled in the Public Employees Retirement Association (PERA). There was also a \$4.0 million increase in materials and supplies, which is predominately due to increases for computer services, such as database consulting and support. Lastly, there was a \$2.0 million increase in expenses for equipment, most of which related to noncapital furniture purchases for the Backfill project and small remodeling projects for the Student Success Building.

METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

Fiscal year 2012 overall operating expenses increased \$1.5 million over fiscal year 2011 primarily due to an increase of salary and benefit expenditures of approximately \$2 million in fiscal year 2012, which resulted from a net increase of 36 administrative/classified employees.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating expenses:			
Instruction	\$ 73,358,268	71,502,370	70,486,115
Research	48,888	43,642	33,725
Public service	884,055	696,180	262,689
Academic support	13,898,702	10,485,609	9,814,762
Student services	17,954,011	16,679,404	12,733,487
Institutional support	14,335,136	13,729,183	15,782,608
Operation of plant	12,133,409	11,295,306	7,591,650
Scholarships and fellowships, net	1,927,788	2,203,067	6,481,120
Auxiliary enterprise expenditures	21,215,625	18,645,863	21,123,074
Depreciation	4,755,085	3,608,920	3,082,024
Total operating expenses	\$ <u>160,510,967</u>	<u>148,889,544</u>	<u>147,391,254</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

	<u>2013</u>	<u>June 30</u> <u>2012</u>	<u>2011</u>
		(In thousands)	
Net cash provided by (used in):			
Operating activities	\$ (24,321)	(26,637)	(26,464)
Noncapital financing activities	36,939	38,502	39,882
Capital and related financing activities	(15,731)	(42,216)	(17,021)
Investing activities	(7)	902	1,783
Net decrease in cash	(3,120)	(29,449)	(1,820)
Cash and cash equivalents:			
Beginning of year	83,962	113,411	115,231
End of year	\$ <u>80,842</u>	<u>83,962</u>	<u>113,411</u>

MSU Denver's cash and cash equivalents decreased by \$3.1 million in fiscal year 2013; whereas, fiscal year 2012 had a decrease of \$29.4 million. The decrease in 2013 is a primarily due to spending down the series 2010 bond proceeds for the completion of the backfill project. The major sources of unrestricted cash inflows in fiscal

METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

year 2013 were \$90.6 million from tuition and fees, \$18.6 million from grants and contracts, and \$34.4 million in Pell grants. The primary outflows are \$107.8 million for payments to or for employees, \$11.5 million for the acquisition of capital assets, and \$42.1 million for payments to suppliers.

The major sources of unrestricted cash inflows in fiscal year 2012 were \$83.7 million from tuition and fees, \$18.7 million from grants and contracts, and \$36.4 million in Pell grants. The primary outflows are \$102.4 million for payments to or for employees, \$39.0 million for acquisition of capital assets, and \$40.5 million for payments to suppliers.

Capital Assets

At June 30, 2013, the University had \$75.4 million in property, plant, and equipment, net of accumulated depreciation of \$20.8 million. Depreciation charges were \$4.8 million for the current year compared to \$3.6 million in fiscal year 2012 and \$3.1 million in fiscal year 2011.

The \$5.0 million increase in leasehold improvements in fiscal year 2013 was due to the completion of the second phase of the major remodeling that was done to various campus buildings that were vacated upon the completion of the SSB.

The completion of the SSB in fiscal year 2012 was the primary reason for the \$13.8 million decrease in construction in progress as well as the \$40.5 million increase in buildings. The \$2.2 million increase in leasehold improvements in fiscal year 2012 was due to the completion of the first phase of the major remodeling that was done to various campus buildings that were vacated upon the completion of the SSB. The \$3.0 million increase in land improvements was due to the electrical duct bank that was completed for future growth.

Details of these assets are shown in the table below:

Capital Assets, Net of Depreciation at Year-End

	June 30		
	2013	2012	2011
		(In thousands)	
Land	\$ 147	—	—
Construction in progress	5,136	6,158	19,955
Equipment	5,927	5,467	4,824
Building	43,979	41,645	1,155
Leasehold/land improvements	20,224	15,183	10,046
Total	<u>\$ 75,413</u>	<u>68,453</u>	<u>35,980</u>

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 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 (see note 6 for more information on these obligations) as

METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

personnel moved to the SSB. 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 45.0% bond interest subsidy from the federal government.

At June 30, 2013, the University had \$70.2 million in outstanding debt compared to \$72.0 million at June 30, 2012 and \$73.9 million at June 30, 2011. The table below summarizes these amounts by type of debt:

Outstanding Debt at Year-End

	June 30		
	2013	2012	2011
		(In thousands)	
Series 2009	\$ 52,585	53,895	55,190
Series 2010	10,055	10,293	10,532
Capital lease	7,520	7,848	8,158
Total	\$ 70,160	72,036	73,880

Economic Outlook and Metropolitan State University of Denver's Future

MSU Denver retained its enterprise status during fiscal year 2013 by receiving less than 10.0% in state funding. The COF stipend was set by the General Assembly for fiscal year 2013 at \$62 per eligible credit hour for resident undergraduate students, and was not cut during the year. The stipend has been increased to \$64 per eligible credit hour for fiscal year 2014, which is currently appropriated at \$31.4 million, per the long bill. MSU Denver received \$8.7 million in fee for service revenue in fiscal year 2013 but is only budgeted to receive \$7.9 million in fiscal year 2014.

In an effort to offset some of the reductions to the University's state funding, MSU Denver raised tuition by 13.0% for undergraduate residents in fiscal year 2013. The University will raise undergraduate tuition another 9.0% in fiscal year 2014, which is in line with the University's Financial Accountability Plan (FAP) that was approved by the Colorado Commission on Higher Education (CCHE) in November, 2010.

The second and final phase of the major remodeling project referred to as the backfill project was completed at the end of fiscal year 2013. This project remodeled all the space that was vacated when the Student Success Building was completed.

MSU Denver is planning on constructing a new building that will house aerospace science and aviation, industrial design, and engineering. The purpose of this building would be to support an integrated curriculum, and promote collaborative research. An estimated timeline for this building suggests MSU Denver would break ground in early 2018, with a completion date 15 months later. It would be built on the southeast corner of 7th and Auraria Parkway, and the estimated cost of \$50 million would be funded with a 50/50 split between MSU Denver and private sector partners.

METROPOLITAN STATE UNIVERSITY OF DENVER

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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 amount of the subsidy the University received on its RZEDBs. Before sequester the subsidy paid MSU Denver 45% of the interest amount on both the series 2009 and 2010 bonds. The amount of the reduction is currently set at 5.1% however; the first subsidy payment received after this order was only reduced by 3.9%, which suggests future payments will be reduced by a larger amount to average the 5.1% reduction ordered.

The 5.1% reduction is scheduled to be applied through September 2013, and will then be subject to change. A table showing the original subsidy amount and the reduced amount is shown below:

<u>Bond</u>	<u>Interest payment</u>	<u>Original interest subsidy</u>	<u>Modified interest subsidy</u>	<u>Difference</u>
Series 2009	\$ 1,497,119	673,703	615,091	58,612
Series 2010	280,438	126,197	115,218	10,979
Total fiscal year 2013 reduction			\$	<u>69,591</u>

MSU Denver is continuing to make strides towards its goal of earning the designation of a Hispanic Serving Institution (HSI). By fall 2012, the University's Latino student enrollment reached 19.5% headcount, and 18.1% full time equivalent. This is ahead of projections towards achieving the 25.0% necessary to earn the HSI status. If enrollments continue at the current pace, the University should achieve HSI status in the next 10 years. Earning HSI status is beneficial for all students and faculty and makes the University eligible for additional funding for student support programs and improved classroom technology.

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
June 30, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 73,572,933	69,670,774
Accounts receivable – student (net of allowance for doubtful accounts of \$2,364,901 and \$2,350,686, respectively)	9,676,884	8,052,315
Accounts receivable – other	3,389,131	1,659,698
Loans receivable	1,128,915	1,131,702
Prepaid expense	1,120,535	1,215,965
Total current assets	88,888,398	81,730,454
Noncurrent assets:		
Restricted cash	7,269,516	14,291,290
Investments	190,634	190,634
Prepaid expense	167,515	142,904
Loans receivable (net of allowance for doubtful accounts of \$495,557 and \$527,197, respectively)	8,218,155	8,169,908
Deferred debt issuance cost (net of amortization of \$103,687 and \$77,730, respectively)	680,199	706,155
Capital assets, net	75,413,280	68,453,732
Total noncurrent assets	91,939,299	91,954,623
Total assets	\$ 180,827,697	173,685,077
Liabilities		
Current liabilities:		
Accounts payable	\$ 7,705,256	5,183,760
Accrued payroll	10,791,504	10,265,824
Unearned revenue	7,107,109	6,652,728
Compensated absences	307,845	313,968
Bonds payable	1,575,000	1,550,000
Capital leases	343,651	328,031
Deposits held in custody and other current liabilities	4,338,384	3,703,081
Total current liabilities	32,168,749	27,997,392
Noncurrent liabilities:		
Compensated absences	2,587,536	2,387,158
Bonds payable	61,064,624	62,638,129
Capital leases	7,176,419	7,520,070
Total noncurrent liabilities	70,828,579	72,545,357
Total liabilities	102,997,328	100,542,749
Net position:		
Invested in capital assets	12,432,653	9,105,148
Restricted for expendable purposes	9,370,555	9,413,554
Unrestricted	56,027,161	54,623,626
Total net position	77,830,369	73,142,328
Total liabilities and net position	\$ 180,827,697	173,685,077

See accompanying notes to financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER

Aggregate Discretely Presented Component Units

Statements of Financial Position

June 30, 2013 and 2012

Assets	2013			2012		
	Metropolitan State University of Denver Foundation, Inc.	HLC @ Metro, Inc.	Total	Metropolitan State University of Denver Foundation, Inc. (Restated)	HLC @ Metro, Inc.	Total
Cash and cash equivalents	\$ 1,531,853	431,430	1,963,283	1,835,675	—	1,835,675
Restricted cash and cash equivalents	—	4,697,736	4,697,736	—	11,811,873	11,811,873
Promises to give, net	1,131,199	—	1,131,199	1,754,383	—	1,754,383
Accounts receivable	—	1,553,700	1,553,700	—	364,245	364,245
Beneficial interest in charitable trusts held by others	98,211	—	98,211	89,383	—	89,383
Investments	3,251,528	—	3,251,528	2,319,206	—	2,319,206
Endowment						
Promises to give, net	143,541	—	143,541	115,486	—	115,486
Investments	5,214,263	—	5,214,263	4,413,618	—	4,413,618
Land and building, net	1,654,014	42,225,388	43,879,402	1,692,678	—	1,692,678
Furniture and equipment, net	—	1,416,764	1,416,764	—	—	—
Construction in progress	—	—	—	—	42,881,770	42,881,770
Deferred debt issuance costs (net of amortization of \$172,380 and \$172,380, respectively)	—	1,438,513	1,438,513	—	1,610,893	1,610,893
Other assets	19,907	126,720	146,627	11,501	—	11,501
Total assets	\$ 13,044,516	51,890,251	64,934,767	12,231,930	56,668,781	68,900,711
Liabilities and Net Assets						
Liabilities:						
Accounts payable	\$ 11,441	473,626	485,067	3,439	2,506,895	2,510,334
Accounts payable and other – University/HLC @ Metro, Inc.	1,372,846	—	1,372,846	690,118	—	690,118
Retainage payable	—	150,000	150,000	—	1,537,797	1,537,797
Interest payable	—	1,075,377	1,075,377	—	1,075,377	1,075,377
Bonds payable	—	54,606,629	54,606,629	—	54,623,451	54,623,451
Liabilities under charitable gift annuities	52,902	—	52,902	54,232	—	54,232
Other current liabilities	—	238,916	238,916	—	—	—
Total liabilities	1,437,189	56,544,548	57,981,737	747,789	59,743,520	60,491,309
Net assets:						
Unrestricted	1,802,760	(5,841,455)	(4,038,695)	1,791,389	(3,429,665)	(1,638,276)
Temporarily restricted	8,550,655	1,187,158	9,737,813	8,691,056	354,926	9,045,982
Permanently restricted	1,253,912	—	1,253,912	1,001,696	—	1,001,696
Total net assets	11,607,327	(4,654,297)	6,953,030	11,484,141	(3,074,739)	8,409,402
Total liabilities and net assets	\$ 13,044,516	51,890,251	64,934,767	12,231,930	56,668,781	68,900,711

See accompanying notes to financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER

Business-Type Activity

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$51,500,994 and \$51,091,183, respectively, and bad debt expense of \$1,842,374 and \$2,131,027, respectively	\$ 92,621,047	84,556,360
Fee for service	8,657,019	6,634,316
Sales and services of educational departments	409,683	737,832
Sales and services of auxiliary enterprises	2,519,041	2,837,425
Federal grants and contracts	6,344,816	5,614,366
State grants and contracts	12,048,281	12,583,721
Local grants and contracts	119,474	1,642
Private grants and contracts	830,207	73,623
Operating interest income	155,241	120,448
Other operating revenues	<u>6,575,585</u>	<u>5,667,814</u>
Total operating revenues	<u>130,280,394</u>	<u>118,827,547</u>
Operating expenses:		
Instruction	73,358,268	71,502,370
Research	48,888	43,642
Public service	884,055	696,180
Academic support	13,898,702	10,485,609
Student services	17,954,011	16,679,404
Institutional support	14,335,136	13,729,183
Operation of plant	12,133,409	11,295,306
Scholarships and fellowships	1,927,788	2,203,067
Auxiliary enterprise expenditures	21,215,625	18,645,863
Depreciation	<u>4,755,085</u>	<u>3,608,920</u>
Total operating expenses	<u>160,510,967</u>	<u>148,889,544</u>
Operating loss	<u>(30,230,573)</u>	<u>(30,061,997)</u>
Nonoperating revenues (expenses):		
Pell grants	34,356,222	36,390,922
Intergovernmental revenue	1,525,745	1,622,471
Investment and interest income (loss)	(7,016)	901,645
Interest expense on capital asset related debt	(3,927,490)	(2,983,098)
Loss on disposal of fixed assets	(109,893)	(15,816)
Nonoperating gifts and donations	2,899,364	2,363,144
Other nonoperating	<u>181,682</u>	<u>—</u>
Net nonoperating revenue	<u>34,918,614</u>	<u>38,279,268</u>
Increase in net position	4,688,041	8,217,271
Net position at beginning of year	<u>73,142,328</u>	<u>64,925,057</u>
Net position at end of year	<u>\$ 77,830,369</u>	<u>73,142,328</u>

See accompanying notes to financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER

Aggregate Discretely Presented Component Units

Statements of Activities

Years ended June 30, 2013 and 2012

	2013			2012		
	Metropolitan State University of Denver Foundation, Inc.	HLC @ Metro, Inc.	Total	Metropolitan State University of Denver Foundation, Inc. (Restated)	HLC @ Metro, Inc.	Total
Change in unrestricted net assets:						
Support, revenue, and gains:						
Contributions	\$ 116,509	—	116,509	67,953	—	67,953
In-kind contributions	1,193,470	—	1,193,470	1,422,026	—	1,422,026
Endowment management fees	58,691	—	58,691	46,484	—	46,484
Total support	1,368,670	—	1,368,670	1,536,463	—	1,536,463
Net investment gain	24,810	—	24,810	79,864	—	79,864
Rooms revenue	—	4,398,040	4,398,040	—	—	—
Food and beverage revenue	—	597,722	597,722	—	—	—
Parking, telephone and other revenue	—	538,313	538,313	—	—	—
Rent – Center for Visual Arts (CVA)	133,960	—	133,960	172,655	—	172,655
Net assets released from restrictions	3,374,767	1,792,739	5,167,506	4,303,688	573,066	4,876,754
Other reclassifications of net assets	21,972	—	21,972	(23,532)	—	(23,532)
Total support, revenue, and gains	4,924,179	7,326,814	12,250,993	6,069,138	573,066	6,642,204
Expenses and losses:						
Support provided to the University	3,165,000	—	3,165,000	2,589,356	—	2,589,356
University Hospitality Learning Center materials and service	179,311	3,036,313	3,215,624	1,573,733	—	1,573,733
General and administrative costs	312,636	3,015,779	3,328,415	334,217	261,628	595,845
Depreciation expense	—	751,506	751,506	—	—	—
Donor development costs	1,190,720	60,713	1,251,433	1,195,686	—	1,195,686
Interest and amortization	—	3,229,219	3,229,219	—	2,914,252	2,914,252
Operating expenses for CVA	65,141	—	65,141	115,831	—	115,831
Total expenses and losses	4,912,808	10,093,530	15,006,338	5,808,823	3,175,880	8,984,703
Change in unrestricted net assets	11,371	(2,766,716)	(2,755,345)	260,315	(2,602,814)	(2,342,499)
Change in temporarily restricted net assets:						
Support, revenue, and gains:						
Contributions	2,427,160	892,945	3,320,105	3,872,158	—	3,872,158
In-kind contributions	179,311	1,076,407	1,255,718	1,573,733	—	1,573,733
Special events revenue, net	292,563	—	292,563	266,325	—	266,325
Federal interest subsidy	—	1,064,778	1,064,778	—	1,064,778	1,064,778
Interest income	—	41,760	41,760	—	317,166	317,166
Total support	2,899,034	3,075,890	5,974,924	5,712,216	1,381,944	7,094,160
Net investment gain (loss)	365,054	(95,993)	269,061	(220,672)	(453,952)	(674,624)
Net assets released from restrictions	(3,374,767)	(1,792,739)	(5,167,506)	(4,303,174)	(573,066)	(4,876,240)
Other reclassifications of net assets	(21,972)	—	(21,972)	23,532	—	23,532
Total support, revenue, and gains	(132,651)	1,187,158	1,054,507	1,211,902	354,926	1,566,828
Losses:						
Loss on uncollectible promises to give	7,750	—	7,750	282,517	—	282,517
Total losses	7,750	—	7,750	282,517	—	282,517
Change in unrestricted net assets	(140,401)	1,187,158	1,046,757	929,385	354,926	1,284,311
Change in permanently restricted net assets:						
Support, revenue, and gains:						
Contributions	238,344	—	238,344	200,240	—	200,240
Special events revenue, net	5,044	—	5,044	4,747	—	4,747
Total support	243,388	—	243,388	204,987	—	204,987
Net investment (loss) gain	8,828	—	8,828	(6,436)	—	(6,436)
Net assets released from restrictions	—	—	—	(514)	—	(514)
Total support, revenue, and gains	252,216	—	252,216	198,037	—	198,037
Change in permanently restricted net assets	252,216	—	252,216	198,037	—	198,037
Change in net assets	123,186	(1,579,558)	(1,456,372)	1,387,737	(2,247,888)	(860,151)
Net assets (deficit), beginning of year (restated note 14)	11,484,141	(3,074,739)	8,409,402	10,096,404	(826,851)	9,269,553
Net assets (deficit), end of year	\$ 11,607,327	(4,654,297)	6,953,030	11,484,141	(3,074,739)	8,409,402

See accompanying notes to financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 90,566,707	83,662,609
Fee for service	8,657,019	6,634,316
Sales and services	2,679,001	3,455,378
Grants and contracts	18,603,169	18,718,921
Student loans collected	1,263,747	939,341
Other operating receipts	7,077,028	6,069,052
Cash payments:		
Payments to or for employees	(107,834,927)	(102,447,376)
Payments to suppliers	(42,171,319)	(40,457,370)
Scholarships disbursed	(1,927,788)	(2,203,067)
Student loans disbursed	(1,233,740)	(1,009,260)
Net cash used in operating activities	(24,321,103)	(26,637,456)
Cash flows from noncapital financing activities:		
Nonoperating gifts and donations	2,864,096	2,481,901
Pell grants	34,357,917	36,443,857
Agency (direct lending inflows)	106,288,986	109,542,768
Agency (direct lending outflows)	(106,490,043)	(109,617,818)
Other agency (inflows)	9,287,240	8,952,549
Other agency (outflows)	(9,368,915)	(9,300,466)
Net cash provided by noncapital financing activities	36,939,281	38,502,791
Cash flows from capital and related financing activities:		
Interest subsidy	1,541,895	1,620,455
Interest on capital asset related debt	(3,901,531)	(2,957,142)
Principal paid on bonds	(1,548,505)	(1,533,505)
Principal paid on capital leases	(328,031)	(310,179)
Acquisition of capital assets	(11,494,605)	(39,035,357)
Net cash used in capital and related financing activities	(15,730,777)	(42,215,728)
Cash flows from investing activity:		
Investment income (loss)	(7,016)	901,645
Net cash (used in) provided by investing activities	(7,016)	901,645
Net decrease in cash	(3,119,615)	(29,448,748)
Beginning cash balance	83,962,064	113,410,812
Ending cash balance	\$ 80,842,449	83,962,064

METROPOLITAN STATE UNIVERSITY OF DENVER

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (30,230,573)	(30,061,997)
Adjustment to reconcile:		
Depreciation expense	4,755,085	3,608,920
Provision for bad debt	2,606,729	2,925,819
Nonoperating revenue	181,682	—
Decrease (increase) in assets:		
Accounts receivable – student	(4,320,350)	(2,843,374)
Loans receivable	(178,662)	(116,327)
Prepaid expense	67,874	(460,067)
Accounts receivable – other	(998,647)	296,165
Increase (decrease) in liabilities:		
Accounts payable	2,099,847	(299,700)
Unearned revenue	425,476	(152,830)
Accrued payroll	525,680	510,150
Deposits held in custody and other current liabilities	744,756	(44,215)
Net cash used in operating activities	(24,321,103)	(26,637,456)
Noncash transactions		
Retirement of capital assets	\$ 1,257,539	314,994
Write-off of uncollectible accounts receivable	2,469,167	2,449,082
Write-off of uncollectible loans receivable	154,987	99,035

See accompanying notes to financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

(a) Governance

The accompanying financial statements reflect the financial activities of Metropolitan State University of Denver (formerly, Metropolitan State College of Denver) (the University, or MSU Denver) for the fiscal years ended June 30, 2013 and 2012. 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 nonvoting 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, 2013 and 2012, 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 Consolidated Financial Statements

June 30, 2013 and 2012

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) and the HLC @ Metro, Inc.'s financial statements appear on separate pages from the financial statements of the University. The Foundation and the HLC @ Metro, Inc. 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 16 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. In fiscal year 2013, the University implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement had no impact on the University's accounting policies.

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.

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

Accounts Receivable: Accounts receivable result primarily from tuition, fees, and 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.

Capital Assets: Equipment, buildings, construction in progress, and leasehold and land improvements are stated at cost at the date of acquisition or fair market 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 follows the policy of capitalizing only those capital assets with an initial cost or fair value equal to or greater than \$5,000. The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specific to the project.

METROPOLITAN STATE UNIVERSITY OF DENVER

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

Total interest capitalized during the years ended June 30, 2013 and 2012 was \$76 thousand and \$1.1 million, respectively.

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, and 3 to 45 years for leasehold/land improvements.

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 assets owed to the individual or organization for which the University is acting as custodian.

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 and direct instructional expenses based on the percentage of total calendar days before June 30 to total calendar days in the selected primary summer term. To the extent revenues are earned after June 30, such amounts are recorded as unearned revenue.

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.

Net Position: In fiscal year 2013, the University implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which requires the term net position to replace the previous term of net assets and provides financial reporting guidance for deferred outflows and deferred inflows of resources. The University has no deferred inflows or outflows of resources as defined by this statement. Net position is classified in the accompanying financial statements as follows:

- *Invested 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 student tuition and fees, fee-for-service contracts, College Opportunity Fund (COF) stipends, Pell grants, state fiscal stabilization funds, and sales and services of education departments. These resources are used for transactions relating to the educational and general operations of the University to meet

METROPOLITAN STATE UNIVERSITY OF DENVER

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

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 or nonoperating 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.
- *Nonoperating revenues and expenses* do not meet the definition of operating revenues, and include federal stimulus money, Pell grants, gifts, investment income, rental income, and interest expense.

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. 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 2013 or 2012.

Use of Estimates: The preparation of 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.

METROPOLITAN STATE UNIVERSITY OF DENVER

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(d) Reclassifications

Prior year amounts have been reclassified to conform to the current year presentation.

(2) Cash and Cash Equivalents and Investments

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

	<u>2013</u>	<u>2012</u>
Cash on hand	\$ 42,671	43,244
Cash in checking and depository accounts at banks	5,023,608	3,495,224
Certificate of deposit	198,883	117,332
Total cash on hand and in banks	<u>\$ 5,265,162</u>	<u>3,655,800</u>

As of June 30, 2013, \$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.

The University deposits its cash with the Treasurer as required by C.R.S. The Treasurer pools these deposits and invests them in securities approved 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 with the Treasurer are invested until the cash is needed. Earnings are allocated in proportion to the daily cash balance for all participants in the pool. At June 30, 2013 and 2012, the University had \$75,577,287 and \$80,306,264, respectively, which represented approximately 1% of the total \$7,260.8 million and 1.2% of the total of \$6,541.7 million, respectively, in deposits in the Treasurer's Pool (Pool). The \$75,577,287 and \$80,306,264 on deposit as of June 30, 2013 and 2012, respectively, includes \$7,269,516 and \$14,291,290 of restricted cash as of June 30, 2013 and 2012, respectively, which is the unspent proceeds of the Series 2009 and 2010 bonds (see note 6 for further information).

For financial reporting purposes, all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of the University's participation in the Pool, the University reports as an increase or decrease in cash its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The 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 net unrealized losses for fiscal years 2013 and 2012 were \$1,000,148 and \$557,870, respectively. These net unrealized losses are included in cash and cash equivalents on the statements of net position.

(a) Custodial Credit Risk

Investments in the Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. State securities must be held

METROPOLITAN STATE UNIVERSITY OF DENVER

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

by the Treasurer or by a third-party custodian evidenced by a safekeeping receipt. As of June 30, 2013 and 2012, none of the investments in the Pool is subject to custodial credit risk.

(b) Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2013 and 2012, approximately 88.5% and 89.0%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for \$41,074,270 and \$12,085,710 in fiscal years 2013 and 2012, respectively, of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has a strong capacity to pay principal and interest when due.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2013, the weighted average maturity (WAM) of investments in the Pool is 0.037 years for commercial paper (1.0% of the Pool), 1.321 years for U.S. government securities (63.9% of the Pool), 3.371 years for asset-backed securities (16.0% of the Pool), and 3.100 years for corporate bonds (19.1% of the Pool). As of June 30, 2012, the WAM of investments in the Pool is 0.090 years for commercial paper (2.1% of the Pool), 0.803 years for U.S. government securities (75.2% of the Pool), 2.379 years for asset-backed securities (6.6% of the Pool), and 3.252 years for corporate bonds (16.1% of the Pool).

(d) Foreign Currency Risk

The State does not allow foreign currency investments.

Additional information on investments of the Pool may be obtained in the State's comprehensive annual financial report for the year ended June 30, 2013.

(e) Other Investments

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. As of June 30, 2013 and 2012, 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

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Poor's. COLOTRUST pooled investments are excluded from the 5% and interest rate risk disclosure requirements. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. At June 30, 2013 and 2012, the fair value of the University's investment remained at \$190,634.

(3) Capital Assets

The following tables present changes in capital assets and accumulated depreciation for the years ended June 30, 2013 and 2012:

	Balance, June 30, 2012	Additions	CIP transfers	Retirements	Balance, June 30, 2013
Land	\$ —	146,863	—	—	146,863
Construction in progress	6,158,451	6,444,180	(7,466,891)	—	5,135,740
Depreciable capital assets:					
Equipment	16,639,090	2,003,252	117,075	(1,187,457)	17,571,960
Building	42,896,808	25,064	4,029,684	—	46,951,556
Leasehold improvements	19,956,350	3,646,974	3,320,132	(511,889)	26,411,567
Less accumulated depreciation:					
Equipment	(11,171,821)	(1,585,252)	—	1,112,604	(11,644,469)
Buildings	(1,251,862)	(1,720,577)	—	—	(2,972,439)
Leasehold improvements	(4,773,284)	(1,449,256)	—	35,042	(6,187,498)
Net depreciable capital assets	<u>62,295,281</u>	<u>920,205</u>	<u>7,466,891</u>	<u>(551,700)</u>	<u>70,130,677</u>
Total capital assets, net	\$ <u><u>68,453,732</u></u>	<u><u>7,511,248</u></u>	<u><u>—</u></u>	<u><u>(551,700)</u></u>	<u><u>75,413,280</u></u>

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	<u>Balance, June 30, 2011</u>	<u>Additions</u>	<u>CIP transfers</u>	<u>Retirements</u>	<u>Balance, June 30, 2012</u>
Land	\$ —	—	—	—	—
Construction in progress	19,955,406	34,215,701	(48,012,656)	—	6,158,451
Depreciable capital assets:					
Equipment	14,843,942	1,823,121	287,021	(314,994)	16,639,090
Building	1,510,311	—	41,386,497	—	42,896,808
Leasehold improvements	13,557,369	59,843	6,339,138	—	19,956,350
Less accumulated depreciation:					
Equipment	(10,020,131)	(1,450,868)	—	299,178	(11,171,821)
Buildings	(355,759)	(896,103)	—	—	(1,251,862)
Leasehold improvements	(3,511,336)	(1,261,948)	—	—	(4,773,284)
Net depreciable capital assets	<u>16,024,396</u>	<u>(1,725,955)</u>	<u>48,012,656</u>	<u>(15,816)</u>	<u>62,295,281</u>
Total capital assets, net	\$ <u>35,979,802</u>	<u>32,489,746</u>	<u>—</u>	<u>(15,816)</u>	<u>68,453,732</u>

(4) Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>	<u>Amounts due within one year</u>
Bonds payable	\$ 64,188,129	1,495	(1,550,000)	62,639,624	1,575,000
Capital lease payable	7,848,101	—	(328,031)	7,520,070	343,651
Compensated absences	2,701,126	194,255	—	2,895,381	307,845
Total long-term liabilities	\$ <u>74,737,356</u>	<u>195,750</u>	<u>(1,878,031)</u>	<u>73,055,075</u>	<u>2,226,496</u>

A summary of the changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>	<u>Amounts due within one year</u>
Bonds payable	\$ 65,721,634	1,495	(1,535,000)	64,188,129	1,550,000
Capital lease payable	8,158,279	—	(310,178)	7,848,101	328,031
Compensated absences	2,744,534	—	(43,408)	2,701,126	313,968
Total noncurrent liabilities	\$ <u>76,624,447</u>	<u>1,495</u>	<u>(1,888,586)</u>	<u>74,737,356</u>	<u>2,191,999</u>

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(5) Lease Obligations

Operating Leases

The University leases building space, land, and copiers under operating lease agreements with AHEC and with private organizations. The University has two ground leases with AHEC totaling \$2.00 for the ground where the HLC and the Student Success Building (SSB) are built. Total rental expense for the years ended June 30, 2013 and 2012 under all agreements was \$1,822,978 and \$2,059,016, respectively. As of June 30, 2013, minimum future rentals required by these agreements are as follows:

Fiscal year(s) ending:	
2014	\$ 2,244,256
2015	1,692,017
2016	974,936
2017	776,216
2018	720,350
2019 – 2023	3,594,500
2024 – 2028	<u>2,851,370</u>
Total	<u>\$ 12,853,645</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 14.

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 2013 and 2012, the principal payments totaled \$328,031 and \$310,179, respectively, and interest expense equaled \$405,430 and \$421,534, respectively.

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The following is a schedule of future minimum capital lease payments as of June 30, 2013:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year(s) ending June 30:			
2014	\$ 343,651	391,372	735,023
2015	361,503	373,743	735,246
2016	379,355	356,170	735,525
2017	397,207	337,704	734,911
2018	417,291	317,342	734,633
2019 – 2023	2,459,113	1,216,469	3,675,582
2024 – 2028	3,161,950	461,123	3,623,073
Total	<u>\$ 7,520,070</u>	<u>3,453,923</u>	<u>10,973,993</u>

Effective November 1, 2013, based on the provisions of a Memorandum of Understanding entered into August 24, 2011 by MSU Denver, UCD, CCD, and AHEC, which amends and supplements the original leased property agreement, MSU Denver will assume responsibility for 50% of the costs of the land's debt service, while AHEC will continue to fund the other 50% of debt service costs. MSU Denver assumed UCD's 17% share, and CCD's 18% share of the obligation under the original lease property agreement in exchange for paying for their respective shares of an estimated \$3 million electrical infrastructure upgrade that was critical to the ongoing campus-wide building expansion defined in the Campus Master Plan.

(6) Bond Obligations

Total outstanding bonds are summarized below:

<u>Issue</u>	<u>Date issued</u>	<u>Amount issued</u>	<u>June 30</u>	
			<u>2013</u>	<u>2012</u>
2009 Taxable Institutional Enterprise Revenue Bonds	11/17/09	\$ 55,190,000	52,585,000	53,895,000
2010 Taxable Institutional Enterprise Revenue Bonds	6/11/10	10,575,000	10,095,000	10,335,000
Less discount on 2010 Bonds, net of amortization			<u>(40,376)</u>	<u>(41,871)</u>
Total			<u>\$ 62,639,624</u>	<u>64,188,129</u>

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Principal and interest requirements on all outstanding bonds are summarized as follows at June 30, 2013:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,575,000	3,531,784	5,106,784
2015	1,600,000	3,480,886	5,080,886
2016	1,625,000	3,422,063	5,047,063
2017	1,660,000	3,355,275	5,015,275
2018	1,700,000	3,281,387	4,981,387
2019 – 2023	9,205,000	15,090,768	24,295,768
2024 – 2028	10,675,000	12,346,577	23,021,577
2029 – 2033	12,570,000	8,833,998	21,403,998
2034 – 2038	14,860,000	4,597,410	19,457,410
2039 – 2041	7,210,000	497,886	7,707,886
	62,680,000	\$ 58,438,034	121,118,034
Unamortized discount, net	(40,376)		
	\$ 62,639,624		

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(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), bearing interest at 2.0% to 6.2%, for the purpose of financing the construction of the SSB. The SSB is estimated to add 145,000 square feet of space for classrooms and faculty offices, specifically for MSU Denver students and professors. It will also provide students with a central location for student support services.

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 that reduced the amount of the subsidy. In fiscal year 2013, the University received \$58,612 less in subsidy payments than what was expected before sequester. The amount of the reduction is currently set at 5.1%; however, this amount will be reviewed by the federal government in September 2013. As of June 30, 2013 and 2012, the University has received \$4,751,432 and \$3,455,210, 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 2009 bonds were issued at par and have unamortized issuance costs of \$537,137.

(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 that reduced the amount of the subsidy. In fiscal year 2013, the University received \$10,979 less in subsidy payments than what was expected before sequester. The amount of the reduction is currently set at 5.1%; however, this amount will be reviewed by the federal government in September 2013. As of June 30, 2013 and 2012, the University has received \$742,592 and \$500,044, 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 \$40,376 and have unamortized issuance costs of \$143,062.

(7) Pledged Revenue

The University has pledged future revenues to repay \$62,680,000 in outstanding revenue bonds issued in fiscal year 2010. 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

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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 provide financing for the construction of the SSB and various major remodeling projects. The total remaining principal and interest payments, net of the federal subsidy payments, are expected to be \$94,820,918 (unaudited) payable through fiscal year 2041. This figure is assuming the federal government removes the 5.1% reduction implemented with the fiscal year 2013 sequester. Interest payments, net of the interest subsidy, for the current year were \$2,035,367. The total revenue pledged was \$26,551,136 and \$27,330,617 for June 30, 2013 and 2012, 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. No payments were made by the University as of June 30, 2013 and 2012. See note 16 for more information on the HLC @ Metro, Inc.

The following table shows information for pledged revenues for fiscal years 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Tuition	\$ 12,050,721	11,317,861
Student and faculty fee	4,662,858	5,595,073
Facility fee	6,943,641	7,024,213
Interest income	992,970	1,450,450
Intergovernmental revenue	1,525,745	1,622,471
Indirect cost recovery	375,201	320,549
	<u>\$ 26,551,136</u>	<u>27,330,617</u>

(8) 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, 2013 and 2012 are \$307,845 and \$313,968, respectively.

The estimated costs of noncurrent compensated absences for which employees are vested for the years ended June 30, 2013 and 2012 are \$2,587,536 and \$2,387,158, respectively. Fiscal years 2013 and 2012 operating expenses include an increase of \$194,255 in fiscal year 2013 and a decrease of \$43,408 in fiscal year 2012, for the estimated compensated absence liability.

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(9) Pension Plan Obligations

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) 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 years ended June 30, 2013, 2012, and 2011 were \$4,477,462, \$4,094,399, and \$3,992,072, respectively. These contributions were equal to the required contributions for each year. 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.

(a) *PERA Plan Description*

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

Nonhigher education employees hired by the State after January 1, 2006 are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the State Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan within 60 days, unless they had been a PERA member within the prior twelve

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months. In that case, they are required to remain in the PERA plan in which they participated previously.

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

Defined benefit plan members (except state troopers) vest after five years of service and are eligible for full retirement based on their original hire date as follows:

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

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service.

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Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15.0% increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

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

- Hired before July 1, 2007 – the lesser of 2.0% or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2% or the actual increase in the national Consumer Price Index, limited to a 10% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103% and declines by one-quarter percentage point when the funded ratio drops below 90% after having exceeded 103%. The funded ratio increase does not apply for three years when a negative return on investment occurs.

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

(b) Funding Policy

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

Most employees contribute 8.0% (10.0% for state troopers) of their salary, as defined in C.R.S. 24-51-101(42), to an individual account in the plan. Effective July 1, 2012, the temporary contribution rate increase of 2.5% for members in the State and Judicial Divisions to replace the 2.5% reduction in employer contributions effective for Fiscal Years 2010-11 and 2011-12 expired.

From July 1, 2012 to December 31, 2012, the State contributed 15.65% (18.35% for state troopers and 17.36% for the Judicial Branch) of the employee's salary. From January 1, 2013, through June 30, 2013, the state contributed 16.55% (19.25% for state troopers and 17.36% for the Judicial

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Branch). During all of Fiscal Year 2012-13, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2012, the division of PERA in which the State participates has a funded ratio of 59.2% and a 53 year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 60.2%.

In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5% of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4% of salary through 2017, to a maximum of 5% (except for the Judicial Division whose AED contribution was frozen at the 2010 level).

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries, for calendar years 2008 through 2017, to a maximum of 5% (except for the Judicial Division whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

At a 103% funding ratio, both the AED and the SAED will be reduced by one-half percentage point, and for subsequent declines to below 90% funded both the AED and SAED will be increased by one half percentage point. For the Judicial Division, if the funding ratio reaches 90% and subsequently declines, the AED and SAED will be increased by one-half percentage point.

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

The institution's contributions to PERA and/or the state defined contribution plan for the fiscal years ending June 30, 2013, 2012, and 2011 were \$6,418,491, \$5,125,382, and \$4,854,006, respectively. These contributions met the contribution requirement for each year.

(c) *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, 2013 and 2012 was \$1,842,706 and \$1,613,693, respectively. Employee contributions for the fiscal years ended June 30, 2013 and 2012 were 7.5% of the covered payroll in the amount of \$138,206 and \$121,029, respectively.

(d) *Future Accounting Change*

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (Statement No. 68), which revises and establishes new financial reporting requirements for most governments

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that provide their employees with pension benefits. The University provides certain of its employees with pension benefits through the state's multiple employer cost-sharing Public Employees' Retirement Association (PERA) defined benefit program.

Statement No. 68 requires cost-sharing employers participating in the PERA program, such as the University, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The University has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact the University's future unrestricted net position. Statement No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of this impact. Information regarding PERA's current funding status can be found in the comprehensive annual financial report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

(10) Other Retirement Plans

(a) *Defined Contribution Plan*

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50% to 100% evenly over 5 years. Participants in the plan are required to contribute 8% of their salary. The temporary contribution rate increase to 10.5% effective in Fiscal Years 2010-11 and 2011-12 expired on July 1, 2012. At December 31, 2012, the plan had 4,362 participants.

(b) *Deferred Compensation Plan*

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2012, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8% PERA contribution) to a maximum of \$17,000. The reduction for the 8% PERA contribution reflects the expiration of the temporary contribution rate increase to 10.5% effective in Fiscal Years 2010-11 and 2011-12. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2012, for total contributions of \$22,500. Contributions and earnings are tax deferred. At December 31, 2012, the plan had 17,469 participants.

(11) Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan, and the State offers a 457 deferred compensation plan. The University extends these plans to its employees, and also offers a 403(b) plan.

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(12) Postemployment Benefits and Life Insurance

(a) *Healthcare Plan*

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

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the healthcare plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in note 9(b). Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The University contributed \$406,637, \$411,645, and \$419,584 as required by statute in Fiscal Years 2012-13, 2011-12, and 2010-11, respectively. In each year the amount contributed was 100% of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully insured plans offered through healthcare organizations and self-insured plans administered for PERA by third-party vendors. As of December 31, 2012, there were 51,666 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2012, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.43 billion, a funded ratio of 16.5%, and a 66-year amortization period.

(b) *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, which allows for postemployment health coverage until the retiree is eligible for Medicare at age 65. As of June 30, 2013, there were 17 participants in postretirement coverage from the eight-member higher education institutions. For fiscal year 2013, the University has one retired faculty and administrative participants choosing CHEIBA. Retirees pay the entire premium, which is approximately 130% of the premiums charged to active employees.

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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.

(13) Commitments and Contingent Liabilities

The University entered into a guarantee agreement dated October 1, 2010 with HLC @ Metro, Inc., absolutely and unconditionally guaranteeing 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) in the event the HLC @ Metro is unable to make such payments. No payments were required or made by the University as of June 30, 2013 and 2012. The guaranteed amounts are payable solely from available pledged revenues of the University, as discussed in note 7.

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 State, including the University, is self-insured in regard to its general and automobile liability exposures. The University also participates in a State commercial insurance policy covering loss or damage to University property. Liability of State higher education institutions is limited by the Colorado Governmental Immunity Act.

(14) 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:

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	Year ended June 30	
	2013	2012
Administration of Auraria Higher Education Center and operation and maintenance of plant	\$ 8,503,276	8,120,518
Controlled maintenance	955,728	783,919
Library and Media Center	4,155,752	3,852,534
AHEC owned electrical duct bank	987,941	—
Total	\$ 14,602,697	12,756,971

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, 2014, the University's portion of shared costs is estimated to be \$13,937,798 (unaudited).

(15) 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 an amount from the State's College Opportunity Fund. In prior years, the annual appropriations bill included certain cash revenues from the student share of tuition and fees.

For the years ended June 30, 2013 and 2012, appropriated expenses were within the authorized spending authority. For the years ended June 30, 2013 and 2012, the University had total appropriations of \$37,469,193 and \$36,961,479, respectively. For years ended June 30, 2013 and 2012, the University's appropriated funds consisted of \$30,072,480 and \$30,327,163, respectively, received from students that qualified for stipends from the College Opportunity Fund and \$8,657,019 and \$6,634,316, respectively, as fee-for-service contract revenue. All other revenues and expenses reported by the University represent nonappropriated funds and are excluded from the annual appropriations bill. Nonappropriated funds include tuition and fees, grants and contracts, gifts, indirect cost recoveries, auxiliary revenues, and other revenue sources.

(16) 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 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*.

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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 follow FASB ASC Topic 958.

The Foundation and HLC @ Metro, Inc. use a different GAAP reporting model and, in accordance with GASB Statement No. 39, 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.

(17) 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 financial statements based on various timing differences, all of which have been substantially reconciled to the component unit's balances.

For fiscal years ended June 30, 2013 and 2012, the University leased office space to the Foundation for \$8,274 and \$8,316, respectively. During the years ended June 30, 2013 and 2012, the Foundation provided \$2,834,816 and \$2,302,318, 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, 2013 and 2012, these expenses were \$212,703 and \$210,643, respectively. In addition, the University donates development and certain personnel costs to the Foundation, which totaled \$1,190,677, and \$1,195,686 for the years ended June 30, 2013 and 2012, respectively.

At June 30, 2013 and 2012, the University had receivables of \$341,293 and \$272,395, respectively, due from the Foundation. As of June 30, 2013 and 2012, the University had payable balances of \$5,245 and \$15,246, respectively, due to the Foundation.

At June 30, 2013 and 2012, the University had a payable of \$49,997 and \$0, respectively, to the HLC @ Metro, Inc., for a multi-entity electrical infrastructure cost sharing agreement during the Hotel and Hospitality Learning Center construction.

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(1) Principal Activity and Significant Accounting Policies

(a) *Organization*

Metropolitan State University of Denver Foundation (the Foundation) is a nonprofit organization established to promote the general welfare and development of Metropolitan State University of Denver (the University). Formerly known as Metropolitan State College of Denver Foundation, Inc., the Foundation changed its name on July 1, 2012.

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

(b) *Principles of Consolidation*

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. Collectively, these consolidated entities are hereinafter referred to as the "Foundation" unless otherwise noted.

(c) *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 permanent endowment, or other long-term purposes of the Foundation are excluded from this definition.

(d) *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 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. At June 30, 2013 and 2012, the allowance was \$135,000 and \$270,000, respectively.

(e) *Property and Equipment*

Property and equipment additions 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 ranging from fifteen to 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 statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

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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, 2013 and 2012, respectively.

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

(f) Assets Held and Liabilities under Split-Interest Agreements

Beneficial Interest in Charitable Trust Held by Others

The Foundation has been 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 is administered by an outside agent designated by the donor. Therefore, the Foundation has neither possession nor control over the assets of the trust. At the date the Foundation received notice of the beneficial interest, a permanently restricted contribution was recorded in the statement of activities, and a beneficial interest in charitable trust held by others was recorded in the 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 statement of financial position. At the end of the trust's term, the assets of the trust will be transferred to the permanent endowment for scholarships; earnings on the assets will be available for scholarships.

Charitable Gift Annuities

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discounts rate designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as an unrestricted contribution. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

(g) 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 statement of financial position. Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

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(h) Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation's Board of Directors.

The Foundation reports contributions as temporarily restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Foundation. The restrictions stipulate that resources be maintained permanently but permit the Foundation to expend the income generated in accordance with the provisions of the agreements.

(i) 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.

(j) Donated Services and In-kind Contributions

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the 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. The Foundation records donated professional services at the respective fair values of the services received.

(k) Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in note 10 to the financial statements; accordingly, certain costs have been allocated among the programs and supporting services benefited.

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(l) *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 has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation believes that it 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 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.

(m) *Estimates*

The preparation of 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 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.

(n) *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 and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

(o) *Reclassifications*

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. *Donor*

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development costs totaling \$73,518 have been reclassified to *Cost of direct benefits to donors* in the June 30, 2012 statement of activities. In addition, amounts payable to and receivable from the University have been netted in the June 30, 2012 statement of financial position.

(p) Subsequent Events

The Foundation has evaluated subsequent events through November 12, 2013, the date the financial statements were available to be issued.

(2) Fair Value Measurements and Disclosures

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability 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 or liability, 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 or liability 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 or liability 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 or liabilities 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 or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

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

In some cases, the inputs used to measure the fair value of an asset or a liability 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 or liability. 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 or liability.

A significant portion of the Foundation's investment assets are classified within Level 1 because they are comprised of open-end mutual funds 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 based on

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the fair value of the trust investments as reported by the trustee, which is considered to be a Level 3 measurement.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost, as identified therein, at June 30, 2013:

	<u>Total</u>	<u>Fair value measurements at report date using</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments:				
Cash and money market funds (at cost)	\$ 38,384	—	—	—
Fixed income funds:				
U.S. Government securities funds	1,781,086	1,781,086	—	—
Bond funds	562,313	562,313	—	—
Emerging market funds	94,200	94,200	—	—
High-yield bond funds	9,464	9,464	—	—
Inflation-adjusted funds	170,730	170,730	—	—
Equity funds:				
U.S. common stocks	493,125	493,125	—	—
International equity funds	14,123	14,123	—	—
Futures and commodity funds	57,588	57,588	—	—
Real estate investment trusts	30,515	30,515	—	—
	<u>\$ 3,251,528</u>	<u>3,213,144</u>	<u>—</u>	<u>—</u>

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	<u>Total</u>	<u>Fair value measurements at report date using</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Endowment Investments:				
Cash and money market funds (at cost)	\$ 29,359	—	—	—
Fixed income funds:				
U.S. Government securities funds	75,525	75,525	—	—
Bond funds	1,187,500	1,187,500	—	—
Emerging market funds	119,835	119,835	—	—
High-yield bond funds	140,727	140,727	—	—
Inflation-adjusted funds	138,937	138,937	—	—
equity funds:				
U.S. common stocks	1,894,472	1,894,472	—	—
Small to mid-cap equity funds	554,176	554,176	—	—
International equity funds	256,581	256,581	—	—
Emerging market funds	472,807	472,807	—	—
Futures and commodity funds	235,231	235,231	—	—
Real estate investment trusts	109,113	109,113	—	—
	<u>\$ 5,214,263</u>	<u>5,184,904</u>	<u>—</u>	<u>—</u>
Beneficial interest in charitable trust held by others	\$ 98,211	—	—	98,211

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The following table presents assets measured at fair value on a recurring basis, except those measured at cost, as identified therein, at June 30, 2012:

	<u>Total</u>	<u>Fair value measurements at report date using</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments:				
Cash and money market funds (at cost)	\$ 47,909	—	—	—
Fixed income funds:				
U.S. Government securities funds	997,937	997,937	—	—
Bond funds	481,684	481,684	—	—
Emerging market funds	69,639	69,639	—	—
High-yield bond funds	8,254	8,254	—	—
Inflation-adjusted funds	136,534	136,534	—	—
Equity funds:				
U.S. common stocks	523,116	523,116	—	—
Futures and commodity funds	27,321	27,321	—	—
Real estate investment trusts	26,812	26,812	—	—
	<u>\$ 2,319,206</u>	<u>2,271,297</u>	<u>—</u>	<u>—</u>

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	<u>Total</u>	<u>Fair value measurements at report date using</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Endowment Investments:				
Cash and money market funds (at cost)	\$ 213,718	—	—	—
Fixed income funds:				
U.S. Government securities funds	130,472	130,472	—	—
Bond funds	998,239	998,239	—	—
Emerging market funds	107,294	107,294	—	—
High-yield bond funds	64,812	64,812	—	—
Inflation-adjusted funds	132,929	132,929	—	—
Equity funds:				
U.S. common stocks	1,291,818	1,291,818	—	—
Small to mid-cap equity funds	410,137	410,137	—	—
International equity funds	316,975	316,975	—	—
Emerging market funds	375,870	375,870	—	—
Futures and commodity funds	272,181	272,181	—	—
Real estate investment trusts	99,173	99,173	—	—
	<u>\$ 4,413,618</u>	<u>4,199,900</u>	<u>—</u>	<u>—</u>
Beneficial interest in charitable trust held by others	\$ 89,383	—	—	89,383

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Below is a reconciliation of the beginning and ending balances of the beneficial interest in charitable trust held by others measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2013 and 2012:

	Beneficial interest in charitable trust held by others	
	2013	2012
Beginning Balance	\$ 89,383	95,819
Change in value of beneficial interest	8,828	(6,436)
Ending Balance	<u>\$ 98,211</u>	<u>89,383</u>
Unrealized gain (loss) included in net investment return in the consolidated statement of activities relating to assets still held at June 30, 2013 and 2012	<u>\$ 8,828</u>	<u>(6,436)</u>

(3) Net Investment Return

Net investment return consists of the following for the years ended June 30, 2013 and 2012:

	2013	2012
Investments:		
Interest and dividend income	\$ 957	533
Net realized and unrealized gain (loss)	50,608	91,463
Less investment management and custodial fees	(22,255)	(12,759)
	<u>29,310</u>	<u>79,237</u>
Endowment investments:		
Interest and dividend income	328,591	96,457
Net realized and unrealized gain (loss)	133,999	(235,526)
Less investment management and custodial fees	(97,536)	(81,603)
	<u>365,054</u>	<u>(220,672)</u>
	<u>\$ 394,364</u>	<u>(141,435)</u>

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(4) Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2013 and 2012:

	2013	2012
Within one year	\$ 770,143	794,931
In one to five years	608,551	1,315,528
Over five years	37,396	93,025
	1,416,090	2,203,484
Less discount to net present value (0.17% – 3.33%)	(6,350)	(63,615)
Less allowance for uncollectable promises to give	(135,000)	(270,000)
	\$ 1,274,740	1,869,869

At June 30, 2013 and 2012, three donors accounted for 75% and 69% of total promises to give, respectively. Promises to give of \$143,541 and \$115,486 were restricted to endowment as of June 30, 2013 and 2012, respectively.

At June 30, 2013, the Foundation had conditional promises to give totaling \$100,000, conditioned upon raising \$12 million for the Hospitality Learning Center. The promise to give expires February 14, 2014.

(5) Property and Equipment

Property and equipment consists of the following at June 30, 2013 and 2012:

	2013	2012
Land	\$ 456,400	456,400
Building	1,072,398	1,072,398
	1,528,798	1,528,798
Less accumulated depreciation	(138,734)	(100,070)
Nondepreciated artwork	263,950	263,950
	\$ 1,654,014	1,692,678

(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, 2016. Future minimum lease payments for fiscal years ending June 30, 2014, 2015 and 2016 are \$100,000, \$0 and \$0, respectively. 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 are estimated to be \$35,000 per year.

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(7) Endowment

The Foundation's endowment (Endowment) is composed of 29 individual permanent endowment funds (Permanent Endowment) and 107 purpose-restricted quasi-endowment funds (Quasi-Endowment). The funds were established by donors primarily to provide scholarships to eligible students of the University, and support for academic departments, student activities, and other purposes of the University. Permanent Endowment funds are permanent charitable funds whose principal must be preserved in perpetuity as a condition imposed by the donor. Quasi-Endowment funds are purpose-restricted 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. The Endowment includes only donor-restricted funds, as the Foundation's Board of Directors has not designated any of the Foundation's unrestricted net assets to function as endowment. As required by accounting principles generally accepted in the United States of America (GAAP), 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, 2013 and 2012, there were no contrary donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts to the Permanent Endowment, (b) the original value of subsequent gifts to the Permanent Endowment, and (c) accumulations to the Permanent Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the Permanent Endowment funds not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate permanent 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

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As of June 30, 2013 and 2012, the Foundation had the following endowment net asset composition by type of fund:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2013				
Purpose-restricted quasi-endowment	\$ —	4,712,939	—	4,712,939
Donor-restricted permanent endowment	<u>(15,582)</u>	<u>44,746</u>	<u>1,155,701</u>	<u>1,184,865</u>
	<u>\$ (15,582)</u>	<u>4,757,685</u>	<u>1,155,701</u>	<u>5,897,804</u>
June 30, 2012:				
Purpose-restricted quasi-endowment	\$ —	3,639,640	—	3,639,640
Donor-restricted permanent endowment	<u>(37,554)</u>	<u>14,705</u>	<u>912,313</u>	<u>889,464</u>
	<u>\$ (37,554)</u>	<u>3,654,345</u>	<u>912,313</u>	<u>4,529,104</u>

At June 30, 2013 and 2012, certain Permanent Endowment funds had fair values less than the amount of the original gifts (the permanently restricted portion of the funds). Deficiencies of \$15,582 and \$37,554 have been reported in unrestricted net assets 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.

The Foundation uses an endowment spending-rate formula to determine the amount to spend from the Endowment each year. The rate, determined and adjusted from time to time by the Board of Directors, is applied to the average fair value of the Endowment investments for the prior three years at December 31 of each year to determine the spending amount for the upcoming year. During the years ended June 30, 2013 and 2012, the spending rate was 4.5%. Distributions from Permanent Endowments are limited to the excess of the fair values of the Permanent Endowments over the sum of the original and subsequent gift

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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, 2013 and 2012 are as follows:

	Year ended June 30, 2013			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of year	\$ (37,554)	3,654,345	912,313	4,529,104
Investment return:				
Investment income, net of fees	—	231,055	—	231,055
Net realized and unrealized gain	—	133,999	—	133,999
Total investment return	—	365,054	—	365,054
Contributions	—	287,995	243,388	531,383
Recovery of deficiency in original gift value of permanently restricted net assets below fair value	21,972	(21,972)	—	—
Distributions pursuant to endowment spending-rate formula	—	(67,737)	—	(67,737)
Endowment net assets, end of year	\$ (15,582)	4,217,685	1,155,701	5,357,804

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	Year ended June 30, 2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ (14,021)	3,719,806	707,326	4,413,111
Investment return (loss)				
Investment income, net of fees	—	14,854	—	14,854
Net realized and unrealized loss	—	(235,526)	—	(235,526)
Total investment return (loss)	—	(220,672)	—	(220,672)
Contributions	—	179,746	204,987	384,733
Loss on uncollectible promises to give	—	(1,500)	—	(1,500)
Deficiency in original gift value of permanently restricted net assets below fair value	(23,533)	23,533	—	—
Distributions pursuant to endowment spending-rate formula	—	(46,568)	—	(46,568)
Endowment net assets, end of year	\$ <u>(37,554)</u>	<u>3,654,345</u>	<u>912,313</u>	<u>4,529,104</u>

(8) Restricted Net Assets

Temporarily Restricted

Temporarily restricted net assets at June 30, 2013 and 2012, consist of:

	2013	2012
Restricted by donors for scholarships:	\$ 972,424	900,475
Academic, student and other activities	3,360,546	4,136,236
Purpose-restricted quasi-endowments:		
Scholarships	3,868,249	3,312,092
Academic and other departments	304,689	327,548
Unspent appreciation of Endowment funds which must be appropriated for expenditure before use	44,747	14,705
	\$ <u>8,550,655</u>	<u>8,691,056</u>

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Net assets were released from restrictions or otherwise reclassified as follows during the years ended June 30, 2013 and 2012:

	2013	2012
Satisfaction of purpose restrictions:		
Scholarships	\$ 1,291,752	957,499
Academic, student and other activities	1,533,202	1,341,320
University Hospitality Learning Center materials and services	549,813	2,004,869
	\$ 3,374,767	4,303,688

Permanently Restricted

Permanently restricted net assets consist of a beneficial interest in a charitable trust administered by an independent trustee, the proceeds of which will be added to the Foundation's Permanent Endowment for scholarships upon dissolution of the trust, and various endowment funds restricted by donors for investment in perpetuity. Earnings on endowment funds are available to the Foundation for the purposes specified by the donors.

Permanently restricted net asset balances, categorized by the nature of the restrictions on their earnings, are as follows at June 30, 2013 and 2012:

	2013	2012
Restricted by donors for		
Scholarships	\$ 1,135,312	883,096
Academic, student and other activities	118,600	118,600
	\$ 1,253,912	1,001,696

(9) Donated Professional Services and In-kind Contributions

The Foundation received donated professional services and materials as follows during the years ended June 30, 2013 and 2012:

	2013	2012
Nondepreciated artwork	\$ —	225,000
Program services:		
Materials	39,589	1,340
University Hospitality Learning Center materials and services	142,472	1,573,733
Fundraising and development:		
Development office compensation – University	1,190,720	1,195,686
	\$ 1,372,781	2,995,759

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(10) Functionalized Expenses

Total expenses by function were as follows for the years ended June 30, 2013 and 2012:

	2013	2012
Program services expense	\$ 3,409,452	4,278,920
General and administrative costs (includes investment management fees of \$119,791 and \$94,362, respectively)	432,427	428,579
Donor development costs (includes cost of direct benefits to donors of \$114,344 and \$73,518, respectively)	1,305,064	1,269,204
	\$ 5,146,943	5,976,703

(11) Related Party Transactions

The Foundation leases certain office space from the University with automatic one-year renewals at the beginning of each fiscal year. Annual rent expense was \$8,274 and \$8,316 for the years ended June 30, 2013 and 2012, respectively.

Funding provided by the Foundation directly to the University for scholarships, academic and other departments, and other activities, totaled \$3,165,000 and \$2,589,356 for the years ended June 30, 2013 and 2012, respectively. The Foundation owed the University and the HLC @ Metro, Inc. \$1,372,846 and \$690,118 at June 30, 2013 and 2012, respectively. The Foundation paid the University \$212,703 and \$210,643 for salaries and benefits of certain University personnel provided to the Foundation during the years ended June 30, 2013 and 2012, respectively. In addition, the University provided development and other personnel to the Foundation at no cost. The Foundation recorded professional services donated by the University in the amount of \$1,190,720 and \$1,195,686 for the years ended June 30, 2013 and 2012, respectively. The corresponding expenses have been reflected in the accompanying statements of activities as donor development costs. Further, the University reimbursed the Foundation \$27,781 and \$33,029 for administrative expenses during the years ended June 30, 2013 and 2012, respectively.

The University leases space for the CVA from the LLC (note 6). Amounts due from the University to the Foundation for expense reimbursements were \$5,245 and \$15,246 at June 30, 2013 and 2012, respectively. The Foundation has agreed to waive the rental payments on 965 Santa Fe for the years ending June 30, 2015 and 2016, totaling \$200,000, and has recorded support to the University and a payable to the University at June 30, 2013.

(12) Commitments and Contingencies

University Hospitality Learning Center

The University formed a special-purpose corporation and a finance authority for the University Hospitality Learning Center. The finance authority served as the issuer of bonds, the proceeds of which were used for the construction of the Marriott SpringHill Suites hotel and University Hospitality Learning Center located on campus. The University special-purpose corporation is the borrower under the bonds and will own and operate the hotel and hospitality learning center. The Foundation, University, special-purpose corporation,

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and finance authority entered into a memorandum of understanding relating to the construction, debt, ownership and operation of the hotel and hospitality learning center. Key aspects of the agreement are:

- The Foundation made a \$12-million conditional promise to give to the University, under which the Foundation agreed to use its best efforts to raise sufficient cash and in-kind donations to retire the debt attributed to the University Hospitality Learning Center. The conditional promise to give is conditioned solely on the Foundation's ability to collect donor contributions restricted to the Hospitality Learning Center. Through June 30, 2013, approximately 28% of this amount had been raised through cash contributions, in-kind donations, and promises to give. Contribution expenses and liabilities to the University are recorded as amounts are collected from donors.
- After the bonds and related costs have been paid in full, the Foundation will receive the excess operating revenues generated by the hotel. The Foundation anticipates that it will be several years before such excess revenues are available for distribution to the Foundation.
- Amounts received by the Foundation from the hotel's excess operating revenues equaling two years of debt service must be maintained separately from its other assets. Should the Foundation's efforts fail to raise sufficient funds to retire the debt attributed to the hospitality learning center, no other Foundation assets are at risk for purposes of retiring the debt.
- When the Foundation expends the funds received from the hotel's excess revenue, 50% of the amount spent must be used for the direct benefit of University students.

(13) Conditional Revenue

The Marriott franchise agreement provides certain financial incentives to the Foundation, with the potential to approximate \$1,040,000 during the first 15 years of hotel operations. Incentive awards are recorded by the Foundation as earned, and totaled \$29,780 during the year ended June 30, 2013. No awards were earned during the year ended June 30, 2012.

Sage Hospitality manages the hotel under an agreement that provides for a discount of up to \$25,000 off the annual management fee for a period of 10 years, conditioned upon Sage's continued retention as hotel manager. The Foundation records the discount earned upon completion of each year of the hotel's operations. No amounts were recorded during the year ended June 30, 2013 as the hotel was not in operation for the full year. No discount was earned during the year ended June 30, 2012.

(14) Restatements

The Foundation considers all funds collected for the Hospitality Learning Center to immediately satisfy the conditions of its conditional promise to contribute up to \$12 million to the University (note 12), and therefore recognizes support provided to the University and a payable to the University as funds are collected. During the year ended June 30, 2012, the Foundation recorded support provided to the University only to the extent of actual cash payments made to the University for the Hospitality Learning Center, resulting in an understatement of support expenses, and payable to the University, totaling \$431,137.

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Additionally, following a comprehensive study and reconsideration of the existence or absence of donor-imposed restrictions, certain net assets recorded in prior years have been reclassified. The reclassifications were recorded on a retroactive basis, and resulted in a decrease in unrestricted net assets of \$66,351, an increase in temporarily restricted net assets of \$3,719,806, and a decrease in permanently restricted net assets of \$3,653,455 as of June 30, 2011. Similar reclassifications have been made to the consolidated financial statements as of, and for the year ended, June 30, 2012, as follows:

	As originally reported	Effect of change	As restated
Consolidated statement of financial position:			
Payable to University and HLC @ Metro, Inc.	\$ 258,981	431,137	690,118
Total liabilities	258,981	431,137	690,118
Net assets:			
Unrestricted net assets	1,863,025	(71,636)	1,791,389
Temporarily restricted net assets	5,473,301	3,217,755	8,691,056
Permanently restricted net assets	4,578,952	(3,577,256)	1,001,696
Total net assets	11,915,278	(431,137)	11,484,141
Total liabilities and net assets	\$ 12,174,259	—	12,174,259
Consolidated statement of activities:			
Support provided to the University	\$ 2,158,219	431,137	2,589,356
Total expenses and losses	5,728,951	431,137	6,160,088
Change in net assets	1,818,874	(431,137)	1,387,737
Net assets, end of year	\$ 11,915,278	(431,137)	11,484,141
Consolidated statement of cash flows:			
Change in net assets	\$ 1,818,874	(431,137)	1,387,737
Adjustments to reconcile change in net assets to net cash from (used for) operating activities:			
Payable to University	\$ 8,622	431,137	439,759

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(1) Organization

On August 18, 2010, the Board of Trustees of the Metropolitan State University of Denver (formerly, Metropolitan State College 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), except for unrelated business income which would be subject to tax under Internal Revenue Code Section 511(a)(2)(B), 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. It is estimated that 25% of the debt service is to be paid for by fund-raising and 75% by operating revenues generated by the Hotel and Hospitality Learning Center. The construction cost was estimated at \$45 million, 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 RRAFA), 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 RRAFA 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 Hospitality, Tourism, and Events department (HTE).

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 HTE program.

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. The activities for fiscal year 2013 were a mixture of both the completion of the construction of the Hotel and Hospitality Learning Center and the operations of the hotel after the opening date.

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying financial statements include accounts of the HLC, which is a discretely presented component unit of the University. The University controls the appointment process of the HLC board of trustees and in 2012, four of the six board members were University directors or officers. As of June 30, 2013, three of the six board members are University directors or officers. One of the three University board member positions is currently vacant. To meet the requirements of the HLC's bylaws for up to a nine-member board, and in an effort to increase the number of external industry experts on the HLC board, a new member was added in August 2012. Efforts are currently underway

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to add four additional board members. The University's Vice President of Administration, Finance and Facilities serves as President of the HLC.

The HLC's board of trustees is substantively different from the University's board of trustees; further, the purpose of the Hotel and Hospitality Learning Center is to provide services to the community at large and not primarily to the University.

(b) Basis of Accounting

The accompanying financial statements of the HLC have been prepared on the accrual basis of accounting.

(c) Cash and Cash Equivalents

The HLC considers all highly liquid investments, including deposits with the State Treasury, as cash and cash equivalents. At June 30, 2013 and 2012, cash and cash equivalents consisted of the following:

	<u>2013</u>	<u>2012</u>
Cash in bank accounts with Trustee (Wells Fargo)	\$ 3,011,803	1,802,322
Cash and cash equivalents invested with State Treasury	1,685,800	9,913,425
Cash for hotel operations (Sage)	431,430	—
Net unrealized gain on cash and cash equivalents	133	96,126
Total cash and cash equivalents	<u>\$ 5,129,166</u>	<u>11,811,873</u>

(d) Cash and Cash Equivalents Invested with State Treasury and Related Unrealized Gains (Losses)

HLC deposits part of its cash with the State Treasury. The Treasurer pools these deposits and invests them in securities approved by Section 24 75 601.1 of the Colorado Revised Statute (the Pool). Money deposited with the Treasurer is invested until the cash is needed. Earnings are allocated in proportion to the daily cash balance for all participants in the Pool. At June 30, 2013 and 2012, the HLC had cash on deposit with the State Treasurer of \$1,685,800 and \$9,913,425, respectively, which represented 0.02% of the total \$7,260.8 million and 0.15% of the total \$6,541.7 million, respectively, in deposits in the State Treasurer's Pool.

For financial reporting purposes, all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of the HLC's participation in the Pool, HLC reports as an increase or decrease in cash its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The 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.

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For the HLC's deposits with the State Treasury, the net unrealized losses for fiscal year 2013 and 2012 were \$95,993 and \$453,952, respectively. These net unrealized losses are included in cash and cash equivalents on the statements of financial position.

The HLC follows the method of fair value measurement described in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820-10, *Fair Value Measurement*. FASB ASC Topic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 10 are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the HLC has the ability to access at the measurement date
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active
- Level 3 Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities

At June 30, 2013 and 2012, all of the HLC's deposits within the Treasurer's Pool are considered to be primarily Level 1 and Level 2 investments.

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, 2013.

(e) ***Fair Value of Financial Instruments***

The fair value of the HLC's financial instruments is determined as follows:

Cash and cash equivalents – Fair value is estimated to be the same as the carrying (book) value because of their short maturities. Fair value of the cash invested with the State Treasury is the market value based primarily on quoted market prices.

Accounts receivable, net – Fair value is estimated to be the same as the carrying (book) value because of its short maturity.

Accounts payable, retainage payable, and interest payable – Fair value is estimated to be the same as the carrying (book) value because of their short maturities.

Bonds payable – Fair value is determined by computing the present value of future payments discounted at the prevailing interest rate for comparable debt instruments at year-end. At June 30, 2013 and 2012, the fair value of bonds payable is \$58,414,034 and \$61,961,187, respectively.

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(f) **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. 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 and equipment. All direct costs associated with the construction project are included in establishing the asset valuation. This includes legal fees, feasibility studies, or any other general and administrative costs that were necessary for the completion of the project. All capitalizable assets acquired prior to the opening date were accounted for as necessary for the operation of the hotel and included in construction in progress.

To the extent applicable, the HLC follows MSU Denver's accounting policies, including the policy of the "half-year" depreciation convention. The HLC recognized \$751,506 and \$0 in building, furniture and equipment depreciation expense in fiscal year 2013 and 2012, respectively.

(g) **Accounts Receivable**

A summary of accounts receivable balances is as follows:

	June 30	
	2013	2012
BABS Subsidy	\$ 354,926	354,926
Due from the Foundation	978,459	—
Receivables of Hotel	168,853	—
Due from MSU Denver	49,997	—
State Treasury interest	1,465	9,303
Other receivables	—	16
Total accounts receivable	<u>\$ 1,553,700</u>	<u>364,245</u>

As of June 30, 2013 and 2012, the total balance included \$978,459 and \$0, respectively, due from the Metropolitan State University of Denver Foundation (the Foundation) and represents its portion of debt service that it has fundraised for the HLC. Additionally, interest receivable from the federal government for the Series 2010A bonds interest subsidy of \$354,926 was included in the total balance as of June 30, 2013 and 2012. The amount due from MSU Denver of \$49,997 as of June 30, 2013 is for a multi-entity electrical infrastructure cost-sharing agreement during the construction period. No amounts were due from MSU Denver as of June 30, 2012.

As of June 30, 2013, \$168,853 is due to the Hotel from external sources related to its operations. Of this balance, \$41,118 is from a travel agency, \$18,275 is from the utility bill to MSU Denver for its portion of the building related to the Hospitality Learning Center, and the remaining balance is from outstanding corporate and personal accounts. No amounts were due to the Hotel from external sources related to its operations as of June 30, 2012. 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; however, as of June 30, 2013 and 2012, there is no allowance for uncollectible accounts.

HLC @ METRO, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(h) Accounts Payable

As of June 30, 2013, accounts payable of \$473,626 includes \$239,503 payable to MSU Denver for academic equipment purchased on behalf of the HLC, \$146,599 from Hotel operations due to numerous vendors with small balances, \$85,706 payable to the primary project construction company, and \$1,785 of deposits held in custody for payment to the Foundation.

As of June 30, 2012, accounts payable of \$2,506,895 included \$2,476,712 payable to the primary project construction company.

(i) Bond Issuance Costs

Bond issuance costs are deferred and are being amortized on a straight-line basis over the life of the bonds. Total amortization expense of bond issuance costs for the years ended June 30, 2013 and 2012 was \$172,380 and \$172,380, respectively.

(j) Revenue Recognition

Revenue is recognized when it is earned. Contributions are reported when an unconditional promise to give is received.

(k) Expenses

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

(l) Net Assets

The HLC, as a nonprofit organization, is required to classify its net assets in three categories: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are available for the general operations and have no externally imposed restriction on them.

Temporarily restricted net assets are funds received that are subject to restrictions that will be met either by certain actions, expenditures, or the passage of time. As these restrictions are met, net assets are reclassified from temporarily restricted to unrestricted net assets. The HLC has no permanently restricted net assets.

(m) 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.

(n) Reclassifications

Prior year amounts have been reclassified to conform to the current year presentation.

HLC @ METRO, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(3) Bond Obligations

Total outstanding bonds are summarized below:

	<u>Date of issue</u>	<u>Amount issued</u>	<u>June 30</u>	
			<u>2013</u>	<u>2012</u>
2010 taxable revenue bonds (Build America Bonds)	10/28/2010	\$ 49,640,000	49,640,000	49,640,000
2010 tax-exempt revenue bonds	10/28/2010	4,500,000	4,500,000	4,500,000
2010 taxable revenue bonds	10/28/2010	745,000	745,000	745,000
Discount on 2010 series bonds, net of amortization		—	(278,371)	(261,549)
Bonds payable		\$ 54,885,000	54,606,629	54,623,451

Principal and interest requirements for all Series 2010 bonds, which are due semiannually every March and September, are summarized as follows at June 30, 2013:

<u>Fiscal year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ —	3,226,132	3,226,132
2015	410,000	3,219,373	3,629,373
2016	710,000	3,202,148	3,912,148
2017	825,000	3,178,348	4,003,348
2018	1,075,000	3,138,390	4,213,390
2019–2023	6,710,000	14,873,955	21,583,955
2024–2028	7,930,000	12,950,946	20,880,946
2029–2033	9,590,000	10,260,695	19,850,695
2034–2038	11,745,000	6,824,582	18,569,582
2039–2043	15,890,000	2,486,690	18,376,690
	\$ 54,885,000	63,361,259	118,246,259

Series 2010 Bonds

The RRRFA 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. MSU Denver has entered into a guarantee agreement dated October 1, 2010 with the HLC. Per this agreement, MSU Denver 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 MSU Denver. For the years ended June 30, 2013 and 2012, MSU Denver was not required to, and did not make, any debt service payments on behalf of the HLC.

HLC @ METRO, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(a) 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 is expected to be \$24,742,234 (unaudited) over the life of the bonds, of which \$2,848,281 and \$1,783,503 had been received as of June 30, 2013 and 2012, respectively. A receivable of \$354,926 for the interest subsidy was recorded as of June 30, 2013 and 2012.

(b) 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.

(c) Series 2010C

On October 28, 2010, Series 2010C taxable revenue bonds were issued for \$745,000, bearing interest rates from 1.978% to 2.328%. The principal and interest are due on a semiannual basis with a maturity date of September 1, 2015. These payments range from \$5,435 to \$417,954 with the last payment being a total of \$338,899.

(4) Metropolitan State University of Denver Foundation Contributions

The Foundation exists for the purpose of soliciting and investing donations for MSU Denver. 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. For the year ended June 30, 2013, the Foundation contributed a total of \$2,305,557 to the HLC. No contributions to the HLC from the Foundation were made for the year ended June 30, 2012. Of the amount contributed by the Foundation for the year ended June 30, 2013, \$1,406,367 were in-kind donations, and \$889,190 were cash contributions to be used for the HLC's debt service requirements.

(5) Ground Lease

As of June 30, 2013 and 2012, 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 two dollars (\$2.00) for the term of the lease. This lease is specifically for the purpose of construction and operation of the Hotel and Hospitality Learning Center.

HLC @ METRO, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(6) 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). The HLC generated unrelated business taxable losses for the years ended June 30, 2013 and 2012. A net operating loss tax net asset was not recognized in the financial statements as utilization of the net operating loss carryforward is uncertain.

(7) Subsequent Events

HLC has evaluated its subsequent events as of December 5, 2013, the date that the financial statements were available to be issued. No events were identified requiring disclosure.



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

Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver (formerly, Metropolitan State College of Denver) (the University), an institution of higher education of the State of Colorado, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 5, 2013. Our report includes a reference to other auditors who audited the financial statements of the Metropolitan University of Denver Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the Metropolitan State University of Denver Foundation, Inc. discretely presented component unit 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 opinions 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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. However, material weaknesses may exist that have not been identified. We did identify deficiencies in internal control, described in the Findings and Recommendations section of this report as Recommendation Nos. 1 – 4 that we consider to be significant deficiencies.



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 Findings and Recommendations section. 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 the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

KPMG LLP

Denver, Colorado
December 5, 2013



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

December 5, 2013

Members of the Legislative Audit Committee
Metropolitan State University of Denver
Denver, Colorado

Ladies and Gentlemen:

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Metropolitan State University of Denver (formerly, Metropolitan State College of Denver) (the University), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated of December 5, 2013. Our report was modified to include a reference to other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Metropolitan State University of Denver Foundation, Inc. (the Foundation) discretely presented component unit and the Foundation's financial statements were not audited in accordance with *Government Auditing Standards*. We have also been engaged to audit the HLC @ Metro, Inc. (HLC @ Metro), a discretely presented component unit of the University, as of and for the years ended June 30, 2013 and 2012. Under our professional standards, we are providing you with the accompanying information related to the conduct of our 2013 audit.

Our Responsibility under Professional Standards

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



Members of the Legislative Audit Committee
Metropolitan State University of Denver
December 5, 2013

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control. However, during the course of our audit, we identified certain deficiencies in internal control that we consider to be significant deficiencies. Our required communications to you in writing, under professional standards, of all significant deficiencies in internal control identified during our audit were provided to you under separate cover.

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

Other Information in Documents Containing Audited Financial Statements

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

Accounting Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the University are described in note 1 to the financial statements. As described in note 1, in order to comply with the requirements of U.S. generally accepted accounting principles, the University implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in 2013.

Unusual Transactions

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



Members of the Legislative Audit Committee
Metropolitan State University of Denver
December 5, 2013

Qualitative Aspects of Accounting Practices

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

Management Judgments and Accounting Estimates

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

Management's estimates include the allowance for uncollectible receivables, the period to depreciate capital assets owned by the University, the period to amortize leasehold improvement costs, the fair value of donated historical artifacts and collections, and accrued compensated absences. We evaluated the key factors and assumptions used to develop these estimates, including possible management bias in developing the estimates, in determining that the estimates are reasonable in relation to the financial statements as a whole.

Uncorrected and Corrected Misstatements

Uncorrected Misstatements

In connection with our audit of the University's financial statements, we have not identified any uncorrected financial statement misstatements as of and for the year ended June 30, 2013. We have communicated this to management.

In connection with our audit of the HLC @ Metro's financial statements, we have identified an uncorrected prior period financial statement misstatement relating to an understatement of the receivable amount due from the Metropolitan State University of Denver Foundation, Inc. as of June 30, 2012. Attached to the management representation letter is a copy of the adjustment that has been discussed with management.

Corrected Misstatements

In connection with our audit of the University's financial statements, we have not identified any corrected financial statement misstatements as of and for the year ended June 30, 2013. We have communicated this to management.

In addition, during the course of our audit of the University, we identified and discussed with management a material financial statement misstatement that was corrected by management for the HLC @ Metro. Specifically, we proposed a correction relating to the capitalization of assets



Members of the Legislative Audit Committee
Metropolitan State University of Denver
December 5, 2013

that if not corrected would have caused the HLC @ Metro's financial statements to have been materially misstated. Additionally, we identified a financial statement misstatement relating to the elimination of intercompany payables and receivables. Attached to the management representation letter is a copy of the adjustments that have been discussed with and corrected by management.

The HLC @ Metro also should consider whether these corrected misstatements were caused by one or more significant deficiencies or material weaknesses in internal control over financial reporting.

Disagreements with Management

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

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2013.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management prior to Retention

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

Material Written Communications

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

1. Engagement letter
2. Management representation letters

Significant Difficulties Encountered during the Audit

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



Members of the Legislative Audit Committee
Metropolitan State University of Denver
December 5, 2013

Independence

Confirmation of Audit Independence

We hereby confirm that as of December 5, 2013, we are independent accountants with respect to the University and the HLC @ Metro under relevant professional and regulatory standards.

* * * * *

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

Very truly yours,

KPMG LLP

METROPOLITAN STATE UNIVERSITY OF DENVER

State-Funded Student Financial Assistance Programs

Year ended June 30, 2013

METROPOLITAN STATE UNIVERSITY OF DENVER

State-Funded Student Financial Assistance Programs

Introduction (Unaudited)

Year ended June 30, 2013

Metropolitan State University of Denver (the University) is governed by the board of trustees and is a state-supported institution of higher education.

Our financial and compliance audit of the various state-funded student financial assistance programs at the University for the year ended June 30, 2013 was directed towards the objectives and criteria set forth in the Colorado Commission on Higher Education (CCHE) Financial Aid Policy. The state student financial assistance programs were audited simultaneously with the federal financial aid programs for the year ended June 30, 2013.

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

- Colorado Need-Based Grants awards:
 - Colorado Student Grants Program
- Colorado Work-Study Program

The total state-funded student financial assistance expenditures made by the University were approximately \$11.1 million during the year ended June 30, 2013.

The Director of Financial Aid at the University is responsible for the administration of these programs. This responsibility includes application processing, eligibility determination, and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the University in federal and state student financial aid (SFA) programs. The Controller's Office is responsible for the programs' financial management, general ledger accounting, payments, and collections.

During the audit period ended June 30, 2013, the University obtained authorizations to award federal SFA funds as follows:

- Supplemental Educational Opportunity Grant of approximately \$709,000
- College Work Study of approximately \$635,000

In addition to these programs, the University also received funding through the Pell Grant Program in the amount of approximately \$34.3 million. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

Authorizations and expenditures for state-funded student financial aid funds are detailed by program in the accompanying statement of appropriations, expenditures, transfers, and reversions for the year ended June 30, 2013.



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

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance Programs (the Statement) for the Metropolitan State University of Denver (formerly, Metropolitan State College of Denver) (the University), an institution of higher education of the State of Colorado, for the year ended June 30, 2013, and the related notes to the Statement.

Management's Responsibility for the Statement

Management is responsible for the preparation and fair presentation of the Statement in conformity with the financial format as set forth in the *2012-13 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the Department of Higher Education, and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the governing board of the University. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Statement, 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 Statement 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 Statement.

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

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the respective appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance programs of the University for the year ended June 30, 2013, in accordance with the format as set forth in the *2012-13 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-*



Funded Student Aid issued by the Department of Higher Education, and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the Board of Trustees of the University described in note 1 to the Statement.

Basis of Accounting

As described in note 1 to the Statement, the Statement prepared by the University was prepared in accordance with the 2012-2013 *Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the Department of Higher Education, and in conformity with the policies and procedures for State-Funded Student Financial Assistance Programs established by the Board of Trustees of the University. As described in note 2 to the Statement, the Statement is a summary of cash activity of the state-funded student financial assistance programs with the exception of the Colorado Work-Study programs, and does not present certain transactions that would be included in the statement of state-funded student assistance programs if it was presented on the accrual basis of accounting, as prescribed by generally accepted accounting principles. In addition, the accompanying Statement is not intended to, and does not present the financial position, changes in financial position, or cash flows of the University in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Other Information

The State-Funded Student Financial Assistance Programs introduction on page 89 has not been subjected to the auditing procedures applied in the audit of the Statement, and accordingly, we do not express an opinion or provide any assurance on it.

Report Restriction

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Trustees, and management of the Metropolitan State University of Denver and the Department of Education and Colorado Commission on Higher Education and is not intended to be, and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Denver, Colorado
December 5, 2013

METROPOLITAN STATE UNIVERSITY OF DENVER

State-Funded Student Financial Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2013

	<u>Total Colorado Financial Aid</u>	<u>Colorado Student Grants</u>	<u>Colorado Work-Study</u>
Appropriations:			
Original	\$ 10,901,713	8,970,718	1,930,995
Supplementals	151,410	151,410	—
Transfers	—	—	—
Total appropriations	<u>11,053,123</u>	<u>9,122,128</u>	<u>1,930,995</u>
Less expenditures	<u>11,053,123</u>	<u>9,122,128</u>	<u>1,930,995</u>
Reversions to state general fund	<u>\$ —</u>	<u>—</u>	<u>—</u>

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

METROPOLITAN STATE UNIVERSITY OF DENVER

State-Funded Student Financial Assistance Programs

Notes to Statement of Appropriations, Expenditures,
Transfers, and Reversions

Year ended June 30, 2013

(1) Basis of Presentation

Metropolitan State University of Denver (the University) is governed by the Board of Trustees. The University's operations primarily consist of classrooms and office space located on the Auraria Campus in downtown Denver, Colorado.

The accompanying statement of appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format set forth in the Colorado Department of Higher Education (CDHE) *Audit Guide*, and in conformity with the provisions of the Colorado Commission on Higher Education (CCHE) *Financial Aid Policy*. The purpose of the Statement is to present, in summary form, the State-Funded Student Financial Assistance (SFSFA) activities of the University for the year ended June 30, 2013.

The Statement is a summary of cash activity of the SFSFA programs, with the exception of the Work-Study Programs, and does not present certain transactions that would be included in the Statement of the SFSFA programs if it was presented on the accrual basis of accounting, as prescribed by U.S. generally accepted accounting principles. Accordingly, the accompanying Statement is not intended to present the net position, changes in net position, or cash flows of the SFSFA programs in conformity with U.S. generally accepted accounting principles. Because the Statement presents only a selected portion of the activities of the University, it is not intended to and does not present either the net position, changes in net position, or cash flows of the University, in conformity with U.S. generally accepted accounting principles.

(2) Basis of Accounting

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



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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs Performed in Accordance with *Government Auditing Standards*

Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Assistance Programs (the Statement) for the Metropolitan State University of Denver (formerly, Metropolitan State College of Denver) (the University), an institution of higher education of the State of Colorado, as of and for the year ended June 30, 2013, and the related notes to the Statement, and have issued our report thereon dated December 5, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the Statement, 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 Statement, 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's Statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's Statement is 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 the Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

KPMG LLP

Denver, Colorado
December 5, 2013

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