KPMG

METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

June 30, 2012 and 2011

(With Independent Auditors’ Report Thereon)

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Section 2-3-103 (2) states in part:

> All reports shall be open to public inspection except for that portion of any report containing recommendations, comments, and any narrative statements, which is **released only upon the approval of a majority vote of the committee** (emphasis supplied).

Section 2-3-103.7 (1) states in part:

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METROPOLITAN STATE COLLEGE OF DENVER

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METROPOLITAN STATE COLLEGE OF DENVER

Report Summary

Year ended June 30, 2012

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 College of Denver (Metro or the College) for the year ended June 30, 2012. 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 2012 to October 2012.

The purpose and scope of our audit were to:

- Express an opinion on the basic financial statements of the College as of and for the year ended June 30, 2012. This includes a report on internal control over financial reporting and compliance and other matters based on the audit of the basic 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 College'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, 2012 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Reports

We expressed an unqualified opinion on the College's basic financial statements as of and for the year ended June 30, 2012.

No audit adjustments were proposed or made to the basic financial statements.

We issued a report on the College's internal control over financial reporting and on compliance and other matters based on an audit of basic 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 misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

METROPOLITAN STATE COLLEGE OF DENVER

Report Summary

Year ended June 30, 2012

Summary of Key Audit Findings

There were no findings or recommendations resulting from our fiscal year 2012 audit work that are required to be reported.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2011 included no findings and recommendations; however, there was a recommendation from the audit report for the year ended June 30, 2010, the disposition of which will be evaluated during the fiscal year 2013 audit.

METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

Description of the Metropolitan State College of Denver

Year ended June 30, 2012

Organization

Established in 1963 as Colorado's "College of Opportunity," Metropolitan State College of Denver (the College) is the third largest higher education institution in Colorado and one of the largest public four-year colleges 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 College 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 student representative.

The College offers 55 major fields of study and 90 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 College for the last three fiscal years are as follows:

	Resident	Nonresident	Total
Fiscal year:			
2012	16,783	550	17,333
2011	17,223	566	17,789
2010	16,775	546	17,321

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

	Faculty	Staff	Total
Fiscal year:			
2012	900	368	1,268
2011	901	332	1,233
2010	872	324	1,196

METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2012

We have audited the basic financial statements of the Metropolitan State College of Denver (the College) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated November 16, 2012. In planning and performing our audit of the basic financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion of the College's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated November 16, 2012 on our consideration of the College'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 November 16, 2012. We did not audit the financial statements of the Metropolitan State College of Denver Foundation, Inc., a discretely presented component unit, discussed in note 1 to the basic 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.

METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2012

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 November 16, 2012:

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.	To be evaluated during the fiscal year 2013 audit as the finding pertains to the NCAA audit which is only performed every three years, and will be performed next in 2013.

KPMG LLP
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Denver, CO 80202-5598

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 College of Denver (the College), a component unit of the State of Colorado, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Metropolitan State College of Denver Foundation, Inc. (the Foundation), a discretely presented component unit, discussed in note 1 to the basic financial statements, which represents 18% and 15% of total assets, 89% and 75% of total revenues, and 135% and 109% of net assets of the aggregate discretely presented component units as of and for the years ended June 30, 2012 and 2011, respectively. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they related to the amounts included for the Foundation, are based on the report 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of 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 College of Denver as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 8 to 18 be presented to supplement the basic financial statements. Such information, although not a required 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 basic 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 basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

November 16, 2012

This section of Metropolitan State College of Denver's (Metro State or the College) financial report presents management's discussion and analysis of the financial performance of Metro State during the years ended June 30, 2012 and 2011. This discussion focuses on current activities and known facts and provides an overview of Metro State'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*. This annual report consists of a series of financial statements: the statements of net assets; the statements of revenues, expenses, and changes in net assets; 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 College of Denver Foundation, Inc. (the Foundation) and the HLC @ Metro, Inc. are included in Metro State's financial statements as required by GASB Statement No. 14, *The Financial Reporting Entity*, 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 College and not the discreetly presented component units.

Financial Highlights

Metro State's financial position, as a whole, improved during the years ended June 30, 2012 and 2011. The combined net assets increased $8.2 million and $11.5 million, respectively, over the previous year.

- In fiscal year 2012, the level of funding for Metro State's College Opportunity Fund (COF) stipends was set by the General Assembly at $62 per eligible credit hour. The State of Colorado (the State) was able to maintain this level of funding throughout the fiscal year. In fiscal year 2011, the level of funding for Metro State's College Opportunity Fund (COF) stipends was set by the General Assembly at $62 per eligible credit hour. This revenue is recorded in the tuition and fees line under operating revenue.
- Fiscal year 2011 was the last year the College 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.
- Metro State's June 30, 2012 current assets of $81.7 million were sufficient to cover current liabilities of $28 million. The current ratio of 2.92 (current assets/current liabilities) reflects the liquidity of Metro State's assets and the availability of funds for current operations.
- The College had outstanding bonds payable of $64.2 million and $65.7 million in fiscal year 2012 and 2011 respectively.
- Metro State's headcount had decreases of 2.50%, 1.52%, and 2.65% in the summer 2011, fall 2011, and spring 2012 terms, respectively, over the previous year's terms.

Statements of Net Assets

The statements of net assets report on assets, liabilities, and net assets (net assets represent the excess of total assets over total liabilities) as of June 30, 2012 and 2011. Over time, increases or decreases in net assets are one indicator of Metro State's financial health when considered in conjunction with nonfinancial facts such as student enrollment.

Condensed Statements of Net Assets

		June 30		
		2012	2011	2010
			(In thousands)	
Assets:				
Current assets	$	81,730	72,599	61,732
Noncurrent assets		91,955	97,936	91,885
Total assets	$	173,685	170,535	153,617
Liabilities:				
Current liabilities	$	27,998	31,095	23,838
Noncurrent liabilities		72,545	74,515	76,370
Total liabilities	$	100,543	105,610	100,208
Net assets:				
Invested in capital assets, net of related debt	$	9,105	9,858	9,381
Restricted for expendable purposes		9,413	9,412	9,344
Unrestricted		54,624	45,655	34,684
Total net assets	$	73,142	64,925	53,409

At June 30, 2012 and 2011, Metro State'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 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 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.

At June 30, 2011 and 2010, Metro State's total assets were $170.5 million and $153.6 million, respectively, which is an increase of $16.9 million and $85.4 million, respectively, when compared to the prior years. A $9.1 million increase in unrestricted cash and cash equivalents, an $18.1 million increase in construction in progress, and an $11 million decrease in restricted cash are the primary reasons for the $16.9 million increase in total assets in fiscal year 2011.

(Continued)

Unrestricted cash and cash equivalents increased $9.1 million in fiscal year 2011 primarily due to a 9% increase in tuition, a 10% increase in fees, a $6.85 per credit hour increase in the Student Bond Fee, as well as setting aside funds for future capital projects.

In fiscal year 2011, construction in progress increased $18.1 million primarily due to expenditures on the Student Success Center and related major remodeling projects. The $11 million decrease in restricted cash is due to using bond proceeds for the construction.

Metro State's financial position improved during both fiscal years 2012 and 2011 as evidenced by the increase in net assets of $8.2 million and $11.5 million, respectively. 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 Metro State. Of the total $64.9 million in net assets in fiscal year 2011, $9.9 million is invested in capital assets, net of related debt, $9.4 million is restricted for expendable purposes for student loans, and $45.7 million is unrestricted and available for any lawful purpose of Metro State.

(Continued)

Statements of Revenues, Expenses, and Changes in Net Assets

The statements of revenues, expenses, and changes in net assets present the results of operations during fiscal years 2012 and 2011. 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 Metro State. 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, and Pell grants.

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

		June 30	
	2012	2011	2010
		(In thousands)	
Operating revenues:			
Tuition and fees, net	$ 86,687	78,993	66,149
Fee for service	6,634	10,669	1,667
Sales and services	3,575	4,572	4,401
Grants and contracts	18,273	21,056	18,101
Other operating revenues	6,260	5,720	5,369
Total operating revenues	121,429	121,010	95,687
Operating expenses	151,491	149,568	138,187
Operating loss	(30,062)	(28,558)	(42,500)
Nonoperating revenues:			
State fiscal stabilization funds revenue	—	1,403	25,182
Pell grants	36,391	36,990	29,870
Intergovernmental revenue	1,622	1,620	847
Investment and interest income	902	1,783	3,678
Interest expense on capital asset-related debt	(2,983)	(4,065)	(2,334)
Loss on disposal of capital assets	(16)	(29)	(21)
Nonoperating gifts and donations	2,363	2,372	2,048
Net nonoperating revenues	38,279	40,074	59,270
Increase in net assets	8,217	11,516	16,770
Net assets at beginning of year	64,925	53,409	36,639
Net assets at end of year	$ 73,142	64,925	53,409

Tuition and fees revenue, net, accounted for $86.7 million of $121.4 million in operating revenue in fiscal year 2012. The tuition and fees revenue amount is net of scholarship allowances of $51.1 million. Scholarship allowances are defined as the difference between the stated charge of tuition and fees and the amount that is paid by students or third parties making payment on behalf of students. Tuition and fees revenue, net, accounted for $79 million of $121 million in operating revenue in fiscal year 2011. The tuition and fees revenue amount is net of scholarship allowances of $47.4 million.

Despite small decreases in enrollment in fiscal year 2012, tuition and fee revenue increased $7.7 million from fiscal year 2011. This increase is due to a 22.6% increase in undergraduate tuition, and an average increase of 27.8% in graduate tuition. Scholarship discounts and allowances increased $3.7 million from fiscal year 2011 due to the increase in tuition.

Tuition and fees revenue increased $12.8 million from 2010 due to increases in tuition, fees, and small increases in credit hour production. Scholarship discounts and allowances increased $9.1 million from 2010 due to an increase in tuition, as well as enrollment increases and an overall increase in scholarships and fellowships.

The $4 million decrease in fee for service revenue in fiscal year 2012 and $9.0 million increase in fee for service revenue in fiscal year 2011 are a result of changes to the fee for service contract the College has with the State.

State Fiscal Stabilization Funds (SFSF) revenue decreased $1.4 million in fiscal year 2012, due to the end of the allocation. SFSF were federal funds from the ARRA given to the College in response to the State's economic downturn. The College was allocated a total of $36.5 million over three years, and in fiscal year 2011, the College drew its last allocation.

State fiscal stabilization revenue decreased $23.8 million in fiscal year 2011. In fiscal year 2010, the College drew a disproportionate share to help offset the reductions to COF and fee for service, leaving only $1.4 million to draw in fiscal year 2011. Fiscal year 2011 was the last year the College received these funds.

Investment and interest income decreased $882 thousand and $1.9 million in fiscal years 2012 and 2011, respectively. The decreases are the result of reduced cash on hand with the Colorado State Treasurer (the Treasurer).

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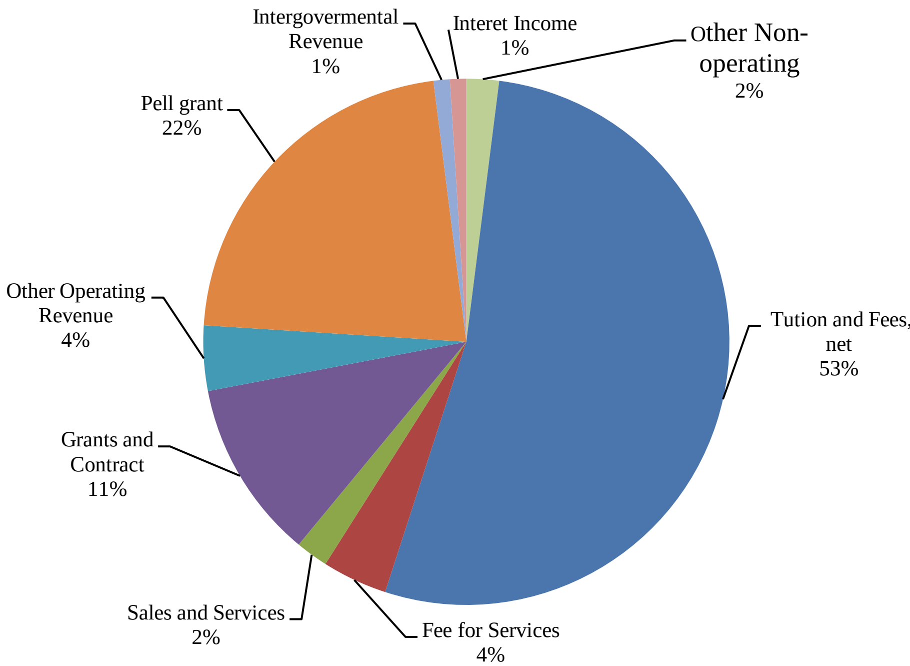
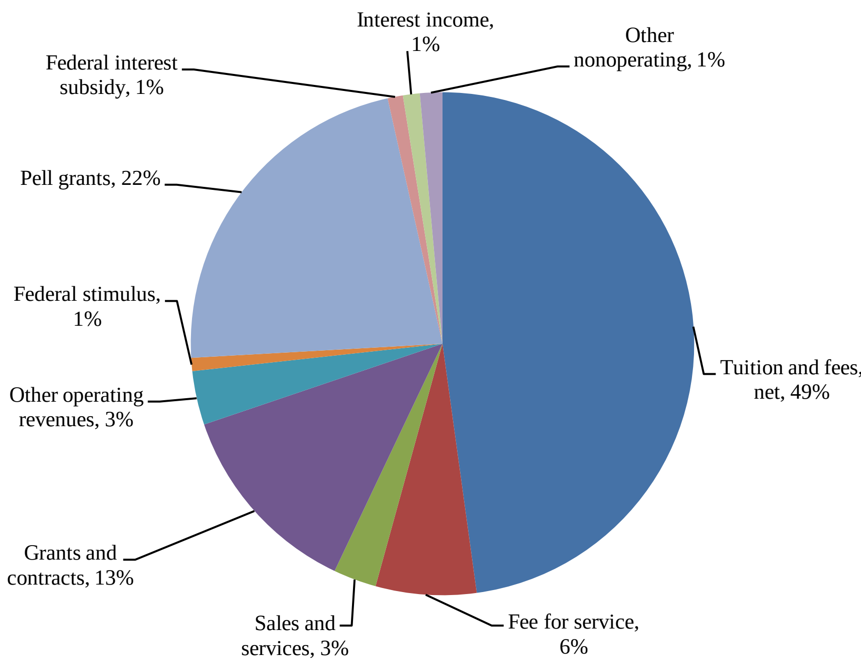
The following is a graphic illustration of total revenue (operating and nonoperating) by source for Metro State. Each major revenue component is displayed relative to its proportionate share of total revenue.

Revenue by Source – 2012



Revenue by Source - Fiscal year 2011



Interest expense on capital asset related debt decreased $1.1 million in fiscal year 2012 because of capitalized interest. In fiscal year 2011, interest expense on capital asset related debt increased $1.7 million, which was due to interest expense on the Recovery Zone Economic Development Bond (RZEDB) bonds issued in fiscal year 2010.

For the fiscal years ended June 30, 2012 and 2011, operating expenses totaled $151.5 million and $149.6 million, respectively. Of the $151.5 million total in fiscal year 2012, $71.5 million was for instruction, $10.5 million for academic support, $18.8 million for student services, $13.7 million for institutional support, $11.3 million for operation of plant, and $19.1 million for auxiliary enterprises. The remaining $6.6 million was for scholarships and other miscellaneous operating expenses. Of the $149.6 million total in fiscal year 2011, $70.5 million was for instruction, $9.8 million for academic support, $14.9 million for student services, $15.8 million for institutional support, $7.6 million for operation of plant, and $21.1 million for auxiliary enterprises. The remaining $9.9 million was for scholarships and other miscellaneous operating expenses.

Overall operating expenses show an increase of $1.9 million over fiscal year 2011 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.

Fiscal year 2011 overall operating expenses increased $11.4 million over fiscal year 2010 primarily due to a $5.1 million increase in salary and benefits, which resulted from a net increase of 29 faculty, and 8 administrative/classified employees, as well as a $0.8 million increase in Pell grants.

		2012	2011	2010
Operating expenses:				
Instruction	$	71,467,556	70,486,115	66,316,986
Research		43,642	33,725	—
Public service		696,180	262,689	266,961
Academic support		10,485,609	9,814,762	9,687,612
Student services		18,821,902	14,910,402	13,315,210
Institutional support		13,729,183	15,782,608	14,714,941
Operation of plant		11,295,306	7,591,650	5,347,052
Scholarships and fellowships, net		2,203,067	6,481,120	5,631,154
Auxiliary enterprise expenditures		19,105,084	21,123,075	20,350,782
Depreciation		3,608,920	3,082,024	2,523,165
Other operating expenses		34,813	—	32,963
Total operating expenses	$	151,491,262	149,568,170	138,186,826

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 Metro State's ability to generate cash flows and meet financial obligations as they mature.

Condensed Statements of Cash Flows

		June 30		
		2012	2011	2010
			(In thousands)	
Net cash provided by (used in):				
Operating activities	$	(26,637)	(26,464)	(39,625)
Noncapital financing activities		38,503	39,882	57,355
Capital and related financing activities		(42,216)	(17,021)	57,503
Investing activities		902	1,783	3,678
Net (decrease) increase in cash		(29,448)	(1,820)	78,911
Cash and cash equivalents:				
Beginning of year		113,411	115,231	36,320
End of year	$	83,963	113,411	115,231

Metro State's cash and cash equivalents decreased by $29.4 million in fiscal year 2012; whereas, fiscal year 2011 had a decrease of $1.8 million. The overall decrease in 2012 is a result of the net effect of a $9.1 million increase in unrestricted cash and a $38.5 million decrease in restricted cash. 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 million for acquisition of capital assets, and $40.5 million for payments to suppliers.

(Continued)

The major sources of unrestricted cash inflows in fiscal year 2011 were $76.1 million from tuition and fees, $20.5 million from grants and contracts, $10.7 million from fee for service, and $37.0 million in Pell grants. The primary outflows are $101.0 million for payments to or for employees, $14.3 million for acquisition of capital assets, and $36.2 million for payments to suppliers.

Capital Assets

At June 30, 2012, the College had $68.5 million in property, plant, and equipment, net of accumulated depreciation of $17.2 million. Depreciation charges were $3.6 million for the current year compared to $3.1 million in fiscal year 2011 and $2.5 million in fiscal year 2010.

The completion of the Student Success Building (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 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 million increase in land improvements was due to the electrical duct bank that was completed for future growth.

In fiscal year 2011 the construction of the Student Success Building began which resulted in the $18 million increase in construction in progress.

Details of these assets are shown in the table below:

Capital Assets, Net of Depreciation at Year-End

		June 30		
		2012	**2011**	**2010**
			(In thousands)	
Construction in progress	$	6,158	19,955	1,889
Equipment		5,467	4,824	4,906
Buildings		41,645	1,155	1,284
Leasehold/land improvements		15,183	10,046	10,838
Total	$	68,453	35,980	18,917

Debt

In November 2009, Metro State issued $55.2 million of Series 2009 Taxable Institutional Enterprise Revenue Bonds to finance the construction of the College's first brick and mortar building, the Student Success Building (SSB). The SSB is estimated to add 145,000 square feet of space for classrooms and faculty offices, specifically for Metro State students and professors. It will also provide students with a central location for student support services. In June 2010, the College 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 personnel moved to the SSB. These bonds will be paid off using proceeds from a student bond fee approved by the College's students. Both bond issuances are RZEDBs that make them eligible for a 45% bond interest subsidy from the federal government.

At June 30, 2012, the College had $72 million in outstanding debt compared to $73.9 million at June 30, 2011 and $74.2 million at June 30, 2010. The table below summarizes these amounts by type of debt:

Outstanding Debt at Year-End

		June 30	
	2012	**2011**	**2010**
		(In thousands)	
Series 2009	$ 53,895	55,190	55,190
Series 2010	10,293	10,532	10,530
Capital lease	7,848	8,158	8,455
Total	$ 72,036	73,880	74,175

Economic Outlook and Metropolitan State College of Denver's Future

Metro State retained its enterprise status during fiscal year 2012 by receiving less than 10% in state funding. The COF stipend was set by the General Assembly for fiscal year 2012 at $62 per eligible credit hour for resident undergraduate students, and was not cut during the year. The stipend is set to remain at $62 per eligible credit hour for fiscal year 2013, which is currently appropriated at $31.2 million, per the long bill. Metro State received $6.6 million in fee for service revenue in fiscal year 2012 but is only budgeted to receive $5.8 million in fiscal year 2013.

In an effort to offset some of the reductions to the College's state funding, Metro State raised tuition by 22.6% for undergraduate residents in fiscal year 2012. However, two mandatory fees, the registration fee and the information technology fee, were eliminated. The College will raise undergraduate tuition another 13% in fiscal year 2013, which is in line with the College's Financial Accountability Plan (FAP) that was approved by the Colorado Commission on Higher Education (CCHE) in November 2010. Another modification to the fiscal year 2013 tuition structure is the implementation of the Colorado High School/GED nonresident rate. This rate is designed for students who live in Colorado, attended a Colorado high school for three years and graduated from a Colorado high school or earned their general educational development (GED), but are not able to document the legal status that would make them eligible for resident tuition. This rate does not contain any state subsidy, and does require the student to pay a fee for the use of campus facilities, as well as all other mandatory fees. This rate is lower than what standard out-of-state students pay, but is higher than resident tuition. A comparison of the tuition rates at 15 credit hours over two terms in the 2012-13 academic year is below.

Tuition type	**Amount**
Colorado resident	$ 4,304
Colorado High School/GED nonresident	7,157
Non resident	15,985

This rate was approved by the College's Board of Trustees on June 7, 2012 and became effective beginning in the fall 2012 term. This tuition structure is in line with the College's mission of providing affordable and accessible education to all Colorado students. Colorado's Attorney General issued a negative nonbinding opinion shortly after the new rate was approved but it remains the College's opinion that it is acting within the Trustees' authority and state and federal law. The College continues to monitor developments as the rate is implemented.

The construction on the Hotel and Hospitality Learning Center (HLC) was completed in August 2012. The hotel, a Marriott Springhill Suites facility, includes 150 hotel rooms, as well as conference facilities. The HLC offers more than 28,000 square feet of academic space, including classrooms, specialty learning labs, and faculty offices. The hotel will be run by a professional hotel management firm, Sage Hospitality, and will provide hands-on training opportunities for the more than 600 students currently in Metro State's Hospitality, Tourism, and Events Department.

The construction of the Student Success Building (SSB) was completed in March 2012, and the building is fully operational. The related remodeling projects are well underway and are scheduled to be completed in May 2013. These projects, in addition to the HLC, will offer a 25% increase in space for classrooms, faculty offices, and labs.

Senate Bill 12-148 was signed into law by Governor John Hickenlooper on April 18, 2012, which authorized Metropolitan State College of Denver to change its name to Metropolitan State University of Denver. The College, now University, made its name change official on July 1, 2012. This annual report represents fiscal year 2012 information and is therefore prepared under the University's former name. The fiscal year 2013 annual report will be presented under the new name.

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

METROPOLITAN STATE COLLEGE OF DENVER

Business-Type Activity

Statements of Net Assets

June 30, 2012 and 2011

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	69,670,774	60,603,406
Accounts receivale – student (net of allowance for doubtful accounts of $2,350,686 and $1,918,856, respectively)		8,052,315	8,136,479
Accounts receivable – other		1,659,698	1,926,170
Loans receivable		1,131,702	1,007,462
Prepaid expense		1,215,965	925,494
Total current assets		81,730,454	72,599,011
Noncurrent assets:			
Restricted cash		14,291,290	52,807,406
Investments		190,634	190,634
Prepaid expense		142,904	—
Loans receivable (net of allowance for doubtful accounts of $527,197 and $580,468, respectively)		8,169,908	8,226,044
Deferred debt issuance cost (net of amortization of $777,730 and $51,774, respectively)		706,155	732,112
Construction in progress		6,158,451	19,955,406
Depreciable assets, net:			
Equipment		5,467,269	4,823,810
Buildings		41,644,945	1,154,552
Leasehold and land improvements		15,183,067	10,046,034
Total depreciable capital assets, net		62,295,281	16,024,396
Total noncurrent assets		91,954,623	97,935,998
Total assets	$	173,685,077	170,535,009
Liabilities			
Current liabilities:			
Accounts payable	$	5,183,760	8,535,594
Accrued payroll		10,265,824	9,755,674
Deferred revenue		6,652,728	6,788,006
Compensated absences		313,968	264,768
Bonds payable		1,550,000	1,535,000
Capital leases		328,031	310,179
Deposits held in custody and other current liabilities		3,703,081	3,906,232
Total current liabilities		27,997,392	31,095,453
Noncurrent liabilities:			
Compensated absences		2,387,158	2,479,765
Bonds payable		62,638,129	64,186,634
Capital leases		7,520,070	7,848,100
Total noncurrent liabilities		72,545,357	74,514,499
Total liabilities		100,542,749	105,609,952
Net assets:			
Invested in capital assets net of related debt		9,105,148	9,858,090
Restricted for expendable purposes		9,413,554	9,411,921
Unrestricted		54,623,626	45,655,046
Total net assets		73,142,328	64,925,057
Total liabilities and net assets	$	173,685,077	170,535,009

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE OF DENVER

Aggregate Discretely Presented Component Units

Statements of Financial Position

June 30, 2012 and 2011

	2012			2011		
Assets	**Metropolitan State College of Denver Foundation, Inc.**	**HLC @ Metro, Inc.**	**Total**	**Metropolitan State College of Denver Foundation, Inc.**	**HLC @ Metro, Inc.**	**Total**
Cash and cash equivalents	$ 1,835,675	—	1,835,675	3,703,391	—	3,703,391
Restricted cash and cash equivalents	—	11,811,873	11,811,873	—	44,110,438	44,110,438
Promises to give, net	1,869,869	—	1,869,869	731,897	—	731,897
Accounts receivable	—	364,245	364,245	—	403,156	403,156
Other receivable – College	15,246	—	15,246	45,394	—	45,394
Beneficial interest in charitable trusts administered by others	89,383	—	89,383	95,819	—	95,819
Investments restricted to endowments	6,744,325	—	6,744,325	4,388,687	—	4,388,687
Land and building, net	1,428,728	—	1,428,728	1,467,392	—	1,467,392
Construction in progress	—	42,881,770	42,881,770	—	14,112,007	14,112,007
Deferred debt issuance costs (net of amortization of $0)	—	1,610,893	1,610,893	—	1,783,266	1,783,266
Other assets	263,950	—	263,950	38,950	—	38,950
Total assets	$ 12,247,176	56,668,781	68,915,957	10,471,530	60,408,867	70,880,397
Liabilities and Net Assets						
Liabilities:						
Accounts payable	$ 3,439	2,506,895	2,510,334	24,172	4,607,232	4,631,404
Accounts payable and other – College	274,227	—	274,227	295,753	—	295,753
Retainage payable	—	1,537,797	1,537,797	—	742,696	742,696
Interest payable	—	1,075,377	1,075,377	—	1,075,377	1,075,377
Environmental cleanup costs	—	—	—	—	170,140	170,140
Bonds payable	—	54,623,451	54,623,451	—	54,640,273	54,640,273
Liabilities under charitable gift annuities	54,232	—	54,232	55,201	—	55,201
Total liabilities	331,898	59,743,520	60,075,418	375,126	61,235,718	61,610,844
Net assets:						
Unrestricted	1,863,025	(3,074,739)	(1,211,714)	1,597,425	(826,851)	770,574
Temporarily restricted	5,473,301	—	5,473,301	4,041,865	—	4,041,865
Permanently restricted	4,578,952	—	4,578,952	4,457,114	—	4,457,114
Total net assets	11,915,278	(3,074,739)	8,840,539	10,096,404	(826,851)	9,269,553
Total liabilities and net assets	$ 12,247,176	56,668,781	68,915,957	10,471,530	60,408,867	70,880,397

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE OF DENVER

Business-Type Activity

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Student tuition and fees, (net of scholarship allowances of $51,091,183 and $47,371,316, respectively)	$ 86,687,387	78,993,116
Fee for service	6,634,316	10,669,306
Sales and services of educational departments	737,832	1,335,843
Sales and services of auxiliary enterprises	2,837,425	3,235,789
Federal grants and contracts	5,614,366	8,109,563
State grants and contracts	12,583,721	12,793,756
Local grants and contracts	1,642	62,916
Private grants and contracts	73,623	89,700
Operating interest income	120,448	131,824
Other operating revenues	6,138,505	5,587,836
Total operating revenues	121,429,265	121,009,649
Operating expenses:		
Instruction	71,502,369	70,519,841
Research	43,642	—
Public service	696,180	262,689
Academic support	10,485,609	9,814,762
Student services	18,821,902	14,910,402
Institutional support	13,729,183	15,782,608
Operation of plant	11,295,306	7,591,650
Scholarships and fellowships	2,203,067	6,481,120
Auxiliary enterprise expenditures	19,105,084	21,123,074
Depreciation	3,608,920	3,082,024
Total operating expenses	151,491,262	149,568,170
Operating loss	(30,061,997)	(28,558,521)
Nonoperating revenues (expenses):		
State fiscal stabilization revenue	—	1,402,605
Pell grants	36,390,922	36,989,514
Intergovernmental revenue	1,622,471	1,620,140
Investment and interest income	901,645	1,783,221
Interest expense on capital asset related debt	(2,983,098)	(4,064,583)
Loss on disposal of fixed assets	(15,816)	(28,766)
Nonoperating gifts and donations	2,363,144	2,371,919
Net nonoperating revenue	38,279,268	40,074,050
Increase in net assets	8,217,271	11,515,529
Net assets at beginning of year	64,925,057	53,409,528
Net assets at end of year	$ 73,142,328	64,925,057

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE OF DENVER

Aggregate Discretely Presented Component Units

Statements of Activities

Years ended June 30, 2012 and 2011

	2012			2011		
	Metropolitan State College of Denver Foundation, Inc.	HLC @ Metro, Inc.	Total	Metropolitan State College of Denver Foundation, Inc.	HLC @ Metro, Inc.	Total
Change in unrestricted net assets:						
Support, revenue, and gains:						
Contributions	$ 68,142	—	68,142	81,756	—	81,756
In-kind contributions	1,422,026	—	1,422,026	1,214,867	—	1,214,867
College program fees	480	—	480	—	—	—
Total support	1,490,648	—	1,490,648	1,296,623	—	1,296,623
Net investment gain	69,013	—	69,013	32,327	—	32,327
Rent and other income – Center for Visual Arts (CVA)	172,655	—	172,655	127,310	—	127,310
Net assets released from restrictions	3,933,068	927,992	4,861,060	3,040,219	1,629,602	4,669,821
Other reclassifications of net assets	46,650	—	46,650	69,685	—	69,685
Total support, revenue, and gains	5,712,034	927,992	6,640,026	4,566,164	1,629,602	6,195,766
Expenses and losses:						
Support provided to the College	2,231,737	—	2,231,737	2,218,052	—	2,218,052
College Hospitality Learning Center materials and service	1,573,733	—	1,573,733	—	—	—
General and administrative costs	329,447	261,628	591,075	327,527	123,248	450,775
Donor development costs	1,195,686	—	1,195,686	1,214,867	—	1,214,867
Interest and amortization	—	2,914,252	2,914,252	—	2,333,205	2,333,205
Operating expenses for CVA	115,831	—	115,831	78,025	—	78,025
Total expenses and losses	5,446,434	3,175,880	8,622,314	3,838,471	2,456,453	6,294,924
Change in unrestricted net assets	265,600	(2,247,888)	(1,982,288)	727,693	(826,851)	(99,158)
Change in temporarily restricted net assets:						
Support, revenue, and gains:						
Contributions	3,692,411	—	3,692,411	2,104,090	—	2,104,090
In-kind contributions	1,573,733	—	1,573,733	156,744	—	156,744
College program fees	339,363	—	339,363	481,028	—	481,028
Federal interest subsidy	—	1,064,778	1,064,778	—	718,726	718,726
Interest income	—	317,166	317,166	—	360,798	360,798
Total support	5,605,507	1,381,944	6,987,451	2,741,862	1,079,524	3,821,386
Net investment gain (loss)	5,453	(453,952)	(448,499)	—	550,078	550,078
Net assets released from restrictions	(3,933,068)	(927,992)	(4,861,060)	(3,040,219)	(1,629,602)	(4,669,821)
Other reclassifications of net assets	34,561	—	34,561	70,571	—	70,571
Total support, revenue, and gains	1,712,453	—	1,712,453	(227,786)	—	(227,786)
Losses:						
Uncollectible pledge loss	281,017	—	281,017	10,000	—	10,000
Total losses	281,017	—	281,017	10,000	—	10,000
Change in temporarily restricted net assets	1,431,436	—	1,431,436	(237,786)	—	(237,786)
Change in permanently restricted net assets:						
Support, revenue, and gains:						
Contributions	373,989	—	373,989	512,795	—	512,795
College program fees	4,747	—	4,747	4,275	—	4,275
Total support	378,736	—	378,736	517,070	—	517,070
Net investment (loss) gain	(174,187)	—	(174,187)	525,535	—	525,535
Other reclassifications of net assets	(81,211)	—	(81,211)	(140,256)	—	(140,256)
Total support, revenue, and gains	123,338	—	123,338	902,349	—	902,349
Losses:						
Uncollectible pledge loss	1,500	—	1,500	—	—	—
Total losses	1,500	—	1,500	—	—	—
Change in permanently restricted net assets	121,838	—	121,838	902,349	—	902,349
Change in net assets	1,818,874	(2,247,888)	(429,014)	1,392,256	(826,851)	565,405
Net assets, beginning of year	10,096,404	(826,851)	9,269,553	8,704,148	—	8,704,148
Net assets, end of year	$ 11,915,278	(3,074,739)	8,840,539	10,096,404	(826,851)	9,269,553

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE OF DENVER

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received:		
Tuition and fees	$ 83,662,609	76,086,205
Fee for service	6,634,316	10,669,306
Sales and services	3,455,378	4,512,877
Grants and contracts	18,718,921	20,473,448
Student loans collected	939,341	1,195,359
Other operating receipts	6,069,052	5,426,710
Cash payments:		
Payments to or for employees	(102,447,376)	(101,018,357)
Payments to suppliers	(40,457,370)	(36,174,328)
Scholarships disbursed	(2,203,067)	(6,481,120)
Student loans disbursed	(1,009,260)	(1,154,221)
Net cash used in operating activities	(26,637,456)	(26,464,121)
Cash flows from noncapital financing activities:		
State fiscal stabilization funds	—	1,402,605
Nonoperating gifts and donations	2,481,901	2,238,731
Pell grants	36,443,857	36,989,514
Agency (direct lending inflows)	109,542,768	103,859,350
Agency (direct lending outflows)	(109,617,818)	(104,295,789)
Other agency (inflows)	8,952,549	8,588,135
Other agency (outflows)	(9,300,466)	(8,900,502)
Net cash provided by noncapital financing activities	38,502,791	39,882,044
Cash flows from capital and related financing activities:		
Interest subsidy	1,620,455	1,618,121
Interest on capital asset related debt	(2,957,142)	(4,035,910)
Principal paid on bonds	(1,533,505)	—
Principal paid on capital leases	(310,179)	(296,790)
Acquisition of capital assets	(39,035,357)	(14,306,997)
Net cash used in capital and related financing activities	(42,215,728)	(17,021,576)
Cash flows from investing activity:		
Investment earnings	901,645	1,783,221
Net cash provided by investing activities	901,645	1,783,221
Net decrease in cash	(29,448,748)	(1,820,432)
Beginning cash balance	113,410,812	115,231,244
Ending cash balance	$ 83,962,064	113,410,812

(Continued)

METROPOLITAN STATE COLLEGE OF DENVER

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Reconciliation of net operating loss to net cash used in operating activities:			
Operating loss	$	(30,061,997)	(28,558,520)
Adjustment to reconcile:			
Depreciation expense		3,608,920	3,082,024
Provision for bad debt		2,925,819	2,527,175
Decrease (increase) in assets:			
Accounts receivable – student		(2,843,374)	(3,244,464)
Loans receivable		(116,327)	(31,979)
Prepaid expense		(460,067)	(176,349)
Accounts receivable – other		296,165	(420,415)
Increase (decrease) in liabilities:			
Accounts payable		(299,700)	460,634
Deferred revenue		(152,830)	113,341
Accrued payroll		510,150	(146,173)
Other liabilities		(44,215)	(69,395)
Net cash used in operating activities		(26,637,456)	(26,464,121)
Noncash transactions			
Retirement of capital assets	$	314,994	820,074

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Governance

The accompanying financial statements reflect the financial activities of Metropolitan State College of Denver (the College) for the fiscal years ended June 30, 2012 and 2011. Effective July 1, 2002, Colorado Revised Statute (C.R.S.) 23-54-102 established the Board of Trustees (Trustees) of the College to serve as the College's governing board. Nine of the eleven Trustees are members outside the College 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 College, 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 College 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. The financial statements of the College and its discretely presented component units are not intended to report the financial information of the State in conformity with U.S. generally accepted accounting principles (GAAP). The accounting policies of the College conform to GAAP, as applicable to government units.

The College is an institution of higher education of the State. Thus, for financial reporting purposes, the College is included as part of the State's primary government.

On August 17, 2010, the College's Board of Trustees approved the creation of the Metropolitan State College 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 College's relationship with the HLC by obtaining the lowest possible cost of financing, reducing the College'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.

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, paragraph 47, the discrete presentation of the Metropolitan State College 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 College. 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 College. Please refer to note 15 for additional discussion.

(c) Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College'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 College applies all applicable GASB pronouncements, when effective, as well as the following pronouncements issued on or before November 30, 1989: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements.

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 College follows the policy of capitalizing only those capital assets with an initial cost or fair value equal to or greater than $5,000. The College capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specific to the project. Total interest capitalized during the years ended June 30, 2012 and 2011 was $1.1 million and $0, respectively.

As of June 30, 2012 and 2011, the construction-in-progress includes capital construction projects in process, but not substantially complete.

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 College is acting as custodian.

Deferred Revenue: Deferred revenue consists of amounts received from the provision of educational goods and services that have not yet been earned. The College 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 in deferred revenue.

Capital Leases: Capital leases consist of a lease-purchase contract for the Science building on the Auraria Campus. The building owned by Auraria Higher Education Center (AHEC), is occupied by the College, 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 Assets: Net assets are 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 College 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 College to meet current expenses for any purpose. These resources also include those from auxiliary enterprises that are substantially self-supporting activities that provide services for students, faculty, and staff.

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

- Operating revenues and expenses – 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 College.
- Nonoperating revenues and expenses – Nonoperating revenues and expenses do not meet the definition of operating revenues, and include federal stimulus money, Pell grants, gifts, investment income, and interest expense.

(Continued)

Scholarship Allowance: Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College 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. College 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 College'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 assets 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 College 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 College is subject to federal income tax on any unrelated business taxable income. The College did not have any significant unrelated business taxable income in fiscal year 2012 or 2011.

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

(2) Cash and Cash Equivalents and Investments

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

		2012	2011
Cash on hand	$	43,244	43,968
Cash in checking and depository accounts at banks		3,495,224	3,022,871
Certificate of deposit		117,332	100,477
Total cash on hand and in banks	$	3,655,800	3,167,316

As of June 30, 2012, $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 College's name.

The College 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, 2012 and 2011, the College had $80,306,264 and $110,243,496, respectively, which represented approximately 1.2% of the total $6,541.7 million and 1.8% of the total of $6,100.3 million, respectively, in deposits in the Treasurer's Pool (Pool). The $80,306,264 and $110,243,496 on deposit as of June 30, 2012 and 2011, respectively, includes $14,291,290 and $52,807,406 of restricted cash as of June 30, 2012 and 2011, 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 College's participation in the Pool, the College 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 College's deposits with the State Treasury, the net unrealized losses for fiscal year 2012 and fiscal year 2011 were $557,870 and $639,893, respectively. These net unrealized losses are included in cash and cash equivalents on the statements of net assets.

(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 by the Treasurer or by a third-party custodian evidenced by a safekeeping receipt. As of June 30, 2012 and 2011, 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, 2012 and 2011, approximately 89.0% and 86.7%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for $12,085,710 and $18,384,300 in fiscal years 2012 and 2011, respectively, of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has 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, 2012, the weighted average maturity (WAM) of investments in the Pool is 0.90 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). As of June 30, 2011, the weighted average maturity (WAM) of investments in the Pool is 0.015 years for commercial paper (1.3% of the Pool), 1.054 years for U.S. government securities (81.7% of the Pool), 1.06 years for asset-backed securities (6.9% of the Pool), and 3.133 years for corporate bonds (10.1% 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, 2012.

(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. The College 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 College's investment is rated as AAAm by Standard and 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, 2012 and 2011, the fair value of the College's investment remained at $190,634.

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(3) Capital Assets

The following tables present changes in capital assets and accumulated depreciation for the years ended June 30, 2012 and 2011:

		Balance, June 30, 2011	Additions	CIP transfers	Retirements	Balance, June 30, 2012
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/land 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/land improvements		(3,511,336)	(1,261,948)	—	—	(4,773,284)
Net depreciable (appreciable) capital assets	$	16,024,396	(1,725,955)	48,012,656	(15,816)	62,295,281

		Balance, June 30, 2010	Additions	CIP transfers	Retirements	Balance, June 30, 2011
Construction in progress	$	1,888,689	18,156,609	(89,892)	—	19,955,406
Depreciable capital assets:						
Equipment		14,070,415	1,478,247	290	(705,010)	14,843,942
Building		1,510,311	—	—	—	1,510,311
Leasehold improvements		13,073,117	538,480	89,602	(143,830)	13,557,369
Less accumulated depreciation:						
Equipment		(9,164,675)	(1,560,466)	—	705,010	(10,020,131)
Buildings		(226,072)	(129,687)	—	—	(355,759)
Leasehold improvements		(2,234,528)	(1,391,872)	—	115,064	(3,511,336)
Net depreciable (appreciable) capital assets	$	17,028,568	(1,065,298)	89,892	(28,766)	16,024,396

(Continued)

(4) Long-Term Liabilities

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

	June 30, 2011	Additions	Deletions	June 30, 2012	Amounts due within one year
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	$ 76,624,447	1,495	(1,888,586)	74,737,356	2,191,999

A summary of the changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	June 30, 2010	Additions	Deletions	June 30, 2011	Amounts due within one year
Bonds payable	$ 65,720,138	1,496	—	65,721,634	1,535,000
Capital lease payable	8,455,069	—	(296,790)	8,158,279	310,179
Compensated absences	2,739,091	5,443	—	2,744,534	264,768
Total noncurrent liabilities	$ 76,914,298	6,939	(296,790)	76,624,447	2,109,947

(5) Lease Obligations

Operating Leases

The College leases building space, land, and copiers under operating lease agreements with the AHEC and with private organizations. The College 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, 2012 and 2011 under all other agreements was $2,059,016 and $2,124,031, respectively. As of June 30, 2012, minimum future rentals required by these agreements are as follows:

Fiscal year(s) ending:	
2013	$ 1,700,524
2014	1,875,449
2015	1,439,506
2016	759,584
2017	719,300
2018 – 2022	3,595,100
2023 – 2027	3,571,120
Total	$ 13,660,583

In addition to these operating leases, the College occupies other space on the Auraria Campus owned by the 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 13.

Capital Leases

During fiscal year 2009, the College 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 2012 and 2011, the principal payments totaled $310,179 and $296,790, respectively, and interest expense equaled $421,534 and $436,820, respectively.

The following is a schedule of future minimum capital lease payments as of June 30, 2012:

		Principal	Interest	Total
Fiscal year(s) ending June 30:				
2013	$	328,031	408,164	736,195
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 – 2022		2,331,918	1,343,977	3,675,895
2023 – 2027		3,045,998	631,258	3,677,256
2028 – 2030		660,438	19,699	680,137
Total	$	7,848,101	3,862,087	11,710,188

(6) Bond Obligations

Total outstanding bonds are summarized below:

Issue	Date issued		Amount issued		June 30, 2012	June 30, 2011
2009 Taxable Institutional Enterprise Revenue Bonds	11/17/09	$	55,190,000		53,895,000	55,190,000
2010 Taxable Institutional Enterprise Revenue Bonds	6/11/10		10,575,000		10,335,000	10,575,000
Less discount on 2010 Bonds, net of amortization					(41,871)	(43,366)
Total				$	64,188,129	65,721,634

Principal and interest requirements on all outstanding bonds are summarized as follows at June 30, 2012:

Fiscal year	Principal	Interest	Total
2013	$ 1,550,000	3,574,139	5,124,139
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 – 2022	8,960,000	15,550,208	24,510,208
2023 – 2027	10,345,000	12,958,430	23,303,430
2028 – 2032	12,160,000	9,592,842	21,752,842
2033 – 2037	14,370,000	5,504,010	19,874,010
2038 – 2041	10,385,000	1,042,536	11,427,536
	64,230,000	$ 62,012,173	126,242,173
Unamortized discount, net	(41,871)		
	$ 64,188,129		

(a) Series 2009

On November 17, 2009, the College 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 Metro State 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, which is expected to be $26,828,095 (unaudited) over the life of the bonds, of which $3,455,210 has been received as of June 30, 2012. These bonds are collateralized by future revenues Metro State 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 $557,795.

(b) Series 2010

On June 11, 2010, the College 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 will be done as College personnel are 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, which is expected to be $5,032,636 (unaudited) over the life of the bonds, of which $500,044 has been received as of

June 30, 2012. These bonds are collateralized by future revenues the College has pledged. See note 7 for more information on pledged revenues.

The Series 2010 bonds are shown net of unamortized discount of $41,871 and have unamortized issuance costs of $148,360.

(7) Pledged Revenue

The College has pledged future revenues to repay $64,230,000 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 research contracts and grants performed within the College's facilities, all revenues derived from mandatory fees for the provision of student and faculty services at the College, all revenues, net of operation and maintenance expenses, for the provision of continuing education services at the College, 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 $98,336,694 (unaudited) payable through fiscal year 2041. Interest payments, net of the interest subsidy, for the current year were $1,984,376. The total revenue pledged was $27,330,617 and $24,326,285 for June 30, 2012 and 2011, respectively.

The College has also agreed to make the required payments on the outstanding bonds on the HLC in the event the HLC @ Metro, Inc. does not satisfy its bond payment obligations. The payments for this debt would also be covered by these pledged revenues. See note 12 for more information on the HLC @ Metro, Inc.

The following table shows information for pledged revenues for fiscal years 2012 and 2011:

	2012	2011
Tuition	$ 11,317,861	10,196,147
Student and faculty fee	5,595,073	5,310,364
Facility fee	7,024,213	4,367,306
Interest income	1,450,450	2,421,162
Intergovernmental revenue	1,622,471	1,620,140
Indirect cost recovery	320,549	411,166
	$ 27,330,617	24,326,285

(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 Colleges 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, 2012 and 2011 are $313,968 and $264,768, respectively.

The estimated costs of noncurrent compensated absences for which employees are vested for the years ended June 30, 2012 and 2011 are $2,387,158 and $2,479,765, respectively. Fiscal years 2012 and 2011 operating expenses include a decrease of 43,408 in fiscal year 2012 and an increase of $5,443 in fiscal year 2011, for the estimated compensated absence liability.

(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 College’s required contribution to the ORP is 11.4% of covered payroll, and contribution by employees is 8% of covered payroll.

The College’s contributions to the ORP for the fiscal years ended June 30, 2012, 2011, and 2010 were $4,094,399, $3,992,072, and $3,653,250, 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 College’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 the 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.

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.

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

Members with five years of service credit at January 1, 2011, are also eligible for retirement benefits without a reduction for early retirement based on the 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.
- 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.

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% 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% 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 one-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 IRC.

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, 2011, Senate Bill 11-076 extended the requirement for members in the State and Judicial Divisions to pay 2.5% additional member contributions through June 30, 2012. Employer contributions for members in these two divisions will be reduced by 2.5%.

From July 1, 2011 to December 31, 2011, the State contributed 12.25% (14.95% for state troopers and 14.86% for the Judicial Branch) of the employee's salary. From January 1, 2012 through June 30, 2012, the State contributed 13.15% (15.85% for State troopers and 14.86% for the Judicial Branch). During all of fiscal year 2011 – 12, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statute (CRS), an amortization period of 30 years is deemed actuarially sound. At December 31, 2011, the division of PERA in which the State participates has a funded ratio of 57.7% and a 56-year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly lower at 57.6%.

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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 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 College's contributions to the PERA defined benefit plan and/or the defined contribution plan for the fiscal years ended June 30, 2012, 2011, and 2010 were $5,125,382, $4,854,006, and $5,372,108, 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 Section 24-54.6-101, C.R.S., 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 College for fiscal years ended June 30, 2012 and 2011 was $1,613,693 and $1,519,852, respectively. Employee contributions for fiscal years ended June 30, 2012 and 2011 were 7.5% of covered payroll in the amount of $121,029 and $113,991, 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 that provide their employees with pension benefits. The College provides certain of its employees with pension benefits through the state's multiple employer cost-sharing Public Employees' Retirement Association (PERA) defined benefit retirement program.

Statement No. 68 requires cost-sharing employers participating in the PERA program, such as the College, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The College 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 College'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 their Comprehensive Annual Financial Report.

(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 five years. Participants in the plan are required to contribute 8% (10% for state troopers) of their salary. For fiscal years 2009-10 and 2010-11 the legislature temporarily increased the required contribution rate to 10.5% (12.5% for State Troopers). At December 31, 2011, the plan had 4,029 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 2010, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8% PERA contribution with a temporarily increase to 10.5% for fiscal years 2010-11 and 2011-12) to a maximum of $16,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $5,500 contribution in 2010, for total contributions of $22,000. Contributions and earnings are tax deferred. At December 31, 2011, the plan had 17,821 participants.

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

(11) Postretirement Benefits and Life Insurance

(a) Health Care Plan

The PERA Health Care Program (the 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 College contributed $411,645, $419,584, and $408,922, as required by statute in fiscal years 2012, 2011, and 2010, 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, 2011, there were 50,217 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2011, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.43 billion, a funded ratio of 16.5%, and a 49-year amortization period.

(b) Colorado Higher Education Insurance Benefits Alliance (CHEIBA)

College 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, 2012, there were 21 participants in postretirement coverage from the eight-member higher education institutions. For fiscal year 2012, the College has two retired faculty and administrative participants choosing CHEIBA. Retirees pay the entire premium, which is approximately 130% of the premiums charged to active employees.

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.

(12) Commitments and Contingent Liabilities

The College 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). The guaranteed amounts are payable solely from available pledged revenues of the College, 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 College, 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 College.

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

(13) Campus Shared Controlled Costs

Legislation enacted in 1974 established AHEC and included the College 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 College's portion of campus-shared costs for the Auraria Campus is as follows:

		Year ended June 30	
		2012	**2011**
Administration of Auraria Higher Education Center and operation and maintenance of plant	$	8,120,518	8,032,709
Controlled Maintenance		783,919	—
Library and Media Center		3,832,534	3,774,086
Total	$	12,736,971	11,806,795

The College's existing and future commitments to AHEC are established within the Senate Bill 10-1301. The College's ability to fulfill existing and future commitments is contingent upon funds being appropriated for such purposes. For the year ending June 30, 2013, the College's portion of shared costs is estimated to be $13,930,207 (unaudited).

(14) Legislative Appropriations

The Colorado State Legislature establishes spending authority to the College in its annual Long Appropriations Bill. The Long Bill appropriated funds include an amount from the State of Colorado'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, 2012 and 2011, appropriated expenses were within the authorized spending authority. For the years ended June 30, 2012 and 2011, the College had a total appropriation of $36,961,479 and $127,116,233, respectively. For years ended June 30, 2012 and 2011, the College's appropriated funds consisted of $30,327,163 and $31,995,820, respectively, received from students that qualified for stipends from the College Opportunity Fund and $6,634,316 and $10,669,306, respectively, as fee-for-service contract revenue. All other revenues and expenses reported by the College 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.

(15) Component Unit Disclosures

GASB Statement No. 14 and 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 College.

The Foundation is a not-for-profit corporation formed to promote the welfare, development, growth, and well-being of the College. The Foundation is a separate legal entity, which is fully independent from the College, is not financially dependent upon the College, 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 FASB Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*.

On August 17, 2010, the College'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 Metro or Metro'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, following the GASB Statement No. 39 recommendation, its financial information is not presented on the same page as the College but is reported on separate pages after the College'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 College's disclosures.

(16) Related-Party Transactions

Transactions between the College and its discretely presented component units are considered to be related-party transactions. Amounts reported may differ from the component unit's notes to basic financial statements based on various timing differences, all of which have been substantially reconciled to the component unit's balances. For fiscal years ended June 30, 2012 and 2011, the College leased office space to the Foundation for $8,316, each year. During the years ended June 30, 2012 and 2011, the Foundation provided $2,302,318 and $2,297,376, respectively, of funding to the College for various purposes, such as scholarships, departmental funding, and other programs. In addition to the amount that was paid to the College directly, there was $28,190 and $18,171 paid to multiple vendors through the Foundation directly on behalf of the College, for the years ended June 30, 2012 and 2011, respectively.

The College provides employees on a reimbursement basis to the Foundation. For the years ended June 30, 2012 and 2011, these expenses were $210,643 and $218,376, respectively. In addition, the College donates development and certain personnel costs to the Foundation, which totaled $1,195,686 and $1,214,867 for the years ended June 30, 2012 and 2011, respectively.

At June 30, 2012 and 2011, the College had receivables of $272,395 and $392,651, respectively, due from the Foundation. As of June 30, 2012 and 2011, the College had payable balances of $15,246 and $45,394, respectively, due to the Foundation.

At June 30, 2012, and 2011, the College had receivables of $10,095 and $0, respectively, due from the HLC @ Metro, Inc. There were no payables due.

(1) Summary of Significant Accounting Policies

(a) Organization

The Metropolitan State College of Denver Foundation, Inc. (the Foundation) is a nonprofit corporation organized and operated to promote the general welfare and development of the Metropolitan State College of Denver (the College).

On October 30, 2009, the Foundation established 965 Santa Fe, LLC (the LLC), a Colorado limited liability company, whose sole member is the Foundation. During 2009, the Foundation contributed $1,475,000 to the LLC, which was established for the purpose of purchasing and renting the Center for Visual Arts (CVA) facility to the College.

(b) Reporting Entity and Principles of Consolidation

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

(c) Basis of Accounting

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

(d) Cash and Cash Equivalents

The Foundation considers all highly liquid investments, including certificates of deposit having insubstantial or no early-withdrawal penalties, which are to be used for current operations to be cash and cash equivalents. All other highly liquid instruments, which are to be used for the long-term purposes of the Foundation, are classified as investments.

(e) Promises to Give

Unconditional promises to give that are 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 recorded at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted discount rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue in years subsequent to initial recognition. Conditional promises to give are not included as support until the conditions are substantially met.

In years subsequent to initial recording, management determines an allowance for uncollectible amounts based on historical experience and analysis of subsequent collections. At June 30, 2012 and 2011, the allowance was $270,000 and $0, respectively.

(f) Investments

Investments are initially recorded at cost, or if donated, at fair value on the date of donation, with unrealized gains and losses included in the change in net assets. Net investment return consists of the Foundation's interest and dividend income, realized and unrealized capital gains and losses on investments, less investment management and custodial fees.

(g) Land and Building

Land and building are recorded at cost, or if donated, such assets are capitalized at the estimated fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 15 to 30 years. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation is removed from the accounts, and any resulting gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

(h) Impairment of Long-Lived Assets

The Foundation reviews asset carrying amounts for impairment whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced, by a charge to the statement of activities, to its estimated fair value. No impairment loss was recorded during the years ended June 30, 2012 and June 30, 2011, and management has determined no additional impairment indicators exist at June 30, 2012.

(i) Unrestricted Net Assets

Unrestricted net assets are available for use in general operations.

(j) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of amounts that are 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 endowment distributions from permanently restricted net assets.

Donor restricted support, including promises to give, are recorded as an increase in temporarily or permanently restricted net assets, depending on the nature of their restriction. 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.

(k) Permanently Restricted Net Assets

Permanently restricted net assets consist of 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 agreement. Administrative fees charged by the Foundation to individual endowments, pursuant to the grant agreement, are treated as unrestricted support.

(l) Endowment

Composition of Endowment

The Foundation's endowment (Endowment) is composed of approximately 130 individual endowment funds established by donors primarily to provide scholarships to eligible students of the College, and support for academic departments, student activities, and other purposes of the College. 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.

Interpretation of Relevant Law

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 endowment gifts, as of each gift date, absent explicit donor instructions to the contrary. At June 30, 2012 and 2011, approximately 95% of the Foundation's endowment funds contained donor instructions directing the Foundation to make annual distributions from the funds in accordance with its distribution policy regardless of any difference between the original gift amounts and the current fair values of the endowments (Spending Endowments). The remaining 5% of endowment funds contained stipulations requiring the preservation of the fair values of the original gift amounts (Limited Endowments).

As a result of this interpretation, the Foundation classifies the Spending Endowments separately from the Limited Endowments. Spending Endowments consider as permanently restricted: (a) the original values of endowment gifts, (b) the original values of subsequent endowment gifts, and (c) the cumulative net earnings and losses of the endowments, net of distributions, administrative costs, and management fees. The Limited Endowments consider as permanently restricted: (a) the original values of endowment gifts, and (b) the original values of subsequent endowment gifts, with no additions or reductions for the cumulative net earnings and losses of the endowments, net of distributions, administrative costs, or management fees. The fair values of endowment net assets are classified as permanently restricted net assets until appropriated for distribution by the Foundation in the manner described above, which the Board of Directors of the Foundation considers to be 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 donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization 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 organization
- The investment policies of the organization.

Return Objectives and Risk Parameters

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 while seeking to preserve the original fair values of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, endowment assets are invested in a manner intended to produce results, measured over full market cycles, that equal or exceed the price and yield results of a blended portfolio composed of debt and equity investments while assuming a low-to-moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return that is 3% higher than the corresponding inflation rate reported in the Higher Education Price Index (HEPI). Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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.

Distribution Policy and Relation to Investment Objectives

The Foundation's policy is generally to distribute 3% to 5% of endowments annually. The distribution policy, expressed as a percentage of fair value of the endowments, was 4.5% during 2012 and 2011. The calculation is based on the lesser of the rolling three-year average value as determined each December 31st or the fair value of the principal plus undistributed net accumulated (loss) earnings, as defined. The distribution from the various endowment accounts is computed based on their proportionate fair values as of the preceding distribution date.

The Foundation confines the distributions from the Limited Endowments to the excess of the fair values of the endowments over the original and subsequent gifts to the endowments. In establishing this policy, the Foundation considered the long-term expected return on its Endowment. Accordingly, over the long term, the Foundation expects the current distribution policy to preserve the permanently restricted net assets of the Endowment. This is consistent with the Foundation's objective to preserve the original fair values of the endowment assets as well as to provide an opportunity for real growth through new gifts and undistributed investment return.

(m) Revenue Recognition

Revenue is recognized when earned and realizable. Contributions are reported when cash, other assets or an unconditional promise to give is received.

(n) Donated Services and Materials

The Foundation records donated professional services at the respective fair values of the services received and donated College Development staff wages as donor development contributions and costs. In addition, a number of volunteers donate time to the Foundation's program services, administration, and development activities. Although the value of these services is significant, the Foundation does not recognize the amount in its statements of activities because the particular jobs performed by these volunteers do not fall into the criteria prescribed by GAAP. Donated materials are recorded at fair value at the date of donation and, except for materials specified for the Foundation's use, are transferred to the College.

(o) Expenses

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

(p) Functional Allocation of Expenses

The costs of providing the various program and supporting activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the programs and supporting services benefited.

(q) 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, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of support, revenue, expenses, and distributions during the reporting period. Actual results could differ from those estimates and such differences could be material.

(r) Financial Instruments and Credit Risk

The Foundation manages cash deposit concentration risk by placing its temporary cash and money market accounts with financial institutions believed by management to be credit-worthy. At times, a significant portion of the funds exceed federally insured limits. The Foundation has not experienced any losses related to these balances. All of the Foundation's noninterest bearing cash balances were fully insured at June 30, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to $250,000 per depositor at each financial institution, and noninterest bearing cash balances may again exceed federally insured limits.

Credit risk associated with promises to give is limited due to the large number and creditworthiness of donors comprising the Foundation's donor base and based on historical collection experience.

(Continued)

The Foundation's investments are made by investment managers engaged by the Foundation and are monitored by the Foundation's Board of Directors and management. Though the fair values of investments are subject to fluctuation, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

The Foundation is the beneficiary of certain charitable remainder trusts administered by third parties. Trustees of the trusts determine the investments of the trusts.

(s) Fair Value Measurements

The Foundation follows the method of fair value measurement described in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, to determine the fair values of all assets and liabilities required to be measured at fair value. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. A hierarchy prioritizes the observable and unobservable inputs used to measure fair value into three broad levels, as described below:

- *Level 1* – Defined as observable inputs such as quoted prices in active markets for identical assets or liabilities. Level 1 financial instruments include dollar-denominated money market funds and exchange-traded fixed income and equity securities.
- *Level 2* – Defined as observable inputs other than Level 1 prices. These include quoted prices for similar assets or liabilities in an active market, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 financial instruments include cash value of life insurance policy.
- *Level 3* – Defined as unobservable inputs for which little or no market data exists, utilizing valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Foundation had no Level 3 financial instruments.

See note 3 to the consolidated financial statements for further information about the Foundation's financial assets and liabilities that are accounted for at fair value on a recurring basis.

(t) Accounting for Uncertain Tax Positions

The standard for accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation and various positions related to the potential sources of unrelated business taxable income (UBTI).

(Continued)

The Foundation believes that it has conducted its operations in accordance with, and has properly maintained, its tax-exempt status, and that it has taken no material uncertain tax positions that qualify for recognition or disclosure in the financial statements. The Foundation is generally no longer subject to examination by the Internal Revenue Service for years before 2008.

(2) Promises to Give, Net

Promises to give consisted of the following at:

	June 30	
	2012	**2011**
Restricted for:		
Scholarships, academic, and other activities	$ 2,080,246	666,836
Discount to net present value*	(55,863)	(10,939)
Allowance for uncollectible promises to give	(270,000)	—
	1,754,383	655,897
Endowment	123,238	76,000
Discount to net present value*	(7,752)	—
	115,486	76,000
	$ 1,869,869	731,897

*Rates ranging from 0.17% to 5.30%

Amounts receivable in:		
Less than one year	$ 524,931	172,304
One to five years	1,255,543	400,625
Over five years	89,395	158,968
	$ 1,869,869	731,897

(3) Fair Value disclosures

Assets and liabilities measured at fair value on a recurring basis have been categorized into a hierarchy based on the observable and unobservable inputs used to measure fair value as of:

	June 30, 2012			
Description	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**No observable inputs (Level 3)**	**Balance as of June 30, 2012**
Investments:				
Money market funds [1]	$ 261,629	—	—	261,629
Fixed income funds [2]				
U.S. Government securities funds	1,128,408	—	—	1,128,408
Bond funds	1,479,922	—	—	1,479,922
Emerging market funds	176,933	—	—	176,933
High-yield bond funds	73,066	—	—	73,066
Inflation-adjusted funds	269,462	—	—	269,462
Equity funds [2]				
U.S. common stocks	1,814,934	—	—	1,814,934
Small to mid-cap equity funds	410,137	—	—	410,137
International equity funds	316,975	—	—	316,975
Emerging markets equity funds	375,870	—	—	375,870
Real estate equity funds	125,985	—	—	125,985
Futures and commodity funds	299,503	—	—	299,503
	$ 6,732,824	—	—	6,732,824
Beneficial interests in charitable trust restricted to endowment [3]	$ —	89,383	—	89,383
Cash value of life insurance policy[4]	—	11,501	—	11,501
Liabilities under charitable gift annuities[3]	—	(54,232)	—	(54,232)

		June 30, 2011			
Description		**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**No observable inputs (Level 3)**	**Balance as of June 30, 2011**
Investments:					
Cash[1]	$	75,000	—	—	75,000
Money market funds [1]		127,154	—	—	127,154
Fixed income funds [2]					
U.S. Government securities fund		147,616	—	—	147,616
Bond funds		1,074,504	—	—	1,074,504
High-yield bond fund		83,093	—	—	83,093
Equity funds [2]					
U.S. common stocks		610,544	—	—	610,544
Large-cap equity funds		740,452	—	—	740,452
Small to mid-cap equity funds		480,022	—	—	480,022
International equity funds		372,425	—	—	372,425
Emerging markets equity fund		383,571	—	—	383,571
Real estate equity fund		11,550	—	—	11,550
Futures and commodity funds		271,255	—	—	271,255
	$	4,377,186	—	—	4,377,186
Beneficial interests in charitable trust restricted to endowment [3]	$	—	95,819	—	95,819
Cash value of life insurance policy[4]		—	11,501	—	11,501
Liabilities under charitable gift annuities[3]		—	(55,201)	—	(55,201)

(1) The fair values of cash and money market funds are equal to the sum of the account balances.

(2) The fair values of common stocks and exchange-traded closed-end equity mutual funds with readily determinable fair values are determined by quoted market prices for identical securities in active markets. The fair values of open-end equity mutual funds represent the redemption values at the close of business on the reporting period.

(3) Fair values are estimated by management based on observable securities' prices, and present value techniques incorporating actuarial data and risk-adjusted interest rates developed in accordance with the *Fair Value Measurements* topic of FASB ASC 820 (see notes 5 and 7).

(4) The fair value of life insurance policy approximates its cash surrender value, which is established pursuant to the terms of the underlying policy based on actual assumptions made by the insurer.

(4) Net Investment Return

Net investment return was composed of the following for the year ended:

		June 30	
		2012	**2011**
Interest and dividend income	$	95,518	79,390
Net realized and unrealized (loss) gain		(142,590)	507,829
Less investment management fees		(52,649)	(29,357)
	$	(99,721)	557,862

(5) Charitable Trusts Administered by Others

The Foundation is the beneficiary of an irrevocable charitable remainder trust administered by a financial institution. The trust agreement provides for the payment of distributions to the grantor or another designated beneficiary over their respective lifetimes. At the end of the trust's term, the remaining assets will be available for restricted use or for the establishment of an endowment as specified by the donor. The estimated fair value of the Foundation's beneficial interest in the trust is as follows at:

		June 30	
		2012	**2011**
Gross value of beneficial interests	$	158,384	158,384
Less amortized discount		(69,001)	(62,565)
	$	89,383	95,819

The Foundation received no distributions from trust terminations during the years ended June 30, 2012 and 2011.

(6) Land and Building

Land and building are comprised of the following at:

		June 30	
		2012	2011
Land	$	456,400	456,400
Building and related costs		1,072,398	1,072,398
		1,528,798	1,528,798
Accumulated depreciation		(100,070)	(61,406)
	$	1,428,728	1,467,392

Depreciation expense totaled $38,664 and $36,615 for the years ended June 30, 2012 and June 30, 2011, respectively.

(7) Gift Annuities

The Foundation has entered into several charitable gift annuity contracts. These contracts require the Foundation to make fixed payments to the beneficiaries over their lifetimes. Under a charitable gift annuity contract, the assets received by the Foundation are immediately available for use by the Foundation and, as such, are not held in trust separately from other investments of the Foundation. The obligation to make periodic disbursements to the beneficiaries becomes a general obligation of the Foundation. On the date each charitable gift annuity was established, the Foundation recorded a contribution equal to the difference between the amount transferred from the donor and the present value of the future cash flows expected to be paid to the specified beneficiaries using a risk-adjusted discount rate of 7%.

(8) Leases

During the fiscal year ended June 30, 2010, the LLC purchased a commercial building at 965 Santa Fe Drive to house the CVA. Effective March 1, 2010, the LLC and the College entered into a three-year noncancelable lease expiring February 28, 2013. In addition to annual minimum rent of $100,000, the College reimburses the LLC for actual expenses incurred for the maintenance and operation of the premises, which are estimated to be $35,000 per year. The lease contains an option to extend for an additional three-year term, which management deems is probable. During the three-year extension period, minimum rent will be reduced to zero, but the College will continue to reimburse the LLC for maintenance and operation costs.

Minimum future payments due to the LLC under the lease are $66,667 through February 2013.

(9) In-Kind Contributions (Donated Materials and Services)

The Foundation received donations of materials and services comprised of the following during the years ended:

	June 30	
	2012	2011
Materials	$ 1,340	156,744
Sculpture	225,000	—
College Hospitality Learning Center materials and services	1,573,733	—
Development office compensation – College	1,195,686	1,214,867
	$ 2,995,759	1,371,611

(10) Restricted Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unconditional promises to give, contributions received, and investment earnings restricted by donors for particular purposes or time periods as follows at:

	June 30	
	2012	2011
Scholarships	$ 921,567	1,101,024
Academic and other departments	1,547,041	1,208,191
Student, alumni and other activities	3,004,693	1,732,650
	$ 5,473,301	4,041,865

Temporarily restricted net assets were released from restrictions as follows during the years ended:

	June 30	
	2012	2011
Scholarships	$ 957,499	949,076
Academic and other departments	832,240	792,513
Student, alumni and other activities	569,596	606,678
College Hospitality Learning Center materials and services	1,573,733	—
Land and building purchase for CVA	—	691,952
	$ 3,933,068	3,040,219

Permanently Restricted Net Assets

Permanently restricted net assets consist of various endowment funds restricted by donors for investment in perpetuity, subject to the Foundation's distribution policy, which permits withdrawals of original gift amounts if required to meet expenditure requirements. Earnings on endowment funds are available to the Foundation for the purposes specified by the donors. The permanently restricted net asset balances of the various endowments were as follows at:

		June 30	
		2012	**2011**
Promises to give restricted to endowment	$	115,486	76,000
Beneficial interest in charitable trust (note 5)		89,383	95,819
Life insurance		11,501	11,501
Original contributions of approximately $4.8 million and $4.5 million and accumulated loss of approximately $427,000 and $170,000 at June 30, 2012 and 2011		4,413,618	4,325,610
Liabilities under permanently restricted charitable gift annuities		(51,036)	(51,816)
	$	4,578,952	4,457,114

Changes in endowment net assets were as follows for the year ended:

		June 30	
		2012	**2011**
Endowment net assets, beginning of year	$	4,457,114	3,554,765
Net investment return		(174,187)	525,535
Contributions and changes in promises to give		384,734	505,019
Uncollectible promise to give loss		(1,500)	—
Distributions		(81,211)	(140,256)
Change in beneficial interests and annuity liabilities		(5,998)	12,051
Endowment net assets, end of year	$	4,578,952	4,457,114

In accordance with its distribution policy, the Foundation recorded the following net asset reclassifications during the years ended:

			June 30, 2012	
		Unrestricted	**Temporarily restricted**	**Permanently restricted**
Investment net returns available for scholarships	$	—	61,590	(61,590)
2% administrative fee on endowment fund		46,484	—	(46,484)
Other		166	(27,029)	26,863
	$	46,650	34,561	(81,211)

(Continued)

		June 30, 2011	
	Unrestricted	**Temporarily restricted**	**Permanently restricted**
Investment net returns available for scholarships	$ —	77,914	(77,914)
2% administrative fee on endowment fund	69,685	—	(69,685)
Other	—	(7,343)	7,343
	$ 69,685	70,571	(140,256)

(11) Related Party Transactions

The Foundation leases certain office space from the College with automatic one-year renewal at the beginning of each fiscal year. Annual rent expense under the lease agreement was $8,316 for the years ended June 30, 2012 and 2011, respectively.

Funding provided by the Foundation directly to the College for scholarships, academic and other departments, and other activities totaled $2,231,737 and $2,251,081 for the years ended June 30, 2012 and 2011, respectively. The Foundation owed the College $274,227 and $295,753 at June 30, 2012 and 2011, respectively, for June funding.

The Foundation paid the College $210,643 and $218,376 for salaries and benefits of certain College personnel provided to the Foundation during the years ended June 30, 2012 and 2011, respectively.

In addition, the College provided development and other personnel to the Foundation at no cost. The Foundation recorded donated professional services in the amount of $1,195,686 and $1,214,867 for the years ended June 30, 2012 and 2011, respectively. The corresponding expenses have been reflected in the accompanying statements of activities as donor development costs. Further, the College reimbursed the Foundation for $33,029 in administrative expenses during the year ended June 30, 2011.

The College leases space for the CVA from the LLC (note 8). Amounts due from the College to the Foundation for expense reimbursements were $15,246 and $45,394 at June 30, 2012 and 2011, respectively.

(12) Commitments and Contingencies

College Hospitality Learning Center

The College formed a special-purpose corporation and a finance authority for the College 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 College Hospitality Learning Center located on campus. The College special-purpose corporation is the borrower of the bonds and will own and operate the hotel and hospitality learning center. The Foundation, College, special-purpose corporation, and finance authority entered into an agreement relating to the construction, debt, ownership and operation of the hotel and hospitality learning center. Key aspects of the agreement are:

- The Foundation will use its best efforts to raise sufficient cash and in-kind donations to retire the debt attributed to the hospitality learning center. This is estimated to be $12 million. Approximately 22% of this amount has been recognized through June 30, 2012.
- After the bonds and related costs have been paid in full, the Foundation will receive the excess operating revenues generated by the hotel. It is assumed 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 College students.

College Center for Innovation Franchise Ownership Program

The Foundation and College entered into an agreement relating to the Center for Innovation's Franchise Ownership Program. Key aspects of the agreement are:

- A new corporation (Corporation) will be established as a wholly owned for-profit subsidiary of the Foundation.
- The Foundation will transfer to the Corporation funds it receives earmarked for donation to the Franchise Ownership Program into a franchise operating fund (Fund). The Corporation will have an ownership interest in such Fund and representatives from the Foundation and the College (as well as other representatives) will participate in the management of such Fund.
- The Foundation is responsible for managing funds relating to the program in both Foundation and corporation accounts.
- The Foundation's current assets and earnings – other than those maintained for the benefit of the Franchise Ownership Program – are not at risk should the program incur deficits or shortages.

As of June 30, 2012, the Corporation agreement and establishment of franchise operating funds are in process.

(13) Conditional Promises to Give

The Marriott franchise agreement provides for conditional financial incentives approximating $900,000 which are anticipated to be earned within the first three years of hotel operations. No conditions have been satisfied as of June 30, 2012 as the hotel had not begun operations.

Sage Hospitality has been retained as hotel manager under a hotel management agreement that provides for discount of a dedicated percent of its management fee of approximately $25,000 per year for a period of 10 years, which is conditioned upon continued management of the hotel. No conditions have been satisfied at June 30, 2012 as the hotel had not begun operations.

The Foundation has been informed that it has been named beneficiary under certain wills. No amounts have been included in the consolidated financial statements relating to potential distributions under these wills because they may be revoked or amended during the makers' lifetimes or because the amounts of such distributions were not determinable.

(14) Subsequent events

The Foundation has evaluated subsequent events through September 7, 2012, which is the date the financial statements were available to be issued. No events, other than those disclosed below, were identified as requiring recognition or disclosure.

Effective July 1, 2012, the Foundation changed its name to Metropolitan State University of Denver Foundation, Inc.

(1) Organization

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

The building of the Hotel and Hospitality Learning Center is being financed through issuance of $49,640,000 taxable subsidized 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 is estimated at $45 million; with the additional bond proceeds to be used for debt issuance costs and debt service reserve funds. These bonds were issued by the Metropolitan State College of Denver Roadrunner Recovery and Reinvestment Act Finance Authority (the RRRAFA), which is a political subdivision and a public corporation of the State of Colorado (the State) established to issue these bonds. On October 28, 2010, Series 2010A, B, and C bond proceeds were transferred from the RRRAFA to the HLC.

The Hotel and Hospitality Learning Center at Metro State will offer the Denver community two resources including: a fully functioning flagged hotel, SpringHill Suites® by Marriott, and a learning laboratory for the College’s Hospitality, Tourism, and Events department (HTE).

Located in the heart of Denver, the hotel will include 150 hotel rooms and conference facilities. The adjacent hospitality learning center will boast more than 28,000 square feet of academic space, including classrooms, specialty learning labs, and faculty offices. The hotel will be run by the professional hotel management firm, Sage Hospitality, and will provide hands-on training opportunities for students in the HTE program.

No taxpayer dollars will be used on the estimated $45 million project; the groundbreaking was held on March 31, 2011 and the opening date was August 3, 2012. All activities for fiscal year 2012 are related to the construction of the Hotel and Hospitality Learning Center.

(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 College. The College controls the appointment process of the HLC board of trustees and four of the six board members are College directors or officers as of June 30, 2012. 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 has been added in August 2012. Efforts are currently underway to add two additional board members.

The HLC's board of trustees is substantively different from the College'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 College.

(b) Basis of Accounting

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

(c) Restricted 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, 2012 and 2011, restricted cash and cash equivalents consisted of the following:

		2012	2011
Cash in bank accounts with Trustee (Wells Fargo)	$	1,802,322	7,307,784
Cash invested with State Treasury		9,913,425	36,252,576
Unrealized gain on cash and cash equivalents		96,126	550,078
Total restricted cash and cash equivalents	$	11,811,873	44,110,438

(d) Cash Investment with State Treasury and Related Unrealized Gains

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, 2012 and 2011, HLC had $9.9 million and $36.3 million, respectively, which represented 0.15% of the total of $6,541.7 million and 0.59% of the total of $6,100.3 million, respectively, in deposits in the 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.

For the HLC's deposits with the State Treasury, the net unrealized gain for fiscal year 2012 and fiscal year 2011 were $96,126 and $550,078 respectively. These unrealized gains 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*

(Continued)

Measurements and Disclosures. 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, 2012 and 2011, all of the HLC's deposits within the Treasurer's Pool are considered to be Level 1 investments.

Detailed information on the State Treasurer's pooled cash and investments is available from that office and in the State's comprehensive annual financial report.

(e) Fair Value of Financial Instruments

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

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

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

Accounts payable, retainage payable, interest payable, and environmental cleanup costs – Fair value is estimated to be the same as the carrying (book) value because of their short maturities. The accounts payable balance as of June 30, 2012 and 2011 includes a related-party payable to the College in the amount of $10,095 and $0, respectively, for legal expenses.

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, 2012 and 2011, the fair value of bonds payable is $61,961,187 and $55,271,300, respectively.

(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 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 computers and equipment. All direct costs associated with the construction project are included in establishing the asset valuation. This includes legal fees, feasibility studies, or other costs that are 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.

(g) Accounts Receivable

Accounts receivable as of June 30, 2012 and 2011 consist of \$354,926 and \$354,296, respectively, in interest receivable from the federal government for the Series 2010A bonds interest subsidy, \$9,303 and \$48,169 respectively, in interest due from the State Treasury; and \$16 and \$61, respectively, interest due from Wells Fargo. An allowance for uncollectible accounts is determined based on a specific review of outstanding balances; however, as of June 30, 2012 and 2011, there is no allowance for uncollectible accounts.

(h) 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 year ended June 30, 2012 and for the period of inception to June 30, 2011 was \$172,381 and \$172,381, respectively.

(i) Revenue Recognition

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

(j) 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.

(k) Net Assets

The HLC, as a nonprofit organization, is required to classify its net assets in three categories: unrestricted, temporarily restricted, and permanently restricted. The 2010 bonds proceeds are restricted to be used for the construction project, related issuance costs, and the reserve funds.

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

Temporary 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. In the event, expenses exceed total support, revenue, and gains, net assets are reclassified from unrestricted to temporary restricted net assets. HLC has no permanently restricted net assets.

(l) 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.

(3) Bond Obligations

Bond obligations as of June 30, 2012 and 2011 are reflected in the table below:

	Date of issue	Amount issued	June 30, 2012	June 30, 2011
2010 taxable revenue bonds (Build America Bonds)	1/21/2010	$ 49,640,000	49,640,000	49,640,000
2010 tax-exempt revenue bonds	1/21/2010	4,500,000	4,500,000	4,500,000
2010 taxable revenue bonds	1/21/2010	745,000	745,000	745,000
Discount on 2010 series bonds, net of amortization			(261,549)	(244,727)
Bonds payable			$ 54,623,451	54,640,273

The following table shows schedule of bond principal and interest payments for all Series 2010 bonds, which are due semiannually every March and September:

Fiscal year	Principal	Interest	Total
2013	$ —	3,226,132	3,226,132
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 – 2022	6,360,000	15,166,582	21,526,582
2023 – 2027	7,650,000	13,399,207	21,049,207
2028 – 2032	9,220,000	10,856,557	20,076,557
2033 – 2037	11,275,000	7,573,958	18,848,958
2038 – 2042	13,840,000	3,489,558	17,329,558
2043	4,595,000	49,395	4,644,395
	$ 54,885,000	66,587,390	121,472,390

(Continued)

Series 2010 Bonds

Metropolitan State College of Denver Roadrunner Recovery and Reinvestment Act Finance Authority issued Series 2010 bonds on October 28, 2010 for the purpose of constructing the Hotel and Hospitality Learning Center. The proceeds of the bonds and its obligations were transferred to the HLC in fiscal year 2011. The College has entered into a guarantee agreement dated October 1, 2010 with the HLC. Per this agreement, the College 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). The guaranteed amounts are payable solely from available pledged revenues of the College.

(a) Series 2010A

On October 28, 2010, Series 2010A taxable revenue BABS were issued for $49,640,000, bearing interest 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 $1,783,503 has been received and another $354,926 has been recorded as a receivable as of June 30, 2012.

(b) Series 2010B

On October 28, 2010, Series 2010B tax-exempt revenue bonds were issued for $4,500,000, bearing interest rate 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 at a total of $994,500.

(c) Series 2010C

On October 28, 2010, Series 2010C taxable revenue bonds were issued for $745,000, bearing interest rate 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 at $338,899.

The Metropolitan State College of Denver Foundation, Inc. (the Foundation) exists for the purpose of soliciting and investing donations for the College. On September 21, 2010, the Foundation's board of directors adopted the Foundation Resolution providing for a plan to use its best effort to raise approximately $12 million in donations, sufficient to retire a portion of the HLC Series 2010 bonds. As of June 30, 2012, $2,553,025 has been earmarked for the HLC.

(4) Ground Lease

As of June 30, 2012, the HLC has no lease obligations. Trustees of the College have leased the 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.

(5) 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.

(6) Subsequent Events

HLC has evaluated its subsequent events as of November 16, 2012, the date that financial statements were available for issuance. No events were identified requiring disclosure.

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

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

The Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of Metropolitan State College of Denver (the College), a component unit of the State of Colorado, as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements, and have issued our report thereon dated November 16, 2012. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Metropolitan State College of Denver Foundation, Inc. discretely presented component unit were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College'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 College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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

Compliance and Other Matters

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

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

KPMG LLP

November 16, 2012

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

November 16, 2012

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the business-type activities and the aggregate discretely presented component units of the Metropolitan State College of Denver (the College), a component unit of the State of Colorado, as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated November 16, 2012. 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 College 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*. Under our professional standards, we are providing you with the accompanying information related to the conduct of our 2012 audit.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the basic financial statements, which have been prepared by management with the oversight of the College'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 basic financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements 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 basic financial statements are detected. Our audit does not relieve management and the Board of Trustees of their responsibilities.

In addition, in planning and performing our audit of the basic financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Board of 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 College's basic 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 College'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 basic financial statements.

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Accounting Practices and Alternative Treatments

Significant Accounting Policies

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

Unusual Transactions

We noted no unusual transactions entered into by the College, which 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.

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 College's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the College's accounting policies and their application, and the understandability and completeness of the College's basic financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

The preparation of the basic financial statements requires management of the College 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Accounting estimates are an integral part of the basic financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The significant accounting estimates included in the College's basic financial statements are the allowance for uncollectible receivables, the period to depreciate capital assets owned by the College, 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 in determining that these estimates are reasonable in relation to the basic financial statements taken as a whole.

Uncorrected and Corrected Misstatements

In connection with our audit of the College's basic financial statements, no audit adjustments were proposed or made to the basic financial statements.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the College's basic 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, 2012.

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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 prior to retention as the College's auditors. However, these discussions occur in the normal course of our professional relationship, and the result of these discussions was 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 in Performing the Audit

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

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all relationships between our firm and the College and persons in a financial reporting oversight role at the College and provide confirmation that we are independent accountants with respect to the College.

We are not aware of any independence-related relationships between our firm and the College.

Confirmation of Audit Independence

We hereby confirm that, as of November 16, 2012, we are independent accountants with respect to the College under all relevant professional and regulatory standards.

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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 College's Board of Trustees, and the College's management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

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

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

Please refer to the Report Control Number below when requesting the report.

Report Control Number 2086-12