

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

Years Ended June 30, 2016 and 2015

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METROPOLITAN STATE UNIVERSITY OF DENVER
REPORT SUMMARY
Year Ended June 30, 2016 and 2015

Purpose and Scope

The Office of the State Auditor of the State of Colorado engaged CliftonLarsonAllen, LLP to conduct a financial and compliance audit of the Metropolitan State University of Denver (formerly, the Metropolitan State College of Denver) (the University) for the year ended June 30, 2016. CliftonLarsonAllen 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 June 2016 to October 2016.

The purpose and scope of our audit were to:

- Express an opinion on the financial statements of the University as of and for the year ended June 30, 2016. This includes a report on internal control over financial reporting and compliance and other matters based on the audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate progress in implementing prior audit findings and recommendations.

The University's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in the June 30, 2016 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Reports

We expressed an unmodified opinion on the University's financial statements as of and for the year ended June 30, 2016.

For Metropolitan State University of Denver, an audit adjustment of \$269,242 was made to record the impact of a deferred compensation retirement plan held by the University.

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

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

METROPOLITAN STATE UNIVERSITY OF DENVER
REPORT SUMMARY
Year Ended June 30, 2016 and 2015

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

In addition to issuing a report on the University's compliance with internal control over financial reporting, we also performed procedures in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), over major federal programs as determined by the Office of the State Auditor. The purpose of our procedures was not to issue an opinion over the University's compliance with the federal programs tested, but rather report any noncompliance and internal control deficiencies noted during our testing to the Office of the State Auditor for inclusion in the Statewide Single Audit report. We noted four instances of noncompliance or internal control deficiencies during these procedures, which we consider to be significant deficiencies.

Summary of Key Audit Findings

Controls over Accuracy of Enrollment Reporting – Correction of Errors (Significant Deficiency in Internal Control)

The University does not have adequate controls in place to ensure errors in student data are identified, corrected and reported to the National Student Loan Data System (NSLDS) accurately and in a timely manner.

Controls over Disbursement of Aid within a Payment Period

The University does not have an internal control in place, such as review of a standardized report, which allows its Office of Financial Aid to track students who have not been disbursed the full amount of their Federal Student Financial Assistance awards during payment periods in order to ensure that all aid eligible for disbursement within the payment period is disbursed.

Controls over Perkins Loan Repayment Requirements

The University does not have a process in place, such as tracking and monitoring mechanisms, to ensure that repayment plans are established and disclosed to all students with Perkins Loans who cease to be enrolled at the University at least half-time.

Recommendations and the University's Responses

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

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2015 included four findings and recommendations. Of the four prior year findings and recommendations we noted that three have been implemented and are not findings for Fiscal Year 2016. The remaining one finding has not been implemented and is again included in our findings and recommendations for the year ended June 30, 2016. See summary at page 12.

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
RECOMMENDATION LOCATOR
Year Ended June 30, 2016 and 2015**

Rec no.	Page no.		Agency response	Implementation date
1	7-9	Metropolitan State University of Denver should ensure it complies with federal Title IV reporting requirements by instituting monitoring procedures over the National Student Clearinghouse to ensure it submits corrected error files to the National Student Loan Data System (NSLDS) within the required ten days. Alternatively, the University should develop its own internal process for ensuring the timely submission of error corrections to the NSLDS, without using a contractor.	Agree	July 2017
2	9-10	Metropolitan State University of Denver should implement a process, including the creation of a standardized report, for identifying and tracking students who have not received the full amount of their federal Student Financial Assistance awards during payment periods. The standardized report should be reviewed by the University's Office of Financial Aid periodically throughout the payment period to ensure that all eligible aid is disbursed during the appropriate period.	Agree	Immediate
3	10-11	Metropolitan State University of Denver should implement and establish internal controls to ensure it complies with federal Title IV Perkins Loan requirements related to repayment plans. This should include establishing a process and procedures requiring the University's Bursar's Office to track students who cease to be enrolled at least half-time, and to ensure that the University establishes and discloses a repayment plan to such students. This process should include the creation and implementation of a report showing all students who were disbursed Perkins funds who have dropped below half-time enrollment that is generated and reviewed periodically throughout the semester to ensure that the University has established and disbursed repayment plans for students, as appropriate. The University should maintain evidence of the process being performed and that repayment plans were established and disclosed to students.	Agree	Immediate

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
DESCRIPTION OF THE METROPOLITAN STATE UNIVERSITY OF DENVER (UNAUDITED)
Year Ended June 30, 2016 and 2015**

Organization

Established in 1965 as Colorado's "College of Opportunity," Metropolitan State University of Denver (the University) is the third largest higher education institution in Colorado and one of the largest public four-year universities in the United States. With a modified open-enrollment policy, students who are at least 20 years old need only have a high school diploma, a general educational development (GED) high school equivalency certificate, or the equivalent to gain admission.

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

The University offers 82 major fields of study and 87 minors, 30 certificates, and 33 licensure programs through its School of Business; School of Education, College of Letters, Arts and Sciences; and College of Professional Studies. Degrees include Bachelor of Science, Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Music, Bachelor of Music Education, and five 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, health administration, and business administration.

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

Fiscal Year	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
2016	14,892	529	15,421
2015	15,528	583	16,111
2014	16,068	497	16,565

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

Fiscal Year	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
2016	839	487	1,325
2015	861	452	1,313
2014	860	415	1,275

METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2016 and 2015

We have audited the financial statements of the Metropolitan State University of Denver (the University) as of and for the year ended June 30, 2016, and have issued our report thereon dated November 30, 2016. In planning and performing our audit of the financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the University's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated November 30, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since November 30, 2016. We did not audit the financial statements of the Metropolitan State University of Denver Foundation, Inc., a discretely presented component unit, discussed in note 1 to the financial statements. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

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

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

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

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

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2016 and 2015**

In addition to issuing a report on the University's compliance and internal control over financial reporting, we also performed procedures in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, over major federal programs as determined by the Office of the State Auditor. The purpose of our procedures was not to issue an opinion over the University's compliance with the federal programs tested, but rather report any noncompliance and internal control deficiencies noted during our testing to the Office of the State Auditor for inclusion in the Statewide Single Audit report. We noted three instances of noncompliance or internal control deficiencies during these procedures, which we consider to be significant deficiencies.

Student Financial Aid Cluster – Introduction

The Federal Student Financial Aid (SFA) programs provide assistance to eligible students attending institutions of postsecondary education. The programs are administered by the Department of Education and are authorized by Title IV of the Higher Education Act of 1965, as amended, and collectively are referred to as the "Title IV programs".

Title IV funds include several types of aid: grant funds, loan funds and Federal Work Study (FWS) funds. Grant funds and loan funds have subcategories of aid that have different eligibility requirements that are awarded based on a student's situation. The University's Title IV Grant funds include Federal Pell grants, Federal Supplemental Educational Opportunity (FSEOG) grants, and Teacher Education Assistance For College and Higher Education (TEACH) grants. The University's Title IV loan funds include Federal Perkins loans, Federal Direct Student loans and Federal Direct Parent loans for Undergraduate Students (PLUS loans).

An original sample of 40 was selected in order to test 1) students' general eligibility, 2) satisfactory academic progress and 3) and disbursement notification requirements. Of the original sample of 40, selected students were tested for the types of aid listed below. Several students received more than one type of aid and were therefore tested for each type of aid they received.

- 33 students received either loans or TEACH grants disbursements that were tested for notification of disbursement requirements.
- 27 students received PELL disbursements that were tested for specific grant requirements.
- 24 students received subsidized federal direct student loans that were tested for applicable requirements.
- 23 students received unsubsidized federal direct student loans that were tested for applicable requirements.
- One student received FSEOG grant funds that was tested for applicable requirements.
- One student received a Perkins loan that was tested for applicable requirements.
- One student received TEACH grant funds that was tested for applicable requirements.

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2016 and 2015**

In addition to the original 40 selected, the following samples were also selected in order to test the requirements of all types of Federal Student Financial Aid awarded by the University:

- One student who received undergraduate PLUS loans funds.
- One student who received federal graduate PLUS loan funds.
- One student who received FWS funds.

Lastly, separate samples were selected in order to test compliance in the following areas:

- Return of federal Title IV funds requirements (sample of 40)
- Student verification requirements (sample of 40)
- Perkins loan repayment requirements (sample of 40)
- Perkins loan deferment and cancellation requirements (sample of 40)
- Perkins loan defaulted loans due diligence requirements (sample of 14)
- Pell grant and direct loan origination and disbursement record reporting requirements (sample of 40)
- Reconciliation of school financial records to the U.S. Department of Education's Common Origination and Disbursement website (sample of 3 monthly reconciliations)
- Student loan enrollment reporting requirements (sample of 40)
- Correction of errors in enrollment reporting requirements (sample of 1)
- Cash management requirements (sample of 8)

Controls over Accuracy of Enrollment Reporting – Correction of Errors

All universities participating in the SFA programs must report student enrollment data to the National Student Loan Data System (NSLDS) through an enrollment roster file and have online enrollment access.

Under the Pell grant and the SFA loan programs, at least every 60 days, the U.S. Department of Education (USDE) sends schools a roster file via a third-party servicer. Schools must certify the information and return the Enrollment Reporting roster file within 15 days of receipt. The University, like many schools, contracts with the National Student Clearinghouse (the Clearinghouse) to process its enrollment reporting to NSLDS. Title IV specifies that schools are responsible for timely reporting, whether they report directly or via a third-party servicer like the Clearinghouse. Once received, schools must update the roster for changes in student statuses, report the date the enrollment statuses were effective, enter the new anticipated graduation dates, and submit the changes electronically through the NSLDS website. After the school individually or through the Clearinghouse submits the enrollment roster file, the school will receive an Error/Acknowledgment file from NSLDS with the records that did not pass the NSLDS' enrollment reporting edits. Schools then have 10 business days to address the errors and submit them to NSLDS.

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2016 and 2015**

What was the purpose of the audit work and what work was performed?

The purpose of the audit work was to determine whether the University complied with federal Title IV reporting requirements by uploading roster files and correcting errors timely in accordance with federal regulations during Fiscal Year 2016. Additionally, the purpose of the work was to test the adequacy of the University's remediation of the significant deficiency in internal control we identified in this area in the prior year. At that time, we recommended that the University should put a process in place to monitor the third party servicer to ensure the Clearinghouse is performing the duties they are contracted to perform, including taking steps to ensure the University identifies and addresses error files and requires the Clearinghouse to correct and resubmit the affected files within the required 10-day timeframe.

We tested a sample of 40 students who had a reduction or increase in attendance levels, graduated from, withdrew, dropped out of, and/or enrolled but never attended the University during Fiscal Year 2016 to determine whether the University reported the student's change in enrollment status timely. In addition, we reviewed the NSLDS Enrollment Reporting Summary Report (which USDE refers to as the SCHER1) to ensure that the University submitted roster files to the NSLDS and corrected and resubmitted any errors noted timely.

How were the results of the audit work measured?

Per 34 Code of Federal Regulations (CFR) 685 and 690, institutions are required to update all information included in the enrollment report from the National Student Loan Data System (NSLDS) and return the report within the prescribed timeframe (15 days). Schools are also required to make necessary corrections, and return the corrections within the prescribed timeframe (10 days) for any report errors subsequently noted by NSLDS. In addition, enrollment information must be reported within 15 days whenever attendance changes for a student, unless a roster will be submitted within 60 days.

What problem did the audit work identify?

We identified a continuation of the issue we noted in the prior year. While we determined that the University's record of student status matched the NSLDS record of student status, all changes were reported within 30 days, and we did not identify errors in the sample of 40 enrollment status changes tested, based on our review of the NSLDS Enrollment Reporting Summary Report, or SCHER1, we noted that the University had not corrected report errors from NSLDS within the required 10-day timeframe. While the Clearinghouse often resubmitted the information within the required 10 days, attempting to clear the errors, all the errors were not cleared and there were no further attempts within the 10 days to clear remaining errors.

Why did the problem occur?

The University did not have proper internal controls in place to ensure that corrections were made timely either via the Clearinghouse or directly to NSLDS.

Why does this problem matter?

Failure to properly report and correct information to NSLDS increases the risk of material non-compliance with federal Student Financial Aid program requirements. A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to loan program holders by U.S. Department of Education; consequently, this could impact a student's obligation to pay back amounts on loans depending on the specific change to their enrollment status.

(CFDA No. 84.063, 84.268, 84.038) Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2016 and 2015**

Total known federal questioned costs of \$0: \$0 identified in the 40 students selected; \$0 identified in payments outside of the 40 students selected.

Recommendation No. 1:

Metropolitan State University of Denver should ensure it complies with federal Title IV reporting requirements by instituting monitoring procedures over the National Student Clearinghouse to ensure it submits corrected error files to the National Student Loan Data System (NSLDS) within the required ten days. Alternatively, the University should develop its own internal process for ensuring the timely submission of error corrections to the NSLDS, without using a contractor.

Metropolitan State University of Denver Response:

Agree. The University is working to improve the internal processing of the NSLDS record submission and make our processes more efficient allowing us to ensure that we are better monitoring the National Student Clearinghouse's submissions.

Implementation Date: July 2017

Controls over Disbursement of Aid within a Payment Period

Student Financial Aid regulations require that disbursements to students must be made in direct relation to the actual costs incurred by the student for that payment period. As such, the University must follow standards regarding disbursement dates of student financial aid.

What was the purpose of the audit work and what work was performed?

The purpose of the audit work was to determine if the University appropriately disbursed Title IV FSA program funds during the current payment period during Fiscal Year 2016 for students enrolled at the institution who were eligible to receive an award for that payment period.

We tested a sample of 27 students who received PELL disbursements during Fiscal Year 2016 to determine whether the University complied with federal Title IV disbursement requirements, including that the University fully disbursed PELL award funds within the appropriate payment period.

How were the results of the audit work measured?

Under 34 Code of Federal Regulations (CFR) 668.164(b), universities must disburse SFA awards on a payment period basis, with limited exceptions. The payment period used by a University depends on its academic calendar and the FSA program for which funds are disbursed. The University's payment period is the same as a standard academic semester. This means, for example, that a student's SFA award for a fall semester must be disbursed during the fall semester.

What problem did the audit work identify?

We identified one instance in which the University did not disburse a PELL award in accordance with federal regulations to a student during the payment period. Specifically, the University's student financial aid software system only disbursed a portion of the PELL award for which the student was eligible within the payment period. The student modified his/her enrollment several times prior to the scheduled disbursement date, which caused the system to determine the student was only eligible for a portion of the award. Although the student received the remainder of the award in a subsequent period, the award payment was delayed and was paid to the student 58 days after the term.

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2016 and 2015**

Why did this problem occur?

The University does not have an internal control in place, such as review of a standardized report, which allows its Office of Financial Aid to track students who have not been disbursed the full amount of their award during payment periods in order to ensure that all aid eligible for disbursement within the payment period is disbursed.

Why does this problem matter?

The University's failure to fully disburse an SFA award within the applicable payment period results in students potentially fronting their own funds to pay for the educational expenses they incurred during the payment period or being unable to pay for the expenses. Further, the University's failure to fully disburse a FSA award increases the risk of material non-compliance with federal Student Financial Aid program requirements.

(CFDA No. 84.063; Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)

Total known federal questioned costs of \$0: \$0 identified in the 27 students selected; \$0 identified in payments outside of the 27 students selected.

Recommendation No. 2:

Metropolitan State University of Denver should implement a process, including the creation of a standardized report, for identifying and tracking students who have not received the full amount of their federal Student Financial Assistance awards during payment periods. The standardized report should be reviewed by the University's Office of Financial Aid periodically throughout the payment period to ensure that all eligible aid is disbursed during the appropriate period.

Metropolitan State University of Denver Response:

The University has a standardized report that is run weekly to identify students with changes in their Pell Grant scheduled award. However, during fiscal year 2016, the list was not run weekly due to staffing issues. The Financial Aid Office was reorganized in October 2016 to resolve this issue.

Implementation Date: Immediate

Controls over Perkins Loan Repayment Requirements

The Federal Perkins Loan program provides need-based student loans offered by the U.S. Department of Education to assist in funding post-secondary education. Perkins Loans carry a fixed interest rate of 5 percent for the duration of a ten-year repayment period. Students at the University held approximately \$8.9 million in Perkins loans as of June 30, 2016.

What was the purpose of the audit work and what work was performed?

The purpose of the audit work was to determine whether the University established and disclosed repayment plans to student borrowers in Fiscal Year 2016 in accordance with federal regulations.

We tested a sample of 40 students who entered Perkins Loan repayment during the fiscal year by reviewing loan records to verify that the conversion to repayment was timely, and that a repayment plan was disclosed and established by the University with student borrowers as required by federal regulations.

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2016 and 2015**

How were the results of the audit work measured?

Under 34 Code of Federal Regulations (CFR) 374.33(1), all universities participating in the federal Title IV Perkins Loan program must establish and disclose a repayment plan to individual student borrowers before the student ceases to be enrolled at least half-time.

What problem did the audit work identify?

We identified one instance of a student who entered repayment during Fiscal Year 2016 for which the University could not supply evidence that a repayment plan was established and disclosed to the student borrower.

Why did the problem occur?

The University does not have a process in place, such as tracking and monitoring mechanisms, to ensure that repayment plans are established and disclosed to all students who cease to be enrolled at the University at least half-time.

Why does this problem matter?

Failure to properly establish and disclose repayment plans to student borrowers who cease to be enrolled as least half-time increases the risk of material non-compliance with federal Student Financial Aid program requirements. Further, because having established repayment plans helps ensure that students pay back loans in a timely manner and prevent default on loans, failing to establish repayment plans to student borrowers could result in increased loan defaults.

(CFDA No. 84.264; Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)

Total known federal questioned costs of \$0: \$0 identified in the 40 students selected; \$0 identified in payments outside of the 40 students selected.

Recommendation No. 3:

Metropolitan State University of Denver should implement and establish internal controls to ensure it complies with federal Title IV Perkins Loan requirements related to repayment plans. This should include establishing a process and procedures requiring the University's Bursar's Office to track students who cease to be enrolled at least half-time, and to ensure that the University establishes and discloses a repayment plan to such students. This process should include the creation and implementation of a report showing all students who were disbursed Perkins funds who have dropped below half-time enrollment that is generated and reviewed periodically throughout the semester to ensure that the University has established and disbursed repayment plans for students, as appropriate. The University should maintain evidence of the process being performed and that repayment plans were established and disclosed to students.

Metropolitan State University of Denver Response:

The University has an internal controls process to ensure compliance with Title IV Perkins Loan requirements related to repayment plan. However, the control procedures did not include a review process. We have instituted a review step to ensure that prior to being mailed, an electronic copy of the Disclosure Statement is saved.

Implementation Date: Immediate

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
DISPOSITION OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2016 and 2015**

The following table presents the recommendations still outstanding from the June 30, 2015 audit, and their disposition as of June 30, 2016:

Recommendation No.	Disposition
<p>Recommendation No. 1 – Metropolitan State University of Denver should implement a process to ensure that students are notified of each Student Financial Aid loan and Teach Education Assistance For College and High Education (TEACH) grant disbursement and that the notification includes all elements of communication as required by federal regulations. This process should include providing training to University staff to ensure they have a sufficient understanding of Student Financial Aid requirements surrounding disbursements.</p>	<p>Implemented</p>
<p>Recommendation No. 2 – Metropolitan State University of Denver should implement a reconciliation process whereby the registrar generates a monthly report that contains reportable enrollment status changes that is compared to enrollment status changes reported to NSLDS within the past month that includes unofficial withdrawals. The reconciliation should be reviewed by a second individual of supervisory authority to ensure that the student enrollment data reported to the National Student Loan Data System (NSDLS) is accurate and reported in a timely manner.</p>	<p>Implemented</p>
<p>Recommendation No. 3 – Metropolitan State University of Denver should institute a process to monitor the third party servicer to ensure NSC is performing the duties they are contracted to perform. This should include taking steps to ensure that the University identifies and addresses error files and requires the National Student Clearinghouse (NSC) to correct and resubmit the affected files within the required 10 days.</p>	<p>Not implemented. See current year recommendation No. 1.</p>
<p>Recommendation No. 4 – Metropolitan State University of Denver should document the review of reconciliation of the School Accounts Statements (SAS) data file to its financial records.</p>	<p>Implemented</p>

Independent Auditors' Report

Members of the Legislative Audit Committee:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver (the University), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 University of Denver Foundation, Inc. (the Foundation), a discretely presented component unit, discussed in note 1 to the financial statements, which represents 23% and 23% of total assets, 31% and 32% of total revenues, and 95% and 97% of net position of the aggregate discretely presented component units as of and for the years ended June 30, 2016 and 2015, respectively. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver as of June 30, 2016 and 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the University, an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Colorado that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15-24 and the schedule of University's Proportionate Share of PERA Pension Liability and the schedule of University's Contributions to PERA Pension on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

The description of the Metropolitan State University of Denver on page 4 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Denver, Colorado
November 30, 2016

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016 AND 2015**

This section of Metropolitan State University of Denver's (MSU Denver, or the University) financial report presents management's discussion and analysis of the financial performance of MSU Denver during the years ended June 30, 2016 and 2015. This discussion focuses on current activities and known facts and provides an overview of MSU Denver's financial activities in comparison with the prior year. It should, therefore, be read in conjunction with the accompanying comparative financial statements and notes.

Understanding the Comparative Financial Report

The financial statements adhere to Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. In fiscal year 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires the University to record a liability equal to its proportionate share of the net pension liability of the Public Employees' Retirement Association (PERA). In fiscal year 2016, the University adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement requires, among other things, that the University use appropriate and available valuation techniques to measure fair value. This statement establishes a hierarchy of inputs for valuation and requires the use of the highest level of observable inputs and minimizes the use of unobservable inputs.

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

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

Financial Highlights

MSU Denver's financial position, as a whole, improved during the year ended June 30, 2016. The combined net position increased \$8.9 million over the previous year. In fiscal year 2015, the financial position of MSU Denver appears to have significantly decreased. The combined net position went from a positive \$78.9 million in fiscal year 2014 to a negative \$57.5 million in fiscal year 2015, because of the adoption of GASB Statement No 68 (GASB 68). In fiscal year 2015, GASB 68 resulted in a \$148.8 million net pension liability, a \$6.6 million deferred outflow, and a \$2.1 million deferred inflow, which reduced the unrestricted net position by \$144.0 million.

- In fiscal year 2016, the level of funding for MSU Denver's College Opportunity Fund (COF) stipends was set by the General Assembly at \$75 per eligible credit hour, which is unchanged from fiscal year 2015.
- MSU Denver's June 30, 2016 current assets of \$93.6 million were sufficient to cover current liabilities of \$34.2 million. The current ratio of 2.74 (current assets/current liabilities) reflects the liquidity of MSU Denver's assets and the availability of funds for current operations. As of June 30, 2015 MSU Denver had \$85.4 million in current assets and \$29.8 million in current liabilities, resulting in a current ratio of 2.86.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016 AND 2015**

- The University had outstanding bonds payable of \$91.5 million and \$63.5 million in fiscal year 2016 and 2015 respectively.
- MSU Denver's headcount had decreases in its undergraduate students of 7.2%, 4.8%, and 4.4% in the summer 2015, fall 2015, and spring 2016 terms, respectively, over the previous year's terms. Graduate level headcount also experienced decreases of 4.0% and 1.1% in the summer 2015 and spring 2016 terms. However, there was a small increase in graduate headcount of 2.5% in fall 2015 over the previous year's term.

Statements of Net Position

The statements of net position report on assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position as of June 30, 2016 and 2015. Over time, increases or decreases in net position are one indicator of MSU Denver's financial health when considered in conjunction with nonfinancial facts such as student enrollment.

Condensed Statements of Net Position

	June 30		
	2016	2015	2014*
	(In thousands) **		
Assets:			
Current assets	\$ 93,634	85,400	87,426
Noncurrent assets	138,737	102,151	94,455
Total assets	<u>\$ 232,371</u>	<u>187,551</u>	<u>181,881</u>
Deferred Outflows	18,278	6,587	—
Total Assets and Deferred Outflows	<u>250,649</u>	<u>194,138</u>	<u>181,881</u>
Liabilities:			
Current liabilities	\$ 34,234	29,843	33,869
Noncurrent liabilities	258,457	219,766	69,108
Total liabilities	<u>\$ 292,691</u>	<u>249,609</u>	<u>102,977</u>
Deferred Inflows	6,579	2,053	—
Total Liabilities and Deferred Inflows	<u>299,270</u>	<u>251,662</u>	<u>102,977</u>
Net position:			
Net Investment in Capital Assets	\$ 32,174	23,376	17,569
Restricted for expendable purposes	9,482	9,256	9,363
Unrestricted	(90,277)	(90,156)	51,972
Total net position	<u>\$ (48,621)</u>	<u>(57,524)</u>	<u>78,904</u>

* This year was not restated for GASB No. 68, as information was not available.

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

At June 30, 2016 and 2015, MSU Denver's total assets and deferred outflows were \$250.7 and \$194.1 million, respectively, which is an increase of \$56.5 million and \$12.3 million, respectively, when compared to the prior years.

At June 30, 2016 and 2015, MSU Denver's total liabilities and deferred inflows were \$299.3 and \$251.7 million, respectively, which is an increase of \$47.6 million and \$148.7 million, respectively, when compared to the prior years.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016 AND 2015**

A \$36.4 million increase in the total of unrestricted cash and cash equivalents and restricted cash, a \$12.3 million increase in construction in progress, and a \$11.7 million increase in deferred outflows were the primary reasons for the \$56.5 million increase in total assets and deferred outflows in fiscal year 2016, which is discussed in greater detail below.

Unrestricted cash and cash equivalents increased \$6.4 million due to a \$2 million timing issue related to receiving cash from the State for capital construction for a payable paid in fiscal year 2017, as well as reserves being built in the Summer Revenue funds as well as the Metro Bond fee. Restricted cash increased \$30.0 million in fiscal year 2016 due to \$30.0 million received from the Series 2016 bond issuance.

Construction in progress increased \$12.3 million due to construction on the Aerospace Sciences and Engineering Building (AES), which was funded with State capital construction funds.

Deferred Outflows increased \$11.7 million primarily due to MSU Denver's share of the net difference between projected and actual investment earnings by PERA.

Issuing the Series 2016 bond contributed \$28.0 million towards the \$47.6 million increase in total liabilities and deferred inflows. Another \$16.0 million of that increase was due to the increase in the University's portion of the PERA liability and changes to PERA's related assumptions and other inputs. An additional \$2.1 million is primarily due to payables for the AES construction project.

The primary reason assets and deferred outflows increased \$12.3 million in fiscal year 2015 is due to the completion of the Regency Athletic Complex (RAC). The University funded the RAC primarily with cash reserves, but it also used \$4 million of proceeds from the Series 2014 bonds, \$3.925 million of which was received in fiscal year 2015. The University also received \$2.0 million in capital contributions from the state for the construction of the Aerospace Sciences and Engineering Building. Deferred Outflows also increased \$6.6 million due to the adoption of GASB 68 and the requirement to record payments made to PERA from January 1, 2015 through June 30, 2015 as deferred outflows, as well as MSU Denver's share of the net difference between projected and actual investment earnings by PERA.

In fiscal year 2015 non-current liabilities increased \$150.7 and deferred inflows increased \$2.1 million. \$148.8 million of the \$150.7 increase in non-current liabilities and the \$2.1 million increase in deferred inflows was a result of the adoption of GASB 68 and the requirement to record, as a non-current liability the University's portion of PERA's unfunded pension liability, and as deferred inflows, the University's change in proportionate share of PERA's unfunded liability and the difference between the expected and actual experience by PERA. The remaining \$1.9 million increase in non-current liabilities was due to the University drawing the remaining \$3.9 million on its line of credit for the RAC and paying down principal on the existing Series 2009 and 2010 bonds. (See note 6 for more information on the University's outstanding bonds.)

Of the total (\$48.6) million in net position in fiscal year 2016, \$32.2 million is net investment in capital assets, \$9.5 million is restricted for expendable purposes for student loans, and (\$90.3) million is unrestricted. Of the total (\$57.5) million in net position in fiscal year 2015, \$23.4 million is net investment in capital assets, \$9.3 million is restricted for expendable purposes for student loans, and (\$90.2) million is unrestricted.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016 AND 2015**

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present the results of operations during fiscal years 2016 and 2015. Activities are reported as either operating or nonoperating. Operating revenues and expenses generally result from providing services for instruction, public service, student services, and academic and institutional support to/from an individual or entity separate from MSU Denver. Nonoperating revenues and expenses are those other than operating and include but are not limited to investment and interest income, private grants and gifts, rental income, and Pell grants.

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

	<u>2016</u>	<u>June 30</u> <u>2015</u>	<u>2014</u>
		(In thousands) *	
Operating revenues:			
Tuition and fees, net	\$ 102,572	\$ 102,383	\$ 96,837
Fee for service	19,046	11,432	10,156
Sales and services	3,654	3,296	4,395
Grants and contracts	26,844	25,053	20,272
Other operating revenues	<u>5,706</u>	<u>6,259</u>	<u>6,036</u>
Total operating revenues	157,822	148,423	137,696
Operating expenses	<u>190,524</u>	<u>178,935</u>	<u>169,176</u>
Operating loss	<u>(32,702)</u>	<u>(30,512)</u>	<u>(31,480)</u>
Nonoperating revenues:			
Pell grants	28,106	31,130	32,602
Intergovernmental revenue	1,434	1,328	1,597
Investment and interest income	1,300	728	1,053
Interest expense on capital asset-related debt	(4,148)	(3,634)	(3,893)
Debt Issuance Cost	(262)	—	—
Loss on disposal of capital assets	(48)	(60)	(429)
Nonoperating gifts and donations	3,067	3,118	2,203
Other non operating revenue	<u>181</u>	<u>130</u>	<u>101</u>
Net nonoperating revenues	29,630	32,740	33,234
Income before other revenues	<u>(3,072)</u>	<u>2,228</u>	<u>1,754</u>
Other revenues			
Capital Contributions- State	<u>11,975</u>	<u>2,023</u>	<u>—</u>
Increase in net position	8,903	4,251	1,754
Net position at beginning of year	(57,524)	78,904	77,150
Restatement	—	(140,679)	
Net position at beginning of year as restated	<u>(57,524)</u>	<u>(61,775)</u>	
Net position at end of year	<u>\$ (48,621)</u>	<u>\$ (57,524)</u>	<u>\$ 78,904</u>

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

Tuition and fees revenue, net, accounted for \$102.6 million of the \$157.8 million in operating revenue in fiscal year 2016. The tuition and fees revenue amount is net of scholarship allowances of \$52.9 million and bad debt of \$2.7 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.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016 AND 2015**

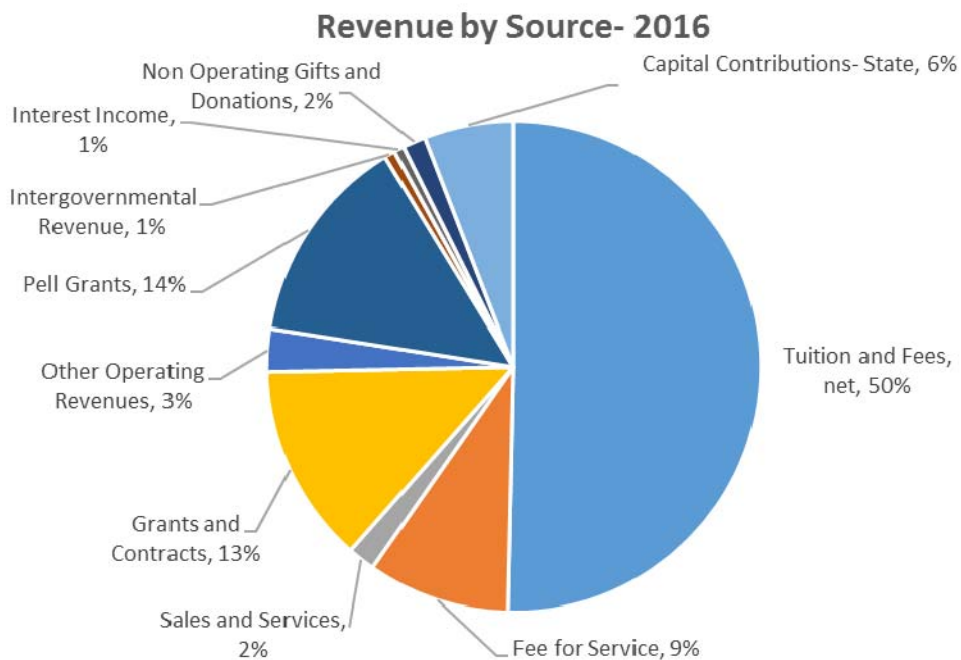
Net tuition and fee revenue increased \$190 thousand, or 0.19%, from fiscal year 2015. There was a 5% increase in tuition rates in fiscal year 2016, but enrollment continued to see decreases, as noted in the financial highlights section above. Scholarship discounts and allowances decreased \$1.8 million from fiscal year 2015 due to the decrease in enrollment.

Fee for Service revenue increased \$7.6 million from fiscal year 2015. A new funding model approved in House Bill 14-1319 placed a higher emphasis on institutions that, in part, had a mission that provided support services for Pell-eligible, first generation and underserved undergraduate students. Given MSU Denver's commitment to providing access to underserved students, the University began to see an increase in the fee for service revenue.

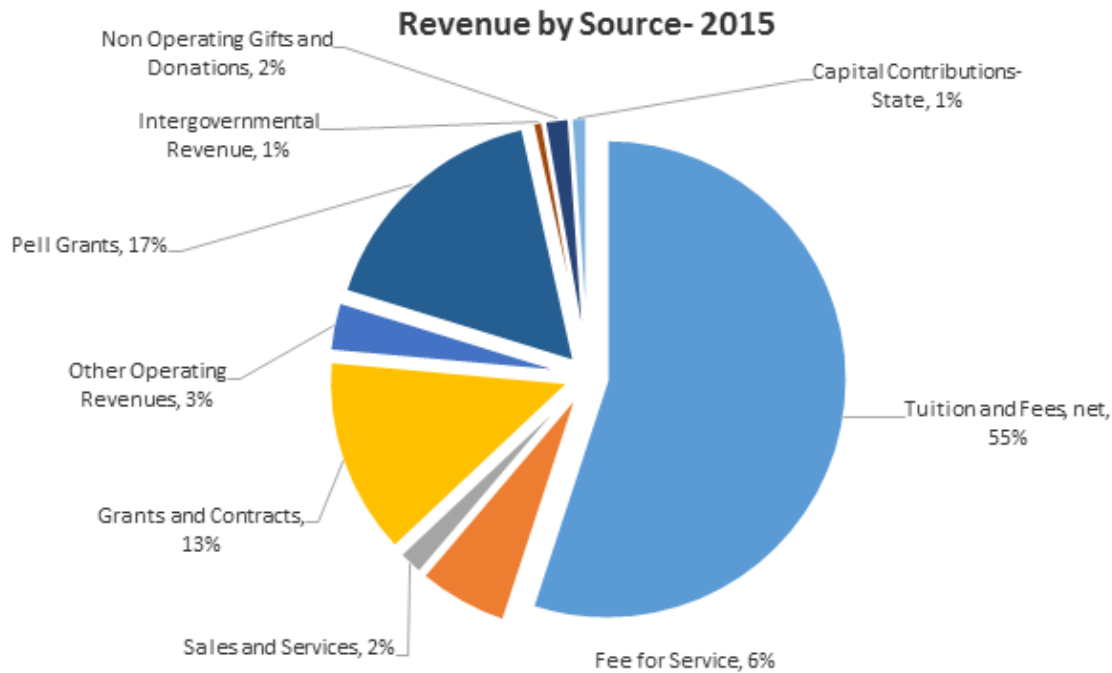
In fiscal year 2015 tuition and fees revenue, net, accounted for \$102.4 million of \$148.4 million in operating revenue. The tuition and fees revenue amount is net of scholarship allowances of \$54.7 million and bad debt of \$2.3 million.

Net tuition and fee revenue increased approximately \$6.0 million, or 6%, from fiscal year 2014. There was a 6% increase in tuition rates in fiscal year 2015, but undergraduate resident enrollment continued to decline, as noted in the financial highlights section above. Scholarship discounts and allowances increased approximately \$2.0 million from fiscal year 2014 due to the increase in tuition and Colorado student grants.

The following are graphic illustrations of total revenue (operating and nonoperating) by source for MSU Denver for fiscal years 2016 and 2015, respectively. Each major revenue component is displayed relative to its proportionate share of total revenue.



**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016 AND 2015**



Overall operating expenses show an increase of \$11.6 million over fiscal year 2015 due to several factors. There was a \$6.0 million increase in salary and benefit expenses in fiscal year 2016. This increase resulted from a 1.5% pay increase for all faculty as well as a 1% pay increase for all Classified and Exempt staff. The University also increased the employer's percentage of the health care contribution to 65% from 60% beginning in January 2016, benefiting both Faculty and Administrative employees. There was a \$3 million increase in materials, supplies, travel and equipment, primarily due to increases in maintenance, non-capitalized software, rent, and advertising. There was an additional \$1.0 million increase for one time purchases for the neighborhood master plan, due diligence work on the proposed Colorado Heights donation, and last minute punch list items for the Regency Athletic Complex (RAC). Depreciation expense increased \$819K primarily due to the RAC being placed into service last year, and there was an increase of approximately \$500K due to entries related to GASB 68 and the University's net proportionate share of the unfunded pension liability.

In fiscal year 2015 overall operating expenses show an increase of \$10.3 million over fiscal year 2014 due to several factors. There was a \$7.0 million increase in salary and benefit expenses in fiscal year 2015. This increase resulted from a 2% pay increase for all exempt staff as well as a 2.5% pay increase for all classified staff. The minimum salaries for administrators were increased from 85% to 87% of the College and University Professional Associations (CUPA) range, and faculty were raised from 85% to 89%. There was also a net increase of 22 full time employees (FTE) in fiscal year 2015. In addition, GASB 68 resulted in an additional \$3.6 million expense for the net pension liability increase. The University also had a \$1.1 million increase in depreciation due to the completion of the athletic fields, new equipment, and leasehold improvements to Metro South and the Arts building. There was also approximately a \$1.4 million increase in materials and supplies and travel. \$776 thousand of this \$1.4 million was due to increases in the appropriations and controlled maintenance paid to AHEC and the payments to UCD for the shared use of the library. There was also a \$629 thousand increase in fiscal year 2015 due to a change in presentation for the University's credit card processing fees (merchant fees).

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016 AND 2015**

Prior to fiscal year 2015, the University presented these fees as a contra revenue in the sales and services of educational departments line. However, given that these merchant fees are increasing due to increased payments via credit card, MSU Denver moved these to the institutional support expense line which is consistent with other institutions of higher education and more accurately reflects the cost of conducting business. There was an offsetting \$1.8 million decrease in non-capital expenses, which was primarily due to one-time computer purchases in fiscal year 2014. There was also a decrease of approximately \$2.0 million due to a one-time payment to AHEC in fiscal year 2014 for additions to the electrical infrastructure.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating expenses:			
Instruction	\$ 81,370,983	80,913,623	75,531,095
Research	20,025	15,055	16,542
Public service	1,346,198	1,144,621	813,143
Academic support	22,732,151	17,784,466	15,700,581
Student services	18,618,256	17,781,686	17,273,000
Institutional support	22,804,245	19,511,744	18,048,463
Operation of plant	12,214,269	11,248,050	12,607,469
Scholarships and fellowships, net	2,873,049	2,436,556	1,875,244
Auxiliary enterprise expenditures	21,362,994	21,736,555	21,023,242
Depreciation	7,181,222	6,362,145	5,269,745
Total operating expenses	<u>\$ 190,523,392</u>	<u>178,934,501</u>	<u>168,158,525</u>

Statements of Cash Flows

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

Condensed Statements of Cash Flows

	<u>2016</u>	<u>June 30</u> <u>2015</u>	<u>2014</u>
		(In thousands)	
Net cash provided by (used in):			
Operating activities	\$ (20,815)	(23,043)	(26,122)
Noncapital financing activities	31,879	34,149	35,657
Capital and related financing activities	24,094	(20,772)	(13,539)
Investing activities	1,218	655	967
Net (decrease) increase in cash	36,376	(9,011)	(3,037)
Cash and cash equivalents:			
Beginning of year	68,794	77,805	80,842
End of year	<u>\$ 105,170</u>	<u>68,794</u>	<u>77,805</u>

MSU Denver's cash and cash equivalents increased by \$36.4 million in fiscal year 2016 when compared to fiscal year 2015. The Series 2016 bonds were issued in fiscal year 2016, contributing to \$30 million of this increase. The remaining \$6 million is primarily due to building reserves in the summer revenue funds exceeding the spending in those funds. Fiscal year 2015 experienced a \$3.0 million decrease in cash and cash equivalents when compared to fiscal year 2014, primarily the result of the completion of the RAC.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016 AND 2015**

The major sources of unrestricted cash inflows in fiscal year 2016 and 2015 were \$101.3 million and \$99.1 million, respectively from tuition and fees, \$27.0 million and \$24.9 million, respectively, from grants and contracts, and \$28.4 million and \$31.0 million; respectively, in Pell grants. In fiscal year 2016, the University also had \$30.3 million of cash inflows from the proceeds of the sale of the Series 2016 bonds. The primary outflows are \$126.3 million and \$121.2 million, respectively, for payments to or for employees, \$48.1 million and \$45.7 million, respectively, for payments to suppliers and \$12.6 million and \$22.6 million, respectively, for the acquisition of capital assets.

Capital Assets

At June 30, 2016, the University had \$100.0 million in property, plant, and equipment, net of accumulated depreciation of \$36.4 million. Depreciation charges were \$7.2 million for the current year compared to \$6.4 million in fiscal year 2015 and \$5.3 million in fiscal year 2014.

The \$12.3 million increase in construction in progress is primarily due to the work on the Aerospace and Engineering Sciences Building.

Details of these assets are shown in the table below:

Capital Assets, Net of Depreciation at Year-End

	June 30		
	2016	2015	2014
		(In thousands)	
Construction in progress	\$ 14,525	2,258	7,403
Land	1,005	1,005	1,005
Equipment	7,474	8,077	7,654
Buildings	44,898	47,056	42,383
Leasehold/land improvements	32,109	34,836	21,133
Total	\$ 100,011	93,232	79,578

Debt

In November 2009, MSU Denver issued \$55.2 million of Series 2009 Taxable Institutional Enterprise Revenue Bonds to finance the construction of the University's first brick and mortar building, the Student Success Building (SSB). The SSB added approximately 145,000 square feet of space for classrooms and faculty offices, specifically for MSU Denver students and professors. It also provides students with a central location for student support services. In June 2010, the University issued \$10.6 million in Series 2010 Taxable Institutional Enterprise Revenue Bonds for various major remodeling projects as personnel moved to the SSB (see note 6 for more information on these obligations). These bonds will be paid off using proceeds from a student bond fee approved by the University's students. Both bond issuances are Revenue Zone Economic Development Bonds (RZEDBs) that make them eligible for a 45% bond interest subsidy from the federal government.

In June 2014, the University issued Series 2014 Institutional Enterprise Revenue Bonds not to exceed \$4.0 million to help fund the construction of the RAC. These bonds worked like a line of credit, where the University drew funds on an as needed basis. As of June 30, 2015, the University drew the full \$4 million. These bonds are paid with the student bond fee discussed above, but also with fundraising efforts by the University's Foundation.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016 AND 2015**

On January 27, 2016, the University issued \$27.5 million of Series 2016 Institutional Enterprise Revenue Bonds, bearing interest at 2.0% to 5.0%, for the purpose of financing a portion of the construction of a new Aerospace and Engineering Science building (AES). This new facility will house mechanical, electrical and civil engineering technologies; industrial design; and computer science to support an integrated curriculum, and promote collaborative research. The estimated completion date is fall 2017. These bonds are paid with the student bond fee discussed above.

At June 30, 2016, the University had \$97.9 million in outstanding debt compared to \$70.3 million at June 30, 2015 and \$68.3 million at June 30, 2014. The table below summarizes these amounts by type of debt:

Outstanding Debt at Year-End

	June 30		
	2016	2015	2014
		(In thousands)	
Series 2009	\$ 48,530	49,905	51,255
Series 2010	9,314	9,563	9,811
Series 2014	3,378	4,000	75
Series 2016	30,236	—	—
Capital lease	6,436	6,815	7,176
Total	\$ 97,894	70,283	68,317

Economic Outlook and Metropolitan State University of Denver's Future

Metropolitan State University of Denver's President, Dr. Stephen Jordan, announced his retirement to the University community on September 8, 2016. Dr. Jordan's retirement will become effective June 30, 2017. Dr. Jordan took office in 2005 and has spearheaded initiatives developed specifically to recruit and support students of color, including the goal of achieving Hispanic Serving Institution (HSI) status by 2018. To be considered an HSI, 25 percent of a university's full-time students need to be from Hispanic backgrounds. Since 2007, the number of MSU Denver students who identify as Hispanic jumped from 12.5 percent to 24.5 percent (including the Advancing Students for a Stronger Economy Tomorrow (ASSET) Students). Additionally, under his leadership, Metropolitan State College of Denver became Metropolitan State University of Denver, with master's degree programs offered to our students. Three cutting-edge facilities were constructed, with a fourth currently under construction, and Dr. Jordan developed a national reputation for championing public-private partnerships that brought new sources of funding to the University, revolutionizing academic programs, and benefiting the state of Colorado. The foundation laid by Dr. Jordan during his tenure at the University will ensure the University continues to grow and support the success of our greatest assets: our students.

The University continues construction on the new AES building and anticipates completion by August 2017. As of June 30, 2016 the University drew \$14.0 million of the total \$20 million allocated by the state, and will draw the remaining \$6 million in fiscal year 2017. After the state capital contribution has been used in its entirety, the University will begin using the Series 2016 bond proceeds.

In addition to the existing Master's programs in Professional Accounting, Social Work and Teacher Education, the University will begin offering Master's degrees in Business Administration and in Health Administration in Spring 2017.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016 AND 2015**

MSU Denver retained its Taxpayer's Bill of Rights (TABOR) enterprise status during fiscal year 2016 by receiving less than 10% in state funding. The COF stipend was set by the General Assembly for fiscal year 2016 at \$75 per eligible credit hour for resident undergraduate students. The stipend remains at \$75 per eligible credit hour for fiscal year 2017, which is currently appropriated at \$32.2 million, per the long bill. MSU Denver received \$19.0 million in fee-for-service revenue in fiscal year 2016, and is budgeted to receive \$19.2 million in fiscal year 2017.

In fiscal year 2016, MSU Denver raised tuition by 5% for undergraduate residents. The University will raise undergraduate tuition 9% in fiscal year 2017, but will still remain the most accessible institution of Higher Education in Colorado.

In March 2013, the federal government enacted the Balanced Budget and Emergency Deficit Control Act, and President Obama issued a sequestration order that reduced the subsidy amount the University received on its Recovery Zone Economic Development Bonds (RZEDB). Before sequester, the subsidy paid MSU Denver 45% of the interest amount on both the series 2009 and 2010 bonds. Sequester is scheduled through 2024 with reductions spanning 5.5% to 7.1%. The table below shows MSU Denver's original subsidy payment amounts and the modified payments for each RZEDB.

Series 2009 Bond Interest Payments and Corresponding Subsidy Receipts

June 30,	Interest Payment	Original Interest Subsidy	Original % of Subsidy Payments	Modified Interest Subsidy	Modified % of Subsidy Payments	Difference
2010	1,585,672	713,553	45%	713,553	45%	(0)
2011	3,052,632	1,373,684	45%	1,373,684	45%	(0)
2012	3,039,941	1,367,973	45%	1,367,973	45%	(0)
2013	3,010,744	1,354,835	45%	1,296,222	43%	(58,612)
2014	2,974,155	1,338,370	45%	1,242,007	42%	(96,363)
2015	2,930,379	1,318,671	45%	1,222,408	42%	(96,263)
2016	2,879,805	1,295,912	45%	1,207,790	42%	(88,122)
Total Reduction in Series 2009 Bond Subsidy Payments						(339,360)

Series 2010 Bond Interest Payments and Corresponding Subsidy Receipts

June 30,	Interest Payment	Original Interest Subsidy	Original Subsidy % of Interest Payment	Modified Interest Subsidy	Modified Subsidy % of Interest Payment	Difference
2011	543,193	244,437	45%	244,437	45%	(0)
2012	568,015	255,607	45%	255,607	45%	(0)
2013	563,395	253,528	45%	242,549	43%	(10,979)
2014	557,629	250,933	45%	232,866	42%	(18,067)
2015	550,508	247,729	45%	229,644	42%	(18,085)
2016	542,258	244,016	45%	227,423	42%	(16,593)
Total Reduction in Series 2010 Bond Subsidy Payments						(63,724)

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

**METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015**

Assets	2016	2015
Current assets:		
Cash and cash equivalents	\$ 75,158,521	68,794,334
Accounts receivable – student (net of allowance for doubtful accounts of \$3,442,411 and \$3,401,839, respectively)	10,157,242	12,019,886
Accounts receivable – other	4,818,634	2,457,954
Loans receivable	1,038,209	1,132,190
Prepaid expense	2,461,730	996,159
Total current assets	93,634,336	85,400,523
Noncurrent assets:		
Restricted cash	30,011,946	—
Investments	459,876	363,364
Prepaid expense	250,557	507,088
Loans receivable (net of allowance for doubtful accounts of \$570,306 and \$512,745, respectively)	8,004,800	8,048,550
Land	1,005,185	1,005,185
Construction in progress	14,525,258	2,258,245
Depreciable assets, net:		
Equipment	7,473,586	8,077,385
Buildings	44,897,704	47,055,932
Leasehold and land improvements	32,108,779	34,835,483
Total depreciable capital assets, net	84,480,069	89,968,800
Total noncurrent assets	138,737,691	102,151,232
Total assets	232,372,027	187,551,755
Deferred Outflows		
Deferred pension outflow	18,278,130	6,586,732
Total deferred outflows	18,278,130	6,586,732
Total assets and deferred outflows	\$ 250,650,157	194,138,487
Liabilities		
Current liabilities:		
Accounts payable	\$ 6,091,143	4,008,373
Accrued interest payable	433,760	348,561
Accrued payroll	13,188,697	11,755,172
Unearned revenue	7,710,087	7,630,581
Compensated absences	331,132	296,990
Bonds payable	2,550,000	1,980,000
Capital leases	397,207	379,355
Deposits held in custody and other current liabilities	3,532,222	3,443,383
Total current liabilities	34,234,248	29,842,415
Noncurrent liabilities:		
Net pension liability	160,234,301	148,774,027
Compensated absences	3,277,857	3,069,102
Bonds payable	88,907,253	61,487,615
Capital leases	6,038,354	6,435,561
Total noncurrent liabilities	258,457,765	219,766,305
Total liabilities	292,692,013	249,608,720
Deferred Inflows		
Deferred pension inflow	6,579,585	2,053,239
Total deferred inflows	6,579,585	2,053,239
Total liabilities and deferred inflows	\$ 299,271,598	251,661,959
Net position		
Net Investment in Capital Assets	\$ 32,174,419	23,376,073
Restricted for expendable purposes	9,481,686	9,256,273
Unrestricted	(90,277,546)	(90,155,818)
Total net position	\$ (48,621,441)	(57,523,472)

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

ASSETS	2016			2015		
	Metropolitan State University of Denver Foundation, Inc.	HLC@ Metro Inc.	Total	Metropolitan State University of Denver Foundation, Inc.	HLC@ Metro Inc.	Total
	Cash and Cash Equivalents	\$ 751,431	\$ 205,675	\$ 957,106	\$ 602,785	\$ 541,843
Restricted Cash and Cash Equivalents	-	9,758,870	9,758,870	-	8,360,616	8,360,616
Promises to Give, Net	209,539	-	209,539	461,225	-	461,225
Accounts Receivable, Net	10,438	515,795	526,233	14,203	528,294	542,497
Use of Land	-	4,890,464	4,890,464	-	5,000,775	5,000,775
Beneficial Interest in Charitable Trusts Held by Others	112,570	-	112,570	110,706	-	110,706
Investments	5,724,057	-	5,724,057	5,422,992	-	5,422,992
Endowment						
Promises to Give, Net	972,419	-	972,419	957,948	-	957,948
Investments	7,113,321	-	7,113,321	7,109,108	-	7,109,108
Land and Building, Net	1,511,802	39,018,370	40,530,172	1,549,202	40,087,367	41,636,569
Furniture and Equipment, Net		375,085	375,085	-	570,046	570,046
Other Assets	32,270	201,902	234,172	28,645	138,757	167,402
Total Assets	\$ 16,437,847	\$ 54,966,161	\$ 71,404,008	\$ 16,256,814	\$ 55,227,698	\$ 71,484,512
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts Payable	\$ 23,529	\$ 215,413	\$ 238,942	\$ 34,607	\$ 213,784	\$ 248,391
Accounts Payable and Other	546,149	-	546,149	782,215	-	782,215
Interest Payable	-	1,066,324	1,066,324	-	1,072,674	1,072,674
Bonds Payable, Net		52,514,791	52,514,791		53,069,234	53,069,234
Liabilities Under Charitable Gift Annuities	48,578	-	48,578	50,077	-	50,077
Other Current Liabilities	-	402,156	402,156	-	347,708	347,708
Total Liabilities	618,256	54,198,684	54,816,940	866,899	54,703,400	55,570,299
Net Assets:						
Unrestricted	2,396,423	(4,122,987)	(1,726,564)	2,357,219	(4,510,791)	(2,153,572)
Temporarily Restricted	10,030,094	4,890,464	14,920,558	9,785,678	5,035,089	14,820,767
Permanently Restricted	3,393,074	-	3,393,074	3,247,018	-	3,247,018
Total Net Assets	15,819,591	767,477	16,587,068	15,389,915	524,298	15,914,213
Total Liabilities and Net Assets	\$ 16,437,847	\$ 54,966,161	\$ 71,404,008	\$ 16,256,814	\$ 55,227,698	\$ 71,484,512

**METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$52,934,838 and \$54,718,360, and bad debt expense of \$2,735,725 and \$2,253,999, respectively	\$ 102,572,401	102,382,640
Fee for service	19,045,705	11,432,411
Sales and services of educational departments	134,302	435,444
Sales and services of auxiliary enterprises	3,519,631	2,860,637
Federal grants and contracts	6,639,825	7,071,145
State grants and contracts	20,028,272	17,836,497
Local grants and contracts	100,656	107,394
Private grants and contracts	75,286	37,546
Operating interest income	275,758	214,093
Other operating revenues	5,430,526	6,044,990
Total operating revenues	157,822,362	148,422,797
Operating expenses:		
Instruction	81,370,983	80,913,623
Research	20,025	15,055
Public service	1,346,198	1,144,621
Academic support	22,732,151	17,784,466
Student services	18,618,256	17,781,686
Institutional support	22,804,245	19,511,744
Operation of plant	12,214,269	11,248,050
Scholarships and fellowships	2,873,049	2,436,556
Auxiliary enterprise expenditures	21,362,994	21,736,555
Depreciation	7,181,222	6,362,145
Total operating expenses	190,523,392	178,934,501
Operating loss	(32,701,030)	(30,511,704)
Nonoperating revenues (expenses):		
Pell grants	28,105,648	31,130,247
Intergovernmental revenue	1,433,676	1,327,909
Investment and interest income	1,299,892	727,696
Interest expense on capital asset related debt	(4,148,314)	(3,634,124)
Loss on disposal of fixed assets	(48,109)	(59,753)
Nonoperating gifts and donations	3,066,766	3,118,185
Debt Issuance Costs	(262,478)	-
Other nonoperating	180,765	130,393
Net nonoperating revenue	29,627,846	32,740,553
Income (loss) before other revenues	(3,073,184)	2,228,849
Other revenues		
Capital contributions from the state	11,975,215	2,023,076
Increase in net position	8,902,031	4,251,925
Net position at beginning of year	(57,523,472)	78,904,085
Restatement	-	(140,679,482)
Net position at beginning of year, as restated	(57,523,472)	(61,775,397)
Net position at end of year	\$ (48,621,441)	(57,523,472)

See accompanying notes to basic financial statements.

**METROPOLITAN STATE UNIVERSITY OF DENVER
AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF ACTIVITIES
JUNE 30, 2016 AND 2015**

	2016			2015		
	Metropolitan State University of Denver Foundation, Inc.	HLC@ Metro Inc.	Total	Metropolitan State University of Denver Foundation, Inc.	HLC@ Metro Inc.	Total
Change in Unrestricted Net Assets:						
Support, Revenue, and Gains:						
Contributions	\$ 92,380	\$ -	\$ 92,380	\$ 71,855	\$ -	\$ 71,855
In-kind Contributions	1,539,127	-	1,539,127	1,391,753	-	1,391,753
Endowment Management Fees	129,146	-	129,146	126,256	-	126,256
Total Support	<u>1,760,653</u>	<u>-</u>	<u>1,760,653</u>	<u>1,589,864</u>	<u>-</u>	<u>1,589,864</u>
Net Investment Gain (Loss)	87,415	15,559	102,974	27,358	8,748	36,106
Change in Value of						
Split-Interest Agreements	(4,332)	-	(4,332)	(4,364)	-	(4,364)
Federal Interest Subsidy	-	991,486	991,486	-	987,227	987,227
Rooms Revenue	-	7,896,770	7,896,770	-	7,666,392	7,666,392
Food and Beverage Revenue	-	1,178,158	1,178,158	-	881,551	881,551
Parking, Telephone and Other Revenue	-	778,381	778,381	-	818,551	818,551
Rent - Center for Visual Arts (CVA)	122,390	-	122,390	124,757	-	124,757
Net Assets Released from Restrictions	2,949,591	197,295	3,146,886	3,176,593	308,921	3,485,514
Total Support, Revenue, and Gains	<u>4,915,717</u>	<u>11,057,649</u>	<u>15,973,366</u>	<u>4,914,208</u>	<u>10,671,390</u>	<u>15,585,598</u>
Expenses and Losses:						
Support Provided to the University	2,832,855	-	2,832,855	2,987,972	-	2,987,972
University Hospitality Learning Center Materials and Services	-	5,244,321	5,244,321	-	4,735,954	4,735,954
General and Administrative Costs	443,310	723,590	1,166,900	407,680	693,282	1,100,962
Depreciation Expenses	-	1,337,908	1,337,908	-	1,511,798	1,511,798
Donor Development Costs	1,539,127	6,320	1,545,447	1,391,503	13,135	1,404,638
Interest and Amortization	-	3,357,706	3,357,706	-	3,374,932	3,374,932
Operating Expenses for CVA	61,221	-	61,221	94,575	-	94,575
Total Expenses and Losses	<u>4,876,513</u>	<u>10,669,845</u>	<u>15,546,358</u>	<u>4,881,730</u>	<u>10,329,101</u>	<u>15,210,831</u>
CHANGES IN UNRESTRICTED NET ASSETS	<u>39,204</u>	<u>387,804</u>	<u>427,008</u>	<u>32,478</u>	<u>342,289</u>	<u>374,767</u>

**METROPOLITAN STATE UNIVERSITY OF DENVER
AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF ACTIVITIES (CONTINUED)
JUNE 30, 2016 AND 2015**

	Metropolitan State University of Denver Foundation, Inc.	HLC@ Metro Inc.	Total	Metropolitan State University of Denver Foundation, Inc.	HLC@ Metro Inc.	Total
Change in Temporarily Restricted Net Assets:						
Support, Revenue, and Gains:						
Contributions	2,721,515	52,670	2,774,185	2,583,606	218,919	2,802,525
In-Kind Contributions	95,135	-	95,135	43,332	-	43,332
Special Events Revenue, Net	565,152	-	565,152	362,744	-	362,744
Total Support	3,381,802	52,670	3,434,472	2,989,682	218,919	3,208,601
Net Investment Gain (Loss)	(187,795)	-	(187,795)	(15,900)	-	(15,900)
Net Assets Released from Restrictions	(2,949,591)	(197,295)	(3,146,886)	(3,176,593)	(308,921)	(3,485,514)
Total Support, Revenue, and Gains	244,416	(144,625)	99,791	(202,811)	(90,002)	(292,813)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	244,416	(144,625)	99,791	(202,811)	(90,002)	(292,813)
Change in Permanently Restricted Net Assets:						
Support, Revenue, and Gains:						
Contributions	144,117	-	144,117	239,381	-	239,381
Special Events Revenue, Net	75	-	75	-	-	-
Total Support	144,192	-	144,192	239,381	-	239,381
Change in Value of Split-Interest Agreements	1,864	-	1,864	(939)	-	(939)
Total Support, Revenue, and Gains	146,056	-	146,056	238,442	-	238,442
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	146,056	-	146,056	238,442	-	238,442
CHANGE IN NET ASSETS	429,676	243,179	672,855	68,109	252,287	320,396
Net Assets - Beginning of Year	15,389,915	524,298	15,914,213	15,321,806	272,011	15,593,817
NET ASSETS - END OF YEAR	\$ 15,819,591	\$ 767,477	\$ 16,587,068	\$ 15,389,915	\$ 524,298	\$ 15,914,213

**METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF CASH FLOWS
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 101,261,406	99,094,656
Fee for service	19,045,705	11,432,411
Sales and services	2,742,175	3,207,120
Grants and contracts	26,954,415	24,885,019
Student loans collected	2,276,733	1,874,935
Other operating receipts	6,181,656	7,000,205
Cash payments:		
Payments to or for employees	(126,337,040)	(121,155,225)
Payments to suppliers	(48,134,751)	(45,681,525)
Scholarships disbursed	(2,873,049)	(1,848,457)
Student loans disbursed	(1,932,442)	(1,852,330)
Net cash used in operating activities	<u>(20,815,192)</u>	<u>(23,043,191)</u>
Cash flows from noncapital financing activities:		
Nonoperating gifts and donations	3,236,819	2,686,307
Pell grants	28,369,451	30,952,068
Agency (direct lending inflows)	83,475,772	88,058,494
Agency (direct lending outflows)	(83,108,463)	(87,548,886)
Other agency (inflows)	9,934,579	9,862,380
Other agency (outflows)	(10,029,226)	(9,861,212)
Net cash provided by noncapital financing activities	<u>31,878,932</u>	<u>34,149,151</u>
Cash flows from capital and related financing activities:		
Interest subsidy	1,435,213	1,452,052
Insurance Proceeds	-	4,750
Debt issuance costs	(262,478)	-
Interest on capital asset related debt	(4,097,596)	(3,637,223)
Proceeds from bond sale	30,274,424	3,925,000
Principal paid on bonds	(2,247,460)	(1,600,000)
Principal paid on capital leases	(379,355)	(361,503)
State capital contributions	11,975,215	2,023,076
Acquisition of capital assets	(12,603,949)	(22,578,367)
Net cash provided by (used in) capital and related financing activities	<u>24,094,014</u>	<u>(20,772,215)</u>
Cash flows from investing activity:		
Investment earnings	1,299,891	727,696
Collection of loans	15,000	15,000
Purchase of investments	(96,512)	(87,730)
Net cash provided by investing activities	<u>1,218,379</u>	<u>654,966</u>
Net decrease in cash	36,376,133	(9,011,289)
Beginning cash balance	68,794,334	77,805,623
Ending cash balance	<u>\$ 105,170,467</u>	<u>68,794,334</u>

See accompanying notes to basic financial statements.

**METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF CASH FLOWS (CONTINUED)
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (32,701,030)	(30,511,704)
Adjustment to reconcile:		
Depreciation expense	7,181,222	6,362,145
Provision for bad debt	3,763,229	3,345,708
Nonoperating revenue	180,766	125,643
Decrease (increase) in assets:		
Accounts receivable – student	(2,098,306)	(4,461,439)
Loans receivable	(71,276)	(95,514)
Prepaid expense	(1,188,608)	357,724
Accounts receivable – other	(2,824,086)	(94,383)
Increase in deferred outflows:		
Deferred pension outflow	(11,691,397)	(3,242,867)
Increase (decrease) in liabilities:		
Net pension liability	11,460,274	4,750,678
Deferred pension inflow	4,526,346	2,053,239
Accounts payable	793,157	(1,400,855)
Accrued interest payable	(2,845)	(3,012)
Unearned revenue	83,454	(644,573)
Accrued payroll	1,433,525	358,953
Other liabilities	340,383	57,066
Net cash used in operating activities	\$ <u>(20,815,192)</u>	<u>(23,043,191)</u>
Noncash transactions		
Retirement of capital assets	\$ 1,411,570	342,905
Donation of capital assets	21,572	42,000
Write-off of uncollectible accounts receivable	3,534,794	2,750,940
Write-off of uncollectible loans receivable	126,066	188,900

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

(1) Summary of Significant Accounting Policies

(a) Governance

The accompanying financial statements reflect the financial activities of Metropolitan State University of Denver (the University or MSU Denver) for the fiscal years ended June 30, 2016 and 2015. Effective July 1, 2002, Colorado Revised Statute (C.R.S.) 23-54-102 established the Board of Trustees (Trustees) of the University to serve as the University's governing board. Nine of the eleven Trustees are members outside the University who are appointed by the Governor with the consent of the Senate. The remaining two members consist of a student, elected by the student body, and a faculty member, elected by tenure and tenure track faculty. Both of these members are non-voting members. The Trustees have full authority and responsibility for the control and governance of the University, including such areas as role and mission, academic programs, curriculum, admissions, finance, personnel policies, etc. To exercise their authority appropriately, the Trustees regularly establish policies designed to enable the University to perform its statutory functions in a rational and systematic manner. To assist them in meeting their responsibilities, the Trustees delegate to the President the authority to interpret and administer their policies in all areas of operations.

(b) Reporting Entity

The State of Colorado (the State) is the primary governmental reporting entity for State financial reporting purposes. For financial reporting purposes, the University is included as part of the State's primary government. The financial statements of the University, which is an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Colorado that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted (GAAP) in the United States of America. Financial results for the State of Colorado are presented in separate statewide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in these statewide financial statements. The accounting policies of the University conform to GAAP, as applicable to government units.

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

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In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, paragraph 47, the discrete presentation of the Metropolitan State University of Denver Foundation, Inc.'s (the Foundation) and the HLC@Metro, Inc.'s financial statements appear on separate pages from the financial statements of the University. The Foundation and the HLC@Metro, Inc. warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationships with the University. Please refer to note 16 for additional discussion.

(c) Basis of Accounting

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

The University applies all applicable GASB pronouncements. In fiscal year 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement establishes new financial reporting requirements for governments that provide their employees with pension benefits. The University does provide certain employees with pension benefits through the State's multiple employer cost sharing Public Employees' Retirement Association (PERA) defined benefit program. As per the statement, the University recorded a liability equal to its proportionate share of the net pension liability of PERA. Please see note 10 for more information. In fiscal year 2016, the University adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement generally requires investments to be measured at fair value; however, investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, etc. This standard establishes a hierarchy of inputs for valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

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

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

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.

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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.

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

Capital Assets: Equipment, buildings, construction in progress, and leasehold and land improvements are stated at cost at the date of acquisition or fair market value at the date of donation. A physical inventory of all capital assets is taken annually with appropriate adjustments made to the financial records. The University follows the policy of capitalizing only those capital assets with an initial cost or fair value equal to or greater than \$5,000. The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specific to the project. Total interest capitalized during the years ended June 30, 2016 and 2015 was \$15 thousand and \$227 thousand, respectively.

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

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

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, 2 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 position owed to the individual or organization for which the University is acting as custodian.

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

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

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Deferred Inflows of Resources: Acquisition of net assets by the University applicable to a future reporting period. Amortization of the University's change in proportionate share of PERA's unfunded pension liability results in a deferred inflow of resources as does differences between expected and actual experience and changes of assumptions or other inputs of the pension plan.

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

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

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

- *Operating revenues and expenses* generally result from providing goods and services for instruction, public service, or related support services to an individual or entity separate from the University.
- *Nonoperating revenues and expenses* do not meet the definition of operating revenues, and include federal bond interest subsidies, Pell grants, gifts, investment income, rental income, and interest expense.
- *Other revenues* consist of capital contributions from the State for the construction of the Aerospace and Engineering Sciences (AES) Building.

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

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

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

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Income Taxes: As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code (IRC) and a similar provision of State law. However, the University is subject to federal income tax on any unrelated business taxable income. The University did not have any significant unrelated business taxable income in fiscal year 2016 or 2015.

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

Reclassifications: Prior year amounts have been reclassified to conform to current year presentation.

(2) Cash and Cash Equivalents and Investments

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

		2016	
		Bank Balance	Carrying Amount
Cash on hand	\$	—	33,052
Cash in checking and depository accounts at banks		1,478,069	633,815
Total cash on hand and in banks	\$	1,478,069	666,867
		2015	
		Bank Balance	Carrying Amount
Cash on hand	\$	—	32,432
Cash in checking and depository accounts at banks		1,205,734	255,071
Total cash on hand and in banks	\$	1,205,734	287,503

As of June 30, 2016, \$500,000 of the cash in checking and depository accounts was covered by federal depository insurance and the remainder by collateral held by the financial institution's agent in the University's name.

The University deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2016 and 2015, the University had cash on deposit with the State Treasurer of \$104,503,600 and \$68,506,831, respectively, which represented approximately 1.4 percent of the total \$7,408.5 million and .09 percent of the total \$7,661.8 million of deposits in the State Treasurer's Pool (Pool). The \$104,503,600 and \$68,506,831 on deposit as of June 30, 2016 and 2015, respectively, includes \$30,011,946 and \$-0- of restricted cash as of June 30, 2016 and 2015, respectively, which is the unspent proceeds of the Series 2016 bonds (see note 6 for further information).

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For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted prices in active markets for identical assets, referred to as Level 1 inputs (\$230 million) and significant other observable inputs, referred to as Level 2 inputs (\$7,178.5 million) at the fiscal year end. On the basis of the University's participation in the Pool, the University reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

For the University's deposits with the State Treasury, the University had a net unrealized gain of \$460,221 in fiscal year 2016 and a net unrealized loss of \$114,537 in fiscal year 2015. These net unrealized gains and losses are included in cash and cash equivalents on the statements of net position.

(a) Credit Quality Risk

Credit quality risk is the risk that the 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, 2016 and 2015, approximately 83.8 percent and 88.0 percent, respectively, of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for \$77,761,610 and \$87,396,440 in fiscal year 2016 and 2015, respectively, of corporate bonds rated lower medium, and \$-0- and \$25,018,750 of corporate bonds rated very speculative in fiscal year 2016 and 2015, respectively, 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.

(b) 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 State 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, 2016, the weighted average maturity of investments in the Treasurer's Pool is as follows:

Investment Type	Weighted Average Maturity	Maturity Amount	Percent of Pool
Asset Backed Securities	2.585	\$ 1,026,821,023	14.0
Corporate Bonds	1.985	1,645,938,000	22.4
U.S. Government Securities	1.343	3,608,040,000	49.0
Commercial Paper	0.094	847,000,000	11.5
Money Market Mutual Funds	0.000	230,000,000	3.1
TOTAL		\$ 7,357,799,023	100.0

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As of June 30, 2015, the weighted average maturity of investments in the Treasurer's Pool is as follows:

Investment Type	Weighted Average Maturity	Maturity Amount	Percent of Pool
Asset Backed Securities	2.528	\$ 1,414,688,202	18.5
Corporate Bonds	2.196	1,743,777,000	22.9
U.S. Government Securities	1.339	3,629,340,000	47.5
Commercial Paper	0.063	485,000,000	6.3
Money Market Mutual Funds	0.010	370,000,000	4.8
TOTAL		\$ 7,642,805,202	100.0

(c) Foreign Currency Risk

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2016 or 2015.

Additional information on investments of the Pool may be obtained in the State's comprehensive annual financial report for the year ended June 30, 2016.

(d) Other Investments

- 1) GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, requires disclosure of credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk for any public entity's investments. GASB Statement No. 72, *Fair Value Measurement and Application*, requires investments to be recorded at fair value. As of June 30, 2016 and 2015, the University has invested \$190,634 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established by state statute for government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST is a 2a7-like investment pool, and the University's investment is rated as AAAM by Standard and Poor's. COLOTRUST pooled investments are excluded from the custodial credit risk and interest rate risk disclosure requirements, and is exempt from the fair value requirements of GASB 72. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. At June 30, 2016 and 2015, the fair value of the University's investment remained at \$190,634.
- 2) The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of June 30, 2016, and 2015, the University has reoccurring fair value measurements of \$269,242 and \$172,730, respectively, invested in TIAA/CREF Lifecycle Mutual funds, known as 415(m) funds. This investment is valued using quoted market prices (Level 1 inputs).

All mutual funds are subject to market risk, including possible loss of principal. The Lifecycle funds target allocation is 58% equity and 42% fixed income; however, the fund may deviate from these target allocations by 10% depending on current market conditions. As of June 30, 2016, the allocation was a 56% and 44% mix, respectively. As of June 30, 2015, the equity to fixed income allocation was 58% and 42% respectively. The specific allocations as of June 30 2016 and 2015 are reflected in the table below:

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Current Asset Allocation		
	06/30/16	06/30/15
US Equity	38.58%	39.57%
Fixed Income	34.76%	33.85%
International Equity	17.80%	18.45%
Inflation-Protected Assets	4.38%	3.99%
Short-Term Fixed Income	4.36%	3.98%
Short-Term Investments, Other Assets & Liabilities, Net	0.12%	.16%
	100%	100%

(1) Custodial Credit Risk

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

(2) Credit Quality Risk

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

(3) Foreign Currency Risk

The TIAA/CREF Lifecycle Mutual fund has 18% in international equities. It may also invest up to 20% of its bond assets in fixed income securities of foreign issuers, including emerging markets, but denominated in U.S. Dollars with no foreign currency risk.

(3) Capital Assets

The following tables, present changes in capital assets and accumulated depreciation for the years ended June 30, 2016 and 2015:

	Balance, June 30, 2015	Additions	CIP transfers	Retirements	Balance, June 30, 2016
Land	\$ 1,005,185	—	—	—	1,005,185
Construction in progress	2,258,245	12,458,871	(191,858)	—	14,525,258
Depreciable capital assets:					
Equipment	21,657,250	1,339,417	132,193	(1,411,570)	21,717,290
Building	53,832,734	—	—	—	53,832,734
Leasehold improvements	45,099,226	209,327	59,665	—	45,368,218
Less accumulated depreciation:					
Equipment	(13,579,865)	(2,027,301)	—	1,363,461	(14,243,705)
Buildings	(6,776,802)	(2,158,228)	—	—	(8,935,030)
Leasehold improvements	(10,263,743)	(2,995,695)	—	—	(13,259,438)
Net depreciable capital assets	<u>89,968,800</u>	<u>(5,632,480)</u>	<u>191,858</u>	<u>(48,109)</u>	<u>84,480,069</u>
Total capital assets, net	<u>\$ 93,232,230</u>	<u>6,826,391</u>	<u>—</u>	<u>(48,109)</u>	<u>100,010,512</u>

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	<u>Balance, June 30, 2014</u>	<u>Additions</u>	<u>CIP transfers</u>	<u>Retirements</u>	<u>Balance, June 30, 2015</u>
Land	\$ 1,005,185	—	—	—	1,005,185
Construction in progress	7,402,532	17,111,358	(22,196,737)	(58,908)	2,258,245
Depreciable capital assets:					
Equipment	19,598,790	1,892,304	509,061	(342,905)	21,657,250
Building	47,182,017	—	6,650,717	—	53,832,734
Leasehold improvements	28,989,280	1,072,987	15,036,959	—	45,099,226
Less accumulated depreciation:					
Equipment	(11,945,239)	(1,976,686)	—	342,060	(13,579,865)
Buildings	(4,799,226)	(1,977,576)	—	—	(6,776,802)
Leasehold improvements	(7,855,861)	(2,407,882)	—	—	(10,263,743)
Net depreciable capital assets	\$ 71,169,761	(3,396,853)	22,196,737	(845)	89,968,800
Total capital assets, net	\$ 79,577,478	13,714,505	—	(59,753)	93,232,230

(4) Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>	<u>Amounts due within one year</u>
Bonds payable	\$ 63,467,615	30,237,098	(2,247,460)	91,457,253	2,550,000
Capital lease payable	6,814,916	—	(379,355)	6,435,561	397,207
Compensated absences	3,366,092	250,293	(7,396)	3,608,989	331,132
Total noncurrent liabilities	\$ 73,648,623	30,487,391	(2,634,211)	101,501,803	3,278,339

A summary of the changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>	<u>Amounts due within one year</u>
Bonds payable	\$ 61,141,120	3,926,495	(1,600,000)	63,467,615	1,980,000
Capital lease payable	7,176,419	—	(361,503)	6,814,916	379,355
Compensated absences	3,060,248	331,743	(25,899)	3,366,092	296,990
Total noncurrent liabilities	\$ 71,377,787	4,258,238	(1,987,402)	73,648,623	2,656,345

(5) Lease Obligations

Operating Leases

The University leases building space, land, copiers, computers, and small off-site storage units under operating lease agreements with AHEC and with private organizations. The University has three ground leases with AHEC totaling \$3.00 for the ground where the HLC and the Student Success Building (SSB) are built, as well as where the Aerospace Building is being built.

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Total rental expense for the years ended June 30, 2016 and 2015 under all agreements was \$2,338,206 and \$2,181,885, respectively. As of June 30, 2016, minimum future rentals required by these agreements are as follows:

Fiscal year(s) ending:		
2017	\$	1,916,279
2018		1,792,828
2019		1,364,058
2020		1,252,713
2021		1,132,743
2022 – 2026		3,901,409
2027 – 2031		692,170
Total	\$	<u><u>12,052,200</u></u>

In addition to these operating leases, the University occupies other space on the Auraria Campus owned by AHEC. The use of this space is not formalized under an official lease agreement (with a lease term and future payment obligations) but is rather a component of the shared campus costs and is, therefore, reflected in note 14.

Capital Leases

During fiscal year 2009, the University entered into a capital lease with AHEC in the amount of \$8,986,165 to finance the construction and acquisition of leasehold improvements for the new Science building on the Auraria Campus. The lease requires annual principal payments and semiannual interest payments. In fiscal years 2016 and 2015, the principal payments totaled \$379,355 and \$361,503, respectively, and interest expense equaled \$356,170 and \$373,743 respectively.

The following is a schedule of future minimum capital lease payments as of June 30, 2016:

Fiscal year(s) ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 397,207	337,704	734,911
2018	417,291	317,342	734,633
2019	439,606	294,820	734,426
2020	466,384	269,906	736,290
2021	490,930	244,193	735,123
2022 – 2026	2,885,329	790,922	3,676,251
2027 – 2028	1,338,814	77,751	1,416,565
Total	<u>\$ 6,435,561</u>	<u>2,332,638</u>	<u>8,768,199</u>

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(6) Bond Obligations

Total outstanding bonds are summarized below:

<u>Issue</u>	<u>Date issued</u>	<u>Amount issued</u>	<u>June 30</u>	
			<u>2016</u>	<u>2015</u>
2009 Taxable Institutional				
Enterprise Revenue Bonds	11/17/09	\$ 55,190,000	\$ 48,530,000	49,905,000
2010 Taxable Institutional				
Enterprise Revenue Bonds	6/11/10	10,575,000	9,350,000	9,600,000
Less discount on 2010 Bonds, net of amortization			(35,889)	(37,385)
2014 Institutional				
Enterprise Revenue Bonds	6/13/2014	4,000,000	3,377,540	4,000,000
2016 Institutional				
Enterprise Revenue Bonds	1/27/2016	27,450,000	27,450,000	—
Plus premium on 2016 Bonds, net of amortization			2,785,602	—
Total			<u>\$ 91,457,253</u>	<u>63,467,615</u>

Principal and interest requirements on all outstanding bonds at June 30, 2016 are summarized in the table below. All debt has a fixed interest rate except the Series 2014, which has a variable interest rate that is calculated as 65.001% of LIBOR, plus a tax-free loan margin of 0.99% per annum. For purposes of this table, the rate used to calculate future interest owed on the Series 2014 was the rate that was in effect as of June 30, 2016.

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,550,000	4,508,623	7,058,623
2018	2,605,000	4,416,731	7,021,731
2019	2,675,000	4,315,903	6,990,903
2020	2,750,000	4,208,502	6,958,502
2021	2,820,000	4,095,022	6,915,022
2022 – 2026	14,672,540	18,525,903	33,198,443
2027 – 2031	15,685,000	14,518,134	30,203,134
2032 – 2036	18,675,000	9,710,920	28,385,920
2037 – 2041	19,175,000	4,145,884	23,320,884
2042 – 2046	7,100,000	922,000	8,022,000
	<u>88,707,540</u>	<u>\$ 69,367,622</u>	<u>158,075,162</u>
Unamortized discount, net	(35,889)		
Unamortized premium, net	2,785,602		
	<u>\$ 91,457,253</u>		

(a) Series 2009

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

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The bonds are due in semiannual installments beginning in fiscal year 2012 with annual principal payments ranging from \$1,295,000 to \$2,875,000 through December 1, 2039. The interest payments on the bonds are eligible to receive a 45% subsidy from the federal government; however, in fiscal year 2013 the federal government issued a sequestration order, which reduced the amount of the subsidy. As of June 30, 2016, the University received \$339,360 less in subsidy payments than what was expected before sequester. As of June 30, 2016 and 2015, the University has received \$8,423,637 and \$7,215,847, respectively, in subsidy payments since the bond's inception. These bonds are collateralized by future revenues the University has pledged. See note 7 for more information on pledged revenues.

(b) Series 2010

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

The bonds are due in semiannual installments beginning in fiscal year 2012 with annual principal payments ranging from \$240,000 to \$535,000 through December 1, 2040. The interest payments on the bonds are eligible to receive a 45% subsidy from the federal government; however, in fiscal year 2013 the federal government issued a sequestration order, which reduced the amount of the subsidy. As of June 30, 2016, the University received \$63,724 less in subsidy payments than what was expected before sequester.

As of June 30, 2016 and 2015, the University has received \$1,432,525 and \$1,205,102, respectively, in subsidy payments since the bond's inception. These bonds are collateralized by future revenues the University has pledged. See note 7 for more information on pledged revenues.

The Series 2010 bonds are shown net of unamortized discount of \$35,889.

(c) Series 2014

On June 13, 2014, the University issued Series 2014 Institutional Enterprise Revenue Bonds not to exceed \$4,000,000, at a variable interest rate equal to 65.001% of LIBOR plus a tax free loan margin of .99% per annum. The purpose of these bonds is to provide funding for the completion of the new athletic fields, which are 12.5 acres that will have eight tennis courts, a soccer stadium, and baseball and softball diamonds. These bonds work like a line of credit, where the University can draw funds on an as needed basis. The outstanding principle amount is equal to the amount the University draws down. At the end of fiscal year 2016, the University drew the full \$4 million. Principal payments became due beginning in fiscal year 2016. The maturity date of these bonds is September 1, 2024. These bonds are not subject to the bond subsidy payments from the federal government.

(d) Series 2016

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

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

The Series 2016 bonds are shown net of unamortized premium of \$2,785,602.

(7) Pledged Revenue

The University has pledged future revenues to repay \$88,707,540 in outstanding revenue bonds. Pledged revenue includes 10% of resident and nonresident tuition, all revenues derived from the facilities construction fee, all revenues derived from indirect cost recoveries (overhead) payable to research contracts and grants performed within the University's facilities, all revenues derived from mandatory fees for the provision of student and faculty services at the University, all revenues, net of operation and maintenance expenses, for the provision of continuing education services at the University, interest income, and federal interest subsidy payments received in connection with the bonds.

Proceeds from the bonds provided financing for the construction of the SSB, the Regency Athletic Complex (RAC), the AES and various major remodeling projects. The total remaining principal and interest payments, net of the federal subsidy payments, are expected to be \$136,473,677 (unaudited) payable through fiscal year 2046. This figure is assuming the federal government removes the reduction implemented with the fiscal year 2013 sequester. The total revenue pledged was \$29,686,874 and \$28,438,545 for June 30, 2016 and 2015, respectively.

The University has also agreed to make the required payments on the outstanding bonds on the HLC in the event the HLC@Metro, Inc. does not satisfy its bond payment obligations. The payments for this debt would also be covered by these pledged revenues. See note 16 for more information on the HLC@Metro, Inc.

The following table shows information for pledged revenues for fiscal years 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Tuition	\$ 13,642,213	13,680,138
Mandatory Fees	7,232,145	6,501,798
Facility fee	6,456,178	6,620,179
Unrestricted Net Income	472,635	—
Net Continuing Education	51,522	—
Federal Subsidy	1,433,676	1,327,909
Indirect cost recovery	398,505	308,521
	<u>\$ 29,686,874</u>	<u>28,438,545</u>

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(8) Compensated Absences

GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, and GASB Statement No. 35, Basic Financial Statements – and Management’s Discussion and Analysis – for Public University and Universities, require that compensated absences be broken out into current and noncurrent liabilities.

Employees may accrue annual and sick leave based on the length of service and, subject to certain limitations regarding the amount, will be paid upon termination. The estimated costs of current compensated absences for which employees are vested for the years ended June 30, 2016 and 2015 are \$331,132 and \$296,990, respectively.

The estimated costs of noncurrent compensated absences for which employees are vested for the years ended June 30, 2016 and 2015 are \$3,277,857 and \$3,069,102, respectively. Fiscal years 2016 and 2015 operating expenses include an increase of \$242,898 in fiscal year 2016 and an increase of \$305,843 in fiscal year 2015, 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 University’s required contribution to the ORP is 11.4% of covered payroll, and contribution by employees is 8% of covered payroll.

The University’s contributions to the ORP for the fiscal year ended June 30, 2016, and 2015 were \$5,779,624 and \$5,353,180, respectively. These contributions were equal to the required contributions. All ORP contributions are immediately vested in the employee’s account. Normal retirement for the ORP is age 65 with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and investment decisions made by participants for their individual accounts.

(10) Defined Benefit Pension Plan

i) Summary of Significant Accounting Policies

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

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ii) General Information about the Pension Plan

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

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

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

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

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

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

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF.

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Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. State Troopers whose disability is caused by an on-the-job injury are immediately eligible to apply for disability benefits and do not have to meet the five years of service credit requirement. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

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

Contributions. Eligible employees and MSU Denver are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. Eligible employees, with the exception of State Troopers, are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements for all employees, except State Troopers, are summarized in the table below:

	Fiscal Year 2014		Fiscal Year 2015		Fiscal Year 2016	
	CY13	CY14		CY15		CY16
	7-1-13 to 12-31-13	1-1-14 to 6-30-14	7-1-14 to 12-31-14	1-1-15 to 6-30-15	7-1-15 to 12-31-15	1-1-16 to 6-30-16
Employer Contribution Rate ¹	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f) ¹	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 ¹	3.40%	3.80%	3.80%	4.20%	4.20%	4.60%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411 ¹	3.00%	3.50%	3.50%	4.00%	4.00%	4.50%
Total Employer Contribution Rate to the SDTF ¹	15.53%	16.43%	16.43%	17.33%	17.33%	18.23%

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

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the University is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the University were \$7,426,630, and \$7,176,222 for the years ended June 30, 2016 and 2015 respectively.

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

At June 30, 2016 and 2015, MSU Denver reported a liability of \$160,234,301 and \$148,774,027, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. MSU Denver's proportion of the net pension liability was based on MSU Denver's contributions to the SDTF for the calendar year 2015 relative to the total contributions of participating employers to the SDTF.

At December 31, 2015, MSU Denver's proportion was 1.52 percent, which was a decrease of \$333,301 from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, and 2015, MSU Denver recognized pension expense of \$11,740,105 and \$10,765,018, respectively. At June 30, 2016 and 2015, MSU Denver reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30 2016		June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,333,280	\$ 5,125	\$ -	\$ 11,024
Changes of assumptions or other inputs	-	1,896,715	-	-
Net difference between projected and actual earnings on pension plan investments	12,159,918	-	3,033,521	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	4,677,734	-	2,042,216
Contributions subsequent to the measurement date	3,784,945	N/A	3,553,211	N/A
Total	\$ 18,278,130	\$ 6,579,585	\$ 6,586,732	\$ 2,053,240

\$3,784,945 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 475,941
2018	1,736,914
2019	3,229,575
2020	2,471,194

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Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 9.57 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

- The following programming changes were made:
 - Valuation of the full survivor benefit without any reduction for possible remarriage.
 - Reflection of the employer match on separation benefits for all eligible years.
 - Reflection of one year of service eligibility for survivor annuity benefit.
 - Refinement of the 18 month annual increase timing.
 - Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- The following methodology changes were made:
 - Recognition of merit salary increases in the first projection year.
 - Elimination of the assumption that 35% of future disabled members elect to receive a refund.
 - Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
 - Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

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The SDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the November 15, 2013 adoption of the long-term expected rate of return by the PERA board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

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- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of MSU Denver's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability as of June 30, 2015 and 2016, calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

As of June 30, 2016	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$ 202,433,517	160,234,301	124,936,063
<hr/>			
As of June 30, 2015	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$ 190,764,285	148,774,027	113,454,605

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

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iv) Payables to the pension plan

As of June 30, 2016 MSU Denver had a \$586,383 payable to the SDTF, which was comprised entirely of the June contributions legally required to be made to the plan. Colorado Revised Statute 24-50-104 changed the pay date for salaries earned in the month of June to be paid on the first day of July, which moved all payments related to the June payroll into July, effectively creating this payable each year.

(11) Other Retirement Plans

i) 401(k) Defined Contribution Plan

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

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

ii) Deferred Compensation Plan

a) 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 2015, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$18,000. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$6,000 contribution in 2015, for total contributions of \$27,000. Contributions and earnings are tax deferred. At December 31, 2015, the plan had 17,814 participants.

b) On July 1, 2013, the University also established a TIAA/CREF Lifecycle Excess Benefit 415(m) plan. The assets of this plan are owned and controlled by the University and are subject to the claims of the University's creditors; however, given that they are held in trust for the exclusive benefit of the participants and their beneficiaries, the employees have a vested interest. The excess benefits in this plan are not available to employees until termination, retirement, death or unforeseeable emergency. See note 2 for details of this plans' assets. As of June 30, 2016, the 415(m) plan had one participant.

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(12) Other Post-Employment Benefits

i) Colorado Higher Education Insurance Benefits Alliance (CHEIBA)

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

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

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

ii) Health Care Trust Fund

Plan Description – MSU Denver contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – MSU Denver is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for MSU Denver are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016 and 2015, the University's contributions to the HCTF were \$417,198 and \$422,571, respectively, equal to their required contributions for each year.

iii) Student Retirement Plan

Beginning in fiscal year 1993, in accordance with the provision of C.R.S. 24-54.6-101, and as provided in Section 403(b) of the IRC, the State of Colorado Department of Higher Education established the Colorado Student Employees Defined Contribution Plan. Student employees taking fewer than six hours each semester are required to participate. The plan requires a 7.5% contribution on the employee's part with no employer contribution.

Total current year payroll covered by the plan for the University for the fiscal years ended June 30, 2016 and 2015 was \$2,060,427 and \$1,842,299, respectively. Employee contributions for the fiscal years ended June 30, 2016 and 2015 were 7.5% of the covered payroll in the amount of \$154,536 and \$138,158, respectively.

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(13) Commitments and Contingent Liabilities

The University entered into a non-exchange financial guarantee with the HLC@Metro Inc. This guarantee is a legal, valid, and binding obligation. As described in note 1b, the HLC@Metro Inc. is a discretely presented component unit of the University. The HLC@Metro Inc. was created as a special purpose corporation to manage the Hospitality Learning Center. This guarantee agreement dated October 1, 2010 with HLC@Metro, Inc., absolutely and unconditionally guarantees to Wells Fargo, HLC@Metro, Inc.'s trustee, the timely payment of all HLC@Metro, Inc.'s debt service payments on its Series 2010 bonds on a gross basis (without netting of any federal subsidy payments received or to be received). The guaranteed amounts are payable solely from available pledged revenues of the University, as discussed in note 7. This guarantee will remain in effect until there are no more outstanding payables on the HLC@Metro Inc.'s series 2010 bonds. Should the University have to step in and make any payments on behalf of the HLC@Metro Inc., the HLC@Metro Inc. is obligated to repay all the payments made on its behalf. As of June 30, 2016, the University has not had to pay any of these payments.

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

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

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

(14) Campus Shared Controlled Costs

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

	<u>Year ended June 30</u>	
	<u>2016</u>	<u>2015</u>
Administration of Auraria Higher Education Center and operation and maintenance of plant	\$ 9,587,005	9,454,506
Controlled Maintenance	966,150	977,550
Library and Media Center	4,352,340	4,265,500
Total	<u>\$ 14,905,495</u>	<u>14,697,556</u>

The University's existing and future commitments to AHEC are established within the Senate Bill 10-1301. The University's ability to fulfill existing and future commitments is contingent upon funds being appropriated for such purposes. For the year ending June 30, 2017, the University's portion of shared costs is estimated to be \$15,170,991 (unaudited).

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(15) Legislative Appropriations

The Colorado State Legislature establishes spending authority to the University in its annual Long Appropriations Bill (Long Bill). The Long Bill appropriated funds include an amount from the State's College Opportunity Fund. In prior years, the annual appropriations bill included certain cash revenues from the student share of tuition and fees.

For the years ended June 30, 2016 and 2015, appropriated expenses were within the authorized spending authority. For the years ended June 30, 2016 and 2015, the University had a total re-appropriation of \$50,153,399 and \$43,681,193, respectively. For years ended June 30, 2016 and 2015, the University's appropriated funds consisted of \$31,107,694 and \$32,248,782, respectively, received from students that qualified for stipends from the College Opportunity Fund and \$19,045,705 and \$11,432,411, respectively, as fee-for-service contract revenue. All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include tuition and fees, grants and contracts, gifts, indirect cost recoveries, auxiliary revenues and other revenue sources.

(16) Component Unit Disclosures

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

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

On August 17, 2010, the University's Board of Trustees approved the incorporation of the HLC@Metro, Inc., a not-for-profit, special-purpose corporation in order to create the HLC. The HLC@Metro, Inc. has a management agreement with Sage Hospitality to manage the hotel, and a franchise agreement with Marriott to market the hotel. The essence of these agreements is that the hotel is to provide services to the community-at-large, and not to the exclusive or even primary benefit of MSU Denver or MSU Denver's students, faculty, and staff. The financial statements of HLC@Metro, Inc. are prepared on the accrual basis and follow FASB ASC Topic 958.

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

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(17) Related-Party Transactions

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

The University leased office space to the Foundation for \$8,274 for each of the fiscal years ending June 30, 2016 and 2015. During the years ended June 30, 2016 and 2015, the Foundation provided \$2,677,604 and \$2,369,486 respectively, of funding to the University for various purposes, such as scholarships, departmental funding, and other programs.

The University provides employees on a reimbursement basis to the Foundation. For the years ended June 30, 2016 and 2015, these expenses were \$268,771 and \$236,505, respectively. In addition, the University donates development and certain personnel costs to the Foundation, which totaled \$1,539,127, and \$1,391,503 for the years ended June 30, 2016 and 2015, respectively.

At June 30, 2016 and 2015, the University had receivables of \$544,302 and \$747,900, respectively, due from the Foundation. As of June 30, 2016 and 2015, the University had payable balances of \$10,438 and \$14,203, respectively, due to the Foundation.

At June 30, 2016 and 2015, the University had no payables due to the HLC@Metro Inc. As of June 30, 2016, there were no receivables due from the HLC@Metro Inc., but there was a \$117 receivable due from the HLC@Metro Inc. as of June 30, 2015.

(18) Reclassifications

Certain amounts reported in the fiscal year 2015 financial statements have been reclassified to conform to the 2016 presentation.

**METROPOLITAN STATE UNIVERSITY OF DENVER
REQUIRED SUPPLEMENTARY INFORMATION
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As required by GASB 68, the schedule below contains 10 years of changes in pension liability; however, historical information prior to implementing GASB 68 is neither required nor available.

Ten Year Schedule							
Pension Plan's Fiscal Year Ending December 31,							
	2015	2014	2013	2012	2011	2010	2009
Employer % of collective net pension liability	1.5215440022%	1.5816063970%	1.6167918453%	N/A	N/A	N/A	N/A
Employer share of collective net pension liability	160,234,301	148,774,027	144,023,349	N/A	N/A	N/A	N/A
Employer's covered-employee payroll	43,884,297	44,178,569	43,104,113	N/A	N/A	N/A	N/A
Employer's share of the collective net pension liability as a percentage of employer's covered-employee payroll	365.13%	336.76%	334.13%	N/A	N/A	N/A	N/A
Pension plan's fiduciary net position as a % of total pension liability	56.11%	59.84%	61.08%	N/A	N/A	N/A	N/A

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

**METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
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Note 1 – Principal Activity and Significant Accounting Policies

Organization

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

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

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

Cash and Cash Equivalents

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

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At June 30, 2016 and 2015, the allowance was \$30,000 and \$33,200, respectively.

Property and Equipment

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

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2016 and 2015.

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

Assets Held and Liabilities Under Split-Interest Agreements

Beneficial Interest in Charitable Trust Held by Others

The Foundation has been named as an irrevocable beneficiary of a charitable trust held and administered by an independent trustee. The trust was created independently by the donor and is administered by an outside agent designated by the donor. Therefore, the Foundation has neither possession nor control over the assets of the trust. At the date the Foundation received notice of the beneficial interest, a permanently restricted contribution was recorded in the statement of activities, and a beneficial interest in charitable trust held by others was recorded in the statement of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, the beneficial interest in the trust has been reported at fair value in the statement of financial position. At the end of the trust's term, the assets of the trust will be transferred to the permanent endowment for scholarships; earnings on the assets will be available for scholarships.

Charitable Gift Annuities

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

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Net Assets

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

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

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

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
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The Foundation reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

Revenue Recognition

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

Donated Professional Services and In-kind Contributions

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

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Note 10 presents total expenses by function.

Income Taxes

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

The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
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Estimates

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

Financial Instruments and Credit Risk

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

Subsequent Events

The Foundation has evaluated subsequent events through October 21, 2016, the date the financial statements were available to be issued. No events were identified requiring disclosure.

Note 2 – Fair Value Measurements and Disclosures

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

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

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

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

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

A significant portion of the Foundation's investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values. The fair value of the Foundation's beneficial interest in a charitable trust held by others is based on the fair value of the trust investments as reported by the trustee. Investments in privately held equity are not readily marketable and are reported at fair value utilizing the most current information provided by the investee. These are considered to be Level 3 measurements.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost, as identified below, at June 30, 2016:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash and money market funds (at cost)	\$ 232,985	\$ -	\$ -	\$ -
Fixed income funds				
U.S. Government securities funds	2,510,224	2,510,224	-	-
Bond funds	1,396,101	1,396,101	-	-
Equity funds				
U.S. common stocks	1,280,064	1,280,064	-	-
Preferred stocks	158,366	158,366	-	-
Real estate investment trusts	46,317	46,317	-	-
Privately held equity	100,000	-	-	100,000
	<u>\$ 5,724,057</u>	<u>\$ 5,391,072</u>	<u>\$ -</u>	<u>\$ 100,000</u>
Endowment Investments				
Fixed income funds				
U.S. Government securities funds	\$ 76,689	\$ 76,689	\$ -	\$ -
Bond funds	1,614,985	1,614,985	-	-
High-yield bond funds	130,113	130,113	-	-
Equity Funds				
U.S. common stocks	2,171,838	2,171,838	-	-
Small to mid-cap equity funds	955,524	955,524	-	-
International equity funds	959,649	959,649	-	-
Emerging market funds	265,013	265,013	-	-
Futures and commodity funds	703,850	703,850	-	-
Preferred stocks	60,303	60,303	-	-
Real estate investment trusts	175,357	175,357	-	-
	<u>\$ 7,113,321</u>	<u>\$ 7,113,321</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interest in				
Charitable trust held by others	\$ 112,570	\$ -	\$ -	\$ 112,570

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The following table presents assets measured at fair value on a recurring basis, except those measured at cost, as identified below, at June 30, 2015 :

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash and money market funds (at cost)	\$ 459,939	\$ -	\$ -	\$ -
Fixed income funds				
U.S. Government securities funds	2,503,866	2,503,866	-	-
Bond funds	1,284,505	1,284,505	-	-
Emerging market funds	1,575	1,575	-	-
Equity funds				
U.S. common stocks	958,077	958,077	-	-
Preferred stocks	150,897	150,897	-	-
Real estate investment trusts	64,133	64,133	-	-
	<u>\$ 5,422,992</u>	<u>\$ 4,963,053</u>	<u>\$ -</u>	<u>\$ -</u>
Endowment Investments				
Cash and money market funds (at cost)	\$ 333,713	\$ -	\$ -	\$ -
Fixed income funds				
U.S. Government securities funds	92,083	92,083	-	-
Bond funds	1,772,610	1,772,610	-	-
Emerging market funds	109,562	109,562	-	-
High-yield bond funds	132,267	132,267	-	-
Equity funds				
U.S. common stocks	2,179,278	2,179,278	-	-
Small to mid-cap equity funds	831,257	831,257	-	-
International equity funds	578,774	578,774	-	-
Emerging market funds	369,331	369,331	-	-
Futures and commodity funds	501,367	501,367	-	-
Preferred stocks	55,359	55,359	-	-
Real estate investment trusts	153,507	153,507	-	-
	<u>\$ 7,109,108</u>	<u>\$ 6,775,395</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interest in charitable trust held by others	<u>\$ 110,706</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,706</u>

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
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Below is a reconciliation of the beginning and ending balances of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2016 and 2015:

	Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)	
	Beneficial interest in charitable trust	Privately held equity
<u>Year ended June 30, 2016</u>		
Balance, beginning of year	\$ 110,706	\$ -
Purchases/contributions of investments	-	100,000
Net realized and unrealized gain	1,864	-
Balance, end of year	\$ 112,570	\$ 100,000
Unrealized gain included in net investment return in the statement of activities relating to assets still held at June 30, 2016	\$ 1,864	\$ -
<u>Year ended June 30, 2015</u>		
Balance, beginning of year	\$ 111,645	\$ -
Net realized and unrealized loss	(939)	-
Balance, end of year	\$ 110,706	\$ -
Unrealized loss included in net investment return in the statement of activities relating to assets still held at June 30, 2015	\$ (939)	\$ -

Note 3 – Net Investment Return

Net investment return consists of the following for the years ended June 30, 2016 and 2015:

	2016	2015
Investments		
Interest and dividend income	\$ 111,786	\$ 91,348
Net realized and unrealized gain (loss)	8,530	(41,119)
Less investment management and custodial fees	(23,719)	(21,203)
	96,597	29,026
Endowment investments		
Interest and dividend income	\$ 144,264	\$ 136,018
Net realized and unrealized gain (loss)	(180,251)	5,245
Less investment management and custodial fees	(160,990)	(158,831)
	(196,977)	(17,568)
	\$ (100,380)	\$ 11,458

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
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Note 4 – Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2016 and 2015:

	2016	2015
Within one year	\$ 818,285	\$ 699,530
In one to five years	425,226	797,799
In more than five years	12,768	14,895
	1,256,279	1,512,224
Less discount to net present value (0.16% - 3.50%)	(44,321)	(59,851)
Less allowance for uncollectable promises to give	(30,000)	(33,200)
	\$ 1,181,958	\$ 1,419,173

At June 30, 2016 and 2015, one and three donors accounted for 72% and 81% of total promises to give, respectively. Promises to give of \$972,419 and \$957,948 were restricted to endowment as of June 30, 2016 and 2015, respectively.

Note 5 – Property and Equipment

Property and equipment consists of the following at June 30, 2016 and 2015:

	2016	2015
Center for Visual Arts		
Land	\$ 456,400	\$ 456,400
Building	1,023,472	1,023,472
	1,479,872	1,479,872
Less accumulated depreciation	(230,020)	(194,620)
	1,249,852	1,285,252
Nondepreciated artwork	261,950	263,950
	\$ 1,511,802	\$ 1,549,202

Note 6 – Leases

During the year ended June 30, 2010, the LLC purchased a commercial building at 965 Santa Fe Drive to house the operations of the CVA. Effective March 1, 2010, the LLC and the University entered into a three-year non-cancellable lease which has since been renewed through June 30, 2016. Under the agreement the University paid rent for the years ended June 30, 2015 and 2016 for a total of \$200,000. In addition to the annual minimum rent, the University reimburses the LLC for actual expenses incurred for the maintenance and operation of the premises, which approximate \$35,000 per year.

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Note 7 – Endowment

The Foundation's endowment (Endowment) is composed of 43 individual permanent endowment funds (Permanent Endowment) and 114 purpose-restricted quasi-endowment funds (Quasi-Endowment). The funds were established by donors primarily to provide scholarships to eligible students of the University, and to support academic departments, student activities, and other purposes of the University. Permanent Endowment funds are permanent charitable funds whose principal must be preserved in perpetuity as a condition imposed by the donor. Quasi-Endowment funds are purpose-restricted board-designated gifts whose principal is intended to be maintained in perpetuity, but which may be expended in accordance with the University's spending-rate policy, with no requirement that any such expenditure be replenished. The Foundation's Board of Directors has not designated any of the Foundation's unrestricted net assets to function as endowment. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair values of original Permanent Endowment gifts, as of each gift date, absent explicit donor instructions to the contrary. At June 30, 2016 and 2015, there were no contrary donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts to the Permanent Endowment, (b) the original value of subsequent gifts to the Permanent Endowment, and (c) accumulations to the Permanent Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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

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As of June 30, 2016 and 2015, the Foundation had the following endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>June 30, 2016</u>				
Purpose-restricted quasi-endowment	\$ -	\$ 4,784,867	\$ -	\$ 4,784,867
Donor-restricted permanent endowment	(21,993)	42,362	3,280,504	3,300,873
	<u>\$ (21,993)</u>	<u>\$ 4,827,229</u>	<u>\$ 3,280,504</u>	<u>\$ 8,085,740</u>
<u>June 30, 2015</u>				
Purpose-restricted quasi-endowment	\$ -	\$ 4,812,936	\$ -	\$ 4,812,936
Donor-restricted permanent endowment	(5,685)	123,493	3,136,312	3,254,120
	<u>\$ (5,685)</u>	<u>\$ 4,936,429</u>	<u>\$ 3,136,312</u>	<u>\$ 8,067,056</u>

At June 30, 2016 and 2015, certain Permanent Endowment funds had fair values less than the amount of the original gifts (the permanently restricted portion of the funds). Deficiencies of \$21,993 and \$5,685 have been reported in unrestricted net assets on those dates, respectively. The deficiencies resulted from unfavorable market fluctuations. The Foundation has suspended distributions from these funds until such time as the deficiencies are recovered via market returns; however, there is no legal obligation for the Foundation to fund the deficiencies.

Investment and Spending Policies

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

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

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Changes in Endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Year ended June 30, 2016</u>				
Endowment net assets, beginning of year	\$ (5,685)	\$ 4,936,429	\$ 3,136,312	\$ 8,067,056
Net investment loss				
Investment income, net of fees	-	(16,726)	-	(16,726)
Net realized and unrealized loss	(16,308)	(163,943)	-	(180,251)
Total net investment loss	<u>(16,308)</u>	<u>(180,669)</u>	<u>-</u>	<u>(196,977)</u>
Contributions	-	275,808	144,192	420,000
Distributions pursuant to endowment spending-rate formula	-	(204,339)	-	(204,339)
Endowment net assets, end of year	<u>\$ (21,993)</u>	<u>\$ 4,827,229</u>	<u>\$ 3,280,504</u>	<u>\$ 8,085,740</u>
<u>Year ended June 30, 2015</u>				
Endowment net assets, beginning of year	\$ (4,019)	\$ 4,924,468	\$ 2,896,931	\$ 7,817,380
Net investment loss				
Investment income, net of fees	-	(22,813)	-	(22,813)
Net realized and unrealized gain (loss)	(1,666)	6,911	-	5,245
Total net investment loss	<u>(1,666)</u>	<u>(15,902)</u>	<u>-</u>	<u>(17,568)</u>
Contributions	-	235,601	239,381	474,982
Distributions pursuant to endowment spending-rate formula	-	(207,738)	-	(207,738)
Endowment net assets, end of year	<u>\$ (5,685)</u>	<u>\$ 4,936,429</u>	<u>\$ 3,136,312</u>	<u>\$ 8,067,056</u>

Note 8 – Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015, consist of:

	<u>2016</u>	<u>2015</u>
Restricted by donors for		
Scholarships	\$ 1,828,534	\$ 1,657,285
Academic, student and other activities	3,277,511	3,191,964
Capital projects	96,820	-
Purpose-restricted quasi-endowments		
Scholarships	4,419,056	4,468,530
Academic and other departments	365,811	344,406
Unspent appreciation of Endowment funds which must be appropriated for expenditure before use	42,362	123,493
	<u>\$ 10,030,094</u>	<u>\$ 9,785,678</u>

METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
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Net assets were released from restrictions or otherwise reclassified as follows during the years ended June 30, 2016 and 2015:

	2016	2015
Satisfaction of purpose restrictions		
Scholarships	\$ 1,292,189	\$ 999,101
Academic, student and other activities	1,263,973	1,425,697
Capital projects	393,429	751,795
	\$ 2,949,591	\$ 3,176,593

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

Permanently restricted net asset balances, categorized by the nature of the restrictions on their earnings, are as follows at June 30, 2016 and 2015:

	2016	2015
Restricted by donors for		
Scholarships	\$ 1,801,366	\$ 1,676,488
Academic, student and other activities	1,591,708	1,570,530
	\$ 3,393,074	\$ 3,247,018

Note 9 – Donated Professional Services and In-kind Contributions

The Foundation received donated professional services and materials as follows during the years ended June 30, 2016 and 2015:

	2016	2015
Program services		
Materials	\$ 95,135	\$ 43,582
Donor development		
Development office compensation - University	1,539,127	1,391,503
	\$ 1,634,262	\$ 1,435,085

**METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION
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Note 10 – Functionalized Expenses

Total expenses by function were as follows for the years ended June 30, 2016 and 2015:

	2016	2015
Program services expense	\$ 2,894,076	\$ 3,082,547
General and administrative costs (includes investment management fees of \$184,709 and \$180,034, respectively)	628,019	587,714
Donor development costs	1,539,127	1,391,503
Total functionalized expenses	\$ 5,061,222	\$ 5,061,764

Note 11 – Commitments and Contingencies

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

Note 12 – Related Party Transactions

Funding provided by the Foundation directly to the University, which includes HLC@Metro, for scholarships, academic and other departments, and other activities, totaled \$2,832,855 and \$2,987,972 for the years ended June 30, 2016 and 2015, respectively. The Foundation owed the University \$546,149 and \$782,215 at June 30, 2016 and 2015, respectively. The Foundation paid the University \$268,771 and \$236,505 for salaries and benefits of certain University personnel provided to the Foundation during the years ended June 30, 2016 and 2015, respectively. In addition, the University provided development and other personnel to the Foundation at no cost. The Foundation recorded professional services donated by the University in the amount of \$1,539,127 and \$1,391,503 for the years ended June 30, 2016 and 2015, respectively. The University also provided support related to the Foundation’s Soirée in the amount of \$101,641 for the year ended Jun 30, 2016. The corresponding expenses have been reflected in the accompanying statement of activities as donor development costs.

The Foundation leases certain office space from the University with automatic one-year renewals at the beginning of each fiscal year. Annual rent expense was \$8,274 for the years ended June 30, 2016 and 2015. The University leases space for the CVA from the LLC (Note 6). Amounts due from the University to the Foundation for expense reimbursements including rent expense were \$10,438 and \$14,203 at June 30, 2016 and 2015, respectively. Further, the University reimbursed the Foundation \$25,119 and \$24,546 for CVA operating expenses and \$100,000 for CVA rent expense during the years ended June 30, 2016 and 2015, respectively.

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 ORGANIZATION

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

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The accompanying financial statements include accounts of the HLC, which is a discretely presented component unit of the University. The University board of trustees gives the final approval in the appointment process of the HLC board of directors. As of June 30, 2016 and 2015, three of the nine members are University directors or officers. One director, functioning as the MSU Denver Board of Trustees representative, served her maximum number of terms for MSU Denver. As such, her replacement was approved to serve in her place on the HLC Board Directors.

(b) Basis of Accounting

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

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

(c) Cash and Cash Equivalents

The HLC considers all highly liquid investments, including deposits with the State Treasury, as cash and cash equivalents. At June 30, 2016 and 2015, cash and cash equivalents in banks consisted of the following:

	2016	2015
Cash in Bank Accounts with Trustee (Wells Fargo)	\$ 8,654,244	\$ 7,259,019
Cash and Cash Equivalents Invested with State Treasury	1,104,626	1,101,597
Cash for Hotel Operations (Sage)	205,675	541,843
Total Cash and Cash Equivalents	\$ 9,964,545	\$ 8,902,459

(d) Cash Invested 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, 2016 and 2015, the HLC had cash on deposit with the State Treasurer of \$1,104,626 and \$1,101,597, respectively, which represented .015% of the total \$7,354.0 million and .014% of the total \$7,634.0 million, respectively, in deposits in the State Treasurer's Pool. At June 30, 2016 and 2015, the HLC had earned interest receivable of \$1,692 and \$1,778 in relation to the cash on deposit balance with the State Treasurer. These amounts are expected to be received by the custodian in the month following year-end.

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 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 2016 was \$3,632 and the net unrealized loss for fiscal year 2015 was \$1,219. This net unrealized gain and loss is included in cash and cash equivalents on the statement of financial position.

(e) Capital Assets

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

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

To the extent applicable, the HLC follows MSU Denver's accounting policies, including the policy of the "half-year" depreciation convention. The HLC recognized \$1,337,908 and \$1,511,798 in building, equipment, furniture, and software depreciation expense in fiscal years 2016 and 2015, respectively.

(f) Accounts Receivable

A summary of accounts receivable balances is as follows:

	2016	2015
BABS Subsidy	\$ 330,791	\$ 329,016
Due from the Foundation	-	34,314
Receivables of Hotel	186,210	164,964
State Treasury Interest	1,935	-
Less Allowance for Doubtful Accounts	(3,141)	-
Total Accounts Receivable	\$ 515,795	\$ 528,294

As of June 30, 2016 and 2015, the total balance included \$0 and \$34,314, respectively, due from the Metropolitan State University of Denver Foundation (the Foundation) and represents the amount that it has fundraised for the HLC. Additionally, interest receivable from the federal government for the Series 2010A bonds interest subsidy of \$330,971 and \$329,016 was included in the total balance as of both June 30, 2016 and 2015.

As of June 30, 2016, \$186,210 is due to the Hotel from external sources related to its operations. Of this balance, \$104,511 is from a travel agency, and the remaining balance is from outstanding corporate and personal accounts. As of June 30, 2015, \$164,964 is due to the Hotel from external sources related to its operations. Of this balance, \$32,684 is from a travel agency, and the remaining balance is from outstanding corporate and personal accounts. The hotel does not have any receivable balances that are greater than 90 days past due.

An allowance for uncollectible accounts is determined based on a specific review of outstanding balances. As of June 30, 2016 the allowance for doubtful accounts was \$3,141. For 2015, there was no allowance for doubtful accounts.

(g) Use of Land

As noted in note 7, the University leased land under an operating lease agreement with AHEC totaling \$1.00 for the ground where the HLC hotel is built. This land was, in turn, subleased by the University to HLC for a period of 50 years for \$1 beginning on October 28, 2010. In accordance with generally accepted accounting principles for not-for-profit organizations, the use of the land below fair market was recorded as an asset at the inception of the lease. Each year, rent expense is recognized at estimated fair market value, reducing the value of the use of land asset. Rent expense for both fiscal years 2016 and 2015 was \$110,311 for each year.

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

The following is a reconciliation of the beginning and ending balances of the use of land asset:

	2016	2015
Use of Land Asset - Beginning of Year	\$ 5,000,775	\$ 5,111,086
Lease Expense Related to Use of Land Asset	(110,311)	(110,311)
Use of Land Asset - End of Year	\$ 4,890,464	\$ 5,000,775

(h) Accounts Payable

As of June 30, 2016, accounts payable of \$215,413 includes \$210,948 from Hotel operations due to numerous vendors with small balances, and \$4,465 of deposits held in custody for payment to the Foundation.

As of June 30, 2015, accounts payable of \$213,784 includes \$213,558 from Hotel operations due to numerous vendors with small balances, and \$226 of deposits held in custody for payment to the Foundation.

(i) Bond Issuance Costs

Bond issuance costs are deferred and are being amortized on a straight-line basis over the life of the bonds. Total amortization expense of bond issuance costs for the years ended June 30, 2016 and 2015 was \$172,381 for both years. As noted in note 2(n), bond issuance costs is presented as a direct reduction of Bonds Payable.

(j) Revenue Recognition

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

(k) Expenses

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

(l) Net Assets

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

Unrestricted net assets are available for the general operations and have no donor imposed restriction on them. Temporarily restricted net assets are funds received that are subject to donor imposed restrictions that will be met either by certain actions, expenditures, or the passage of time. As these restrictions are met, net assets are reclassified from temporarily restricted to unrestricted net assets.

The HLC has no permanently restricted net assets.

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

(m) Use of Estimates

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

(n) Recently Issued and Adopted Accounting Policies

In April 2015, the FASB issued ASU No. 2015.03, *Interest-Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This ASU is effective for the fiscal years beginning after December 15, 2015; however, early adoption of the ASU is permitted. HLC implemented this ASU for the year ended June 30, 2016, and as a result, debt issuance costs have been presented in the balance sheet as a direct deduction of the long-term obligations.

(o) Reclassifications

Certain amounts reported in the 2015 financial statements have been reclassified to conform to 2016 presentation.

NOTE 3 FAIR VALUE MEASUREMENTS

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

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the HLC has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 – Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At June 30, 2016 and 2015, all of the HLC's deposits within the Treasurer's Pool are considered to be Level 3 investments.

Additional information on the State Treasurer's pooled cash and investments may be obtained in the State's comprehensive annual financial report for the year ended June 30, 2016.

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Fair Value of Financial Instruments

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

Cash and cash equivalents – Fair value for cash and cash equivalents, excluding funds held by the State Treasury, is estimated to be the same as the carrying (book) value because of its short maturity. Fair value of the cash equivalents pooled with the State Treasury is HLC's percentage ownership of the pooled investments, of which most are determined from quoted market prices except for money market investments that are reported at amortized cost (which approximates market). Restricted cash and cash equivalents are composed of balances maintained in escrow accounts as required by Series 2010 bonds loan and trust agreement.

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

Use of Land – Fair value is estimated based upon comparable lease prices for land properties near HLC in the Denver Metro area.

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

Bonds payable – Fair value is determined by computing the present value of future payments discounted at the prevailing interest rate for comparable debt instruments at year-end. At June 30, 2016 and 2015, the fair value of bonds payable is \$67,452,539 and \$60,284,732, respectively.

The following table presents assets (liabilities) measured at fair value by classification within the fair value hierarchy as of June 30:

	Fair Value Measurements Using			Total
	Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and Cash Equivalents				
Invested with State Treasury	\$ -	\$ -	\$ 1,104,626	\$ 1,104,626
Use of Land	-	4,890,464	-	4,890,464
Total	<u>\$ -</u>	<u>\$ 4,890,464</u>	<u>\$ 1,104,626</u>	<u>\$ 5,995,090</u>

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair Value Measurements Using			Total
	Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and Cash Equivalents Invested with State Treasury	\$ -	\$ -	\$ 1,101,597	\$ 1,101,597
Use of Land	-	5,000,775	-	5,000,775
Total	<u>\$ -</u>	<u>\$ 5,000,775</u>	<u>\$ 1,101,597</u>	<u>\$ 6,102,372</u>

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30, 2016 and 2015:

	Cash and Cash Equivalents State Treasury 2016	Cash and Cash Equivalents State Treasury 2015
Balance Beginning of Year	\$ 1,101,597	\$ 1,101,962
Withdrawals	(10,815)	(10,301)
Ordinary Investment Income	10,212	11,154
Unrealized (Losses) Gains, Net	3,632	(1,219)
Balance - End of Year	<u>\$ 1,104,626</u>	<u>\$ 1,101,597</u>

NOTE 4 BOND OBLIGATIONS

Total outstanding bonds at June 30 are summarized below:

	Date of Issue	Amount Issued	2016	2015
2010(A) Taxable Revenue Bonds (Build America Bonds)	10/28/2010	\$ 49,640,000	\$ 49,640,000	\$ 49,640,000
2010(B) Tax-Exempt Revenue Bonds	10/28/2010	4,500,000	4,125,000	4,500,000
2010(C) Taxable Revenue Bonds	10/28/2010	745,000	-	335,000
Discount on 2010 Series Bonds, Net of Amortization			(328,838)	(312,015)
Bond Issuance Costs, Net of Amortization			(921,371)	(1,093,751)
			<u>\$ 52,514,791</u>	<u>\$ 53,069,234</u>

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 BOND OBLIGATIONS (CONTINUED)

Principal and interest requirements for all Series 2010 bonds, which are due semiannually every March and September, are summarized as follows at June 30, 2016.

Fiscal Year	Principal	Interest	Total
2017	\$ 825,000	\$ 3,178,348	\$ 4,003,348
2018	1,075,000	3,138,390	4,213,390
2019	1,250,000	3,089,556	4,339,556
2020	1,300,000	3,037,787	4,337,787
2021	1,350,000	2,980,860	4,330,860
2022-2026	7,395,000	13,817,402	21,212,402
2027-2031	8,870,000	11,424,695	20,294,695
2032-2036	10,820,000	8,292,273	19,112,273
2037-2041	13,285,000	4,376,271	17,661,271
2042-2043	7,595,000	378,024	7,973,024
	<u>\$ 53,765,000</u>	<u>\$ 53,713,606</u>	<u>\$ 107,478,606</u>

Series 2010 Bonds

The RRRAFA issued Series 2010 bonds on October 28, 2010 for the purpose of constructing the Hotel and Hospitality Learning Center. The proceeds of the bonds and its obligations were transferred to the HLC in fiscal year 2011. MSU Denver has entered into a guarantee agreement dated October 1, 2010 with the HLC. Per this agreement, MSU Denver absolutely and unconditionally guarantees to Wells Fargo, the HLC's trustee, the timely payments of all debt service payments on the Series 2010 bonds on a gross basis (without netting of any federal subsidy payments received or to be received) while said bonds are outstanding in the event HLC does not make the required debt service payments. The guaranteed amounts are payable solely from available pledged revenues of MSU Denver. For the years ended June 30, 2016 and 2015, MSU Denver was not required to, and did not make, any debt service payments on behalf of the HLC.

b) *Series 2010A*

On October 28, 2010, Series 2010A taxable revenue BABS were issued for \$49,640,000, bearing interest rates from 4.04% to 6.45%. The principal and interest are due on a semiannual basis with a maturity date of September 1, 2042. These payments range from \$1,039,426 to \$4,743,189. The bonds are qualified to receive a 35% interest subsidy from the federal government, which was expected to be \$24,742,234 over the life of the bonds. However, due to a government sequester, the subsidy was reduced by 8.7% in March 2013. The subsidy was subsequently increased by 1.5% to a total reduction of 7.2% in October 2013, but then decreased by 0.10% to a total reduction of 7.3% in March 2015. The government sequester is anticipated to reduce the total subsidy received by \$1,579,472 over the life of the bonds. A total of \$5,406,233 and \$4,743,764 had been earned as of June 30, 2016 and 2015, respectively. A receivable of \$330,791 and \$329,016 was recorded as of June 30, 2016 and 2015.

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 BOND OBLIGATIONS (CONTINUED)

c) Series 2010B

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

d) Series 2010C

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

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

The Metropolitan State University of Denver Foundation receives contributions from various corporations, organizations and individuals on behalf of the HLC, which are temporarily restricted. At June 30, 2016 and 2015, temporarily restricted net assets are comprised of contributions related to future periods and contributions with a specific purpose and land held for use, as described in Note 1 (g) as follows:

	2016	2015
Land Held for Use	\$ 4,890,464	\$ 5,000,775
Time Restrictions for Debt Service Payments	-	34,314
Total	\$ 4,890,464	\$ 5,035,089

NOTE 6 METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION CONTRIBUTIONS

The Foundation exists for the purpose of soliciting and investing donations for MSU Denver. On September 21, 2010, the Foundation's board of directors adopted the Foundation Resolution providing a plan to use its best effort to raise approximately \$12 million in donations, sufficient to retire a portion of the HLC 2010 bonds. However, due to the difficulty of raising the remaining portion of the agreed upon \$12 million, the agreement was amended to include a more attainable fundraising goal of \$3.5 million. For the years ended June 30, 2016 and 2015, the Foundation contributed a total of \$52,690 and \$218,919, to the HLC. All amounts contributed by the Foundation for the years ended June 30, 2016 and 2015 were cash contributions to be used for the HLC's debt service requirements.

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 7 GROUND LEASE

As of June 30, 2016 and 2015, the HLC has no lease obligations. Trustees of the University have leased the HLC land from the Auraria Higher Education Center for a period of fifty (50) years in the amount of two dollars (\$2.00) for the term of the lease. This lease is specifically for the purpose of construction and operation of the Hotel and Hospitality Learning Center. See Note 2 (g) for more information on how the use of this land is recorded on the financial statements.

NOTE 8 INCOME TAX STATUS

The income of the HLC is derived from the exercise of essential government functions and, as such, is excluded from federal income tax under Section 115 of the Code; however, it would be subject to tax on any unrelated business income under Section 511(a)(2)(B). HLC had no material amounts of unrelated business income for the years ended June 30, 2016 and 2015.

In accordance with Generally Accepted Accounting Principles, a private entity is required to disclose any material uncertain tax positions that management believes does not meet a “more-likely-than-not” standard of being sustained under an income tax audit and to record a liability for any such taxes including penalty and interest. Management of the Organization has not identified any uncertain tax positions that require the recording of a liability mentioned above for further disclosure. The HLC is currently not under any U.S. federal or state income tax examinations by tax authorities.

NOTE 9 SUBSEQUENT EVENTS

HLC has evaluated its subsequent events as of November 30, 2016, the date that the financial statements were available to be issued. No events were identified requiring disclosure.

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

Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver (the University), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 30, 2016. Our report includes a reference to other auditors who audited the financial statements of the Metropolitan University of Denver Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the Metropolitan State University of Denver Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Denver, Colorado
November 30, 2016

November 30, 2016

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

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Metropolitan State University of Denver (the University), an institution of higher education of the State of Colorado, as of and for the year ended June 30, 2016, and have issued our report thereon dated of November 30, 2016. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the University are described in Note 1 to the financial statements.

The University adopted GASB Statement No. 72, Fair Value Measurement and Application during the year. No other new accounting policies were adopted and the application of existing policies was not changed during 2016.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

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

- Accounts and loans receivable are recorded net of estimated uncollectible amounts, approximating anticipated losses. Individual accounts are written off against the allowance when collection of the account appears doubtful.
- Capital assets are depreciated using the straight-line method and monthly convention over the estimated useful lives of the assets. Estimated useful lives range from 3 to 50 years.
- Compensated absences and related personnel expenses are recognized based on estimated balances due to employees upon termination or retirement. The limitations on such payments are defined by the rules associated with the personnel systems at the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service.

- Summer tuition revenue and fees are recognized based on an estimate that fifty percent of summer courses occur during the fiscal year and the other fifty percent deferred for the courses that occur in the subsequent fiscal year.
- The University's net pension liability is based on the actuarial valuation of the overall net pension liability of the state pension plan. The valuation of the pension plan's liability is based on various actuarial assumptions and other inputs including estimated inflation rates, wage inflation, long-term investment rate of return and post-retirement benefit increases.

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

Financial statement disclosures

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

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

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

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Page 87 summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Corrected misstatements

The attached schedule on page 86 summarizes material misstatements detected as a result of audit procedures that were corrected by management.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2016.

Management consultations with other independent accountants

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

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Audits of group financial statements

We noted no matters related to the group audit that we consider being significant to the responsibilities of those charged with governance of the group.

We have provided a separate letter to management dated November 30, 2016, communicating internal control related matters relevant to the group audit and identified by us or by a component auditor during the audit.

Quality of component auditor's work

There were no instances in which our evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.

Limitations on the group audit

There were no restrictions on our access to information of components or other limitations on the group audit.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

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



CliftonLarsonAllen LLP

Denver, Colorado
November 30, 2016

**METROPOLITAN STATE UNIVERSITY OF DENVER
AUDIT ADJUSTMENT SCHEDULE
JUNE 30, 2016**

		Adjustments on financial statement captions						
Adj. no.	Description	Change in net position unadjusted audit differences arising in			Balance sheet			
		Current period	Prior period	Net position	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities
1	Operating Expenses	\$ 269,242	-	-	-	-	-	-
	Accrued Payroll	-	-	269,242	-	-	(269,242)	-
	<i>To record the impact of the University holding a deferred compensation plan for employee.</i>							
	Total	\$ 269,242	-	269,242	-	-	(269,242)	-

**METROPOLITAN STATE UNIVERSITY OF DENVER
PASSED AUDIT ADJUSTMENT SCHEDULE
JUNE 30, 2016**

		Adjustments on financial statement captions						
		Change in net position unadjusted audit differences arising in			Balance sheet			
Adj. no.	Description	Current period	Prior period	Net position	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities
1	Beginning Net Position	\$ -	172,730	-	-	-	-	-
	Operating Expenses	(172,730)	-	-	-	-	-	-
	<i>To pass on restatement for portion of the liability for the University's deferred compensation plan that was not recorded in prior year.</i>							
	Total	\$ (172,730)	172,730	-	-	-	-	-

Amounts are reported as debits and (credits).