



UNIVERSITY OF DENVER (COLORADO SEMINARY)

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

and

OMB Circular A-133 Reports

Year ended June 30, 2005

UNIVERSITY OF DENVER (COLORADO SEMINARY)

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Independent Auditors' Report

The Board of Trustees
University of Denver (Colorado Seminary):

We have audited the accompanying statements of financial position of the University of Denver (Colorado Seminary) (the University) as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2005, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

November 4, 2005

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2005

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 37,614,178	9,593,243	—	47,207,421
Short-term investments	52,030,925	3,234	—	52,034,159
Accounts receivable, less allowance of \$1,079,021	16,849,442	—	127,185	16,976,627
Pledges receivable, net	659,884	8,457,017	16,258,910	25,375,811
Inventories, prepaid expenses, and other assets	4,944,969	9,821	8,874	4,963,664
Long-term investments	—	—	216,312,646	216,312,646
Loans to students, less allowance of \$900,000	—	—	18,643,758	18,643,758
Deposits with trustees	—	2,645,146	—	2,645,146
Property, plant, and equipment, net	—	423,436,093	—	423,436,093
Total assets	\$ 112,099,398	444,144,554	251,351,373	807,595,325
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 54,414,738	4,039,847	—	58,454,585
Other liabilities	—	1,950,622	1,960,290	3,910,912
Annuity obligations	—	—	7,629,804	7,629,804
Long-term debt	—	114,515,000	—	114,515,000
U.S. government grants refundable	—	—	16,636,287	16,636,287
Total liabilities	54,414,738	120,505,469	26,226,381	201,146,588
Net assets:				
Unrestricted:				
Available for operations	723,430	—	—	723,430
Designated student loans	—	—	1,876,664	1,876,664
Designated gain sharing	38,279,952	—	—	38,279,952
Designated gifts and endowment income	—	—	104,487,656	104,487,656
Designated plant	—	306,374,034	—	306,374,034
Total unrestricted net assets	39,003,382	306,374,034	106,364,320	451,741,736
Temporarily restricted:				
Gifts and endowment income for specific purposes	18,681,278	—	—	18,681,278
Plant	—	17,265,051	—	17,265,051
Annuity life income	—	—	5,965,595	5,965,595
Total temporarily restricted net assets	18,681,278	17,265,051	5,965,595	41,911,924
Permanently restricted:				
Endowment	—	—	105,198,385	105,198,385
Annuity life income	—	—	5,744,922	5,744,922
Student loans	—	—	1,851,770	1,851,770
Total permanently restricted net assets	—	—	112,795,077	112,795,077
Total net assets	57,684,660	323,639,085	225,124,992	606,448,737
Commitments and contingencies (notes 7, 11, and 13)				
Total liabilities and net assets	\$ 112,099,398	444,144,554	251,351,373	807,595,325

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2004

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 32,831,379	11,557,930	—	44,389,309
Short-term investments	47,759,643	1,409,763	—	49,169,406
Accounts receivable, less allowance of \$1,617,037	16,081,072	—	25,412	16,106,484
Pledges receivable, net	875,424	18,527,928	2,165,573	21,568,925
Inventories, prepaid expenses, and other assets	3,485,794	19,521	25,000	3,530,315
Long-term investments	—	—	196,676,107	196,676,107
Loans to students, less allowance of \$900,000	—	—	19,262,626	19,262,626
Deposits with trustees	—	1,927,426	—	1,927,426
Property, plant, and equipment, net	—	400,118,784	—	400,118,784
Total assets	\$ 101,033,312	433,561,352	218,154,718	752,749,382
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 49,131,524	3,962,659	340,000	53,434,183
Other liabilities	—	698,475	1,879,065	2,577,540
Annuity obligations	—	—	7,415,980	7,415,980
Long-term debt	—	117,555,000	—	117,555,000
U.S. government grants refundable	—	—	16,367,241	16,367,241
Total liabilities	49,131,524	122,216,134	26,002,286	197,349,944
Net assets:				
Unrestricted:				
Available for operations	401,902	—	—	401,902
Designated student loans	—	—	1,846,797	1,846,797
Designated gain sharing	32,742,673	—	—	32,742,673
Designated gifts and endowment income	—	—	92,862,845	92,862,845
Designated plant	—	288,839,442	—	288,839,442
Total unrestricted net assets	33,144,575	288,839,442	94,709,642	416,693,659
Temporarily restricted:				
Gifts and endowment income for specific purposes	18,757,213	—	—	18,757,213
Plant	—	22,505,776	—	22,505,776
Annuity life income	—	—	5,262,695	5,262,695
Total temporarily restricted net assets	18,757,213	22,505,776	5,262,695	46,525,684
Permanently restricted:				
Endowment	—	—	84,978,947	84,978,947
Annuity life income	—	—	5,373,107	5,373,107
Student loans	—	—	1,828,041	1,828,041
Total permanently restricted net assets	—	—	92,180,095	92,180,095
Total net assets	51,901,788	311,345,218	192,152,432	555,399,438
Commitments and contingencies (notes 7, 11, and 13)				
Total liabilities and net assets	\$ 101,033,312	433,561,352	218,154,718	752,749,382

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities
Year ended June 30, 2005

	Operations	Designated unrestricted	Total operations	Plant	Long-term investment	Total
Changes in unrestricted net assets:						
Revenue and gains:						
Tuition and fees	\$ 226,147,860	—	226,147,860	—	—	226,147,860
Less institutional scholarships	46,109,548	—	46,109,548	—	—	46,109,548
	<u>180,038,312</u>	<u>—</u>	<u>180,038,312</u>	<u>—</u>	<u>—</u>	<u>180,038,312</u>
Less noninstitutional scholarships	7,632,356	—	7,632,356	—	—	7,632,356
Net tuition and fees	172,405,956	—	172,405,956	—	—	172,405,956
Private gifts	1,167,882	—	1,167,882	—	46,494	1,214,376
Grants and contracts	29,522,642	—	29,522,642	—	—	29,522,642
Endowment income	250,990	—	250,990	31,805	120,158	402,953
Other investment income	4,900,203	—	4,900,203	137,585	—	5,037,788
Net realized and unrealized gains on endowments	346,294	—	346,294	1,733	10,227,186	10,575,213
Net realized and unrealized gains on other investments	17,236	—	17,236	115,047	—	132,283
Sales and services of educational activities	8,097,652	40,006	8,137,658	—	—	8,137,658
Sales and services of auxiliary enterprise	36,135,586	—	36,135,586	—	—	36,135,586
Other sources	3,827,262	637,030	4,464,292	185,751	—	4,650,043
Total unrestricted revenue and gains	<u>256,671,703</u>	<u>677,036</u>	<u>257,348,739</u>	<u>471,921</u>	<u>10,393,838</u>	<u>268,214,498</u>
Net assets released from restrictions	21,025,190	—	21,025,190	7,012,364	—	28,037,554
Total unrestricted revenue, gains, and other support	<u>277,696,893</u>	<u>677,036</u>	<u>278,373,929</u>	<u>7,484,285</u>	<u>10,393,838</u>	<u>296,252,052</u>
Expenses:						
Educational and general:						
Instruction	88,693,806	591,989	89,285,795	8,550,312	—	97,836,107
Research	20,362,548	255,976	20,618,524	767,639	—	21,386,163
Public service	4,540,217	459	4,540,676	56,541	—	4,597,217
Academic support	38,369,709	1,517,047	39,886,756	775,288	—	40,662,044
Student services	13,022,817	—	13,022,817	815,372	—	13,838,189
Institutional support	31,686,479	623,641	32,310,120	1,823,223	113,987	34,247,330
Total educational and general expenses	<u>196,675,576</u>	<u>2,989,112</u>	<u>199,664,688</u>	<u>12,788,375</u>	<u>113,987</u>	<u>212,567,050</u>
Auxiliary enterprises	41,872,884	96,104	41,968,988	6,667,937	—	48,636,925
Total expenses	<u>238,548,460</u>	<u>3,085,216</u>	<u>241,633,676</u>	<u>19,456,312</u>	<u>113,987</u>	<u>261,203,975</u>
Transfers among unrestricted net assets	38,826,905	(7,945,459)	30,881,446	(29,506,619)	(1,374,827)	—
Total expenses and transfers	<u>277,375,365</u>	<u>(4,860,243)</u>	<u>272,515,122</u>	<u>(10,050,307)</u>	<u>(1,260,840)</u>	<u>261,203,975</u>
Increase in unrestricted net assets	<u>321,528</u>	<u>5,537,279</u>	<u>5,858,807</u>	<u>17,534,592</u>	<u>11,654,678</u>	<u>35,048,077</u>
Changes in temporarily restricted net assets:						
Private gifts	13,744,589	—	13,744,589	1,890,175	36,400	15,671,164
Endowment income	2,787,060	—	2,787,060	—	—	2,787,060
Other investment income	97,886	—	97,886	37,081	—	134,967
Net realized and unrealized gains on endowments	4,695,926	—	4,695,926	—	—	4,695,926
Net realized and unrealized gains (losses) on other investments	(152,873)	—	(152,873)	50,786	—	(102,087)
Net assets released from restrictions	(21,025,190)	—	(21,025,190)	(7,012,364)	—	(28,037,554)
Stipulation changed by donor	(223,333)	—	(223,333)	(206,403)	7,604	(422,132)
Actuarial adjustments on annuity obligations	—	—	—	—	658,896	658,896
Increase (decrease) in temporarily restricted net assets	<u>(75,935)</u>	<u>—</u>	<u>(75,935)</u>	<u>(5,240,725)</u>	<u>702,900</u>	<u>(4,613,760)</u>
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	19,803,172	19,803,172
Net realized and unrealized losses on other investments	—	—	—	—	23,730	23,730
Stipulation changed by donor	—	—	—	—	422,132	422,132
Actuarial adjustments on annuity obligations	—	—	—	—	365,948	365,948
Increase in permanently restricted net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20,614,982</u>	<u>20,614,982</u>
Change in net assets	245,593	5,537,279	5,782,872	12,293,867	32,972,560	51,049,299
Net assets at beginning of year	19,159,115	32,742,673	51,901,788	311,345,218	192,152,432	555,399,438
Net assets at end of year	\$ <u>19,404,708</u>	<u>38,279,952</u>	<u>57,684,660</u>	<u>323,639,085</u>	<u>225,124,992</u>	<u>606,448,737</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities
Year ended June 30, 2004

	<u>Operations</u>	<u>Designated unrestricted</u>	<u>Total operations</u>	<u>Plant</u>	<u>Long-term investment</u>	<u>Total</u>
Changes in unrestricted net assets:						
Revenue and gains:						
Tuition and fees	\$ 202,771,705	—	202,771,705	—	—	202,771,705
Less institutional scholarships	41,291,200	—	41,291,200	—	—	41,291,200
	<u>161,480,505</u>	<u>—</u>	<u>161,480,505</u>	<u>—</u>	<u>—</u>	<u>161,480,505</u>
Less noninstitutional scholarships	7,054,116	—	7,054,116	—	—	7,054,116
Net tuition and fees	154,426,389	—	154,426,389	—	—	154,426,389
Private gifts	1,799,162	—	1,799,162	1,681,220	16,000	3,496,382
Grants and contracts	29,401,293	—	29,401,293	—	—	29,401,293
Endowment income	272,576	—	272,576	911	128,650	402,137
Other investment income	3,772,026	—	3,772,026	114,169	—	3,886,195
Net realized and unrealized gains on endowment:	333,549	—	333,549	1,663	13,937,882	14,273,094
Net realized and unrealized gains (losses) on other investments	(573,738)	—	(573,738)	9,197,010	—	8,623,272
Sales and services of educational activities	6,243,635	74,845	6,318,480	—	—	6,318,480
Sales and services of auxiliary enterprise	34,017,629	1,766	34,019,395	—	—	34,019,395
Other sources	4,017,097	431,036	4,448,133	2,920,139	—	7,368,272
Total unrestricted revenue and gains	<u>233,709,618</u>	<u>507,647</u>	<u>234,217,265</u>	<u>13,915,112</u>	<u>14,082,532</u>	<u>262,214,909</u>
Net assets released from restrictions	16,470,637	—	16,470,637	6,255,740	—	22,726,377
Total unrestricted revenue, gains, and other support	<u>250,180,255</u>	<u>507,647</u>	<u>250,687,902</u>	<u>20,170,852</u>	<u>14,082,532</u>	<u>284,941,286</u>
Expenses:						
Educational and general:						
Instruction	79,430,460	534,753	79,965,213	7,804,113	—	87,769,326
Research	20,668,806	485,144	21,153,950	665,183	—	21,819,133
Public service	4,376,552	116	4,376,668	41,799	—	4,418,467
Academic support	34,922,422	1,489,159	36,411,581	1,077,327	—	37,488,908
Student services	11,821,809	30,977	11,852,786	1,197,024	—	13,049,810
Institutional support	30,300,120	335,950	30,636,070	2,226,071	87,535	32,949,676
Total educational and general expenses	<u>181,520,169</u>	<u>2,876,099</u>	<u>184,396,268</u>	<u>13,011,517</u>	<u>87,535</u>	<u>197,495,320</u>
Auxiliary enterprises	39,898,856	130,527	40,029,383	7,728,097	—	47,757,480
Total expenses	<u>221,419,025</u>	<u>3,006,626</u>	<u>224,425,651</u>	<u>20,739,614</u>	<u>87,535</u>	<u>245,252,800</u>
Transfers among unrestricted net assets	28,528,031	(5,253,115)	23,274,916	(22,446,489)	(828,427)	—
Total expenses and transfers	<u>249,947,056</u>	<u>(2,246,489)</u>	<u>247,700,567</u>	<u>(1,706,875)</u>	<u>(740,892)</u>	<u>245,252,800</u>
Increase in unrestricted net assets	<u>233,199</u>	<u>2,754,136</u>	<u>2,987,335</u>	<u>21,877,727</u>	<u>14,823,424</u>	<u>39,688,486</u>
Changes in temporarily restricted net assets:						
Private gifts	10,631,838	—	10,631,838	18,450,797	273,377	29,356,012
Endowment income	2,913,565	—	2,913,565	—	—	2,913,565
Other investment income	36,962	—	36,962	28,389	—	65,351
Net realized and unrealized gains on endowment:	4,066,748	—	4,066,748	—	—	4,066,748
Net realized and unrealized losses on other investments	(214,758)	—	(214,758)	(38,347)	—	(253,105)
Net assets released from restrictions	(16,470,637)	—	(16,470,637)	(6,255,740)	—	(22,726,377)
Stipulation changed by donor	(151,098)	—	(151,098)	(2,977)	(53,656)	(207,731)
Actuarial adjustments on annuity obligation:	—	—	—	—	805,750	805,750
Increase in temporarily restricted net assets	<u>812,620</u>	<u>—</u>	<u>812,620</u>	<u>12,182,122</u>	<u>1,025,471</u>	<u>14,020,213</u>
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	4,967,940	4,967,940
Net realized and unrealized losses on other investment:	—	—	—	—	(40,724)	(40,724)
Stipulation changed by donor	—	—	—	—	207,731	207,731
Actuarial adjustments on annuity obligation:	—	—	—	—	706,303	706,303
Increase in permanently restricted net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,841,250</u>	<u>5,841,250</u>
Change in net assets	<u>1,045,819</u>	<u>2,754,136</u>	<u>3,799,955</u>	<u>34,059,849</u>	<u>21,690,145</u>	<u>59,549,949</u>
Net assets at beginning of year	18,113,296	29,988,537	48,101,833	277,285,369	170,462,287	495,849,489
Net assets at end of year	\$ <u>19,159,115</u>	<u>32,742,673</u>	<u>51,901,788</u>	<u>311,345,218</u>	<u>192,152,432</u>	<u>555,399,438</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 51,049,299	59,549,949
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	11,685,059	10,676,283
Decrease in accounts receivable	(870,143)	1,055,404
Increase in pledges receivable	(3,806,886)	(8,652,065)
Increase in inventories, prepaid expenses, and other assets	(1,433,349)	(220,837)
Increase in accounts payable, accrued liabilities, and other liabilities	5,101,627	3,799,130
Actuarial adjustment for annuity obligations	213,824	153,676
Contributions of real and personal property	(4,018,709)	(4,488,856)
Contributions restricted for long-term investment	(19,379,122)	(3,491,970)
Interest and dividends restricted for long-term investment	(120,158)	(128,650)
Net realized and unrealized gains on investments	(15,337,412)	(16,573,450)
Net cash provided by operating activities	<u>23,084,030</u>	<u>41,678,614</u>
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	109,502,051	103,723,124
Purchases of investments	(112,647,222)	(110,212,689)
Purchases of property, plant, and equipment	(35,139,065)	(26,489,764)
Proceeds from disposal of property, plant, and equipment	136,697	12,997,128
Disbursements for Perkins and University loans to students	(4,457,583)	(8,748,148)
Repayment of Perkins and University loans to students	5,076,451	4,747,910
Decrease in deposits with bond trustees, net	(717,720)	2,343,032
Net cash used by investing activities	<u>(38,246,391)</u>	<u>(21,639,407)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	19,379,122	3,491,970
Interest and dividends restricted for long-term investment	120,158	128,650
Payments of notes payable	—	(85,718)
Proceeds from notes payable	1,252,147	340,000
Payments of bonds payable	(3,040,000)	(23,630,000)
Increase in refundable government loan funds, net	269,046	273,526
Net cash provided (used) by financing activities	<u>17,980,473</u>	<u>(19,481,572)</u>
Net increase in cash and cash equivalents	2,818,112	557,635
Cash and cash equivalents at beginning of year	<u>44,389,309</u>	<u>43,831,674</u>
Cash and cash equivalents at end of year	\$ <u><u>47,207,421</u></u>	\$ <u><u>44,389,309</u></u>

Interest paid is discussed in note 5.

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2005 and 2004

(1) Summary of Significant Accounting Policies

(a) *Nature of the Entity*

The University of Denver (Colorado Seminary) (the University) is an accredited, independent, coeducational institution located in Denver, Colorado. The University was founded as Colorado Seminary in 1864. In 1880, following the reorganization of the Seminary, the University of Denver was established as the degree granting body. The University offers both undergraduate and graduate programs. Enrollment currently stands at approximately 10,100 students, of which approximately 4,500 are undergraduates. The University is primarily supported by tuition and fees, private gifts and grants, and contracts.

(b) *Eleanor Roosevelt Institute*

The University entered into an agreement to acquire by gift certain assets of the Eleanor Roosevelt Institute (ERI) in May 2003. The agreement allowed for making all ERI personnel employees of the University, and acquiring all physical assets including the ownership of the building at 1899 Gaylord, Denver, CO. The University recorded this acquisition of assets as gift revenue of \$5.6 million in 2003.

As part of the acquisition, the University also accepted the terms of two recoverable grants from Bonfils-Stanton Foundation and Boettcher Foundation totaling \$800,000 made to ERI for the purpose of paying off the mortgage on the ERI building. ERI had secured pledges for this purpose and must pay back the recoverable grants with any pledge proceeds. Should the University terminate the operations of ERI or sell the building before 2013, Bonfils-Stanton and Boettcher Foundations must be reimbursed by the University for any outstanding balance on the recoverable grant.

(c) *Basis of Presentation*

The financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The University maintains its accounts in accordance with the principles of fund accounting. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. For financial reporting purposes, resources are classified into net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are generally not subject to donor-imposed stipulations. Uses of certain unrestricted net assets are committed as matching funds under student loan programs of the federal government. Unrestricted net assets are designated for specific purposes by the University.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either with actions of the University and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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Permanently restricted net assets – Net assets subject to donor-imposed stipulations that are maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for specific or general purposes.

Additionally, the University has classified activities and balances within the above described net asset classes representing the level of operations and also the liquidity and nature of assets. These classifications (columns) are described as follows:

Operations – Activities that define the University’s “level of operations” relating to its educational activities and auxiliary enterprises. All assets, excluding pledges receivable, and other assets, are current in nature. Accounts payable and accrued liabilities, other than accumulated postretirement benefit obligations (see note 7), are near maturity. Other liabilities are long-term in nature. Balances and activities are either unrestricted or have been released from restrictions.

Designated unrestricted – The University’s board of trustees has elected to transfer operation funds for specific future operating purposes to a designated classification. Expenses incurred for the stated purposes are charged to expense accounts. The board may also elect to return any balances of designated funds to operations.

Plant – Activities include depreciation on equipment and buildings, interest expense on long-term debt and receipt of gifts which include donor-imposed restrictions for the acquisitions of physical properties. All assets are limited to long-term purposes.

Long-term investment – Endowment and loan activities and balances are grouped in this column. All assets are limited to long-term purposes.

The board retains the authority to designate surpluses for funding of designated operations, plant, and long-term investment activities in subsequent years. Such designations of activities are reported as transfers among unrestricted net assets in the statements of activities.

(d) Cash and Cash Equivalents

The University controls cash for all activities through one operating account. The cash or deficit balances represent cash positions and temporary interfund borrowings for the respective funds. Certificates of deposits, short-term securities, and deposits with trustees are stated at fair value.

The University considers all liquid investments with original maturities of three months or less to be cash equivalents.

(e) Accounts Receivable

Accounts receivable consist primarily of amounts due from students for tuition, room, board and fees, and amounts due to the University under federal, state, and private grants and contracts.

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(f) Investments

Investments received by gift, including investments in real estate, are recorded at estimated fair value at the date of the gift and are subsequently adjusted for changes in fair value thereafter. Purchased investments are carried at fair value. Realized and unrealized gains and losses are reported in the appropriate net asset classification.

(g) Pledges Receivable

Unconditional promises to give are recorded when pledges are made by the respective donors at their estimated present value. An allowance for uncollectibility is provided based on review of individually significant pledges and an estimated rate of uncollectibility. All contributions are available for unrestricted use unless specifically restricted by the donor.

Donor restricted contributions whose restrictions are met in the same reporting period are initially reported as restricted revenue, which increase temporarily restricted net assets, then reclassified (or released from restrictions), simultaneously increasing unrestricted net assets and decreasing temporarily restricted net assets. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met.

Net assets released from restrictions are reported in the statements of activities when the University has met the donor restrictions. Assets released from restrictions in the current year are for scholarships, plant acquisitions, and departmental operations (see note 6).

(h) Inventories

Inventories, which consist mainly of bookstore merchandise and operating supplies, are valued at the lower of cost or fair value using the first-in, first-out (FIFO) method.

(i) Deposits With Trustees

Deposits with trustees represents cash and U.S. government securities that have been set aside to meet the reserve requirement of the University's 1996 long-term debt issuance, a reserve for the 2001 debt issuance, and includes unspent funds from the Series 2000 acquisition fund. The bond reserve requirements for all other issuances are funded by a reserve fund insurance policy.

(j) Property, Plant, and Equipment

The University capitalizes all assets valued at \$5,000 or greater with estimated useful lives greater than one year.

Property, plant, and equipment are carried at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Books and bound periodicals in the library are valued at \$3.00 per volume. Depreciation on property, plant, and equipment, except library books, is calculated on the straight-line method over the estimated useful lives of the assets which range from 3 to 15 years for equipment and 10 to 80 years for buildings and improvements.

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The University reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(k) *Deferred Revenue*

Summer school tuition, fee revenue, and related expenses are deferred at June 30, 2005 and 2004 and recorded as revenue and expenses in the succeeding fiscal year. Deferred revenue is included in accounts payable and accrued liabilities on the accompanying statements of financial position.

(l) *Compensated Absences*

The University's employees earn paid vacation each month based upon their years of service with the University. Vacation time accrues and vests proportionately between July 1 and June 30 of the current year and employees can carry a maximum of 22 days to the next fiscal year. An accrual has been made for earned vacation time and is included in accounts payable and accrued liabilities on the accompanying statements of financial position.

The University has a sick leave plan covering substantially all employees. The University provides employees approximately eight hours of paid sick leave per month depending on employment status. The University's employees' accumulated unused sick leave is carried over to the next year and is cumulative. Unused sick pay is forfeited by employees when they cease to be employed by the University. Therefore, no amount is accrued for sick leave.

Faculty members do not accrue vacation or sick leave.

(m) *Annuity Obligations*

Annuity obligations represent the actuarially determined present value of future payments due to beneficiaries under split-interest agreements, primarily charitable remainder trusts.

(n) *Taxes*

The University is recognized as an organization generally exempt from income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3). However, income generated from activities unrelated to the University's exempt purpose is subject to tax under Section 511 of the Code.

(o) *Fair Value of Financial Instruments*

The fair value of the University's financial instruments are determined as follows:

Cash and cash equivalents – fair value is estimated to be the same as carrying (book) value because of their short maturities.

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Short-term and long-term investments – fair value of cash equivalents and U.S. government securities is estimated to be the same as carrying (book) value because of their short maturities; fair value of mutual funds, stocks, and bonds is the market value based on quoted market prices, fair value of notes receivable cannot be determined without incurring excessive costs. Both short and long-term investments are carried at fair value.

Accounts receivable – fair value is estimated to be the same as carrying (book) value because of their short maturities.

Pledges receivable – fair value is determined by computing the present value of future cash flows discounted at the prevailing interest rate as of the period in which the agreement was received. Carrying value of pledges receivable approximates fair value.

Loans to students – fair value cannot be determined without incurring excessive costs. Repayment terms for University loans average less than one year and on average carry a 7% interest rate. The Perkins program has a maximum repayment period of 10 years and carries an average interest rate of 5%.

Deposits with trustees – fair value is estimated to be the same as carrying (book) value because of the short maturities of the U.S. government securities held by the trustees.

Accounts payable and accrued liabilities – fair value is estimated to be the same as carrying (book) value due to the short maturities of accounts payable; included in accrued liabilities is the present value of future obligations which are adjusted annually – this carrying value approximates fair value.

Annuity obligations – fair value is determined by computing the present value of the University's obligation to pay beneficiaries based on the beneficiaries' life expectancies from actuarial tables published by the Internal Revenue Service, using the prevailing interest rate as of the date of each agreement. Annuity obligations are adjusted annually for these factors and carried at fair value.

Long-term debt – 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.

(p) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(q) Reclassifications

Certain amounts have been reclassified in the 2004 financial statements to conform to the 2005 presentation.

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Notes to Financial Statements

June 30, 2005 and 2004

(2) Short-Term and Long-Term Investments

Investments at June 30 consist of the following:

	Fair value	
	2005	2004
Operations:		
U.S. government securities	\$ 40,169,484	34,057,919
Stocks	10,511,996	10,412,455
Real estate	52,748	52,748
Other	1,296,697	3,236,521
	<u>52,030,925</u>	<u>47,759,643</u>
Plant:		
Stocks and bonds	3,220	1,230,580
Real estate	—	179,169
Other	14	14
	<u>3,234</u>	<u>1,409,763</u>
Long-term investment:		
Short-term investments	11,746,003	8,315,938
U.S. government securities	296,448	295,593
Stocks	143,766,919	120,869,585
Bonds	11,466,075	21,391,068
Real estate	20,189,373	19,673,348
Beneficial trust interest	10,657,393	10,363,718
Equity mutual funds	11,723,487	10,982,692
Fixed income mutual funds	4,426,703	3,990,958
Notes receivable	2,040,245	793,207
	<u>216,312,646</u>	<u>196,676,107</u>
Total	<u>\$ 268,346,805</u>	<u>245,845,513</u>

The changes in unrealized appreciation on endowment investments and all other investments for the year ended June 30 are comprised of the following:

	2005		2004	
	Endowment	Total	Endowment	Total
Net unrealized appreciation in fair value at beginning of year	\$ 25,815,110	27,678,038	10,089,021	10,735,075
Current year unrealized appreciation	<u>11,964,595</u>	<u>13,164,515</u>	<u>15,726,089</u>	<u>16,942,963</u>
Net unrealized appreciation in fair value at end of year	<u>\$ 37,779,705</u>	<u>40,842,553</u>	<u>25,815,110</u>	<u>27,678,038</u>

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During the years ended June 30, 2005 and 2004, the University paid approximately \$290,000 and \$171,000, respectively, in management and custodian fees which were netted against endowment income and other investment income on the accompanying statements of activities. All endowments established by various donors over the years are accounted for separately in the accounting records of the University to ensure that the purposes for which the endowments were initially created are carried out in perpetuity. For investment purposes, to maximize total investment return and administrative efficiency, the University commingles certain assets in an investment pool.

Individual endowments own shares in the pool, the value per share being determined by the pool's aggregate fair value and the number of shares outstanding at the time contributions are made. The pool is valued on a quarterly basis for this purpose. At June 30, 2005, the pool had 41,674,198 shares outstanding, with a fair value of approximately \$4.30 per share or \$179,379,792. The University has adopted a spending policy whereby the board of trustees has authorized a stipulated percent of the fair value of endowments participating in the investment pool to be spent for the purposes of the donors. The distribution for spending in 2005 was \$0.19 per share, of which \$0.06 represented income yield. The remaining \$.13 represented spending of realized and unrealized gains. At June 30, 2004, the pool had 39,648,692 shares outstanding, with a fair value of approximately \$4.07 per share or \$161,416,061. The distribution for spending in 2004 was \$0.19 per share, of which \$0.07 represented income yield. The remaining \$0.12 represented spending of realized and unrealized gains.

The investment pool consists of 561 individual endowments at June 30, 2005. Of these endowments, 15 are considered to be 'under water' as the fair value of the underlying investments is less than the original gift value. At June 30, 2005, the fair value of the underlying investments related to these 15 endowments totaled approximately \$7,467,000 while the original gift value was approximately \$7,691,000.

The University has the following split interest agreements which are included in long-term investments at June 30, 2005 and 2004:

	Number of agreements	2005	
		Net assets classification	
		Temporary	Permanently
Perpetual trusts held by third party	5	\$ —	8,303,540
Charitable Remainder Trusts:			
University named trustee	23	6,478,427	6,273,602
Third-party named trustee	10	1,329,369	1,770,897
Charitable Annuity Agreements	81	2,960,836	1,388,158
	<u>119</u>	<u>\$ 10,768,632</u>	<u>17,736,197</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

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	Number of agreements	2004	
		Net assets classification	
		Temporary	Permanently
Perpetual trusts held by third party	5	\$ —	8,017,783
Charitable Remainder Trusts:			
University named trustee	23	5,928,877	5,840,456
Third-party named trustee	10	1,356,671	1,783,801
Charitable Annuity Agreements	90	2,860,773	1,321,345
	128	\$ 10,146,321	16,963,385

The University is the beneficiary of certain perpetual trusts held by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenue at the date the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts as gains and losses on the endowment investments.

The Charitable Remainder Trusts, Charitable Annuity Agreements, and Pooled Life Income Fund are split interest agreements that are either held and administered by the University or by others. In the period when the agreement is established, the University recognizes an asset at fair value, a liability to the beneficiary for the estimated future benefits to be distributed and contribution revenue for the difference. Annual adjustments are made to the liability for the estimated future benefits to be distributed due to changes in the actuarial assumptions and the discount rate, where applicable, over the term of the agreement.

(3) Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	2005	2004
Unconditional promises expected to be collected in:		
Less than one year	\$ 8,799,830	12,209,022
One to five years	22,289,063	13,365,471
	31,088,893	25,574,493
Less allowance for uncollectible pledges	(3,108,889)	(2,557,449)
Less present value discount (2.7% – 4.5%)	(2,604,193)	(1,448,119)
Net pledges receivable	\$ 25,375,811	21,568,925

Included in pledges receivable is the present value of approximately \$26,200,000 and \$12,388,000 as of June 30, 2005 and 2004, respectively, in pledges from related parties.

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Notes to Financial Statements

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(4) Property, Plant, and Equipment

Property, plant, and equipment at June 30 consist of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 8,135,037	7,955,866
Land improvements	14,546,734	13,792,109
Buildings and improvements	402,487,444	388,903,515
Equipment	50,340,328	51,424,460
Library books	7,718,557	7,718,659
Construction in progress	26,772,995	8,876,792
	<u>510,001,095</u>	<u>478,671,401</u>
Less accumulated depreciation	<u>(86,565,002)</u>	<u>(78,552,617)</u>
	<u>\$ 423,436,093</u>	<u>400,118,784</u>

The University had approximately \$11,685,000 and \$10,676,000 of depreciation expense for the years ended June 30, 2005 and 2004, respectively, which was reported within all functions in the accompanying statements of activities.

(5) Long-Term Debt

Bonds payable at June 30 consist of the following:

	<u>2005</u>	<u>2004</u>
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2001 A	\$ 27,000,000	27,000,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2001 B	20,060,000	20,385,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 2000	45,110,000	46,490,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 1999	2,635,000	3,235,000
Colorado Postsecondary Educational Facilities Authority Improvement and Refunding Revenue Bonds, Series 1997	18,265,000	18,540,000
Colorado Postsecondary Educational Facilities Authority Revenue Bonds, Series 1996	1,445,000	1,905,000
	<u>\$ 114,515,000</u>	<u>117,555,000</u>

The University had approximately \$5,798,000 and \$6,064,000 of interest expense for the years ended June 30, 2005 and 2004, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately \$3,900,000 and \$4,114,000 was paid in cash during the years ended June 30, 2005 and 2004, respectively. The fair value of bonds payable was approximately \$118,550,235 and \$121,719,000 at June 30, 2005 and 2004, respectively.

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(a) Issuance of Series 2001 B Bonds

In December 2001, the Colorado Educational and Cultural Facilities Authority issued \$23,000,000 of University of Denver Revenue Bonds, Series 2001 B. The proceeds from the sale of the 2001 B bonds were used to (1) finance the construction of a law school, (2) obtain a municipal bond insurance policy for the Bonds, (3) obtain a reserve fund surety bond for the Bonds, (4) obtain a liquidity facility for the Bonds, and (5) pay certain costs associated with the issuance of the Bonds.

The bond agreement provides for a mandatory annual sinking fund redemption payments of \$500,000 in 2004 and increasing to \$1,300,000 in 2031. Interest is payable semiannually at rates ranging from 1.8% to 4.6%. The interest rate at June 30, 2005 is 2.15%. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

(b) Issuance of Series 2001 A Bonds

In October 2001, the Colorado Educational and Cultural Facilities Authority issued \$27,000,000 of University of Denver Revenue Bonds, Series 2001 A. The proceeds from the sale of the 2001 A bonds were used to (1) finance the completion of a residence hall and the construction of a law school, (2) obtain municipal bond insurance policy, and (3) obtain a reserve fund surety bond for the Bonds.

The bond agreement provides for a mandatory annual sinking fund redemption payments of \$2,080,000 in 2025 and increasing to \$7,250,000 in 2027. Interest is payable semiannually at the rate of 5%. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

(c) Issuance of 2000 Bonds

In November 2000, the Colorado Educational and Cultural Facilities Authority issued \$51,395,000 of University of Denver Revenue Bonds, Series 2000. The proceeds from the sale of the 2000 bonds were used to (1) finance a portion of the cost of constructing a new residence hall and a new parking structure on the University's main campus, (2) refinance all of the City and County of Denver Industrial Development Bonds, Series 1991, (3) pay capitalized interest, (4) obtain a Reserve Fund Insurance Policy in an amount equal to the Bond Reserve Requirement, and (5) pay certain costs associated with the issuance of the Bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$1,125,000 in 2002 and increasing to \$6,445,000 in 2021. Interest is payable semiannually at rates ranging from 5.00% to 5.50%. Payment of principal and interest on the bonds is guaranteed by Ambac Assurance Corporation.

(d) Issuance of 1999 Bonds

In January 1999, the Colorado Postsecondary Educational and Cultural Facilities Authority issued \$5,900,000 of University of Denver Revenue Bonds, Series 1999. The proceeds from the sale of the 1999 bonds were used to (1) finance the costs of a portion of the Daniel L. Ritchie Sports and Recreation Center (the Center), (2) fund a Bond Reserve fund, and (3) pay certain costs associated with the issuance of the Bonds.

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The bond agreement provides for mandatory annual sinking fund redemption payments of \$535,000 in 2002 and increasing to \$700,000 in 2009. Interest is payable semiannually at rates ranging from 3.30% to 4.25%. Payment of principal and interest on the bonds is guaranteed by the AMBAC Assurance Corporation.

(e) Issuance of 1997 Bonds

In October 1997, the Colorado Postsecondary Educational Facilities Authority issued \$19,755,000 of University of Denver Improvement and Refunding Revenue Bonds, Series 1997. The proceeds from the sale of the 1997 bonds were used to (1) finance the costs of a portion of the Center and finance a parking facility near the Center, (2) refinance the University's obligations with respect to the Colorado Postsecondary Educational Facilities Authority Improvement Revenue Bonds, Series 1992, (3) obtain a Reserve Fund insurance policy in an amount equal to the Bond Reserve requirement, and (4) pay the costs associated with the issuance of the bonds. The \$11,860,000 in refunded bonds were legally defeased and removed from the accounting records of the University. As of June 30, 2005 and 2004, all of the refunded Series 1992 bonds were still outstanding, pending scheduled payment from escrow.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$240,000 in 2002 and increasing to \$4,520,000 in 2018. Interest is payable semiannually at rates ranging from 4.10% to 5.5%. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

(f) Issuance of 1996 Bonds

In September 1996, the Colorado Postsecondary Educational Facilities Authority issued \$4,570,000 of University of Denver Revenue Bonds, Series 1996. The proceeds from the sale of the 1996 bonds were used to (1) finance certain energy conservation measures which include a lighting upgrade program and a control system upgrade, (2) finance the expansion of the heating and cooling plant at the University Park Campus, (3) fund a Bond Reserve Fund, and (4) pay the costs associated with the issuance of the bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$40,000 in 2002 and increasing to \$965,000 in 2007. Interest is payable semiannually at rates ranging from 4.65% to 5.75%. Payment of principal and interest on the bonds is guaranteed by the AMBAC Insurance Company.

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(g) Aggregate Annual Maturities of Bonds Payable

At June 30, 2005, the aggregate annual maturities of bonds payable for the five succeeding years are as follows:

2006	\$	3,170,000
2007		3,765,000
2008		3,460,000
2009		3,615,000
2010		3,770,000
Thereafter		<u>96,735,000</u>
	\$	<u><u>114,515,000</u></u>

(h) Subsequent Event

In July, 2005, the Colorado Educational and Cultural Facilities Authority issued \$30,255,000, of University of Denver Refunding Revenue Bonds, Series 2005A. The proceeds from the sale of the 2005A bonds were used to (1) advance refund \$29,670,000 aggregate principal amount of the Authority's Revenue Bonds (University of Denver Project) Series 2000, currently outstanding in the aggregate principal amount of \$45,110,000; (2) purchase a municipal bond insurance policy and a reserve fund surety bond for the 2005A Bonds; and (3) pay certain costs associated with the issuance of the 2005A Bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$50,000 in 2007 and increasing to \$6,750,000 in 2022. Interest is payable semiannually at rates ranging from 3.0% to 3.99%. Payment of principal and interest on the bonds is guaranteed by the Financial Guaranty Insurance Company.

The University is also considering another financing to be issued in November 2005 for approximately \$40 million to be used to finance a portion of the costs for a new residence hall and parking structure.

(6) Net Assets Released From Restrictions

The sources of net assets released from temporary restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows:

	<u>2005</u>	<u>2004</u>
Acquisition of buildings and equipment	\$ 7,012,364	6,255,740
Scholarships	3,444,022	3,267,145
Instruction, research, academic and departmental support, and other	<u>17,581,168</u>	<u>13,203,492</u>
Total	\$ <u><u>28,037,554</u></u>	<u><u>22,726,377</u></u>

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Notes to Financial Statements

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(7) Retirement Plan and Postretirement Benefits

Full-time employees, including part-time employees who work at least 20 hours per week for at least six months, of the University are eligible to participate in a contributory tax-deferred annuity retirement plan (the Retirement Plan) under Section 403(b) of the Internal Revenue Code. Administrators, faculty members, and staff-appointed employees are eligible to participate in the Retirement Plan after one year of service. Participating employees may contribute up to 4% of their base salary, limited by the Internal Revenue Code to \$14,000 per employee. The University contributes an amount twice that of the employee up to 8%. Participants have a fully vested interest in the total contributions immediately. Accounts of each employee are invested at the employee's discretion. Under the Retirement Plan, the University contributed approximately \$6,420,000 and \$6,085,000 for the years ended June 30, 2005 and 2004, respectively, which were charged to operations expenses.

The University also sponsors a defined benefit healthcare plan (the Healthcare Plan) that provides postretirement medical benefits to full-time employees who have worked 10 years and attained age 55 while in service with the University if hired prior to January 1, 1992, or full-time employees who have worked 20 years and attained age 55 while in service with the University if hired after December 31, 1991. Participants receive \$55 per month toward the cost of their postretirement medical costs. At June 30, 2005, the Health Care Plan covered 240 retirees with an additional 2,164 active employees potentially eligible for coverage. At June 30, 2004, the Health Care Plan covered 241 retirees with an additional 2,086 active employees potentially eligible for coverage. The Health Care Plan is noncontributory and was not amended during 2005 or 2004. Under the Health Care Plan, the University contributed approximately \$6,008,000 and \$4,930,000 for the years ended June 30, 2005 and 2004, respectively, which were charged to operating expenses.

The University has elected to amortize the initial transition postretirement benefit obligation of approximately \$1,989,000 over 20 years. The remaining balance was approximately \$795,800 at June 30, 2005.

The following table represents the Health Care Plan's status reconciled with amounts recognized in the University's statements of financial position as accounts payable and other accrued liabilities at June 30:

	<u>2005</u>	<u>2004</u>
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 1,599,145	1,346,682
Fully eligible active participants	1,098,208	838,507
Other active plan participants	292,268	214,394
Total APBO, all unfunded	<u>\$ 2,989,621</u>	<u>2,399,583</u>
Accumulated postretirement benefit obligations	\$ 2,989,621	2,399,583
Unrecognized net gain (loss)	(7,967)	337,449
Unrecognized prior service cost	(343,458)	(106,144)
Unrecognized transition obligation	<u>(795,772)</u>	<u>(895,243)</u>
Accrued postretirement benefit cost	<u>\$ 1,842,424</u>	<u>1,735,645</u>

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At June 30, net periodic postretirement benefit cost included the following components:

	<u>2005</u>	<u>2004</u>
Service cost	\$ 15,370	17,774
Interest cost	144,145	139,597
Amortization of transition obligation over 20 years	99,471	99,471
Prior service cost	11,821	11,821
Amortization of unrecognized net gain	(9,644)	—
Net periodic postretirement benefit cost	\$ <u>261,163</u>	<u>268,663</u>

The weighted average discount rate used in determining the accumulated postretirement benefit obligations was 5.00% and 6.25% at June 30, 2005 and 2004, respectively. It is the University's policy to fund the benefit cost with current cash balances.

The estimated benefits expected to be paid in following years are as follows:

2006	\$ 207,400
2007	208,500
2008	211,300
2009	212,300
2010	214,300
2011 – 2015	<u>1,067,900</u>
Total	\$ <u>2,121,700</u>

For the year ended June 30, 2005, all medical premiums were greater than the amount subsidized by the University. Therefore, a healthcare trend was not used as all retirees receiving the subsidy receive the full \$55.

The measurement date for the Healthcare Plan was June 30, 2005.

(8) Loans to Students

Student loans made through the Federal Perkins Loan Program (Perkins) constitute substantially all of the student loans outstanding at June 30, 2005 and 2004. New contributions to the Perkins programs are funded 75% by the federal government with the University providing the remaining 25% for fiscal years 2005 and 2004. Perkins provides for cancellation of a note at rates of 10% to 30% per year up to a maximum of 100% if the debtor complies with certain provisions of Perkins. The federal government reimburses the loan funds of the University at rates of 10% to 30% for canceled indebtedness due to certain teaching service and various types of services for the U.S. government and 100% for loans declared not collectible due to death, permanent disability, or a declaration of bankruptcy.

At June 30, 2005 and 2004, the allowance for possible loan losses of Perkins approximated \$750,000; however, due to federal regulations, no loans of Perkins have been written-off since the inception of Perkins.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2005 and 2004

The University has other loan funds obtained primarily through gifts and grants from individuals, corporations, and foundations. At June 30, 2005 and 2004, the allowance for possible loan losses of these funds was \$150,000.

During the years ended June 30, 2005 and 2004, the University made loans directly to students under the Federal Family Education Loan Program totaling approximately \$44.6 million and \$41.3 million, respectively. Prior to year-end, the loans were sold without recourse to a third party.

(9) Fundraising Expenses

The University had fundraising expenses of approximately \$4,009,000 and \$3,910,000 in 2005 and 2004, respectively, which were recognized in institutional support in the accompanying statements of activities.

(10) Commitments and Contingencies

At June 30, 2005 and 2004, the University had outstanding commitments totaling approximately \$8,700,000 and \$6,395,000, respectively, for contracts related to various construction projects on campus.

The University participates in a number of federal programs which are subject to financial and compliance audits. The amount of expenses which may be disallowed by the granting agencies cannot be determined at this time, although the University does not expect these amounts, if any, to be material to the financial statements.

The University is a party to a number of matters of litigation. It is the opinion of management, based on the advice of counsel, that the University's liability insurance is sufficient to cover the potential judgments and that the outcome of the suits will not have a material adverse effect on the financial position or operations of the University.



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

**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***

The Board of Trustees
University of Denver (Colorado Seminary):

We have audited the financial statements of the University of Denver (Colorado Seminary) (the University) as of and for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of trustees, audit committee, University management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 4, 2005



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report on Compliance With Requirements Applicable to the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
University of Denver (Colorado Seminary):

Compliance

We have audited the compliance of the University of Denver (Colorado Seminary) (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that are applicable to its major federal program for the year ended June 30, 2005. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in

accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-01 and 05-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the board of trustees, audit committee, University management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 4, 2005

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Federal granting agency</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Research and Development Cluster:		
Department of Agriculture:		
Direct Payments	10.200	\$ 479
Pass-through Awards	10.200	<u>12,603</u>
		13,082
Direct Payments	10.558	<u>4,662</u>
Total Department of Agriculture		<u>17,744</u>
Department of Commerce:		
National Oceanic and Atmospheric Administration:		
Direct Payments	11.431	20,125
Direct Payments	11.609	<u>75,049</u>
Total National Oceanic and Atmospheric Administration		<u>95,174</u>
Department of Defense:		
Air Force:		
Direct Payments	12.800	963,472
Pass-through Awards	12.800	<u>7,169</u>
		<u>970,641</u>
Army:		
Direct Payments	12.114	584,599
Pass-through Awards	12.114	<u>47,981</u>
		632,580
Direct Payments	12.431	265,329
Navy:		
Direct Payments	12.300	53,788
Pass-through Awards	12.300	<u>(946)</u>
		<u>52,842</u>
Defense Logistics Agency:		
Direct Payments	12.000	<u>25,504</u>
Total Department of Defense		<u>1,946,896</u>
Department of Housing and Urban Development:		
Direct Payments	14.169	57,060
Pass-through Awards	14.218	416
Pass-through Awards	14.866	<u>35,775</u>
Total Department of Housing and Urban Development		<u>93,251</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Federal granting agency</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Department of the Interior:		
Fish and Wildlife:		
Direct Payments	15.617	\$ 72,428
National Park Service:		
Direct Payments	15.915	640,021
Direct Payments	15.923	2,682
U.S. Geological Service:		
Direct Payments	15.808	59,095
Total Department of the Interior		<u>774,226</u>
Department of Justice:		
Direct Payments	16.560	3,641,501
Pass-through Awards	16.560	169,728
		<u>3,811,229</u>
Pass-through Awards	16.565	26,021
Total Department of Justice		<u>3,837,250</u>
Department of State:		
Direct Payments	19.424	54,051
Department of Transportation:		
Direct Payments	20.301	215,574
Direct Payments	20.701	119,699
Total Department of Transportation		<u>335,273</u>
Department of the Treasury:		
Direct Payments	21.008	47,950
National Aeronautics and Space Administration (NASA):		
Direct Payments	43.000	157,161
Direct Payments	43.001	666,825
Pass-through Awards	43.001	884
		<u>667,709</u>
Direct Payments	43.002	3,700
Total NASA		<u>828,570</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Federal granting agency	Federal CFDA number	Federal expenditures
National Endowment for the Arts and Humanities:		
Direct Payments	45.149	\$ 50,786
Pass-through Awards	45.149	67,058
Direct Payments	45.301	(908)
Direct Payments	45.310	51,590
Direct Payments	45.312	173,719
Total National Endowment for the Arts and Humanities		<u>342,245</u>
National Science Foundation:		
Direct Payments	47.041	215,375
Direct Payments	47.049	265,775
Direct Payments	47.050	237,070
Direct Payments	47.070	55,926
Direct Payments	47.074	192,301
Pass-through Awards	47.074	14,772
		<u>207,073</u>
Direct Payments	47.075	8,965
Pass-through Awards	47.075	10,663
		<u>19,628</u>
Pass-through Awards	47.076	4,121
Direct Payments	47.078	92,313
Total National Science Foundation		<u>1,097,281</u>
Department of Energy:		
Direct Payments	81.000	(114)
Pass-through Awards	81.000	43,352
		<u>43,238</u>
Direct Payments	81.049	13,002
Total Department of Energy		<u>56,240</u>
Federal Emergency Management Agency:		
Pass-through Awards	83.534	44,967
Department of Education:		
Pass-through Awards	84.000	3,728
Direct Payments	84.017A	143,763
Direct Payments	84.324D	303,041
Pass-through Awards	84.342	30,010
Total Department of Education		<u>480,542</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Federal granting agency</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
United States Institute of Peace:		
Direct Payments	91.001	\$ <u>15,026</u>
Department of Health and Human Services:		
Direct Payments	93.000	509,152
Pass-through Awards	93.000	<u>647,235</u>
		1,156,387
Direct Payments	93.052	65,578
Direct Payments	93.173	254,414
Direct Payments	93.242	1,638,783
Pass-through Awards	93.243	5,740
Direct Payments	93.273	16,752
Direct Payments	93.278	3,328
Direct Payments	93.282	229,002
Pass-through Awards	93.283	154,590
Direct Payments	93.286	306,275
Pass-through Awards	93.371	183,005
Direct Payments	93.390	94,443
Pass-through Awards	93.395	13,794
Direct Payments	93.570	16,855
Direct Payments	93.600	11,703
Direct Payments	93.648	378,867
Pass-through Awards	93.652	16,640
Direct Payments	93.821	338,532
Pass-through Awards	93.837	27,317
Direct Payments	93.847	212,723
Direct Payments	93.853	686,783
Direct Payments	93.865	231,688
Pass-through Awards	93.865	<u>525,432</u>
		<u>757,120</u>
Total Department of Health and Human Services		<u>6,568,631</u>
Corporation for National and Community Services:		
Pass-through Awards	94.004	32
Direct Payments	94.005	107,806
Direct Payments	94.006	<u>3,992</u>
Total Corporation for National and Community Service		<u>111,830</u>
Department of Homeland Security:		
Pass-through Awards	97.008	<u>23,770</u>
Total Research and Development Cluster		<u>16,770,917</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Federal granting agency</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Student Financial Assistance Cluster:		
Department of Education:		
Federal Supplemental Education Opportunity Grant Program	84.007	\$ 633,217
Federal Family Education Loans	84.032	44,561,267
Federal Work Study Program	84.033	812,494
Job Location and Development	84.033	42,705
		<hr/>
		855,199
		<hr/>
Federal Perkins Loan Program	84.038	4,451,557
Federal Pell Grant Program	84.063	1,774,252
Federal Direct Student Loan Program	84.268	18,102,588
		<hr/>
Total Department of Education – Student Financial Assistance Cluster		<hr/>
		70,378,080
		<hr/>
Total federal awards		\$ <hr/>
		87,148,997
		<hr/>

See accompanying notes to the schedule of expenditures of federal awards.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

(1) Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) presents the activity of federal award programs of the University of Denver (Colorado Seminary) (the University) for the year ended June 30, 2005. Federal awards received directly from federal agencies are included in this Schedule as well as federal guaranteed loans disbursed by other sources. Additionally, all federal awards passed through from other entities have also been included on the Schedule. Although the University is required to match certain grants, as defined in the grants, no such matching is included in the Schedule.

(2) Basis of Accounting

The accompanying schedule is presented using the accrual basis of accounting which is described in note 1 to the University's financial statements.

(3) Federal Direct Student Loan Program

During the year ended June 30, 2005, the University participated in the Federal Direct Student Loan Program (FDSLP). The FDSLP allows "one-stop" student access to federal educational loan funds including the Stafford Loan Program, the Supplemental Loans for Students Program, the PLUS Loan Program, and the Consolidation Loan Program directly through schools. The University also continues to participate in the Federal Family Education Loan Program (FFELP). Such transactions are not reported in the University's statement of activities as they represent agency transactions under accounting principles generally accepted in the United States of America. During the year ended June 30, 2005, the University received approximately \$18,146,000 and disbursed \$18,103,000 of FDSLP funds and disbursed approximately \$44,600,000 in FFELP funds on a cash basis. Amounts reported on the schedule of expenditures of federal awards are reported on an accrual basis. The difference between the University's receipts and disbursements is reported as accounts receivable under operations in the statement of financial position. The University performs certain administrative functions under FDSLP which, if not performed timely, could result in a liability to the University. The University has contracted with outside servicing agencies to perform the required administration functions related to the FFELP program.

(4) Federal Perkins Loan Program

Student loans made through the Federal Perkins Loan Program (Perkins) constitute substantially all of the student loans outstanding at year-end. The total balance due on Perkins loans is approximately \$19,257,000 as of June 30, 2005.

Perkins stipulates that the federal government provides 75% of the total funds available with the University providing the remaining 25% for fiscal year 2005. Perkins provides for cancellation of a note at rates of 10% to 30% per year up to a maximum of 100% if the debtor complies with certain provisions of Perkins. The federal government reimburses the loan funds of the University at rates of 10% to 30% for cancelled indebtedness due to certain teaching service and various types of services for the U.S. government and 100% for loans declared not collectible due to death, permanent disability, or a declaration of bankruptcy. Due to federal regulations, no loans of Perkins have been written off since the inception of Perkins.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

(5) Pass-Through Awards

On the accompanying schedule, the following grants were received as pass-through awards:

<u>Grantor</u>	<u>CFDA number</u>	<u>Contract/grantor's number</u>	<u>Expenditures</u>
Colorado Dept of Agriculture	10.200	Pre Award	\$ 12,603
ITT Industries	12.114	P.O. 170811J	568
National Technical Systems	12.114	P.O. 89311	47,413
Talley Defense Systems, Inc	12.300	P.O. 10620	(946)
Directed Energy Solutions	12.800	DES-0404	7,169
Denver Housing Authority	14.866	CO06URD001/102	35,775
APCO	16.560	Subcontract Dtd 1/7/04	169,728
Apogee Scientific, Inc.	16.565	7032-0401	26,021
University of Utah	43.001	2502098B	884
University of New Mexico	45.149	034006-87A3	67,058
University of Colorado/Boulder	47.074	SPO S4007	14,772
University of California/Irvine	47.075	# 2002-1125	1,500
University of California/Irvine	47.075	# 2002-1125	9,164
University of Colorado at Denver	47.076	1203.05.119D-04	4,121
Los Alamos National Laboratory	81.000	01117-001-04 4X	23,158
National Renewable Energy Lab	81.000	XEA-5-44230-01	20,193
INS, Atlanta	83.534	P.O. 857-05	44,967
University of Pennsylvania	84.000	5-36419-T	3,728
University of Colorado at Denver	84.342	Sub #0603.10.297D-03	30,010
Colorado Department of Human Services	93.000	06-IHA-00017	1,502
Colorado Department of Human Services	93.000	06-IHA-00017	510,800
Colorado Department of Human Services	93.000	06-IHA-00018	4,210
Colorado Department of Human Services	93.000	06-IHA-00018	60,589
Colorado Department of Human Services	93.000	06-IHA-00090	19
Colorado Department of Human Services	93.000	06-IHA-00090	9,096
Colorado Department of Human Services	93.000	06-IHA-00091	163
Colorado Department of Human Services	93.000	06-IHA-00091	57,639
University of Colorado Health Sciences Ctr	93.000	UCHSC Routing #05IHA00078	3,217
Connect Care, LLC	93.243	Fixed Price Contract	5,740
Colorado Department of Public Health and Environment	93.283	ADM0300584	47,728
Colorado Department of Public Health and Environment	93.283	PO FHA EPI0400115	106,862
University of Chicago Medical Center	93.371	Tracs ID # 16839	51,482
University of Chicago Medical Center	93.371	Tracs ID # 16839	131,524
San Francisco State University	93.395	C7-94161 Subcontract	6,508
San Francisco State University	93.395	C7-94210	7,287
Colorado Coalition of Adoptive Families	93.652	Agreement Dtd 3/31/05	12,659
Caliber Associates, Inc.	93.652	PO# PO763DENV	3,981
University of Colorado Health Sciences Ctr	93.837	1R01 HL069071-01	27,317
University of Colorado Health Sciences Ctr	93.865	Sub #FY05.120.001 AMD1 DU YR36	124,508
Jackson Laboratory	93.865	Subgrant 5 P01 HD24605-15	105
University of Colorado/Boulder	93.865	UCB # 154-1457	91,423
University of Colorado/Boulder	93.865	UCB # 154-1457	38,419
University of Colorado/Boulder	93.865	UCB # 154-1456	102,218
University of Colorado/Boulder	93.865	UCB # 154-1456	168,759
Colorado Department of Education	94.004	01/06/01 Award Letter	(10)
Colorado Department of Education	94.004	A00010	42
Colorado Dept of Local Affairs	97.008	5EM729118	13,990
Colorado Dept of Local Affairs	97.008	5EM758118	1,494
Colorado Dept of Military and Veterans Affairs	97.008	PO #OE OAA 05000000032	8,285
			<u>\$ 2,115,442</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

June 30, 2005

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified Opinion**
- (b) Reportable conditions in internal control disclosed by the audit of the financial statements: **None Reported** Material weaknesses: **No**
- (c) Noncompliance which is material to the financial statements: **No**
- (d) Reportable conditions in internal control over major programs: **Yes**
Material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under Section .510(A) of OMB Circular A-133: **Yes**
- (g) Major program: **Student Financial Assistance Cluster** (various CFDA numbers)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$2,614,000**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **No**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No. 05-01 Federal Student Aid Cluster

Program Identification

Federal Student Aid Cluster, Federal Family Education Loans (84.032)
Federal Student Aid Cluster, Federal Pell Grant Program (84.063)
Federal Student Aid Cluster, Perkins Loan Program (84.038)

Criteria

In a return of Title IV Funds calculation, the school must return the lesser of: (1) the amount of Title IV Funds that the school does not earn, or (2) the amount of institutional charges that the student incurred for the payment period or period of enrollment multiplied by the percentage of funds that was not earned. Institutional charges are tuition and other educationally related expenses assessed by the institution. The institutional charges used in the calculation are always the charges that were initially assessed the student for the payment period or period of enrollment. The charges used in the return calculation are always the charges on the student's account prior to withdrawal. (*34 CFR 668.22(g)(1)(ii); 2003-2004 United States Department of Education Student Financial Aid Handbook, Volume 2, Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds*)

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

June 30, 2005

A school is required to determine the withdrawal date for a student who withdraws without providing notification by 30 days after the end of the term from which the student withdrew. Further, the school must return its portion of unearned Title IV funds by no later than 30 days after the date the school determined the student withdrew. (34 CFR 668.22; 2003-2004 United States Department of Education Student Financial Aid Handbook, Volume 2, Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds)

If a recipient of FSA grant or loan funds withdraws from a school after beginning attendance, the amount of FSA grant or loan assistance earned by the student must be determined by calculating a Return of Title IV Funds. If the amount disbursed to the student is greater than the amount the student earned, unearned funds must be returned. The school must return the lesser of: (1) the amount of Title IV funds that the student does not earn, or (2) the amount of institutional charges that the student incurred for the payment period or period of enrollment multiplied by the percentage of funds that was not earned. If the school returns amount (2), then the student must return the difference between the amount of unearned Title IV funds and amount (2). (34 CFR 668.22; 2003-2004 United States Department of Education Student Financial Aid Handbook, Volume 2, Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds)

Condition

We found errors in four of 35 return of Title IV Funds calculations. Three of these errors were incorrectly calculated amounts and one was returned 76 days late.

In the sample selected, there was no evidence that the calculations had been reviewed.

Questioned Costs

The three calculation errors were all overpayments and totaled \$1,634.

Effect

The University has returned its portion of unearned Title IV funds beyond the timeframe established by federal regulations, and has returned incorrect amounts.

Recommendation

The University should establish procedures to ensure that return of Title IV calculations are performed correctly with correct charges, correct period end dates, performed when required, and the resulting returns are made by both the school and the University. The University should establish procedures to ensure that the withdrawal date of students who withdraw without providing notification is determined within 30 days after the end of the term and the resulting return is made no later than 30 days after the date of this determination.

Management Response

See accompanying Corrective Action Plan.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

June 30, 2005

Finding No. 05-02 Federal Student Aid Cluster

Program Identification

Federal Student Aid Cluster, Federal Work Study (84.033)
Federal Student Aid Cluster, Federal Perkins Loan Program (84.038)
Federal Student Aid Cluster, Federal Pell Grant Program (84.063)

Criteria

The Fiscal Operation Report and Application to Participate (FISAP) is required to be submitted annually by October 1 following the June 30 award year-end. The Fiscal Operations Report portion is used to report expenditures from the previous award year and the Application to Participate portion to apply for the following year. The Student Unit Record Data System (SURDS) Financial Aid Report is also required to be submitted to the State of Colorado on an annual basis.

Federal regulations require recipients of federal awards to have internal controls in place to ensure that accurate amounts are reported.

Condition

In our testing of the FISAP report, we noted that the annual unduplicated graduate student headcount was underreported by 2,084 students. In addition, Pell awards were overreported by \$190,944.

In our testing of the SURDS report, Colorado Work Study was underreported by \$271,336; Federal Work Study (FWS) was underreported by \$812,326; and Perkins was underreported by \$2,250,181.

Questioned Costs

None.

Effect

The University reported incorrect amounts in its original submissions.

Cause

The University did not adequately reconcile and review reported amounts before submission of the FISAP and SURDS reports.

Recommendation

We recommend that the University have qualified financial aid management personnel establish adequate review and reconciliation processes to ensure accurate FISAP and SURDS reporting.

Management Response

See accompanying Corrective Action Plan.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Corrective Action Plan
Related to the OMB A-133 Audit

June 30, 2005

Finding No. 05-01

The University concurs with this finding. Changes in management personnel have been made to strengthen and follow-up on established policies and procedures and administrative system training has been undertaken. The Office of Financial Aid has a new Director as of November 2005 who is doing a comprehensive review of the policies and procedures for Return of Title IV Funds. The University continues to educate and train the staff involved with annual review sessions and on-going training in this area as needed. Policies and procedures addressing the correct calculations, withdrawal dates and timely return of Title IV funds are in place and under constant management review.

Finding No. 05-02

The University concurs with this finding and has implemented positive action to insure that an adequate review and reconciliation process is in place and followed. The final SURDS report filed with the Colorado Commission on Higher Education on November 18, 2005 and the final FISAP report filed with the Department of Education on December 14, 2005 were reviewed and reconciled by management prior to their submission and the University is in compliance with the final Financial Aid reporting requirements. Review and reconciliation of the FISAP and the SURDS report will be conducted with the assistance of the Office of the Controller and the Office of the Director of Student Financial Services.