



UNIVERSITY OF DENVER (COLORADO SEMINARY)

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

and

OMB Circular A-133 Reports

Year ended June 30, 2006

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, 2006 and 2005, 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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, effective July 1, 2005, the University implemented Financial Accounting Standards Board Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2006 on our consideration of the University's internal control over financial reporting and on our test 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 OMB Circular A-133 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

December 7, 2006

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2006

Assets	<u>Operations</u>	<u>Plant</u>	<u>Long-term investment</u>	<u>Total</u>
Cash and cash equivalents	\$ 28,397,559	17,112,777	—	45,510,336
Restricted cash and cash equivalents	—	—	5,264,993	5,264,993
Short-term investments	63,869,539	—	—	63,869,539
Accounts receivable, less allowance of \$1,003,776	19,875,536	—	7,246	19,882,782
Pledges receivable, net	2,849,920	4,142,124	17,283,295	24,275,339
Inventories, prepaid expenses, and other assets	4,023,561	738,020	—	4,761,581
Long-term investments	250,000	—	243,921,411	244,171,411
Loans to students, less allowance of \$900,000	—	—	16,636,449	16,636,449
Deposits with trustees	—	47,202,140	—	47,202,140
Property, plant, and equipment, net	—	431,764,288	—	431,764,288
Total assets	<u>\$ 119,266,115</u>	<u>500,959,349</u>	<u>283,113,394</u>	<u>903,338,858</u>
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 46,845,330	12,480,086	—	59,325,416
Other liabilities	—	1,933,354	1,042,648	2,976,002
Annuity obligations	—	—	8,268,453	8,268,453
Long-term debt	—	157,740,000	—	157,740,000
U.S. government grants refundable	—	—	16,750,722	16,750,722
Total liabilities	<u>46,845,330</u>	<u>172,153,440</u>	<u>26,061,823</u>	<u>245,060,593</u>
Net assets:				
Unrestricted:				
Available for operations	1,130,752	—	—	1,130,752
Designated student loans	—	—	1,889,379	1,889,379
Designated gain sharing	45,962,307	—	—	45,962,307
Designated gifts and endowment income	—	—	123,380,709	123,380,709
Designated plant	—	306,781,850	—	306,781,850
Total unrestricted net assets	<u>47,093,059</u>	<u>306,781,850</u>	<u>125,270,088</u>	<u>479,144,997</u>
Temporarily restricted:				
Gifts and endowment income for specific purposes	25,327,726	—	—	25,327,726
Plant	—	22,024,059	—	22,024,059
Annuity life income	—	—	6,454,104	6,454,104
Total temporarily restricted net assets	<u>25,327,726</u>	<u>22,024,059</u>	<u>6,454,104</u>	<u>53,805,889</u>
Permanently restricted:				
Endowment	—	—	117,091,204	117,091,204
Annuity life income	—	—	6,231,554	6,231,554
Student loans	—	—	2,004,621	2,004,621
Total permanently restricted net assets	<u>—</u>	<u>—</u>	<u>125,327,379</u>	<u>125,327,379</u>
Total net assets	<u>72,420,785</u>	<u>328,805,909</u>	<u>257,051,571</u>	<u>658,278,265</u>
Commitments and contingencies (notes 2, 7, 8, and 11)				
Total liabilities and net assets	<u>\$ 119,266,115</u>	<u>500,959,349</u>	<u>283,113,394</u>	<u>903,338,858</u>

See accompanying notes to financial statements.

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	<u>\$ 112,099,398</u>	<u>444,144,554</u>	<u>251,351,373</u>	<u>807,595,325</u>
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	<u>54,414,738</u>	<u>120,505,469</u>	<u>26,226,381</u>	<u>201,146,588</u>
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	<u>39,003,382</u>	<u>306,374,034</u>	<u>106,364,320</u>	<u>451,741,736</u>
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	<u>18,681,278</u>	<u>17,265,051</u>	<u>5,965,595</u>	<u>41,911,924</u>
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	<u>—</u>	<u>—</u>	<u>112,795,077</u>	<u>112,795,077</u>
Total net assets	<u>57,684,660</u>	<u>323,639,085</u>	<u>225,124,992</u>	<u>606,448,737</u>
Commitments and contingencies (notes 2, 7, 8, and 11)				
Total liabilities and net assets	<u>\$ 112,099,398</u>	<u>444,144,554</u>	<u>251,351,373</u>	<u>807,595,325</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities
Year ended June 30, 2006

	<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	\$ 253,308,001	—	253,308,001	—	—	253,308,001
Less institutional scholarships	53,003,932	—	53,003,932	—	—	53,003,932
	<u>200,304,069</u>	<u>—</u>	<u>200,304,069</u>	<u>—</u>	<u>—</u>	<u>200,304,069</u>
Less noninstitutional scholarships	8,614,776	—	8,614,776	—	—	8,614,776
Net tuition and fees	191,689,293	—	191,689,293	—	—	191,689,293
Private gifts	949,540	—	949,540	—	10,480	960,020
Grants and contracts	23,652,540	—	23,652,540	—	—	23,652,540
Endowment income	242,051	—	242,051	734	87,688	330,473
Other investment income (losses)	7,566,587	(165,856)	7,400,731	1,424,009	—	8,824,740
Net realized and unrealized gains on endowments	390,178	—	390,178	1,943	17,009,473	17,401,594
Net realized and unrealized gains (losses) on other investments	20,931	—	20,931	(36,403)	12,715	(2,757)
Sales and services of educational activities	8,283,458	19,809	8,303,267	—	—	8,303,267
Sales and services of auxiliary enterprise	37,638,926	—	37,638,926	25,000	—	37,663,926
Other sources	4,195,148	106,070	4,301,218	72,277	—	4,373,495
Total unrestricted revenue and gains	274,628,652	(39,977)	274,588,675	1,487,560	17,120,356	293,196,591
Net assets released from restrictions	18,650,100	—	18,650,100	1,895,830	—	20,545,930
Total unrestricted revenue, gains, and other support	293,278,752	(39,977)	293,238,775	3,383,390	17,120,356	313,742,521
Expenses:						
Educational and general:						
Instruction	96,078,342	664,919	96,743,261	10,021,259	—	106,764,520
Research	13,909,243	—	13,909,243	1,073,898	—	14,983,141
Public service	3,976,837	—	3,976,837	112,628	—	4,089,465
Academic support	43,576,529	2,155,360	45,731,889	1,110,597	—	46,842,486
Student services	14,469,102	—	14,469,102	989,362	—	15,458,464
Institutional support	33,859,001	523,472	34,382,473	4,775,822	—	39,158,295
Total educational and general expenses	205,869,054	3,343,751	209,212,805	18,083,566	—	227,296,371
Auxiliary enterprises	44,142,543	48,989	44,191,532	8,484,302	—	52,675,834
Total expenses	250,011,597	3,392,740	253,404,337	26,567,868	—	279,972,205
Transfers among unrestricted net assets	42,859,833	(11,115,072)	31,744,761	(29,959,349)	(1,785,412)	—
Total expenses and transfers	292,871,430	(7,722,332)	285,149,098	(3,391,481)	(1,785,412)	279,972,205
Cumulative effect on prior years of implementing FIN 47 (note 1)	—	—	—	(6,367,055)	—	(6,367,055)
Increase in unrestricted net assets	407,322	7,682,355	8,089,677	407,816	18,905,768	27,403,261
Changes in temporarily restricted net assets:						
Private gifts	16,332,395	—	16,332,395	6,671,432	47,973	23,051,800
Endowment income	2,760,366	—	2,760,366	—	—	2,760,366
Other investment income (losses)	475,532	—	475,532	(14,429)	—	461,103
Net realized and unrealized gains on endowments	5,932,926	—	5,932,926	—	—	5,932,926
Net realized and unrealized gains (losses) on other investments	196,656	—	196,656	(2,165)	—	194,491
Net assets released from restrictions	(18,650,100)	—	(18,650,100)	(1,895,830)	—	(20,545,930)
Stipulations changed by donor	(401,327)	—	(401,327)	—	(119,879)	(521,206)
Actuarial adjustments on annuity obligations	—	—	—	—	560,415	560,415
Increase in temporarily restricted net assets	6,646,448	—	6,646,448	4,759,008	488,509	11,893,965
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	11,722,856	11,722,856
Net realized and unrealized losses on other investments	—	—	—	—	22,542	22,542
Stipulations changed by donor	—	—	—	—	521,206	521,206
Actuarial adjustments on annuity obligations	—	—	—	—	265,698	265,698
Increase in permanently restricted net assets	—	—	—	—	12,532,302	12,532,302
Change in net assets	7,053,770	7,682,355	14,736,125	5,166,824	31,926,579	51,829,528
Net assets at beginning of year	19,404,708	38,279,952	57,684,660	323,639,085	225,124,992	606,448,737
Net assets at end of year	\$ 26,458,478	45,962,307	72,420,785	328,805,909	257,051,571	658,278,265

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities

Year ended June 30, 2005

	<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	\$ 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	24,150,173	—	24,150,173	—	—	24,150,173
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	579,233	4,406,495	185,751	—	4,592,246
Total unrestricted revenue and gains	<u>251,299,234</u>	<u>619,239</u>	<u>251,918,473</u>	<u>471,921</u>	<u>10,393,838</u>	<u>262,784,232</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>272,324,424</u>	<u>619,239</u>	<u>272,943,663</u>	<u>7,484,285</u>	<u>10,393,838</u>	<u>290,821,786</u>
Expenses:						
Educational and general:						
Instruction	88,676,515	591,989	89,268,504	8,550,312	—	97,818,816
Research	15,453,069	255,976	15,709,045	767,639	—	16,476,684
Public service	4,036,721	459	4,037,180	56,541	—	4,093,721
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>191,245,310</u>	<u>2,989,112</u>	<u>194,234,422</u>	<u>12,788,375</u>	<u>113,987</u>	<u>207,136,784</u>
Auxiliary enterprises	41,872,884	96,104	41,968,988	6,667,937	—	48,636,925
Total expenses	<u>233,118,194</u>	<u>3,085,216</u>	<u>236,203,410</u>	<u>19,456,312</u>	<u>113,987</u>	<u>255,773,709</u>
Transfers among unrestricted net assets	38,884,702	(8,003,256)	30,881,446	(29,506,619)	(1,374,827)	—
Total expenses and transfers	<u>272,002,896</u>	<u>(4,918,040)</u>	<u>267,084,856</u>	<u>(10,050,307)</u>	<u>(1,260,840)</u>	<u>255,773,709</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)	63,133	—	(89,740)
Net assets released from restrictions	(21,025,190)	—	(21,025,190)	(7,012,364)	—	(28,037,554)
Stipulations changed by donor	(223,333)	—	(223,333)	(206,403)	7,604	(422,132)
Actuarial adjustments on annuity obligations	—	—	—	(12,347)	658,896	646,549
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
Stipulations 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)

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 51,829,528	51,049,299
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	12,557,221	11,685,059
Loss on disposal of assets	123,586	136,697
Decrease in accounts receivable	(2,906,155)	(870,143)
(Increase) decrease in pledges receivable	1,100,472	(3,806,886)
(Increase) decrease in inventories, prepaid expenses, and other assets	202,083	(1,433,349)
Increase (decrease) in accounts payable, accrued liabilities, and other liabilities	(46,811)	5,101,627
Actuarial adjustment for annuity obligations	638,649	213,824
Contributions of real and personal property	(1,366,455)	(4,018,709)
Contributions restricted for long-term investment	(10,900,179)	(19,379,122)
Interest and dividends restricted for long-term investment	(87,688)	(120,158)
Net realized and unrealized gains on investments	(23,536,081)	(15,337,412)
Net cash provided by operating activities	<u>27,608,170</u>	<u>23,220,727</u>
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	121,766,127	109,502,051
Purchases of investments	(136,557,736)	(112,647,222)
Purchases of property, plant, and equipment	(21,009,002)	(35,139,065)
Disbursements for Perkins and University loans to students	(3,875,027)	(4,457,583)
Repayment of Perkins and University loans to students	5,882,336	5,076,451
Changes in restricted cash	(5,264,993)	—
Increase in deposits with bond trustees	(44,556,994)	(717,720)
Net cash used by investing activities	<u>(83,615,289)</u>	<u>(38,383,088)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	10,900,179	19,379,122
Interest and dividends restricted for long-term investment	87,688	120,158
Payments of notes payable	(17,268)	—
Proceeds from bonds and notes payable	91,840,000	1,252,147
Payments of bonds payable	(48,615,000)	(3,040,000)
Increase in refundable government loan funds, net	114,435	269,046
Net cash provided by financing activities	<u>54,310,034</u>	<u>17,980,473</u>
Net increase (decrease) in cash and cash equivalents	(1,697,085)	2,818,112
Cash and cash equivalents at beginning of year	<u>47,207,421</u>	<u>44,389,309</u>
Cash and cash equivalents at end of year	\$ <u><u>45,510,336</u></u>	<u><u>47,207,421</u></u>

Interest paid is discussed in note 5.

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

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(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 was established as the degree granting body. The University offers both undergraduate and graduate programs. Enrollment currently stands at approximately 10,300 students, of which approximately 4,800 are undergraduates. The University is primarily supported by tuition and fees, private gifts and grants, and contracts.

(b) *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.

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, temporarily restricted, or have been released from restrictions.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

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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, annuity, 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.

(c) 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.

(d) 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.

(e) 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.

(f) 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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2006 and 2005

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).

(g) 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.

(h) Deposits with Trustees

Deposits with trustees represent 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 nonmandatory reserve for the 2001 debt issuance, and include unspent funds from the Series 2000 and Series 2005 B acquisition fund. The bond reserve requirements for all other issuances are funded by a reserve fund insurance policy.

(i) 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 to \$5.00 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.

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.

(j) Deferred Revenue

Summer school tuition, fee revenue, and related expenses are deferred at June 30, 2006 and 2005 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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

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(k) *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.

(l) *Annuity Obligations*

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

(m) *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.

(n) *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.

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. For alternative investments, which include hedge funds and private equity investments, fair values are based on estimates reported by fund managers where quoted market prices do not exist. The University reviews and evaluates the estimated values by comparing to audited financial statements of the funds and other similar procedures. 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.

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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 (book) 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 (book) 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, which is disclosed at note 5, is determined by computing the present value of future payments discounted at the prevailing interest rate for comparable debt instruments at year end.

(o) Use of Estimates

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

(p) Reclassifications

Certain amounts have been reclassified in the 2005 financial statements to conform to the 2006 presentation.

(q) Cumulative Effect of Change in Accounting Principle

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. Under FIN 47, costs related to the legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued. The University has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement costs were estimated based on physical inspections and cost estimates based on current market prices and applied on a per square foot basis. For the year ended June 30, 2006, the University recorded site improvements of \$3,981,834, related accumulated depreciation of \$1,513,097, an asset retirement obligation (included in accounts payable

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and accrued liabilities) of \$9,189,517, and a cumulative effect change in accounting principle of \$6,367,055. For comparative purposes, the asset retirement obligation as of June 30, 2005, had FIN 47 been applied, would have been \$8,915,428.

(2) Short-Term and Long-Term Investments

Investments at June 30 consist of the following:

	Fair value	
	2006	2005
Short-term investments:		
U.S. government securities	\$ 50,859,925	40,169,484
Stocks	11,367,086	10,515,216
Real estate	52,748	52,748
Other	1,589,780	1,296,711
	<u>63,869,539</u>	<u>52,034,159</u>
Long-term investments:		
Short-term investments	25,263,692	12,209,492
U.S. government securities	647,473	1,225,993
Bonds	886,892	12,561,970
Absolute return funds	48,334,155	35,094,729
Hedge funds	35,027,410	23,029,103
Domestic equities	63,620,303	69,503,777
International equities	17,609,260	16,677,654
Private equities	9,562,356	4,648,422
Real estate	20,446,056	20,189,373
Beneficial trust interest	2,019,009	2,353,851
Equity mutual funds	13,159,805	11,723,487
Fixed income mutual funds	4,982,707	4,426,703
Mortgage/notes receivable	2,058,308	2,040,246
Venture capital	553,985	627,846
	<u>244,171,411</u>	<u>216,312,646</u>
Total	<u>\$ 308,040,950</u>	<u>268,346,805</u>

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

	2006		2005	
	Endowment	Total	Endowment	Total
Net unrealized appreciation in fair value at beginning of year	\$ 37,779,705	40,842,553	25,815,110	27,678,038
Current year unrealized appreciation	3,567,890	4,339,445	11,964,595	13,164,515
Net unrealized appreciation in fair value at end of year	<u>\$ 41,347,595</u>	<u>45,181,998</u>	<u>37,779,705</u>	<u>40,842,553</u>

During the years ended June 30, 2006 and 2005, the University paid approximately \$358,000 and \$290,000, 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, 2006, the pool had 44,047,083 shares outstanding, with a fair value of approximately \$4.69 per share or \$206,535,550. 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 2006 was \$0.21 per share, of which \$0.06 represented income yield. The remaining \$0.15 represented spending of realized and unrealized gains. 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 distribution for spending in 2005 was \$0.19 per share, of which \$0.06 represented income yield. The remaining \$0.13 represented spending of realized and unrealized gains.

The investment pool consists of 585 individual endowments at June 30, 2006. Of these endowments, four are considered to be 'under water' as the fair value of the underlying investments is less than the original gift value. At June 30, 2006, the fair value of the underlying investments related to these four endowments totaled approximately \$407,412 while the original gift value was approximately \$410,577.

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Notes to Financial Statements

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The University has the following split-interest agreements which are included in long-term investments at June 30, 2006 and 2005:

	2006		
	Number of agreements	Net assets classification	
		Temporary	Permanently
Perpetual trusts held by third party	5	\$ —	8,581,688
Charitable Remainder Trusts:			
University named trustee	24	6,869,827	7,363,963
Third-party named trustee	8	1,266,317	1,486,549
Charitable Annuity Agreements	74	3,042,719	1,997,774
	<u>111</u>	<u>\$ 11,178,863</u>	<u>19,429,974</u>
	2005		
	Number of agreements	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>

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 and Charitable Annuity Agreements 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.

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(3) Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	<u>2006</u>	<u>2005</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 8,104,926	8,799,830
One to five years	21,213,577	22,289,063
	<u>29,318,503</u>	<u>31,088,893</u>
Less allowance for uncollectible pledges	(1,465,924)	(3,108,889)
Less present value discount (2.7% – 4.5%)	<u>(3,577,240)</u>	<u>(2,604,193)</u>
Net pledges receivable	<u>\$ 24,275,339</u>	<u>25,375,811</u>

Included in pledges receivable is the present value of approximately \$20,000,000 and \$26,200,000 as of June 30, 2006 and 2005, respectively, in pledges from related parties.

(4) Property, Plant, and Equipment

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

	<u>2006</u>	<u>2005</u>
Land	\$ 8,135,034	8,135,037
Land improvements	19,413,470	14,546,734
Buildings and improvements	435,308,756	402,487,444
Equipment	49,790,375	50,340,328
Library books	7,852,603	7,718,557
Construction in progress	<u>6,000,907</u>	<u>26,772,995</u>
	526,501,145	510,001,095
Less accumulated depreciation	<u>(94,736,857)</u>	<u>(86,565,002)</u>
	<u>\$ 431,764,288</u>	<u>423,436,093</u>

The University had approximately \$12,557,000 and \$11,685,000 of depreciation expense for the years ended June 30, 2006 and 2005, respectively, which was reported within all functions in the accompanying statements of activities.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

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(5) Long-Term Debt

Bonds payable at June 30 consist of the following:

	<u>2006</u>	<u>2005</u>
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2005 A	\$ 30,255,000	—
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2005 B	61,585,000	—
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	19,735,000	20,060,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 2000	5,290,000	45,110,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 1999	2,015,000	2,635,000
Colorado Postsecondary Educational Facilities Authority Improvement and Refunding Revenue Bonds, Series 1997	10,895,000	18,265,000
Colorado Postsecondary Educational Facilities Authority Revenue Bonds, Series 1996	965,000	1,445,000
	<u>\$ 157,740,000</u>	<u>114,515,000</u>

The University had approximately \$6,422,000 and \$5,798,000 of interest expense for the years ended June 30, 2006 and 2005, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately \$3,911,000 and \$3,900,000 was paid in cash during the years ended June 30, 2006 and 2005, respectively. The fair value of bonds payable was approximately \$148,938,205 and \$118,550,235 at June 30, 2006 and 2005, respectively.

(a) Issuance of Series 2005A Bonds

In July, 2005, the Colorado Educational and Cultural Facilities Authority (the 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; (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 3.00% to 5.00%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

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(b) Issuance of Series 2005B Bonds

In November, 2005, the Authority issued \$61,815,000, of University of Denver Revenue Bonds, Series 2005B. The proceeds from the sale of the 2005B bonds were used to (1) finance a portion of the construction, acquisition and furnishing of a residences hall and a parking facility; (2) pay capitalized interest; (3) refund \$7,075,000 in outstanding bonds of the Authority's Revenue Bonds Series 1997; (4) refund \$8,700,000 in outstanding bonds of the Authority's Revenue Bonds Series 2000; (5) purchase a municipal bond insurance policy and a reserve fund surety bond for the 2005B Bonds; and (6) pay certain costs associated with the issuance of the 2005B Bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$30,000 in 2007 and increasing to \$2,925,000 in 2035. Interest is payable semiannually at rates ranging from 3.25% to 5.25%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

(c) Issuance of Series 2001A Bonds

In October 2001, the Authority issued \$27,000,000 of University of Denver Revenue Bonds, Series 2001A. The proceeds from the sale of the 2001A 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 mandatory annual sinking fund redemption payments of \$6,265,000 in 2024 and increasing to \$7,250,000 in 2027. Interest is payable semiannually at the rate of 5.00%. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

(d) Issuance of Series 2001B Bonds

In December 2001, the Authority issued \$23,000,000 of University of Denver Revenue Bonds, Series 2001B. The proceeds from the sale of the 2001B 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 mandatory annual sinking fund redemption payments of \$500,000, which began in 2004, and increasing to \$2,930,000 in 2016. Interest is payable semiannually at rates ranging from 1.8% to 4.6%. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

(e) Issuance of 2000 Bonds

In November 2000, the 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,

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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.

As mentioned above, \$29,670,000 and \$8,700,000 of this series were defeased during the year by proceeds of the 2005A bonds and the Series 2005B bonds, respectively.

The bond agreement provides for mandatory annual sinking fund redemption payments. After the refunding, mandatory sinking fund requirements now range from \$1,510,000 in 2007 to \$710,000 in 2011. 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.

(f) Issuance of 1999 Bonds

In January 1999, the 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.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$535,000, which began 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.

(g) Issuance of 1997 Bonds

In October 1997, the 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 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. In 1997, the \$11,860,000 in refunded bonds (Series 1992) were legally defeased and removed from the accounting records of the University. As of June 30, 2006 and 2005, all of the refunded Series 1992 bonds were still outstanding, pending scheduled payment from escrow.

As mentioned above, \$7,075,000 of the 1997 series was defeased during the year by proceeds of the 2005B bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$240,000, which began in 2002, and increasing to \$2,620,000 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.

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(h) Issuance of 1996 Bonds

In September 1996, the 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, which began 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 Assurance Corporation.

(i) Aggregate Annual Maturities of Bonds Payable

At June 30, 2006, the aggregate annual maturities of bonds payable for the five succeeding years are as follows:

2007	\$	3,845,000
2008		3,540,000
2009		4,595,000
2010		4,780,000
2011		4,965,000
Thereafter		<u>136,015,000</u>
	\$	<u><u>157,740,000</u></u>

(j) Restrictive Bond Covenants

The University is required by bond covenants to maintain expendable resources (as defined by The Loan Agreement) of at least 75% of the outstanding principal of its long-term debt. The University is also required to comply with various other covenants while the bonds are outstanding. Management believes the University is in compliance with the bond covenants.

(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 at June 30 were as follows:

		<u>2006</u>	<u>2005</u>
Acquisition of buildings and equipment	\$	1,895,830	7,012,364
Scholarships		3,817,329	3,444,022
Instruction, research, academic and departmental support, and other		<u>14,832,771</u>	<u>17,581,168</u>
Total	\$	<u><u>20,545,930</u></u>	<u><u>28,037,554</u></u>

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June 30, 2006 and 2005

(7) Retirement Plan

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 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 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 \$6,900,000 and \$6,420,000 for the years ended June 30, 2006 and 2005, respectively, which were charged to operations expenses.

(8) Postretirement Benefits Other Than Pensions

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. Beginning July 1, 2005, participants receive \$60 per month toward the cost of their postretirement medical costs. Prior to July 1, 2005, participants received \$55 per month. At June 30, 2006, the Healthcare Plan covered 230 retirees with an additional 2,205 active employees potentially eligible for coverage. At June 30, 2005, the Healthcare Plan covered 240 retirees with an additional 2,164 active employees potentially eligible for coverage. The Healthcare Plan is noncontributory.

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 \$696,301 at June 30, 2006.

The following table represents the Healthcare 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>2006</u>	<u>2005</u>
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 1,396,807	1,599,145
Fully eligible active participants	955,804	1,098,208
Other active plan participants	240,990	292,268
Total APBO, all unfunded	<u>\$ 2,593,601</u>	<u>2,989,621</u>
APBO	\$ 2,593,601	2,989,621
Unrecognized net gain (loss)	353,006	(7,967)
Unrecognized prior service cost	(305,980)	(343,458)
Unrecognized transition obligation	<u>(696,301)</u>	<u>(795,772)</u>
Accrued postretirement benefit cost	<u>\$ 1,944,326</u>	<u>1,842,424</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2006 and 2005

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

	<u>2006</u>	<u>2005</u>
Service cost	\$ 22,707	15,370
Interest cost	144,427	144,145
Amortization of transition obligation over 20 years	99,471	99,471
Prior service cost	37,478	11,821
Amortization of unrecognized net gain	—	(9,644)
Net periodic postretirement benefit cost	\$ <u>304,083</u>	<u>261,163</u>

The weighted average discount rate used in determining the accumulated postretirement benefit obligations was 6.25% and 5.00% at June 30, 2006 and 2005, respectively. It is the University's policy to fund the benefit cost with current cash balances. Under the Healthcare Plan, the University paid benefits of approximately \$202,000 and \$154,000 for the years ended June 30, 2006 and 2005, respectively, which were charged to operating expenses.

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

2007	\$ 197,300
2008	200,400
2009	201,400
2010	203,300
2011	204,300
2012 – 2016	<u>1,019,300</u>
Total	\$ <u>2,026,000</u>

For the year ended June 30, 2006, 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 \$60.

The measurement date for the Healthcare Plan was June 30, 2006.

(9) Loans to Students

Student loans made through the Federal Perkins Loan Program (Perkins) constitute substantially all of the student loans outstanding at June 30, 2006 and 2005. Prior to 2005, contributions to the Perkins programs were funded 75% by the federal government with the University providing the remaining 25%; yet for fiscal years 2006 and 2005, no additional contributions were funded. 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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2006 and 2005

At June 30, 2006 and 2005, 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.

The University has other loan funds obtained primarily through gifts and grants from individuals, corporations, and foundations. At June 30, 2006 and 2005, the allowance for possible loan losses of these funds was \$150,000.

During the years ended June 30, 2006 and 2005, the University made loans directly to students under the Federal Family Education Loan Program totaling approximately \$50.5 million and \$44.6 million, respectively. Prior to year end, the loans were sold without recourse to a third party.

(10) Fundraising Expenses

The University had fundraising expenses of approximately \$4,620,000 and \$4,009,000 in 2006 and 2005, respectively, which were recognized in institutional support in the accompanying statements of activities.

(11) Commitments and Contingencies

At June 30, 2006 and 2005, the University had outstanding commitments totaling approximately \$8,800,000 and \$8,700,000, 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.



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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, 2006, and have issued our report thereon dated December 7, 2006, which refers to the University's implementation of Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. 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*.

We noted certain matters that we reported to management of the University in a separate letter dated December 7, 2006.

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

December 7, 2006



KPMG LLP
Suite 2700
707 Seventeenth Street
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**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, 2006. 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.

As described in item 06-02 in the accompanying schedule of findings and questioned costs, the University did not comply with the requirements regarding certain special tests and provisions that are applicable to the Student Financial Assistance Cluster. Compliance with such requirements is necessary, in our opinion, for the University to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2006.

The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 06-01.

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 06-01 and 06-02.

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, of the reportable conditions described above, we consider item 06-02 to be a material weakness.

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

December 7, 2006

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Federal Granting Agency</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Research and Development Cluster		
Department of Agriculture:		
Pass-through Awards	10.200	\$ 30,542
Pass-through Awards	10.558	5,137
Total Department of Agriculture		<u>35,679</u>
Department of Commerce:		
National Institute of Standards and Technology		
Direct Payments	11.609	46,172
Total National Institute of Standards and Technology		<u>46,172</u>
Department of Defense:		
Air Force:		
Direct Payments	12.800	2,701
Army:		
Direct Payments	12.114	238,998
Direct Payments	12.431	117,198
Total Army		<u>356,196</u>
Total Department of Defense		<u>358,897</u>
Department of Housing and Urban Development:		
Direct Payments	14.169	304
Pass-through Awards	14.228	41,558
Direct Payments	14.511	12,759
Pass-through Awards	14.866	19,166
Total Department of Housing and Urban Development		<u>73,787</u>
Department of the Interior:		
Bureau of Land Management		
Direct Payments	15.231	10,097
Pass-through Awards	15.224	10,352
Fish and Wildlife:		
Direct Payments	15.617	13,054
Pass-through Payments	15.634	17,473
National Park Service:		
Direct Payments	15.915	534,523
U.S. Geological Service:		
Direct Payments	15.808	43,438
Total Department of the Interior		<u>628,937</u>
Department of Justice:		
Direct Payments	16.560	2,982,804
Pass-through Awards	16.560	44,178
Pass-through Awards	16.565	(1,277)
Total Department of Justice		<u>3,025,705</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal Granting Agency	Federal CFDA number	Federal expenditures
Department of State:		
Direct Payments	19.424	\$ 37,813
Total Department of State:		<u>37,813</u>
Department of Transportation:		
Direct Payments	20.301	<u>91,634</u>
Total Department of Transportation		<u>91,634</u>
Department of the Treasury:		
Direct Payments	21.008	<u>46,576</u>
Total Department of the Treasury		<u>46,576</u>
National Aeronautics and Space Administration (NASA):		
Direct Payments	43.000	139,665
Direct Payments	43.001	<u>749,189</u>
Total NASA		<u>888,854</u>
National Endowment for the Arts and Humanities:		
Direct Payments	45.024	2,500
Pass-through Awards	45.024	6,875
Pass-through Awards	45.149	82,855
Direct Payments	45.310	(1,590)
Pass-through Awards	45.310	44,815
Direct Payments	45.312	<u>312,455</u>
Total National Endowment for the Arts and Humanities		<u>447,910</u>
National Science Foundation:		
Direct Payments	47.041	188,024
Direct Payments	47.049	277,395
Direct Payments	47.050	295,167
Pass-through Awards	47.050	23,427
Direct Payments	47.070	243,388
Pass-through Awards	47.070	10,348
Direct Payments	47.074	97,160
Pass-through Awards	47.074	26,367
Direct Payments	47.075	810
Pass-through Awards	47.075	1,081
Pass-through Awards	47.076	28,286
Direct Payments	47.078	<u>83,422</u>
Total National Science Foundation		<u>1,274,875</u>
Department of Energy:		
Pass-through Awards	81.000	14,752
Direct Payments	81.049	<u>1,645</u>
Total Department of Energy		<u>16,397</u>
Federal Emergency Management Agency:		
Pass-through Awards	83.534	<u>47,448</u>
Total Federal Emergency Management Agency		<u>47,448</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal Granting Agency	Federal CFDA number	Federal expenditures
Department of Education:		
Direct Payments	84.017A	\$ 72,399
Pass-through Awards	84.027	75,488
Direct Payments	84.324D	290,471
Pass-through Awards	84.342	73,390
Pass-through Awards	84.010	170,555
Total Department of Education		<u>682,303</u>
United States Institute of Peace:		
Direct Payments	91.001	16,269
Total United States Institute of Peace		<u>16,269</u>
Department of Health and Human Services:		
Pass-through Awards	93.000	2,661
Direct Payments	93.173	229,055
Direct Payments	93.242	1,205,117
Pass-through Awards	93.243	70,028
Direct Payments	93.273	64,415
Direct Payments	93.282	139,819
Pass-through Awards	93.283	121,531
Direct Payments	93.286	900,979
Pass-through Awards	93.286	180,797
Pass-through Awards	93.371	(9,037)
Pass-through Awards	93.395	21,595
Pass-through Awards	93.556	30,730
Pass-through Awards	93.570	26,208
Pass-through Awards	93.583	726
Pass-through Awards	93.595	10,297
Direct Payments	93.600	(1,703)
Direct Payments	93.648	402,674
Pass-through Awards	93.648	22,661
Pass-through Awards	93.652	29,019
Pass-through Awards	93.658	958,604
Pass-through Awards	93.670	4,711
Direct Payments	93.821	3,754
Pass-through Awards	93.837	5,563
Direct Payments	93.847	82,744
Direct Payments	93.853	657,675
Direct Payments	93.856	59,579
Direct Payments	93.859	363,797
Direct Payments	93.865	834,331
Pass-through Awards	93.865	329,239
Direct Payments	93.888	90,851
Total Department of Health and Human Services		<u>6,838,420</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Federal Granting Agency</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Corporation for National and Community Services:		
Direct Payments	94.005	\$ 141,870
Total Corporation for National and Community Service		<u>141,870</u>
Department of Homeland Security:		
Direct Payments	97.005	42,412
Pass-through Awards	97.006	5,361
Pass-through Awards	97.008	7,769
Pass-through Awards	97.067	17,034
Pass-through Awards	97.073	1,353
Total Department of Homeland Security		<u>73,929</u>
Total Research and Development Cluster		\$ <u>14,773,475</u>
Student Financial Assistance Cluster		
Department of Education:		
Federal Supplemental Education Opportunity Grant Program	84.007	521,382
Federal Family Education Loans	84.032	60,456,026
Federal Work Study Program	84.033	1,546,110
Job Location and Development	84.033	43,314
Total Department of Education		<u>62,566,832</u>
Federal Perkins Loan Program	84.038	3,858,653
Federal Pell Grant Program	84.063	1,704,781
Federal Direct Student Loan Program	84.268	8,450,302
		<u>14,013,736</u>
Total Department of Education - Student Financial Assistance Cluster		<u>76,580,568</u>
Total Federal Awards		\$ <u><u>91,354,043</u></u>

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, 2006

(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, 2006. 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 Stafford Loan Program

During the year ended June 30, 2006, the University participated 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. The University also continues to participate 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. During the year ended June 30, 2006, the University received approximately \$12,922,189 and disbursed \$12,915,050 of FDSLP funds and disbursed approximately \$55,866,867 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 \$17,427,000 as of June 30, 2006.

Prior to 2005, contributions to the Perkins programs were funded 75% by the federal government with the University providing the remaining 25%; for fiscal year 2006, no additional contributions were funded.

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, 2006

(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	\$ 30,542
Colorado Department of Public Health and Environment	10.558	00013-09	5,137
City and County of Denver	14.228	CE51170	41,558
Denver Housing Authority	14.866	CO06URD001/102	19,166
Smithsonian Institution	15.224	06-SUBC-440-0000077271	10,352
Division of Wildlife	15.634	06-PBA-62	17,473
APCO	16.560	Subcontract Dated 1/7/04	44,178
Apogee Scientific, Inc.	16.565	7032-0401	(1,277)
University of New Mexico	45.149	034006-87A3	82,855
Colorado Department of Education	45.310	Award Dated 12/9/05	44,815
Kent State University	47.050	442204-060397	23,427
Colorado State University	47.070	G-3314-2	10,348
University of Colorado/Boulder	47.074	SPO S4007	5,353
University of Colorado/Boulder	47.074	SPO #53332	21,014
University of California/Irvine	47.075	# 2002-1125	1,081
University of Colorado at Denver	47.076	1203.05.119D-04	28,286
National Renewable Energy Lab	81.000	XEA-5-44230-01	14,752
INS, Atlanta	83.534	P.O. 857-05	47,448
Colorado Department of Education	84.027	3431-15-23	75,488
University of Colorado at Denver	84.342	Sub #0603.10.297D-03	73,390
University of Colorado Health Sciences Ctr	93.000	FY06.125.002	2,661
Connect Care, LLC	93.243	Fixed Price Contract	13,233
Aurora Mental Health Center	93.243	Fixed Price Co Dated 7/7/05	25,321
Denver Indian Family Resource Center	93.243	Agreement Dated 10/24/05	31,474
Colorado Department of Public Health and Environment	93.283	ADM0300584	41,457
Colorado Department of Public Health and Environment	93.283	PO FHA EPI0400115	14,583
University of Chicago Medical Center	93.286	Tracs #30764	180,797
University of Chicago Medical Center	93.371	Tracs Id # 16839	(9,037)
San Francisco State University	93.395	C7-94210	13,875
San Francisco State University	93.395	C7-94258	7,720
Univ of California	93.556	SA5230-15784 and SA5231-15784	10,737
Jefferson County Department of Human Services	93.570	Agreement Dated 11/15/04	14,491
Jefferson County Department of Human Services	93.570	Agreement Dated 11/15/04	11,717

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Grantor</u>	<u>CFDA number</u>	<u>Contract/grantor's number</u>	<u>Expenditures</u>
Colorado Department of Human Services	93.583	PO# OE IHA CRSP0600001	\$ 726
University of Maine	93.595	Agreement Dated 7/7/05	10,297
University of Kansas	93.648	BS 06044	21,017
Colorado Coalition of Adoptive Families	93.652	Agreement Dated 3/31/05	29,019
Colorado Department of Human Services	93.658	06-IHA-00017	1,200
Colorado Department of Human Services	93.658	06-IHA-00017	511,927
Colorado Department of Human Services	93.658	06-IHA-00018	2,215
Colorado Department of Human Services	93.658	06-IHA-00018	62,776
Colorado Department of Human Services	93.658	06-IHA-00090	8,949
Colorado Department of Human Services	93.658	05-IHA-00068	(1)
Colorado Department of Human Services	93.658	06-IHA-00091	2,018
Colorado Department of Human Services	93.658	06-IHA-00091	59,356
Colorado Department of Human Services	93.658	PO IHA STFC0500073	581
Colorado Department of Human Services	93.658	06-IHA-00088	258,453
Colorado Department of Human Services	93.658	06-IHA-00087	17,883
Colorado Department of Human Services	93.658	PO# OE IHA STF06000A3	18,596
University of Houston	93.658	R-06-0003	1,284
Wyoming Dept of Family Services	93.658	Agreement dated 4/12/06	13,366
Caliber Associates, Inc.	93.670	PO# PO763Denv	4,711
University of Colorado Health Sciences Ctr	93.837	1R01 HL069071-01	5,563
		Sub #FY05.120.001 AMD1	
University of Colorado/Boulder	93.865	UCB # 154-1457	94,885
University of Colorado/Boulder	93.865	UCB #154-1456	90,746
Jackson Laboratory	93.865	Subgrant 5 P01 HD24605-15	(105)
University of Colorado/Boulder	93.865	TBD	113,677
University of Colorado/Boulder	93.865	TBD	30,036
Colorado Department of Local Affairs	97.008	5EM729118	7,769
City and County of Denver	97.067	11USAI	17,034
Adams County	97.073	Letter Dated 7/15/05	1,353
Denver Public Schools	84.010	Purchase SVC Agr. Dated 12/8/04	9,776
Western States Arts Federation	45.024	TWP060195	2,500
New England Foundation for the Arts	45.024	10154	4,375
Denver Public Schools	84.010	Agreement Dated 12/5/05	160,780
Piton Foundation	93.556	Agreement Dated 1/9/06	19,993
Colorado Department of Public Health and Environment	93.283	06 FHA 00080	65,490
City of Aurora, Co	97.006	PO # 06PO291	5,361
University of Southern Maine	93.648	Contract Dated 6/16/06	1,643
Total			\$ <u><u>2,609,664</u></u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

June 30, 2006

(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: **Yes**
- (e) The type of report issued on compliance for major programs: **Qualified 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: **\$2,740,621**
- (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. 06-01 Federal Student Aid Cluster

Program Identification

Federal Student Aid Cluster, Federal Direct Student Loan Program (84.268)

Criteria

The cost of attendance for a student is an estimate of that student's educational expenses for the period of enrollment. Standard costs may differ for categories of students, such as a cost of attendance for in-state students and a higher cost of attendance for out-of state students. If a student is enrolled in a program that has extra fees or costs, these fees can be added to determine cost of attendance. If standard cost categories are established, an institution must apply the cost allowances uniformly to all students in those categories. (*Higher Education Act Sec. 472.*)

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Condition

In calculating cost of attendance, the University did not update the student budget for Graduate Certificate students. The fiscal year 2005 student budget, versus fiscal year 2006 student budget, was used in order to determine cost of attendance for these students.

Questioned Costs

None.

Effect

Failure to calculate cost of attendance based upon the most current student budgets creates inconsistent awards among student and could cause over or under awarding of federal aid.

Context

Out of 30 students tested, one student's cost of attendance was not calculated based upon the fiscal year 2006 student budget. Upon further discussion with the University, it was noted that this student was in the Graduate Certificate category and that the Banner system had not been updated for the most recent budget for this group of students.

Recommendation

The University should establish procedures and controls to ensure that the information used to calculate costs of attendance for students is based upon current information.

Management Response

See accompanying Corrective Action Plan.

Finding No. 06-02 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)

Federal Student Aid Cluster, Federal Direct Student Loans (84.268)

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.)

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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 15 of 25 return of Title IV Funds calculations.

Also, in the sample selected, there was no evidence of review of the calculations for 13 of the students tested.

Questioned Costs

In four instances in which the University did not use the correct institutional charges and the one instance in which the University used the incorrect withdrawal amount, the University made underpayments totaling \$607 and overpayments totaling \$1,856. For the two instances in which calculations were not performed, the required payments that the University should have made totaled \$11,169. These questioned costs were determined by recalculating the Title IV calculations based upon correct information. For the remaining exceptions, there were no questioned costs.

Context

Of 25 return of Title IV calculations tested, we noted the following:

- Two calculations were not performed and funds were not returned as required.
- For four of the calculations, the University did not use correct institutional charges.
- For one calculation, the University used the incorrect withdrawal date, resulting in an incorrect return amount.
- For two of the calculations, withdrawal dates were not determined timely.

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Schedule of Findings and Questioned Costs

June 30, 2006

- For seven of the calculations, the University did not return its unearned portion of Title IV funds within the required time period.
- For 13 calculations, there was no evidence of review performed by someone other than the preparer.

Effect

By not ensuring the return calculations are reviewed and performed within the appropriate time period, return dollars may be for the incorrect amounts and the University may owe interest on funds not returned timely.

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 the University in a timely manner. 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.

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Corrective Action Plan
Related to the OMB A-133 Audit

June 30, 2006

Finding No. 06-01

The University concurs with this finding. The Office of Financial Aid revised procedures to review all student budgets in Banner for each year. The process involves downloading budgets to an excel spreadsheet, updating in excel, uploading the changes to Banner, and running reports that compare previous year and current year student aid budgets. The student budgets are reviewed by the Assistant Director of the Office of Financial Aid.

Contact: Barbara McFall, Director of Student Financial Aid

Finding No. 06-02

The Office of Financial Aid is creating a compliance officer position that will be responsible for Return to Title IV compliance as part of his/her job duties. This allows for a documented review of each calculation. Beginning fall quarter 2006, each calculation is reviewed and the review is noted. In addition, The Office of Financial Aid is transitioning to using Banner functionality for Return to Title IV calculations. This allows us to use withdrawal dates as determined by the Registrar's Office, detail codes in student accounts receivable are designated as an institutional charge in the system, and Banner stores the calculation in RPATIVC. The Office of Financial Aid can determine inclusion of the institutional charge in the calculation based on the timing of the withdrawal and waiver or nonwaiver of fees.

Financial Aid and UTS are working with SCT to ensure that withdrawals and Return to Title IV are set up correctly through the student and financial aid modules of Banner. During this transition, each Return to Title IV is verified through a calculation outside of Banner. This worksheet is scanned and kept with the student record.

The University Registrar and the Director of Financial Aid are centralizing the withdrawal process including unofficial withdrawals in the Office of the Registrar in order to ensure timely processing of return of Title IV funds. As a result the Office of the Registrar has been keeping close tabs on complete withdrawals and has made the decision to remove the responsibility of creating withdrawal records from individual units. Effective in summer quarter and semester 2006, the Office of the Registrar is creating withdrawal records for all units, including withdrawals from University College five-week sessions, based on information gathered from pending withdrawal reports. A coordinated effort between the offices of the registrar, financial aid and the bursar is underway that will result in the development of a centralized withdrawal procedure manual that will be available on the Office of the Registrar's website prior to the beginning of Winter Quarter 2007. The new procedures will be presented to the Dean's Council during fall 2006. The administrative staff in all colleges and schools, particularly those with registration capabilities, will be notified of the changes and instructed on the procedures prior to the beginning of winter quarter and spring semester.

Financial Aid processes Return to Title IV on a weekly basis to ensure timely return of funds. For terms beginning after July 1, 2006, unearned funds must be returned within 45 days of determination. An online form is under development that will allow students to notify the University of their intention to withdraw completely. An institutional paper withdrawal form is also being drafted that is independent of the stop-out

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Corrective Action Plan
Related to the OMB A-133 Audit

June 30, 2006

forms used in Academic Advising. Completion of one or the other of these forms will result in all courses being dropped and the creation of an official withdrawal record. This will allow for university-wide agreement on both the withdrawal date and the date of determination.

The Registrar's Office creates a record in SFAWDRL for all students who withdraw. Unofficial withdraws are identified through a report called SFRNOWD that lists all students with zero credit hours or after the end of the term all F's and W's. Financial Aid then runs RPRTIVR that identifies all students with a SFAWDRL record and Title IV aid.

Additionally, Financial Aid reviews Stop-Out records from Academic Advising, RHACOMM notes, and Bursar bills with financial aid and no billed charges as a check that SFAWDRL is current. Any discrepancies are discussed with the Associate Registrar.

Contact: Barbara McFall, Director of Student Financial Aid