



UNIVERSITY OF DENVER (COLORADO SEMINARY)

Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

and

OMB Circular A-133 Reports

Year ended June 30, 2007

UNIVERSITY OF DENVER (COLORADO SEMINARY)

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KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

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

We have audited the accompanying statement of financial position of the University of Denver (Colorado Seminary) (the University) as of June 30, 2007 and 2006, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, effective June 30, 2007, the University implemented Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R).

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2007 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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

November 28, 2007

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2007

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 31,777,994	25,602,797	—	57,380,791
Restricted cash and cash equivalents	—	—	7,076,694	7,076,694
Short-term investments	68,021,657	—	—	68,021,657
Accounts receivable, less allowance of \$932,748	20,432,843	—	721,278	21,154,121
Pledges receivable, net	4,928,728	12,586,842	17,528,345	35,043,915
Inventories, prepaid expenses, and other assets	4,305,144	452,511	—	4,757,655
Long-term investments	22,063,694	—	293,279,238	315,342,932
Loans to students, less allowance of \$900,000	—	—	18,615,908	18,615,908
Deposits with trustees	—	35,430,761	—	35,430,761
Property, plant, and equipment, net	—	452,724,509	—	452,724,509
Total assets	\$ 151,530,060	526,797,420	337,221,463	1,015,548,943
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 58,897,674	14,014,056	—	72,911,730
Other liabilities	—	5,708,299	1,117,431	6,825,730
Annuity obligations	—	—	8,141,044	8,141,044
Long-term debt	—	151,910,000	—	151,910,000
U.S. government grants refundable	—	—	17,054,094	17,054,094
Total liabilities	58,897,674	171,632,355	26,312,569	256,842,598
Net assets:				
Unrestricted:				
Available for operations	1,588,159	—	—	1,588,159
Designated student loans	—	—	1,784,433	1,784,433
Designated gain sharing	61,620,750	—	—	61,620,750
Designated gifts and endowment income	—	—	156,614,345	156,614,345
Designated plant	—	322,267,183	—	322,267,183
Total unrestricted net assets	63,208,909	322,267,183	158,398,778	543,874,870
Temporarily restricted:				
Gifts and endowment income for specific purposes	29,423,477	—	—	29,423,477
Plant	—	32,897,882	—	32,897,882
Annuity life income	—	—	7,298,737	7,298,737
Total temporarily restricted net assets	29,423,477	32,897,882	7,298,737	69,620,096
Permanently restricted:				
Endowment	—	—	138,319,348	138,319,348
Annuity life income	—	—	4,864,632	4,864,632
Student loans	—	—	2,027,399	2,027,399
Total permanently restricted net assets	—	—	145,211,379	145,211,379
Total net assets	92,632,386	355,165,065	310,908,894	758,706,345
Commitments and contingencies (notes 2, 7, 8, and 11)				
Total liabilities and net assets	\$ 151,530,060	526,797,420	337,221,463	1,015,548,943

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2006

Assets	Operations	Plant	Long-term investment	Total
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 Activities

Year ended June 30, 2007

	<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	\$ 278,200,274	—	278,200,274	—	—	278,200,274
Less institutional scholarships	58,045,522	—	58,045,522	—	—	58,045,522
	<u>220,154,752</u>	<u>—</u>	<u>220,154,752</u>	<u>—</u>	<u>—</u>	<u>220,154,752</u>
Less noninstitutional scholarships	8,873,694	—	8,873,694	—	—	8,873,694
Net tuition and fees	211,281,058	—	211,281,058	—	—	211,281,058
Private gifts	686,671	—	686,671	42,442	946,783	1,675,896
Grants and contracts	21,685,855	—	21,685,855	—	—	21,685,855
Endowment income	457,200	—	457,200	928	193,539	651,667
Other investment income	10,310,672	—	10,310,672	2,214,222	—	12,524,894
Net realized and unrealized gains on endowments	2,492,757	—	2,492,757	1,831	27,799,928	30,294,516
Net realized and unrealized gains (losses) on other investments	1,787,976	—	1,787,976	(339,521)	(104,948)	1,343,507
Sales and services of educational activities	9,246,079	74,086	9,320,165	—	—	9,320,165
Sales and services of auxiliary enterprise	40,422,648	—	40,422,648	—	—	40,422,648
Other sources	4,670,945	57,096	4,728,041	67,136	—	4,795,177
Total unrestricted revenue and gains	<u>303,041,861</u>	<u>131,182</u>	<u>303,173,043</u>	<u>1,987,038</u>	<u>28,835,302</u>	<u>333,995,383</u>
Net assets released from restrictions	23,168,982	—	23,168,982	1,009,790	164,986	24,343,758
Total unrestricted revenue, gains, and other support	<u>326,210,843</u>	<u>131,182</u>	<u>326,342,025</u>	<u>2,996,828</u>	<u>29,000,288</u>	<u>358,339,141</u>
Expenses:						
Educational and general:						
Instruction	104,727,034	151,170	104,878,204	8,818,684	—	113,696,888
Research	13,093,782	—	13,093,782	620,410	—	13,714,192
Public service	3,090,994	—	3,090,994	46,742	—	3,137,736
Academic support	46,267,727	1,325,423	47,593,150	1,002,454	—	48,595,604
Student services	15,696,774	—	15,696,774	705,910	—	16,402,684
Institutional support	38,218,585	13,870	38,232,455	1,512,985	—	39,745,440
Total educational and general expenses	<u>221,094,896</u>	<u>1,490,463</u>	<u>222,585,359</u>	<u>12,707,185</u>	<u>—</u>	<u>235,292,544</u>
Auxiliary enterprises	48,119,970	34,720	48,154,690	9,527,092	—	57,681,782
Total expenses	<u>269,214,866</u>	<u>1,525,183</u>	<u>270,740,049</u>	<u>22,234,277</u>	<u>—</u>	<u>292,974,326</u>
Transfers among unrestricted net assets	55,903,628	(17,052,444)	38,851,184	(34,722,782)	(4,128,402)	—
Total expenses and transfers	<u>325,118,494</u>	<u>(15,527,261)</u>	<u>309,591,233</u>	<u>(12,488,505)</u>	<u>(4,128,402)</u>	<u>292,974,326</u>
Effect of adoption of FASB Statement No. 158	634,942	—	634,942	—	—	634,942
Increase in unrestricted net assets	<u>457,407</u>	<u>15,658,443</u>	<u>16,115,850</u>	<u>15,485,333</u>	<u>33,128,690</u>	<u>64,729,873</u>
Changes in temporarily restricted net assets:						
Private gifts	19,166,715	—	19,166,715	11,920,207	35,523	31,122,445
Endowment income	3,581,980	—	3,581,980	—	—	3,581,980
Other investment income (losses)	648,869	—	648,869	(38,996)	—	609,873
Net realized and unrealized gains on endowments	6,058,616	—	6,058,616	—	—	6,058,616
Net realized and unrealized gains on other investments	408,224	—	408,224	2,402	—	410,626
Net assets released from restrictions	(23,168,982)	—	(23,168,982)	(1,009,790)	(164,986)	(24,343,758)
Net assets reclassified from temporarily restricted	(2,653,003)	—	(2,653,003)	—	(242,245)	(2,895,248)
Actuarial adjustments on annuity obligations	53,332	—	53,332	—	1,216,341	1,269,673
Increase in temporarily restricted net assets	<u>4,095,751</u>	<u>—</u>	<u>4,095,751</u>	<u>10,873,823</u>	<u>844,633</u>	<u>15,814,207</u>
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	15,684,004	15,684,004
Net realized and unrealized gains on other investments	—	—	—	—	22,469	22,469
Net assets reclassified from temporarily restricted	—	—	—	—	2,895,248	2,895,248
Actuarial adjustments on annuity obligation:	—	—	—	—	1,282,279	1,282,279
Increase in permanently restricted net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>19,884,000</u>	<u>19,884,000</u>
Change in net assets	<u>4,553,158</u>	<u>15,658,443</u>	<u>20,211,601</u>	<u>26,359,156</u>	<u>53,857,323</u>	<u>100,428,080</u>
Net assets at beginning of year	26,458,478	45,962,307	72,420,785	328,805,909	257,051,571	658,278,265
Net assets at end of year	\$ <u>31,011,636</u>	<u>61,620,750</u>	<u>92,632,386</u>	<u>355,165,065</u>	<u>310,908,894</u>	<u>758,706,345</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 (losses)	<u>274,628,652</u>	<u>(39,977)</u>	<u>274,588,675</u>	<u>1,487,560</u>	<u>17,120,356</u>	<u>293,196,591</u>
Net assets released from restrictions	<u>18,650,100</u>	<u>—</u>	<u>18,650,100</u>	<u>1,895,830</u>	<u>—</u>	<u>20,545,930</u>
Total unrestricted revenue, gains, and other support	<u>293,278,752</u>	<u>(39,977)</u>	<u>293,238,775</u>	<u>3,383,390</u>	<u>17,120,356</u>	<u>313,742,521</u>
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	<u>205,869,054</u>	<u>3,343,751</u>	<u>209,212,805</u>	<u>18,083,566</u>	<u>—</u>	<u>227,296,371</u>
Auxiliary enterprises	44,142,543	48,989	44,191,532	8,484,302	—	52,675,834
Total expenses	<u>250,011,597</u>	<u>3,392,740</u>	<u>253,404,337</u>	<u>26,567,868</u>	<u>—</u>	<u>279,972,205</u>
Transfers among unrestricted net assets	42,859,833	(11,115,072)	31,744,761	(29,959,349)	(1,785,412)	—
Total expenses and transfers	<u>292,871,430</u>	<u>(7,722,332)</u>	<u>285,149,098</u>	<u>(3,391,481)</u>	<u>(1,785,412)</u>	<u>279,972,205</u>
Cumulative effect on prior years of implementing FIN 47 (note 1)						
	—	—	—	(6,367,055)	—	(6,367,055)
Increase in unrestricted net assets	<u>407,322</u>	<u>7,682,355</u>	<u>8,089,677</u>	<u>407,816</u>	<u>18,905,768</u>	<u>27,403,261</u>
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	<u>6,646,448</u>	<u>—</u>	<u>6,646,448</u>	<u>4,759,008</u>	<u>488,509</u>	<u>11,893,965</u>
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	11,722,856	11,722,856
Net realized and unrealized gains 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	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,532,302</u>	<u>12,532,302</u>
Change in net assets	<u>7,053,770</u>	<u>7,682,355</u>	<u>14,736,125</u>	<u>5,166,824</u>	<u>31,926,579</u>	<u>51,829,528</u>
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	\$ <u>26,458,478</u>	<u>45,962,307</u>	<u>72,420,785</u>	<u>328,805,909</u>	<u>257,051,571</u>	<u>658,278,265</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 100,428,080	51,829,528
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	11,135,248	12,557,221
Loss on refunding of debt	3,934,716	418,534
Amortization of premium	(211,417)	—
Loss on disposal of assets	256,011	123,586
Increase in accounts receivable	(1,271,339)	(2,906,155)
(Increase) decrease in pledges receivable	(10,768,576)	1,100,472
Decrease in inventories, prepaid expenses, and other assets	3,926	202,083
Increase (decrease) in accounts payable, accrued liabilities, and other liabilities	13,661,097	(46,811)
Actuarial adjustment for annuity obligations	(127,409)	638,649
Contributions of real and personal property	(2,140,254)	(1,366,455)
Contributions restricted for long-term investment	(14,823,589)	(10,900,179)
Interest and dividends restricted for long-term investment	(193,539)	(87,688)
Net realized and unrealized gains on investments	(38,129,734)	(23,536,081)
Net cash provided by operating activities	<u>61,753,221</u>	<u>28,026,704</u>
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	108,738,520	121,766,127
Purchases of investments	(145,725,525)	(136,557,736)
Purchases of property, plant, and equipment	(32,351,480)	(21,009,002)
Disbursements for Perkins and University loans to students	(6,285,863)	(3,875,027)
Repayment of Perkins and University loans to students	4,306,404	5,882,336
Changes in restricted cash	(1,811,701)	(5,264,993)
(Increase) decrease in deposits with trustees	11,771,379	(44,556,994)
Net cash used by investing activities	<u>(61,358,266)</u>	<u>(83,615,289)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	14,823,589	10,900,179
Interest and dividends restricted for long-term investment	193,539	87,688
Payments of notes payable	—	(17,268)
Proceeds from bonds and notes payable	—	45,976,466
Payments of bonds payable	(3,845,000)	(3,170,000)
Increase in refundable government loan funds, net	303,372	114,435
Net cash provided by financing activities	<u>11,475,500</u>	<u>53,891,500</u>
Net increase (decrease) in cash and cash equivalents	11,870,455	(1,697,085)
Cash and cash equivalents at beginning of year	<u>45,510,336</u>	<u>47,207,421</u>
Cash and cash equivalents at end of year	\$ <u><u>57,380,791</u></u>	\$ <u><u>45,510,336</u></u>

Supplemental cash flow information:

Interest paid is discussed in note 5.

In fiscal year 2007, the University issued Series 2007 bonds issued in the amount of \$39,920,000 to refund Series 2001A bonds and Series 2005B bonds in the amount of \$27,000,000 and \$14,905,000, respectively.

In fiscal year 2006, the University issued Series 2005A and Series 2005B in the amounts of \$30,255,000 and \$61,815,000, respectively, to refund Series 2000 bonds and Series 1997 bonds in the amount of \$38,370,000 and \$7,075,000, respectively.

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 2006

(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 8), 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)

Notes to Financial Statements

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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.

Restricted cash and cash equivalents are limited for purposes as instructed by donors and for student loan programs (see note 9).

(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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

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

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

(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 2001A 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, 2007 and 2006 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

June 30, 2007 and 2006

(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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June 30, 2007 and 2006

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) *Net Assets Reclassified From Temporarily Restricted to Permanently Restricted*

These balances represent transfers that were recorded to adhere to the requirement of donors. During the year, the University received permanently restricted gifts in which the donors required the University to match.

(p) *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.

(q) *Cumulative Effect of Change in Accounting Principle*

In March 2005, the Financial Accounting Standards Board (FASB) 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

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

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in accounts payable and accrued liabilities) of \$9,189,517, and a cumulative effect change in accounting principle of \$6,367,055. As of year ended June 30, 2007, this retirement obligation was \$9,603,045 (included in accounts payable and accrued liabilities).

(r) Effect of adoption of FASB Statement No. 158

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (FASB Statement No. 158). FASB Statement No. 158 requires balance sheet recognition of the net asset or liability for the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans and recognition of changes in the funded status in the year in which the changes occur. These changes totaling \$634,942 are reported in a separate line on the statement of activities, Effect of Adoption of FASB Statement No. 158 (see note 8).

(2) Short-Term and Long-Term Investments

Investments at June 30 consist of the following:

	Fair value	
	2007	2006
Short-term investments:		
U.S. government securities	\$ 54,884,066	50,859,925
Stocks	12,777,738	11,367,086
Real estate	2,748	52,748
Other	357,105	1,589,780
	<u>68,021,657</u>	<u>63,869,539</u>
Long-term investments:		
Short-term investments	41,499,478	25,263,692
U.S. government securities	593,489	647,473
Bonds	1,101,539	886,892
Absolute return funds	54,845,484	48,334,155
Hedge funds	53,988,145	35,027,410
Domestic equities	76,267,901	63,620,303
International equities	23,628,120	17,609,260
Private equities	20,025,199	9,562,356
Real estate	23,520,491	20,446,056
Beneficial trust interest	2,095,228	2,019,009
Equity mutual funds	12,165,908	13,159,805
Fixed income mutual funds	5,100,533	4,982,707
Mortgage/notes receivable	—	2,058,308
Venture capital	511,417	553,985
	<u>315,342,932</u>	<u>244,171,411</u>
Total	<u>\$ 383,364,589</u>	<u>308,040,950</u>

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Notes to Financial Statements

June 30, 2007 and 2006

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

	2007		2006	
	Endowment	Total	Endowment	Total
Net unrealized appreciation in fair value at beginning of year	\$ 41,347,595	45,181,998	37,779,705	40,842,553
Current year unrealized appreciation	30,933,585	33,344,493	3,567,890	4,339,445
Net unrealized appreciation in fair value at end of year	<u>\$ 72,281,180</u>	<u>78,526,491</u>	<u>41,347,595</u>	<u>45,181,998</u>

During the years ended June 30, 2007 and 2006, the University paid approximately \$436,000 and \$358,000, 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, 2007, the pool had 48,975,372 shares outstanding, with a fair value of approximately \$5.25 per share or \$257,183,653. 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 2007 was \$0.21 per share, of which \$0.07 represented income yield. The remaining \$0.14 represented spending of realized and unrealized gains. 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 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.

The investment pool consists of 626 individual endowments at June 30, 2007. Of these endowments, none are considered to be "under water" as the fair value of the underlying investments is more than the original gift value.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 2006

The University has the following split-interest agreements, which are included in long-term investments at June 30, 2007 and 2006:

	2007		
	Number of agreements	Net assets classification	
		Temporary	Permanently
Perpetual trusts held by third party	5	\$ —	9,698,735
Charitable Remainder Trusts:			
University named trustee	23	7,378,007	6,654,626
Third-party named trustee	8	1,273,120	1,551,409
Charitable Annuity Agreements	61	2,919,228	997,367
	<u>97</u>	<u>\$ 11,570,355</u>	<u>18,902,137</u>
	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>

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. The annuity obligation is primarily based on the person's age at time of the gift and their life expectancy and a discount rate of five percent. 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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 2006

(3) Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	<u>2007</u>	<u>2006</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 15,454,221	8,104,926
One to five years	27,572,155	21,213,577
	<u>43,026,376</u>	<u>29,318,503</u>
Less allowance for uncollectible pledges	(2,151,319)	(1,465,924)
Less present value discount (2.7% – 4.5%)	<u>(5,831,142)</u>	<u>(3,577,240)</u>
Net pledges receivable	<u>\$ 35,043,915</u>	<u>24,275,339</u>

Included in pledges receivable is the present value of approximately \$27,000,000 and \$17,600,000 as of June 30, 2007 and 2006, respectively, in pledges from related parties.

(4) Property, Plant, and Equipment

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

	<u>2007</u>	<u>2006</u>
Land	\$ 8,135,034	8,135,034
Land improvements	19,572,523	19,413,470
Buildings and improvements	450,700,368	435,308,756
Equipment	50,373,519	49,790,375
Library books	7,953,013	7,852,603
Construction in progress	<u>17,640,434</u>	<u>6,000,907</u>
	554,374,891	526,501,145
Less accumulated depreciation	<u>(101,650,382)</u>	<u>(94,736,857)</u>
	<u>\$ 452,724,509</u>	<u>431,764,288</u>

The University had approximately \$11,135,000 and \$12,557,000 of depreciation expense for the years ended June 30, 2007 and 2006, respectively, which was reported within all functions in the accompanying statements of activities.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 2006

(5) Long-Term Debt

Bonds payable at June 30 consist of the following:

	<u>2007</u>	<u>2006</u>
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2007	\$ 39,920,000	—
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2005A	30,205,000	30,255,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2005B	46,650,000	61,585,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2001A	—	27,000,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2001B	19,400,000	19,735,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 2000	3,780,000	5,290,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 1999	1,370,000	2,015,000
Colorado Postsecondary Educational Facilities Authority Improvement and Refunding Revenue Bonds, Series 1997	10,585,000	10,895,000
Colorado Postsecondary Educational Facilities Authority Revenue Bonds, Series 1996	—	965,000
	<u>\$ 151,910,000</u>	<u>157,740,000</u>

The University had approximately \$4,354,845 and \$6,422,000 of interest expense for the years ended June 30, 2007 and 2006, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately \$6,759,370 and \$3,911,000 was paid in cash during the years ended June 30, 2007 and 2006, respectively. Net interest cost capitalized in fiscal 2007 was \$2,321,000. No interest was capitalized in 2006. The fair value of bonds payable was approximately \$151,274,971 and \$152,830,322 at June 30, 2007 and 2006, respectively.

(a) Issuance of Series 2007 Bonds

In December, 2006, the Colorado Educational and Cultural Facilities Authority (the Authority) issued \$39,920,000 of University of Denver Refunding Revenue Bonds, Series 2007. The proceeds from the sale of the 2007 bonds were used to (1) (i) refund all of the Authority's Revenue Bonds (University of Denver Project) Series 2001A Bonds outstanding in the aggregate principal amount of \$27,000,000 and (ii) \$14,905,000 of aggregate principal amount of the Authority's Revenue Bonds (University of Denver Project) Series 2005B Bonds; (2) purchase a municipal bond insurance policy and a reserve fund surety bond for the 2007 Bonds; and (3) pay certain costs associated with the issuance of the 2007 Bonds.

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June 30, 2007 and 2006

The bond agreement provides for mandatory annual sinking fund redemption payments of \$1,650,000 in 2023, \$5,825,000 in 2024, \$6,135,000 in 2025 and ranging from \$2,365,000 in 2031 to \$2,870,000 in 2035. Interest is payable semiannually at the rate of 5.25%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

(b) Issuance of Series 2005A Bonds

In July, 2005, 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.

(c) 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.

As mentioned above, \$14,905,000 of the 2005B Series was defeased during the year from proceeds of the 2007 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.

(d) 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 2001A bonds.

As mentioned above, \$27,000,000 of the 2001A series was defeased during the year from proceeds of the 2007 bonds.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 2006

(e) 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.

(f) 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, 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 2000 bonds.

As mentioned above, \$29,670,000 and \$8,700,000 of this series were defeased during fiscal year 2006 from 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.

(g) 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 1999 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.

(h) 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,

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 2006

(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 1997 bonds. In 1997, the \$11,860,000 in refunded bonds (Series 1992) was legally defeased and removed from the accounting records of the University. As of June 30, 2007 and 2006, 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 fiscal year 2006 from 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.

(i) 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 1996 bonds.

The bond agreement provided for mandatory annual sinking fund redemption payments of \$40,000, which began in 2002, and increasing to \$965,000 for the final payment made in 2007. Interest was payable semiannually at rates ranging from 4.65% to 5.75%. Payment of principal and interest on the bonds were guaranteed by the AMBAC Assurance Corporation.

(j) Aggregate Annual Maturities of Bonds Payable

At June 30, 2007 the aggregate annual maturities of bonds payable for the five succeeding years are as follows:

2008	\$	3,540,000
2009		4,595,000
2010		4,780,000
2011		4,965,000
2012		5,070,000
Thereafter		<u>128,960,000</u>
	\$	<u><u>151,910,000</u></u>

(k) 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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 2006

(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>2007</u>	<u>2006</u>
Acquisition of buildings and equipment	\$ 1,009,790	1,895,830
Scholarships	4,262,219	3,817,329
Instruction, research, academic, and departmental support and other	<u>19,071,749</u>	<u>14,832,771</u>
Total	<u>\$ 24,343,758</u>	<u>20,545,930</u>

(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 \$7,632,000 and \$6,900,000 for the years ended June 30, 2007 and 2006, 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. Participants receive \$60 per month toward the cost of their postretirement medical costs. At June 30, 2007, the Healthcare Plan covered 252 retirees with an additional 2,247 active employees potentially eligible for coverage. At June 30, 2006, the Healthcare Plan covered 230 retirees with an additional 2,205 active employees potentially eligible for coverage. The Healthcare Plan is noncontributory.

As mentioned in note 1(r), in September 2006, the FASB issued Statement No. 158, which became effective for the University at June 30, 2007. FASB Statement No. 158 requires balance sheet recognition of the net asset or liability for the overfunded or underfunded status of the postretirement benefit plans and recognition of changes in the funded status in the year in which the changes occur.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 2006

The incremental effect of applying FASB Statement No. 158 on individual line items on the statement of positions as of June 30, 2007, was as follows:

		<u>Before application</u>	<u>Application adjustment</u>	<u>After application</u>
Accounts payable and accrued liabilities	\$	72,276,788	634,942	72,911,730
Increase in unrestricted net assets		65,364,815	(634,942)	64,729,873

The changes in benefit obligations (all unfunded) were as follows:

		<u>2007</u>	<u>2006</u>
Accrued postretirement benefit obligation (APBO), beginning of year	\$	2,593,601	2,989,621
Service cost		18,301	22,707
Interest cost		155,936	144,427
Change in assumptions gain		—	(311,663)
Actuarial (gain) loss		113,371	(49,310)
Benefits paid		<u>(188,687)</u>	<u>(202,181)</u>
Accrued postretirement benefit cost (all unfunded)	\$	<u>2,692,522</u>	<u>2,593,601</u>

Amounts included in the separate line on the statement of activities, Effect of Adoption of FASB Statement No. 158, were as follows for the year ended June 30, 2007:

Prior unrecognized service cost:		
Prior year balance	\$	305,908
Current year amortization		<u>(37,406)</u>
		<u>268,502</u>
Net actuarial gain:		
Prior year balance		(353,006)
Current year amortization		9,245
Loss arising during current period		<u>113,371</u>
		<u>(230,390)</u>
Prior unrecognized transition obligation:		
Prior year balance		696,301
Current year amortization		<u>(99,471)</u>
		<u>596,830</u>
Total	\$	<u>634,942</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 2006

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

	<u>2007</u>	<u>2006</u>
Service cost	\$ 18,301	22,707
Interest cost	155,936	144,427
Amortization of transition obligation	99,471	99,471
Amortization of prior service cost	37,478	37,478
Amortization of unrecognized net gain	(9,245)	—
Net periodic postretirement benefit cost	\$ <u>301,941</u>	<u>304,083</u>

The estimated prior service cost, net gain, and transition obligation expected to be amortized from the separate line on the statement of activities, effect of adoption of FASB Statement No. 158, into net periodic benefit cost in fiscal year 2008 are \$37,478, \$0, and \$99,471, respectively.

The weighted average discount rate used in determining the APBO was 6.25% for both June 30, 2007 and 2006, 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 \$188,700 and \$202,000 for the years ended June 30, 2007 and 2006, respectively, which were charged to operating expenses.

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

2008	\$ 217,080
2009	218,547
2010	219,528
2011	220,218
2012	220,153
2013 – 2017	<u>1,286,582</u>
Total	\$ <u>2,382,108</u>

For the year ended June 30, 2007, 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, 2007.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 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, 2007 and 2006. 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 2007 and 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 canceled indebtedness due to certain teaching service and various types of services for the U.S. government and 100% for loans declared not collectible due to death, permanent disability, or a declaration of bankruptcy.

At June 30, 2007 and 2006, 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, 2007 and 2006, the allowance for possible loan losses of these funds was \$160,000.

During the years ended June 30, 2007 and 2006, the University made loans directly to students under the Federal Family Education Loan Program totaling approximately \$51.6 million and \$50.5 million, respectively. Prior to year-end, the loans were sold without recourse to a third party. The University recognized income of \$2,596,000 and \$1,221,720 in fiscal year 2007 and 2006, respectively, as a result of these sales.

(10) Fundraising Expenses

The University had fundraising expenses of approximately \$4,443,000 and \$4,620,000 in 2007 and 2006, respectively, which were recognized in institutional support in the accompanying statements of activities.

(11) Commitments and Contingencies

At June 30, 2007 and 2006, the University had outstanding commitments totaling approximately \$27,500,000 and \$8,800,000, 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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2007 and 2006

(12) Subsequent Events

In July 2007, the University was notified of a permanent decline of one of its endowment managers, Sowood Capital Management. The University's investment with Sowood Capital Management was valued at \$10.5 million at June 30, 2007. The investment declined approximately 60%, leaving over \$4.5 million to be distributed back to the University. Of the \$4.5 million, \$2.8 million was received by the University in September 2007.



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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

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

We have audited the financial statements of the University of Denver (Colorado Seminary) (the University) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 28, 2007 which refers to the University's implementation of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

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

KPMG LLP

November 28, 2007



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each 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 *OMB Circular A-133 Compliance Supplement* (Compliance Supplement) that are applicable to each of its major federal programs for the year ended June 30, 2007, except the requirement discussed in the second paragraph of this report. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs 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 did not audit the University's compliance with the requirements governing Reporting and Special Tests and Provisions 1 through 10 in accordance with the requirements of the Federal Family Education Loan program as described in section 84.032L of the Compliance Supplement (school as lender). Those requirements govern functions performed by Nelnet, Inc. (Nelnet). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. Nelnet's compliance with the requirements governing the functions that it performs for the University was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* for the year ended December 31, 2006. Our report does not include the results of the other accountants' examination of Nelnet's compliance with such requirements.

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 Non-Profit 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 of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to in the first paragraph above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our procedures disclosed an 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 07-01.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

Requirements governing Reporting and Special Tests and Provisions 1 through 10 in the Federal Family Education Loan program as described in section 84.032L of the Compliance Supplement (school as lender) are performed by Nelnet. Internal control over compliance related to such functions was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* for the year ended December 31, 2006. Therefore, the scope of our work did not extend to internal control maintained at Nelnet. Our report does not include the results of the other accountants' examination of Nelnet's internal control over compliance related to such functions.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of trustees, and 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

January 9, 2007

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Federal Granting Agency	Federal CFDA number	Federal expenditures
Research and Development Cluster		
Department of Agriculture		
Pass-through Awards	10.200	\$ 12,627
Pass-through Awards	10.558	5,815
Total Department of Agriculture		<u>18,442</u>
Department of Commerce		
National Institute of Standards and Technology		
Direct Payments	11.609	29,038
Total National Institute of Standards and Technology		<u>29,038</u>
Department of Defense		
Air Force		
Direct Payments	12.800	32,832
Army		
Direct Payments	12.114	(1,860)
Navy		
Direct Payments	12.300	15,663
Total Department of Defense		<u>46,635</u>
Department of Housing and Urban Development		
Pass-through Awards	14.228	38,014
Direct Payments	14.511	46,754
Pass-through Awards	14.866	20,802
Total Department of Housing and Urban Development		<u>105,570</u>
Department of the Interior		
Bureau of Land Management		
Pass-through Awards	15.224	2,648
Pass-through Awards	15.227	11,530
Fish and Wildlife		
Direct Payments	15.617	3,981
Pass-through Payments	15.634	6,941
National Park Service		
Direct Payments	15.915	266,040
U.S. Geological Service		
Direct Payments	15.808	27
Total Department of the Interior		<u>291,167</u>
Department of Justice		
Direct Payments	16.560	3,803,150
Pass-through Awards	16.560	19,122
Direct Payments	16.565	20,163
Total Department of Justice		<u>3,842,435</u>
Department of Labor		
Pass-through Awards	17.268	102,181
Total Department of Labor		<u>102,181</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Federal Granting Agency	Federal CFDA number	Federal expenditures
Department of State		
Direct Payments	19.424	\$ 41,278
Total Department of State		<u>41,278</u>
Department of Transportation		
Direct Payments	20.301	(910)
Pass-through Awards	20.700	5,756
Direct Payments	20.801	88,880
Total Department of Transportation		<u>93,726</u>
Department of the Treasury		
Direct Payments	21.008	17,691
Total Department of the Treasury		<u>17,691</u>
National Aeronautics and Space Administration (NASA)		
Direct Payments	43.000	52,016
Direct Payments	43.001	1,024,682
Pass-through Awards	43.001	6,186
Total NASA		<u>1,082,884</u>
National Endowment for the Arts and Humanities		
Pass-through Awards	45.024	6,875
Pass-through Awards	45.149	24,487
Pass-through Awards	45.310	2,283
Direct Payments	45.312	233,671
Total National Endowment for the Arts and Humanities		<u>267,316</u>
National Science Foundation		
Direct Payments	47.041	219,094
Direct Payments	47.049	26,615
Direct Payments	47.050	288,845
Pass-through Awards	47.050	8,405
Direct Payments	47.070	191,897
Pass-through Awards	47.070	9,392
Direct Payments	47.074	96,428
Pass-through Awards	47.074	2,609
Direct Payments	47.075	56,531
Pass-through Awards	47.075	(225)
Direct Payments	47.076	150,408
Pass-through Awards	47.076	9,871
Total National Science Foundation		<u>1,059,870</u>
Department of Energy		
Direct Payments	81.049	524
Total Department of Energy		<u>524</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Federal Granting Agency	Federal CFDA number	Federal expenditures
Department of Education		
Direct Payments	84.017A	\$ 26,994
Pass-through Awards	84.027	69,012
Direct Payments	84.324D	261,047
Pass-through Awards	84.342	45,195
Pass-through Awards	84.010	(9,580)
Total Department of Education		<u>392,668</u>
United States Institute of Peace		
Direct Payments	91.001	43,586
Total United States Institute of Peace		<u>43,586</u>
Department of Health and Human Services		
Direct Payments	93.173	228,424
Pass-through Awards	93.173	134
Direct Payments	93.242	728,728
Pass-through Awards	93.243	59,805
Direct Payments	93.272	2,597
Direct Payments	93.273	71,122
Direct Payments	93.282	95,584
Pass-through Awards	93.283	124,285
Direct Payments	93.286	545,904
Pass-through Awards	93.286	176,754
Pass-through Awards	93.307	1,496
Pass-through Awards	93.371	2
Pass-through Awards	93.395	30,665
Pass-through Awards	93.556	3,960
Pass-through Awards	93.558	4,885
Pass-through Awards	93.570	28,153
Pass-through Awards	93.583	13,801
Direct Payments	93.595	185,689
Pass-through Awards	93.645	4,186
Direct Payments	93.648	431,482
Pass-through Awards	93.648	49,050
Pass-through Awards	93.652	26,777
Pass-through Awards	93.658	253,726
Pass-through Awards	93.669	21,903
Direct Payments	93.853	496,326
Direct Payments	93.856	90,730
Pass-through Awards	93.856	774,527
Direct Payments	93.859	255,723
Direct Payments	93.865	1,258,894
Pass-through Awards	93.865	355,116
Direct Payments	93.867	1,584
Direct Payments	93.888	105,505
Direct Payments	93.910	131,328
Total Department of Health and Human Services		<u>6,558,845</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Federal Granting Agency	Federal CFDA number	Federal expenditures
Corporation for National and Community Services		
Direct Payments	94.004	\$ 6
Direct Payments	94.005	52,291
Total Corporation for National and Community Service		<u>52,297</u>
Department of Homeland Security		
Direct Payments	97.005	7,075
Pass-through Awards	97.006	38
Total Department of Homeland Security		<u>7,113</u>
Total Research and Development Cluster		<u>14,053,266</u>
Student Financial Assistance Cluster		
Department of Education		
Federal Supplemental Education Opportunity Grant Program	84.007	541,261
Federal Family Education Loans	84.032	82,758,173
Federal Work Study Program	84.033	1,592,262
Job Location and Development	84.033	34,844
Total Department of Education		<u>84,926,540</u>
Federal Perkins Loan Program	84.038	6,258,349
Federal Pell Grant Program	84.063	1,753,231
Federal Direct Student Loan Program	84.268	6,992,624
Federal Academic Competitiveness Grants	84.375	115,945
Federal National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	90,664
Total Department of Education - Student Financial Assistance Cluster		<u>100,137,353</u>
Total Federal Awards		<u>\$ 114,190,619</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, 2007

(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, 2007. 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, 2007, 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 (FDSLPL). The FDSLPL 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, 2007, the University received \$6,848,876 and disbursed \$6,955,627 of FDSLPL funds and disbursed \$82,758,173 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 FDSLPL, 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 \$17,054,093 as of June 30, 2007.

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, 2007

(5) Pass-through Awards

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

<u>Grantor agency</u>	<u>CFDA number</u>	<u>Contract/grantor's number Sponsored ID</u>	<u>Expenditures total</u>
Colorado Department of Agriculture	10.200	05BAA00150	\$ 12,627
Colorado Department of Public Health and Environment	10.558	00013-09	5,815
City and County of Denver	14.228	CE51170-2	38,014
Denver Housing Authority	14.866	CO06URD001/102	20,802
Smithsonian Institution	15.224	06-SUBC-440-0000077271	2,648
Bureau of Land Management	15.227	1422 CAA050014	11,530
Division of Wildlife	15.634	06-PBA-62	6,941
National Center for Missing and Exploited Children	16.543	Agreement dated 6/22/06	19,122
City and County of Denver	17.264	S00000418	102,181
University of Alabama	20.700	07-026	5,756
University of Utah	43.001	2502098B	6,186
Arts Midwest	45.024	Agreement dated 5/24/05	5,000
Western States Arts Federation	45.024	TWP070210	1,875
University of New Mexico	45.149	034006-87A3	24,487
Colorado Department of Education	45.310	Award dated 12/9/05	2,283
Kent State University	47.05	442204-060397	8,405
Colorado State University	47.07	G-3314-2	9,392
University of Colorado/Boulder	47.074	SPO S4007	(370)
University of Colorado/Boulder	47.074	SPO #53332	2,979
University of California/Irvine	47.075	# 2002-1125	(225)
University of Colorado at Denver	47.076	1203.05.119D-04	9,871
Denver Public Schools	84.010	Agreement dated 12/5/05	(9,580)
Colorado Department of Education	84.027	3431-15-23	(511)
Colorado Department of Education	84.027	3431-04-04	69,523
University of Colorado at Denver	84.342	SUB #0603.10.297D-03	45,195
University of Colorado Health Sciences Center	93.173	Prime 3P01 DC00244-17S1	134
Connect Care, LLC	93.243	Fixed price contract	18,528
Aurora Mental Health Center	93.243	Fixed price contract dated 7/7/05	4,838
Denver Indian Family Resource Center	93.243	Agreement dated 10/24/05	36,439
Colorado Department of Public Health and Environment	93.283	FAA 03-00584	65,842
Colorado Department of Public Health and Environment	93.283	FHA 007-00061	4,510
Colorado Department of Public Health and Environment	93.283	FHA 007-00061	53,933
University of Chicago Medical Center	93.286	TRACS #30764	176,754

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Grantor agency	CFDA number	Contract/grantor's number Sponsored ID	Expenditures total
San Francisco State University	93.307	C7-94319/SFRSP-C7943196	\$ 1,496
University of Chicago Medical Center	93.371	TRACS ID # 16839	1
University of Chicago Medical Center	93.371	TRACS ID # 16839	1
San Francisco State University	93.395	C7-94258	15,347
Omni Engineering, Inc.	93.395	9876-06	15,318
University of California	93.556	SA5230-15784/1234618	1,462
University of California	93.556	SA5230-15784/1234618	2,498
Jefferson County Department of Human Services	93.558	Agreement dated 2/1/07	4,885
Jefferson County Department of Human Services	93.570	Agreement dated 11/15/04	28,153
Colorado Department of Human Services	93.583	OE IHA CRSP0600001	6,010
Colorado Department of Human Services	93.583	OE-IHA-CRSP0600002	7,791
Wyoming Department of Family Services	93.645	Agreement dated 10/13/06	4,186
University of Kansas	93.648	BS 06044	18,869
University of Southern Maine	93.648	Contract dated 11/10/06	1,706
University of Kansas	93.648	BS 07027	28,475
Colorado Coalition of Adoptive Families	93.652	Agreement dated 3/31/05	9,086
Colorado Coalition of Adoptive Families	93.652	Agreement dated 3/31/05	17,691
Colorado Department of Human Services	93.658	06-IHA-00017	62
Colorado Department of Human Services	93.658	06-IHA-00018	29
Colorado Department of Human Services	93.658	06-IHA-00090	146
Colorado Department of Human Services	93.658	06-IHA-00091	301
Colorado Department of Human Services	93.658	06-IHA-00088	8,758
Colorado Department of Human Services	93.658	07 IHA 00073	149
Colorado Department of Human Services	93.658	07 IHA 00073	17,791
Colorado Department of Human Services	93.658	PO# OE IHA STF06000A3	62
Wyoming Department of Family Services	93.658	Agreement dated 4/12/06	2,367
Colorado Department of Human Services	93.658	07 IHA 00075	133,529
Colorado Department of Human Services	93.658	07 IHA 00071	62,883
Colorado Department of Human Services	93.658	IHA STFC0700002	9,094
Colorado Department of Human Services	93.658	IHA SFTC0700003	18,553
Jefferson County Department of Human Services	93.669	Contract dated 11/29/06	21,903
Colorado Department of Human Services	93.856	07 IHA 00070	510,927
Colorado Department of Human Services	93.856	07 IHA 00084	263,600
University of Colorado/Boulder	93.865	UCB # 154-1457	(192)
University of Colorado/Boulder	93.865	1542693/SPO56731	110,143
University of Colorado/Boulder	93.865	1542694/SPO56732	94,765
University of Colorado/Boulder	93.865	1543372/SPO59541	94,602
University of Colorado/Boulder	93.865	1543374/SPO59540	55,798
City of Aurora	97.006	PO # 06PO291	38
		Total	\$ <u>2,329,209</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

June 30, 2007

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified Opinion**
- (b) Significant deficiencies 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) Significant deficiencies in internal control over major programs: **Yes**
Material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under Section. 510(A) of OMB Circular A-133: **Yes**
- (g) Major program: **Student Financial Assistance Cluster** (various CFDA numbers)
Research and Development Cluster (Various CFDA numbers)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section. 530 of OMB Circular A-133: **No**

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

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No. 07-01 Federal Student Aid Cluster

Pass through Agency or Direct Award: Direct Award

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

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student on his or

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

June 30, 2007

her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned the to the Title IV programs and no additional disbursements may be made to the student for payment period or period of enrollment. (34 CFR section 668.173(b)).

The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of Title IV assistance earned by the student from the amount of Title IV aid that was disbursed to the student as of the date of the institution's determination that the student withdrew (34 CFR section 668.22(e)).

Returns of Title IV funds must be distributed in the order prescribed below. The prescribed order must be followed regardless of the school's agreements with other State agencies or private agencies (34 CFR section 668.22(i))

1. Unsubsidized Federal Stafford Loan
2. Subsidized Federal Stafford Loan
3. Unsubsidized Federal Direct Stafford Loan
4. Subsidized Federal Direct Stafford Loan
5. Federal Perkins Loan
6. Federal PLUS
7. Federal Direct PLUS
8. Federal Pell Grant
9. Federal Supplemental Educational Opportunity Grant
10. Other FSA Programs

Condition

Out of 32 returns tested, we noted one instance in which the return was made to the incorrect programs.

Questioned Costs

None

Context

Of 32 return of Title IV calculations tested, we noted one instance in which funds were returned to the incorrect programs. The University returned \$5,112 to the Federal Plus Loan Program and \$1,044 to Unsubsidized Federal Stafford Loan program. The return should have been \$5,000 to the Unsubsidized Federal Stafford Loan program and \$1,156 to the Subsidized Federal Stafford Loan program.

Effect

The University was not in compliance with federal regulations when funds were returned to the incorrect programs.

Recommendation

During the review of return of Title IV funds, the reviewer should ensure funds are being returned to the correct programs in accordance with federal guidelines. This review should be performed by someone knowledgeable of the program requirements and should be separate from the preparer.

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Corrective Action Plan
Related to the OMB A-133 Audit

June 30, 2007

Finding No. 07-01

The University concurs with this finding. The Office of Financial Aid has added a step to the review process to ensure that funds are returned in the correct order. The policy and procedure has been updated to list the order of the return of funds. The procedure includes instructions for the reviewer to check the calculation with the order of the return funds. Additionally, the policy and procedure includes a procedure to annually review the federal Return to Title IV guidelines to determine if there are new federal programs that will affect the Return of Title IV calculation.

Contact: Barbara McFall Marshal, Director of Student Financial Aid