



UNIVERSITY OF DENVER (COLORADO SEMINARY)

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

and

OMB Circular A-133 Reports

Year ended June 30, 2008

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Table of Contents

	Page
Financial Statements:	
Independent Auditors' Report	1
Statement of Financial Position – June 30, 2008	3
Statement of Financial Position – June 30, 2007	4
Statement of Activities – Year ended June 30, 2008	5
Statement of Activities – Year ended June 30, 2007	6
Statements of Cash Flows – Years ended June 30, 2008 and 2007	7
Notes to Financial Statements	8
OMB Circular A-133 Reports:	
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 <i>Government Auditing Standards</i>	25
Independent Auditors' Report on Compliance with Requirements Applicable to the Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	27
Schedule of Expenditures of Federal Awards – Year ended June 30, 2008	30
Notes to the Schedule of Expenditures of Federal Awards – Year ended June 30, 2008	34
Schedule of Findings and Questioned Costs	38



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Independent Auditors' Report

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

We have audited the accompanying statements of financial position of the University of Denver (Colorado Seminary) (the University) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Denver (Colorado Seminary) as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2008 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 25, 2008

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2008

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 23,592,043	13,358,145	4,058,265	41,008,453
Short-term investments	70,606,493	48,008,440	—	118,614,933
Accounts receivable, less allowance of \$875,905	21,117,526	—	1,570,826	22,688,352
Pledges receivable, net	8,602,055	16,485,493	16,038,057	41,125,605
Inventories, prepaid expenses, and other assets	5,091,824	60,108	—	5,151,932
Long-term investments	32,073,775	—	316,972,742	349,046,517
Loans to students, less allowance of \$892,000	—	—	19,333,683	19,333,683
Deposits with bond trustees	—	8,710,228	—	8,710,228
Property, plant, and equipment, net	—	480,559,553	—	480,559,553
Total assets	<u>\$ 161,083,716</u>	<u>567,181,967</u>	<u>357,973,573</u>	<u>1,086,239,256</u>
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 44,503,128	14,620,917	—	59,124,045
Deferred revenues	21,599,511	—	—	21,599,511
Other liabilities	—	6,003,844	965,372	6,969,216
Annuity obligations	—	—	8,589,234	8,589,234
Long-term debt	—	148,035,000	—	148,035,000
U.S. government grants refundable	—	—	17,168,816	17,168,816
Total liabilities	<u>66,102,639</u>	<u>168,659,761</u>	<u>26,723,422</u>	<u>261,485,822</u>
Net assets:				
Unrestricted:				
Available for operations	2,088,244	—	—	2,088,244
Designated student loans	—	—	1,802,913	1,802,913
Designated gain sharing	61,291,350	—	—	61,291,350
Designated gifts and endowment income	—	—	164,445,294	164,445,294
Designated plant	—	356,208,515	—	356,208,515
Total unrestricted net assets	<u>63,379,594</u>	<u>356,208,515</u>	<u>166,248,207</u>	<u>585,836,316</u>
Temporarily restricted:				
Gifts and endowment income for specific purposes	31,601,483	—	—	31,601,483
Plant	—	42,313,691	—	42,313,691
Annuity life income	—	—	6,193,756	6,193,756
Total temporarily restricted net assets	<u>31,601,483</u>	<u>42,313,691</u>	<u>6,193,756</u>	<u>80,108,930</u>
Permanently restricted:				
Endowment	—	—	152,006,588	152,006,588
Annuity life income	—	—	4,710,350	4,710,350
Student loans	—	—	2,091,250	2,091,250
Total permanently restricted net assets	<u>—</u>	<u>—</u>	<u>158,808,188</u>	<u>158,808,188</u>
Total net assets	<u>94,981,077</u>	<u>398,522,206</u>	<u>331,250,151</u>	<u>824,753,434</u>
Commitments and contingencies (notes 2, 6, 7, and 10)				
Total liabilities and net assets	<u>\$ 161,083,716</u>	<u>567,181,967</u>	<u>357,973,573</u>	<u>1,086,239,256</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2007

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents (note 1(c) and note 1(q))	\$ —	—	470,663	470,663
Short-term investments	99,799,651	25,602,797	6,606,031	132,008,479
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 \$910,000	—	—	18,615,908	18,615,908
Deposits with bond trustees	—	35,430,761	—	35,430,761
Property, plant, and equipment, net	—	452,724,509	—	452,724,509
Total assets	<u>\$ 151,530,060</u>	<u>526,797,420</u>	<u>337,221,463</u>	<u>1,015,548,943</u>
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 38,911,299	14,014,056	—	52,925,355
Deferred revenues	19,986,375	—	—	19,986,375
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	<u>58,897,674</u>	<u>171,632,355</u>	<u>26,312,569</u>	<u>256,842,598</u>
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	<u>63,208,909</u>	<u>322,267,183</u>	<u>158,398,778</u>	<u>543,874,870</u>
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	<u>29,423,477</u>	<u>32,897,882</u>	<u>7,298,737</u>	<u>69,620,096</u>
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	<u>—</u>	<u>—</u>	<u>145,211,379</u>	<u>145,211,379</u>
Total net assets	<u>92,632,386</u>	<u>355,165,065</u>	<u>310,908,894</u>	<u>758,706,345</u>
Commitments and contingencies (notes 2, 6, 7, and 10)				
Total liabilities and net assets	<u>\$ 151,530,060</u>	<u>526,797,420</u>	<u>337,221,463</u>	<u>1,015,548,943</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities
Year ended June 30, 2008

	<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	\$ 303,498,598	—	303,498,598	—	—	303,498,598
Less institutional scholarships	66,912,412	—	66,912,412	—	—	66,912,412
	<u>236,586,186</u>	<u>—</u>	<u>236,586,186</u>	<u>—</u>	<u>—</u>	<u>236,586,186</u>
Less noninstitutional scholarships	9,011,532	—	9,011,532	—	—	9,011,532
Net tuition and fees	227,574,654	—	227,574,654	—	—	227,574,654
Private gifts	1,574,906	—	1,574,906	116,207	98,610	1,789,723
Grants and contracts	22,065,955	—	22,065,955	—	—	22,065,955
Endowment income	668,409	—	668,409	875	172,220	841,504
Other investment income	10,118,087	—	10,118,087	1,326,556	294,400	11,739,043
Net realized and unrealized gains (losses) on endowments	595,472	—	595,472	1,920	(6,873,496)	(6,276,104)
Net realized and unrealized gains (losses) on other investments	515,309	—	515,309	2,791,878	(276,260)	3,030,927
Sales and services of educational activities	10,348,066	42,723	10,390,789	—	—	10,390,789
Sales and services of auxiliary enterprise	41,175,825	2,380	41,178,205	—	—	41,178,205
Other sources	5,117,993	205,013	5,323,006	380,938	—	5,703,944
Total unrestricted revenue and gains (losses)	<u>319,754,676</u>	<u>250,116</u>	<u>320,004,792</u>	<u>4,618,374</u>	<u>(6,584,526)</u>	<u>318,038,640</u>
Net assets released from restrictions	35,620,345	—	35,620,345	—	538,869	36,159,214
Total unrestricted revenue, gains, and other support	<u>355,375,021</u>	<u>250,116</u>	<u>355,625,137</u>	<u>4,618,374</u>	<u>(6,045,657)</u>	<u>354,197,854</u>
Expenses:						
Educational and general:						
Instruction	117,557,822	153,318	117,711,140	8,034,883	—	125,746,023
Research	13,043,860	—	13,043,860	686,196	—	13,730,056
Public service	3,043,969	—	3,043,969	59,318	—	3,103,287
Academic support	49,103,634	2,200,704	51,304,338	613,234	—	51,917,572
Student services	15,638,032	3,294	15,641,326	694,503	—	16,335,829
Institutional support	38,677,930	39,082	38,717,012	1,589,413	—	40,306,425
Total educational and general expenses	<u>237,065,247</u>	<u>2,396,398</u>	<u>239,461,645</u>	<u>11,677,547</u>	<u>—</u>	<u>251,139,192</u>
Auxiliary enterprises	52,379,132	41,028	52,420,160	8,677,056	—	61,097,216
Total expenses	<u>289,444,379</u>	<u>2,437,426</u>	<u>291,881,805</u>	<u>20,354,603</u>	<u>—</u>	<u>312,236,408</u>
Transfers among unrestricted net assets	65,430,557	(1,857,910)	63,572,647	(49,677,561)	(13,895,086)	—
Total expenses and transfers	<u>354,874,936</u>	<u>579,516</u>	<u>355,454,452</u>	<u>(29,322,958)</u>	<u>(13,895,086)</u>	<u>312,236,408</u>
Increase (decrease) in unrestricted net assets	<u>500,085</u>	<u>(329,400)</u>	<u>170,685</u>	<u>33,941,332</u>	<u>7,849,429</u>	<u>41,961,446</u>
Changes in temporarily restricted net assets:						
Private gifts	27,364,939	—	27,364,939	9,451,811	514,450	37,331,200
Endowment income	3,765,288	—	3,765,288	—	—	3,765,288
Other investment income (losses)	110,271	—	110,271	(38,400)	—	71,871
Net realized and unrealized gains on endowments	6,886,005	—	6,886,005	—	—	6,886,005
Net realized and unrealized gains (losses) on other investments	(232,367)	—	(232,367)	2,398	—	(229,969)
Net assets released from restrictions	(35,620,345)	—	(35,620,345)	—	(538,869)	(36,159,214)
Net assets reclassified to permanently restricted	(140,460)	—	(140,460)	—	(74,586)	(215,046)
Actuarial adjustments on annuity obligations	44,675	—	44,675	—	(1,005,976)	(961,301)
Increase (decrease) in temporarily restricted net assets	<u>2,178,006</u>	<u>—</u>	<u>2,178,006</u>	<u>9,415,809</u>	<u>(1,104,981)</u>	<u>10,488,834</u>
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	13,860,298	13,860,298
Net realized and unrealized gains on other investments	—	—	—	—	31,095	31,095
Net assets reclassified from temporarily restricted	—	—	—	—	215,046	215,046
Actuarial adjustments on annuity obligations	—	—	—	—	(509,630)	(509,630)
Increase in permanently restricted net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>13,596,809</u>	<u>13,596,809</u>
Change in net assets	2,678,091	(329,400)	2,348,691	43,357,141	20,341,257	66,047,089
Net assets at beginning of year	31,011,636	61,620,750	92,632,386	355,165,065	310,908,894	758,706,345
Net assets at end of year	\$ <u>33,689,727</u>	<u>61,291,350</u>	<u>94,981,077</u>	<u>398,522,206</u>	<u>331,250,151</u>	<u>824,753,434</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 to permanently 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 obligations	—	—	—	—	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)

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 66,047,089	100,428,080
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	11,468,222	11,135,248
Loss on refunding of debt	—	3,934,716
Amortization of (premium) discount	295,545	(211,417)
Loss on disposal of assets	2,252,839	256,011
Agency (inflow)	107,131,191	—
Agency (outflow)	(107,131,191)	—
Increase in accounts receivable	(1,534,231)	(1,271,339)
Increase in pledges receivable	(6,081,690)	(10,768,576)
(Increase) decrease in inventories, prepaid expenses, and other assets	(394,277)	3,926
Increase in accounts payable, accrued liabilities, deferred revenues, and other liabilities	7,659,767	10,481,070
Actuarial adjustment for annuity obligations	448,190	(127,409)
Contributions of real and personal property	(13,249,135)	(2,140,254)
Contributions restricted for long-term investment	(1,959,562)	(14,823,589)
Interest and dividends restricted for long-term investment	(172,220)	(193,539)
Net realized and unrealized gains on investments	(924,336)	(38,129,734)
Net cash provided by operating activities	<u>63,856,201</u>	<u>58,573,194</u>
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	420,141,739	271,938,520
Purchases of investments	(426,278,307)	(318,956,990)
Purchases of property, plant, and equipment	(41,556,105)	(32,351,480)
Disbursements for Perkins and University loans to students	(3,876,748)	(6,285,863)
Repayment of Perkins and University loans to students	3,158,973	4,306,403
Decrease in deposits with trustees	26,720,533	11,771,379
Net cash used in investing activities	<u>(21,689,915)</u>	<u>(69,578,031)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	1,959,562	14,823,589
Interest and dividends restricted for long-term investment	172,220	193,539
Payments of bonds payable	(3,875,000)	(3,845,000)
Increase in refundable government loan funds, net	114,722	303,372
Net cash provided by (used in) financing activities	<u>(1,628,496)</u>	<u>11,475,500</u>
Net increase in cash and cash equivalents	40,537,790	470,663
Cash and cash equivalents at beginning of year	470,663	—
Cash and cash equivalents at end of year (note 1(c) and note 1(q))	\$ <u>41,008,453</u>	<u>470,663</u>

Supplemental cash flow information:

Interest paid is discussed in note 5

In fiscal year 2008, the University issued Series 2008 bonds issued in the amount of \$9,390,000 to refund Series 1997 bonds in the amount of \$9,725,000.

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.

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

(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 11,000 students of which approximately 5,100 are undergraduates. The University is primarily supported by tuition and fees, private gifts and grants, and contracts.

(b) *Basis of Presentation*

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

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

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

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

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

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

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

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

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 balances represent cash positions 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. Certain amounts reported as cash equivalents in the prior year have been reclassified to short-term investments for current year presentation. This reclassification was made based upon recent liquidity information obtained by the University regarding a fund held as of June 30, 2007 (see note 1(q)).

(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

June 30, 2008 and 2007

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.

(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 Bond Trustees

Deposits with bond trustees represent cash and U.S. government securities that have been set aside to create a nonmandatory reserve for the 2001 debt issuance, and include unspent funds from 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. Depreciation on property, plant, and equipment 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, 2008 and 2007 and recorded as revenue and expenses in the succeeding fiscal year.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

(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 in 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) and a public charity, and not as a private foundation, under Section 509(a)(1). 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 is 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. 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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

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 Federal Perkins Loan program (Perkins) has a maximum repayment period of ten 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 is 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 in 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 ended June 30, 2008 and 2007, 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) *Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year presentation. Primarily, the University's balance of approximately \$63,987,000 in the Common fund Short Term Fund was reclassified from cash and cash equivalents to short-term investments due to the fact the University obtained additional information during the current year regarding the fund's composition, which indicated classification as a short-term investment as more appropriate.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

(r) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (FAS 157). This standard establishes a framework for measuring fair value and clarifies the definition of fair value for financial reporting. FAS 157 is effective for fiscal years beginning after November 15, 2007. Management intends to adopt FAS 157 for fiscal year ending June 30, 2009, and is currently in the process of determining the impact of the adoption on the financial statements.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* (FAS 159). This standard permits entities to choose to measure many financial instruments and certain other items at fair value. Management intends not to adopt the fair value option permitted by FAS 159 for the University's applicable financial instruments and certain other items. Therefore, management does not believe the adoption of FAS 159 will have any material impact on the University's financial statements.

In August 2008, the FASB issued FASB Staff Position on Financial Accounting Standard 117, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1), which provides guidance about the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and expands disclosures about endowment funds. FSP FAS 117-1 is effective for fiscal years ending after December 15, 2008. Management intends to adopt FSP FAS 117-1 for fiscal year ending June 30, 2009. The guidance will be implemented for the period ending June 30, 2009 and the amount to be reclassified from unrestricted net assets to temporarily restricted net assets as of June 30, 2009 is to be determined. The reclassification of the June 30, 2008 net assets in the June 30, 2009 financial statements will be \$84,483,000.

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

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plan—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (FAS 158). FAS 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 in the statement of activities, Effect of Adoption of FASB Statement No. 158 (see note 7), for the year ended June 30, 2007.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

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

	2008		2007	
	<u>Endowment</u>	<u>Total</u>	<u>Endowment</u>	<u>Total</u>
Net unrealized appreciation in fair value at beginning of year	\$ 72,281,180	78,526,491	41,347,595	45,181,998
Current year unrealized appreciation (depreciation)	<u>(1,349,512)</u>	<u>(3,846,479)</u>	<u>30,933,585</u>	<u>33,344,493</u>
Net unrealized appreciation in fair value at end of year	<u>\$ 70,931,668</u>	<u>74,680,012</u>	<u>72,281,180</u>	<u>78,526,491</u>

During the years ended June 30, 2008 and 2007, the University paid approximately \$478,000 and \$436,000, respectively, in management and custodian fees, which were netted against endowment income and other investment income in 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, 2008, the pool had 53,058,276 shares outstanding, with a fair value of approximately \$5.14 per share or \$272,800,037. The University has adopted a spending policy whereby the board of trustees has authorized a stipulated percentage 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 2008 was \$0.20 per share, of which \$0.07 represented income yield. The remaining \$0.13 represented spending of realized and unrealized gains. 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 investment pool consists of 645 individual endowments at June 30, 2008. Of these endowments, 18 are considered to be "under water" as the fair value of the underlying investments is less than the original gift value. At June 30, 2008, the fair value of the underlying investments related to these 18 endowments totaled approximately \$10,382,615 while the original gift value was approximately \$10,498,371.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

The University has the following split-interest agreements, which are included in long-term investments at June 30, 2008 and 2007:

	2008		
	Number of agreements	Net assets classification	
		Temporary	Permanent
Perpetual trusts held by third party	4	\$ —	8,463,483
Charitable Remainder Trusts:			
University named trustee	25	7,346,395	6,046,379
Third-party named trustee	6	1,109,668	1,457,014
Charitable Annuity Agreements	65	3,181,256	1,366,080
	<u>100</u>	<u>\$ 11,637,319</u>	<u>17,332,956</u>
	2007		
	Number of agreements	Net assets classification	
		Temporary	Permanent
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>

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 held and administered either 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, their life expectancy, and the prevailing interest rate as of the date of the agreement. 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.

Contribution revenue recognized for new split-interest agreements in 2008 and 2007 was \$824,000 and \$2,939,000, respectively.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

(3) Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	<u>2008</u>	<u>2007</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,185,612	15,454,221
One to five years	46,626,049	27,572,155
	<u>50,811,661</u>	<u>43,026,376</u>
Less allowance for uncollectible pledges	(2,540,583)	(2,151,319)
Less present value discount (2.7% – 4.5%)	(7,145,473)	(5,831,142)
Net pledges receivable	<u>\$ 41,125,605</u>	<u>35,043,915</u>

Included in pledges receivable is the present value of approximately \$28,500,000 and \$27,000,000 as of June 30, 2008 and 2007, respectively, in pledges from related parties.

(4) Property, Plant, and Equipment

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

	<u>2008</u>	<u>2007</u>
Land	\$ 8,135,034	8,135,034
Land improvements	19,757,373	19,572,523
Buildings and improvements	458,571,261	450,700,368
Equipment	49,739,348	50,373,519
Library books	8,055,488	7,953,013
Construction in progress	46,038,251	17,640,434
	<u>590,296,755</u>	<u>554,374,891</u>
Less accumulated depreciation	(109,737,202)	(101,650,382)
	<u>\$ 480,559,553</u>	<u>452,724,509</u>

The University had approximately \$11,468,000 and \$11,135,000 of depreciation expense for the years ended June 30, 2008 and 2007, respectively, which was reported within all functions in the accompanying statements of activities.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

(5) Long-Term Debt

Bonds payable at June 30 consist of the following:

	<u>2008</u>	<u>2007</u>
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2008	\$ 9,390,000	—
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2007	39,920,000	39,920,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2005A	30,155,000	30,205,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2005B	46,620,000	46,650,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2001B	19,060,000	19,400,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 2000	2,190,000	3,780,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 1999	700,000	1,370,000
Colorado Postsecondary Educational Facilities Authority Improvement and Refunding Revenue Bonds, Series 1997	—	10,585,000
	<u>\$ 148,035,000</u>	<u>151,910,000</u>

The University had approximately \$5,090,415 and \$4,354,845 of interest expense for the years ended June 30, 2008 and 2007, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately \$7,282,592 and \$6,759,370 was paid in cash during the years ended June 30, 2008 and 2007, respectively. Net interest cost capitalized in fiscal years 2008 and 2007 was \$2,094,000 and \$2,321,000, respectively. The fair value of bonds payable was approximately \$147,248,071 and \$151,274,971 at June 30, 2008 and 2007, respectively.

(a) Issuance of Series 2008 Bonds

In February 2008, the Colorado Educational and Cultural Facilities Authority (the Authority) issued \$9,390,000 of University of Denver Refunding Revenue Bonds, Series 2008. The proceeds from the sale of the 2008 bonds were used to (1) refund all of the Authority's Revenue Bonds (University of Denver Project) Series 1997 Bonds outstanding in the aggregate principal amount of \$9,725,000 and (2) pay certain costs associated with the issuance of the 2008 Bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$605,000 in 2009 and increasing to \$2,535,000 in 2018. Interest is payable semiannually at rates ranging from 3.00% to 5.00%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

(b) Issuance of Series 2007 Bonds

In December 2006, 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) refund \$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.

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.

(c) 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.

(d) 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 Bonds was legally defeased during the year from proceeds of the 2007 bonds and removed from the accounting records of the University.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$30,000 in 2007, 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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

(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 initial bond agreement provides for mandatory annual sinking fund redemption payments of \$500,000, which began in 2004, 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.

In December 2002, the bonds were converted from a variable rate to a fixed rate. The conversion altered the mandatory annual sinking fund redemption payments to \$325,000 beginning in 2004, and increasing to \$2,390,000 in 2016. The interest rates were fixed at a range from 1.8% to 4.6%.

(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 legally defeased during fiscal year 2006 from proceeds of the 2005A bonds and the Series 2005B bonds, respectively, and removed from the accounting records of the University.

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, 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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

(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; (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, 2008 and 2007, 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 \$9,725,000 of the remaining outstanding balance was defeased during fiscal year 2008 from the proceeds of the Series 2008 bonds. These amounts were legally defeased and removed from the accounting records of the University. As of June 30, 2008, \$2,955,000 of the refunded Series 1997 bonds was still outstanding, pending scheduled payment from escrow.

(i) Aggregate Annual Maturities of Bonds Payable

At June 30, 2008, the aggregate annual maturities of bonds payable for the five succeeding years are as follows:

2009	\$ 4,605,000
2010	4,785,000
2011	4,960,000
2012	5,055,000
2013	5,370,000
Thereafter	<u>123,260,000</u>
	<u>\$ 148,035,000</u>

(j) Restrictive Bond Covenants

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

(6) 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

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

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 \$8,146,000 and \$7,632,000 for the years ended June 30, 2008 and 2007, respectively, which were charged to operations expenses.

(7) 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, 2008, the Healthcare Plan covered 236 retirees with an additional 2,319 active employees potentially eligible for coverage. At June 30, 2007, the Healthcare Plan covered 252 retirees with an additional 2,205 active employees potentially eligible for coverage. The Healthcare Plan is noncontributory.

As mentioned in note 1(s), in September 2006, the FASB issued FAS 158, which became effective for the University at June 30, 2007. FAS 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.

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

	<u>2008</u>	<u>2007</u>
Accrued postretirement benefit obligation (APBO), beginning of year	\$ 2,692,522	2,593,601
Service cost	18,828	18,301
Interest cost	161,648	155,936
Change in assumptions gain	(16,332)	—
Actuarial (gain) loss	(84,898)	113,371
Benefits paid	<u>(147,283)</u>	<u>(188,687)</u>
APBO (all unfunded), end of year	\$ <u>2,624,485</u>	<u>2,692,522</u>

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

	<u>2008</u>	<u>2007</u>
Service cost	\$ 18,828	18,301
Interest cost	161,648	155,936
Amortization of transition obligation	99,471	99,471
Amortization of prior service cost	37,478	37,478
Amortization of unrecognized net gain	<u>—</u>	<u>(9,245)</u>
Net periodic postretirement benefit cost	\$ <u>317,425</u>	<u>301,941</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

The weighted average discount rate used in determining the APBO was 6.00% and 6.25% for June 30, 2008 and 2007, 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 \$147,000 and \$188,700 for the years ended June 30, 2008 and 2007, respectively, which were charged to operating expenses.

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

2009	\$	204,148
2010		206,644
2011		208,685
2012		209,540
2013		209,635
2014 – 2017		<u>1,585,833</u>
Total	\$	<u><u>2,624,485</u></u>

For the year ended June 30, 2008, 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, 2008.

(8) Loans to Students

Student loans made through Perkins constitute substantially all of the student loans outstanding at June 30, 2008 and 2007. 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 2008 and 2007, 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, 2008 and 2007, the allowance for possible loan losses of Perkins approximated \$750,000, respectively; 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, 2008 and 2007, the allowance for possible loan losses of these funds was \$142,000 and \$160,000, respectively.

During the years ended June 30, 2008 and 2007, the University made loans directly to students under the Federal Family Education Loan Program totaling approximately \$59.4 million and \$51.6 million, respectively. Prior to year-end, the loans were sold without recourse to a third party. The University recognized income of \$2,991,000 and \$2,596,000 in fiscal years 2008 and 2007, respectively, as a result of these sales.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2008 and 2007

(9) Fundraising Expenses

The University had fundraising expenses of approximately \$5,137,000 and \$4,443,000 in 2008 and 2007, respectively, which were recognized in institutional support in the accompanying statements of activities.

(10) Commitments and Contingencies

At June 30, 2008 and 2007, the University had outstanding commitments totaling approximately \$2,400,000 and \$27,500,000, respectively, for contracts related to various construction projects on campus.

During the 2008 fiscal year, the University invested \$15,000,000 in ten long-term partnerships, which were formed prior to the 2008 fiscal year, bringing its cumulative contributions to the partnerships, to approximately \$25,000,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of June 30, 2008, the University's remaining commitments to these ten partnerships total approximately \$19,500,000.

The University also committed a total of \$14,000,000 to three additional long-term partnerships, which were formed during the 2008 fiscal year. As of June 30, 2008, the University had invested approximately \$4,900,000 in these partnerships; as a result, the University's remaining commitments to the three partnerships total \$9,100,000.

As of June 30, 2008, the University's remaining commitments to all 13 partnerships total \$28,600,000.

The University participates in a number of federal programs, which are subject to financial and compliance audits. The amount of expenses that 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.

(11) Subsequent Events

The activity in the global financial markets subsequent to June 30, 2008 has had an adverse effect on the University's long-term assets. The University's endowment and split interest long-term assets have incurred approximately an 8.9% loss, or \$28,400,000 loss, as of September 30, 2008.



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**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, 2008 and have issued our report thereon dated November 25, 2008. 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 over financial reporting.

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 over financial reporting.

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 over financial reporting 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 management, 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 25, 2008



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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

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

Compliance

We have audited the compliance of the University of Denver (Colorado Seminary) (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* (Compliance Supplement) that are applicable to its major federal program for the year ended June 30, 2008 except the requirement discussed in the second paragraph of this report. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We did not audit the University's compliance with the requirements governing Reporting and Special Tests and Provisions 1 through 14 in accordance with the requirements of the Federal Family Education Loan program as described in section 84.032 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 for the year ended June 30, 2008, 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, 2007. 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.

As described in item 08-01 in the accompanying schedule of findings and questioned costs, the University did not comply with the requirements regarding Special Tests and Provisions – Return of Title IV Funds that are applicable to the Student Financial Assistance Cluster. Compliance with such requirements is necessary, in our opinion, for the University to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the University complied, in all material respects, with the requirements referred to in the first paragraph above that are applicable to its major federal program for the year ended June 30, 2008.

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 and one other that we consider to be a material weakness.

Requirements governing Reporting and Special Tests and Provisions 1 through 10 in the Federal Family Education Loan program as described in Section 84.032 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, 2007. 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-01 and 08-02 to be significant deficiencies.

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. Of the significant deficiencies over compliance described in the accompanying schedule of findings and questioned costs, we consider item 08-01 to be a material weakness.

The University's response to the findings 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

November 25, 2008

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal granting agency	CFDA number	Federal expenditures
Research and Development Cluster:		
Department of Agriculture:		
Direct payments	10.001	\$ 29,579
Pass-through awards	10.200	111
Pass-through awards	10.558	8,480
Total Department of Agriculture		<u>38,170</u>
Department of Commerce:		
National Institute of Standards and Technology:		
Direct payments	11.609	18,800
Total Department of Commerce		<u>18,800</u>
Department of Defense:		
Air Force:		
Direct payments	12.800	29,997
Total Department of Defense		<u>29,997</u>
Department of Housing and Urban Development:		
Pass-through awards	14.228	29,437
Direct payments	14.511	131,600
Pass-through awards	14.866	24,813
Total Department of Housing and Urban Development		<u>185,850</u>
Department of the Interior:		
Bureau of Land Management		
Pass-through awards	15.224	(56)
Direct payments	15.227	9,561
Fish and Wildlife:		
Pass-through payments	15.634	75
National Park Service:		
Direct payments	15.915	112,287
Total Department of the Interior		<u>121,867</u>
Department of Justice:		
Pass-through awards	16.540	10,537
Pass-through awards	16.543	96,539
Direct payments	16.560	2,107,220
Pass-through awards	16.560	581,130
Direct payments	16.562	(163)
Pass-through awards	16.710	19,111
Total Department of Justice		<u>2,814,374</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal granting agency	CFDA number	Federal expenditures
Department of Labor:		
Pass-through awards	17.258	\$ 306,145
Total Department of Labor		<u>306,145</u>
Department of State:		
Direct payments	19.424	<u>15,045</u>
Total Department of State		<u>15,045</u>
Department of Transportation:		
Pass-through awards	20.215	41,350
Pass-through awards	20.700	990
Direct payments	20.801	<u>366,739</u>
Total Department of Transportation		<u>409,079</u>
Department of the Treasury:		
Direct payments	21.008	<u>85,496</u>
Total Department of the Treasury		<u>85,496</u>
National Aeronautics and Space Administration (NASA):		
Direct payments	43.001	828,480
Pass-through awards	43.001	120,066
Pass-through awards	43.002	(309)
Total NASA		<u>948,237</u>
National Endowment for the Arts and Humanities:		
Pass-through awards	45.024	5,375
Direct payments	45.149	<u>3,675</u>
Total National Endowment for the Arts and Humanities		<u>9,050</u>
National Science Foundation:		
Direct payments	47.041	461,955
Pass-through awards	47.041	32,568
Direct payments	47.050	139,937
Direct payments	47.070	3,838
Direct payments	47.074	91,377
Pass-through awards	47.074	(379)
Direct payments	47.075	34,752
Direct payments	47.076	509,317
Pass-through awards	47.076	<u>21,846</u>
Total National Science Foundation		<u>1,295,211</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal granting agency	CFDA number	Federal expenditures
United States Nuclear Regulation Commission:		
Direct payments	77.006	\$ 141,296
Total United States Nuclear Regulation Commission		<u>141,296</u>
Department of Education:		
Pass-through awards	84.017	30,000
Pass-through awards	84.027	2,994
Direct payments	84.324D	241,474
Total Department of Education		<u>274,468</u>
United States Institute of Peace:		
Direct payments	91.001	21,392
Total United States Institute of Peace		<u>21,392</u>
Department of Health and Human Services:		
Pass-through awards	93.010	21,981
Direct payments	93.173	102,748
Direct payments	93.242	747,612
Direct payments	92.272	73,157
Direct payments	93.282	57,771
Pass-through awards	93.283	92,398
Direct payments	93.286	727,574
Pass-through awards	93.286	159,006
Pass-through awards	93.307	27,482
Pass-through awards	93.395	15,725
Pass-through awards	93.556	7,760
Pass-through awards	93.558	37,751
Direct payments	93.575	17,251
Direct payments	93.595	461,107
Direct payments	93.648	297,614
Pass-through awards	93.648	59,274
Pass-through awards	93.652	22,405
Pass-through awards	93.658	268,741
Pass-through awards	93.669	18,461
Pass-through awards	93.847	27,328
Direct payments	93.853	471,874
Direct payments	93.856	1,913
Pass-through awards	93.856	801,923
Direct payments	93.859	80,119
Direct payments	93.865	2,143,914
Pass-through awards	93.865	341,169
Direct payments	93.867	43,232

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

<u>Federal granting agency</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
Direct payments	93.888	\$ 56
Direct payments	93.910	248,864
Total Department of Health and Human Services		<u>7,376,210</u>
Total Research and Development Cluster		<u>14,090,687</u>
Student Financial Assistance Cluster:		
Department of Education:		
Federal Supplemental Education Opportunity Grant Program	84.007	769,741
Federal Family Education Loans	84.032	109,120,177
Federal Work Study Program	84.033	1,531,151
Job Location and Development	84.033	4,038
Federal Perkins Loan Program	84.038	3,880,446
Federal Pell Grant Program	84.063	2,062,260
Federal Academic Competitiveness Grants	84.375	96,557
Federal National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	<u>106,666</u>
Total Department of Education – Student Financial Assistance Cluster		<u>117,571,036</u>
Total federal awards		<u>\$ 131,661,723</u>

See accompanying notes to schedule of expenditures of federal awards.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(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, 2008. 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, 2008, 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. During the year ended June 30, 2008, the University received and disbursed \$104,830,661 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 has contracted with outside servicing agencies to perform the required administration functions related to the School-as-Lender 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 \$20,044,215 as of June 30, 2008.

Prior to 2005, contributions to the Perkins programs were funded 75% by the federal government with the University providing the remaining 25%; for fiscal years after 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. Due to federal regulations, no loans of Perkins have been written off since the inception of Perkins.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(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	\$ 111
Colorado Department of Public Health and Environment	10.558	00013-09	8,480
City and County of Denver	14.228	CE51170-2	67
City and County of Denver	14.228	CE72126	29,370
Denver Housing Authority	14.866	CO06URD001/102	24,813
Smithsonian Institution	15.224	06-SUBC-440-0000077271	(56)
Division of Wildlife	15.634	06-PBA-62	75
Colorado Department of Criminal Justice	16.540	27-JD-13-97	10,537
National Center for Missing and Exploited Children	16.543	Agreement dated 6/22/06	96,539
Pennsylvania State University	16.560	SA08-11	219,584
Pennsylvania State University	16.560	SA08-11	137,304
Pennsylvania State University	16.560	SA08-11	224,242
Drakontas LLC	16.710	Agreement signed 1/16/08	19,111
Metro Denver Economic Development Corporation	17.258	Contract dated 2/1/07	306,145
City and County of Denver	20.215	CE54014	41,350
University of Alabama	20.700	07-026	(1,586)
University of Alabama	20.700	07-026	2,575
University of Utah	43.001	2003125B	357
University of Utah	43.001	2502098B	24,429
NASA/Space Telescope Science Institute	43.001	HST-GO-10627.07-A	39,924
Jet Propulsion Lab	43.001	1289221	619
Jet Propulsion Lab	43.001	1289221	9,010
Jet Propulsion Lab	43.001	1289221	967
Jet Propulsion Lab	43.001	1310757	12,657
Jet Propulsion Lab	43.001	1310816	7,838
Smithsonian Astrophysical Observatory	43.001	SV8-78003	24,265
Ball Aerospace	43.002	P.O. 00DKB10041	(393)
Ball Aerospace	43.002	P.O. 00DB10041	84
Western States Arts Federation	45.024	TWP070129	1,875
Western States Arts Federation	45.024	TWP080203	2,500
New England Foundation for the Arts	45.024	11829	1,000
Univ. Corp. for Atmospheric Research	47.041	S07-64297	32,568
University of Colorado/Boulder	47.074	SPO #53332	(379)
University of Colorado at Denver	47.076	1203.05.119D-04/58464	21,846
United Negro College Fund Special Corporation	84.017	Subagreement dated 5/9/07	30,000

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

<u>Grantor agency</u>	<u>CFDA number</u>	<u>Contract/grantor's number sponsored ID</u>	<u>Expenditures total</u>
Colorado Department of Education	84.027	3431-04-04	\$ 2,994
WAIT (Why Am I Tempted) Training	93.010	Agreement dated 7/10/07	21,981
Colorado Department of Public Health and Environment	93.283	FAA 03-00584	21,835
Colorado Department of Public Health and Environment	93.283	FHA 007-00061	16,058
Colorado Department of Public Health and Environment	93.283	2007-RIHEL-DU	9,802
Colorado Department of Public Health and Environment	93.283	2007-RIHEL-DU	44,703
University of Chicago Medical Center	93.286	TRACS #30764	159,006
San Francisco State University	93.307	C7-94319/SFRSP-C7943196	21,283
San Francisco State University	93.307	C7-94383	6,198
San Francisco State University	93.395	C7-94161 Subcontract	(13)
Omni Engineering, Inc.	93.395	9876-06	15,738
Piton Foundation	93.556	Agreement dated 1/9/06	6
University of California	93.556	SA5230-15784/1234618	(198)
University of California	93.556	SA5230-15784/1234618	3,167
University of California	93.556	SA5230-15784/1234618	4,784
Jefferson County Department of Human Services	93.558	Agreement dated 2/1/07	37,751
University of Kansas	93.648	BS 07027	12,074
University of Kansas	93.648	FY2008-011	14,453
University of Southern Maine	93.648	Agreement dated 8/30/07	1,549
Jefferson County Department of Human Services	93.648	Agreement dated 9/18/07	29,402
University of Southern Maine	93.648	Agreement dated 2/18/08	1,797
Colorado Coalition of Adoptive Families	93.652	Agreement dtd 3/31/05	7,636
Colorado Coalition of Adoptive Families	93.652	Agreement dtd 3/31/05	14,769
Colorado Department of Human Services	93.658	07 IHA 00073	(121)
Colorado Department of Human Services	93.658	07 IHA 00073	121
Colorado Department of Human Services	93.658	07 IHA 00075	171
Colorado Department of Human Services	93.658	07 IHA 00071	15
Colorado Department of Human Services	93.658	IHA STFC0700002	1
Colorado Department of Human Services	93.658	IHA SFTC0700003	107
Colorado Department of Human Services	93.658	08 IHA 00052	17,815
Colorado Department of Human Services	93.658	08 IHA 00051	133,605
Colorado Department of Human Services	93.658	08 IHA 00050	62,801
Colorado Department of Human Services	93.658	OE IHA STFC0800003	18,663
Colorado Department of Human Services	93.658	OE IHA STFC0800002	8,467
University of Wisconsin	93.658	K087589	27,095
Jefferson County Department of Human Services	93.669	Contract dated 11/29/06	18,461

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

<u>Grantor agency</u>	<u>CFDA number</u>	<u>Contract/grantor's number sponsored ID</u>	<u>Expenditures total</u>
UCHSC-Barbara Davis Center for Childhood Diabetes	93.847	FY07.129.004/61784	\$ 27,328
Colorado Department of Human Services	93.856	07 IHA 00070	1,073
Colorado Department of Human Services	93.856	07 IHA 00084	3,611
Colorado Department of Human Services	93.856	08 IHA 00025	510,228
Colorado Department of Human Services	93.856	08-IHA-00026	260,971
Colorado Department of Human Services	93.856	08-IHA-00633	1,026
Colorado Department of Human Services	93.856	08-IHA-00633	25,014
University of Colorado/Boulder	93.865	1543372/SPO59541	126,097
University of Colorado/Boulder	93.865	1543374/SPO59540	93,976
University of Colorado/Boulder	93.865	1544287/64572	41,598
University of Colorado/Boulder	93.865	1544288/64573	79,499
Total			<u>\$ 3,232,225</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

June 30, 2008

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified Opinion**
- (b) Significant deficiencies in internal control over financial reporting disclosed by the audit of the financial statements: **None Reported**
Material weaknesses: **No**
- (c) Noncompliance that is material to the financial statements: **No**
- (d) Significant deficiencies in internal control over major programs: **Yes**
Material weaknesses: **Yes**
- (e) The type of report issued on compliance for major programs: **Qualified Opinion**
- (f) Any audit findings, which are required to be reported under Section. 510(A) of OMB Circular A-133: **Yes**
- (g) Major program: **Student Financial Assistance Cluster** (various CFDA numbers)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$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. 08-01 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 funds withdraws from an institution, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the amount earned by the student is less than the amount disbursed to the student as of the withdrawal date, the difference must be returned to the Title IV programs. If the amount the student earned is greater than the amount disbursed,

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

June 30, 2008

the difference between the amounts must be treated as a post withdrawal disbursement (34 CFR Sections 668.229(a)(1) – (3)).

The amount of earned Title IV assistance is equal to the percentage of the payment period or period of enrollment that was completed as of the student's withdrawal date. 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 disbursed to the student as of the student's withdrawal date (34 CFR Section 668.22(e)).

Returns of Title IV funds are required to be sent to the U.S. Department of Education (or to the appropriate Federal Family Education Loan (FFEL) lender) no later than 45 days from the student's withdrawal date (34 CFR Section 668.173(b)).

If a student does not begin attendance in a payment period or period of enrollment, the institution must return all Title IV, HEA program funds that were credited to the student's account (34 CFR Section 668.21). Returns of these Title IV funds are required to be sent to the U.S. Department of Education (or to the appropriate Federal Family Education Loan (FFEL) lender) no later than 30 days after the institution determines the student will not or has not begun attendance (34 CFR Section 668.21(b)).

Condition

We found one instance in 30 returns of Title IV Funds calculations in which the University did not return its portion of unearned Title IV funds within the required time period under 34 CFR section 668.173(b). We found two instances in which the student did not begin attendance and the University did not return Title IV funds within the required time period under 34 CFR section 668.21(b).

Questioned Costs

None, as the unearned portion of Title IV funds was returned.

Context

Of the 30 return of Title IV calculations tested, we noted one instance in which the University did not return its unearned portion of Title IV funds within the required time period.

We noted two instances in which the students did not begin attendance in the payment period and the Title IV funds were not returned within the required time period.

Effect

By not ensuring the return of unearned funds is performed timely, the University was not in compliance with federal regulations and the University may owe interest on funds not returned timely.

Recommendation

The University should implement preventative monitoring procedures to ensure return of Title IV calculations are performed correctly and the resulting returns are made by the University in a timely manner.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

June 30, 2008

View of Client Official

Agree

Corrective Action Plan

The Office of Financial Aid is implementing a work flow within the Banner administrative system to automate tracking withdrawals and to improve tracking of the timing of return of Title IV funds. Additionally, we will work with the Registrar's Office to improve determination of whether or not a student begins class after the first day of the enrollment period. These changes will be implemented by March 2009. The Office of Financial Aid continues to improve processing and review related to the calculation of Return of Title IV funds. We will ensure that there is adequate staffing to prepare, return and review funds at all times of the year.

Contact: Barbara Marshall, Director of Student Financial Aid

Finding No. 08-02 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

Institutions are required to perform verification procedures, which are defined as the process of checking the accuracy of the information supplied by students when they apply for federal student aid. The Central Processing System (CPS) of the federal Department of Education (the Department) selects those students to be verified. Information required to be verified is specified in 34 CFR 668.56 and is as follows: (1) household size, (2) number in college, (3) adjusted gross income, (4) U.S. income taxes paid, and (5) certain untaxed income and benefits.

In the verification process, the school sends a verification worksheet to the student to answer the required questions and to send back to the school with the required tax returns. When a student completes the verification worksheet and attaches the appropriate tax forms, or alternative documents, the school will usually have enough data to complete the verification process. Acceptable documentation for the required verification items is listed in 34 CFR 668.57.

Condition

Out of 45 students tested, we noted no secondary review was performed after the verification.

Questioned Costs

None

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

June 30, 2008

Context

Out of 45 students tested, we noted no monitoring procedures were performed by a separate individual to ensure the verification process was being performed in compliance with federal regulations.

Effect

No controls were present to ensure verification procedures were being performed in compliance with federal regulations.

Recommendation

The University should implement monitoring procedures over the verification process. These procedures should include someone separate from the verification process selecting a sample of the verified data, reviewing the information for completeness and accuracy, and documenting this review within the file.

View of Client Official

Agree

Corrective Action Plan

Each aid year the Office of Financial Aid reviews changes to the FAFSA and tax code that may affect verification of federal aid applications. The policy and procedure is then revised accordingly. There is extensive training for all of the advisors that assist with verification during peak volume. The advisor primarily responsible for verification has been in financial aid for 35 years and has a deep knowledge of verification. We have controls in place at the beginning of the process to ensure completeness and accuracy. There are no exceptions for completeness or accuracy in the audit sample.

We will expand these current practices to sample completed verifications to confirm that the verification is meeting federal regulatory requirements and that our current high level of completeness and accuracy is maintained. Oversight and review is an important component of administrative capacity. If there is any indication that the verification is not being completed correctly, we will investigate further and provide training or other interventions necessary to ensure compliance. The sample will be put in place for the 2008-2009 aid year. We are assigning an Associate Director responsibility for testing and reviewing verification. The work performed will be tracked in Banner.

Contact: Barbara Marshall, Director of Student Financial Aid