



UNIVERSITY OF DENVER (COLORADO SEMINARY)

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

and

OMB Circular A-133 Reports

Year ended June 30, 2009

UNIVERSITY OF DENVER (COLORADO SEMINARY)

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KPMG LLP
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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, 2009 and 2008, 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1(r) to the financial statements, in 2009, the University adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*; Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*; and Financial Accounting Standards Board Staff Position 117-1, *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, and Enhanced Disclosures for All Endowment Funds*. Also in 2009, as discussed in note 1(s) to the financial statements, the University adopted Statement of Financial Accounting Standards No. 165, *Subsequent Events*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2009 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 audits were 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

November 23, 2009

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2009

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 6,946,475	12,000,363	5,042,395	23,989,233
Short-term investments	133,385,585	48,008,440	—	181,394,025
Accounts receivable, net	20,128,011	138,674	802,310	21,068,995
Pledges receivable, net	7,001,447	15,900,574	12,757,901	35,659,922
Inventories, prepaid expenses, and other assets	4,045,514	18,265	—	4,063,779
Long-term investments	285,558	—	270,115,029	270,400,587
Loans to students, net	—	—	18,646,286	18,646,286
Deposits with bond trustees	—	5,277,860	—	5,277,860
Property, plant, and equipment, net of accumulated depreciation	—	492,670,280	—	492,670,280
Total assets	<u>\$ 171,792,590</u>	<u>574,014,456</u>	<u>307,363,921</u>	<u>1,053,170,967</u>
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 42,660,909	15,934,392	—	58,595,301
Deferred revenues	21,914,656	—	—	21,914,656
Other liabilities	—	5,736,097	1,118,383	6,854,480
Annuity obligations	—	—	7,522,206	7,522,206
Long-term debt	—	143,430,000	—	143,430,000
U.S. government grants refundable	—	—	17,052,288	17,052,288
Total liabilities	<u>64,575,565</u>	<u>165,100,489</u>	<u>25,692,877</u>	<u>255,368,931</u>
Net assets:				
Unrestricted:				
Available for operations	2,670,065	—	—	2,670,065
Designated student loans	—	—	1,781,899	1,781,899
Designated gain sharing	70,321,013	—	—	70,321,013
Board-designated endowments	—	—	51,329,973	51,329,973
Designated plant	—	362,790,203	—	362,790,203
Total unrestricted net assets	<u>72,991,078</u>	<u>362,790,203</u>	<u>53,111,872</u>	<u>488,893,153</u>
Temporarily restricted:				
Gifts and distributed endowment income	34,225,947	—	—	34,225,947
Plant	—	46,123,764	—	46,123,764
Endowments	—	—	55,161,003	55,161,003
Annuity life income	—	—	3,586,995	3,586,995
Total temporarily restricted net assets	<u>34,225,947</u>	<u>46,123,764</u>	<u>58,747,998</u>	<u>139,097,709</u>
Permanently restricted:				
Endowments	—	—	163,418,351	163,418,351
Annuity life income	—	—	4,273,434	4,273,434
Student loans	—	—	2,119,389	2,119,389
Total permanently restricted net assets	<u>—</u>	<u>—</u>	<u>169,811,174</u>	<u>169,811,174</u>
Total net assets	<u>107,217,025</u>	<u>408,913,967</u>	<u>281,671,044</u>	<u>797,802,036</u>
Commitments and contingencies (notes 8, 9, and 12)				
Total liabilities and net assets	<u>\$ 171,792,590</u>	<u>574,014,456</u>	<u>307,363,921</u>	<u>1,053,170,967</u>

See accompanying notes to financial statements.

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, net	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, net	—	—	19,333,683	19,333,683
Deposits with bond trustees	—	8,710,228	—	8,710,228
Property, plant, and equipment, net of accumulated depreciation	—	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
Board-designated endowments	—	—	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 distributed endowment income	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:				
Endowments	—	—	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 8, 9, and 12)				
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 Activities

Year ended June 30, 2009

	<u>Operating</u>	<u>Designated unrestricted</u>	<u>Total operating</u>	<u>Plant</u>	<u>Long-term investment</u>	<u>Total</u>
Change in unrestricted net assets:						
Revenues and gains:						
Tuition and fees	\$ 321,936,392	—	321,936,392	—	—	321,936,392
Less institutional scholarships	73,160,969	—	73,160,969	—	—	73,160,969
	<u>248,775,423</u>	<u>—</u>	<u>248,775,423</u>	<u>—</u>	<u>—</u>	<u>248,775,423</u>
Less noninstitutional scholarships	9,983,046	—	9,983,046	—	—	9,983,046
Net tuition and fees	238,792,377	—	238,792,377	—	—	238,792,377
Private gifts	2,015,833	—	2,015,833	72,302	222,355	2,310,490
Grants and contracts	24,540,578	—	24,540,578	—	—	24,540,578
Endowment income	312,664	—	312,664	861	13,712	327,237
Other investment income	2,696,538	—	2,696,538	159,646	300,277	3,156,461
Net realized and unrealized gains (losses) on endowments	(4,626,785)	—	(4,626,785)	2,008	(16,052,838)	(20,677,615)
Net realized and unrealized gains (losses) on other investments	(990,056)	2,400	(987,656)	(142,775)	(321,290)	(1,451,721)
Sales and services of educational activities	10,434,561	58,831	10,493,392	—	—	10,493,392
Sales and services of auxiliary enterprise	42,227,868	—	42,227,868	43,300	—	42,271,168
Other sources	6,845,161	131,742	6,976,903	188,307	(10,216)	7,154,994
Total unrestricted revenues and gains	<u>322,248,739</u>	<u>192,973</u>	<u>322,441,712</u>	<u>323,649</u>	<u>(15,848,000)</u>	<u>306,917,361</u>
Net assets released from restrictions	19,057,304	—	19,057,304	117,110	—	19,174,414
Total unrestricted revenues, gains, and other support	<u>341,306,043</u>	<u>192,973</u>	<u>341,499,016</u>	<u>440,759</u>	<u>(15,848,000)</u>	<u>326,091,775</u>
Expenses:						
Educational and general:						
Instruction	124,775,637	81,133	124,856,770	8,480,792	—	133,337,562
Research	14,672,874	—	14,672,874	519,603	—	15,192,477
Public service	3,379,494	—	3,379,494	25,970	—	3,405,464
Academic support	50,551,463	2,587,513	53,138,976	596,712	—	53,735,688
Student services	16,676,476	—	16,676,476	383,077	—	17,059,553
Institutional support	38,808,834	97,714	38,906,548	1,920,052	—	40,826,600
Total educational and general expenses	<u>248,864,778</u>	<u>2,766,360</u>	<u>251,631,138</u>	<u>11,926,206</u>	<u>—</u>	<u>263,557,344</u>
Auxiliary enterprises	53,730,390	17,280	53,747,670	8,256,640	—	62,004,310
Total expenses	<u>302,595,168</u>	<u>2,783,640</u>	<u>305,378,808</u>	<u>20,182,846</u>	<u>—</u>	<u>325,561,654</u>
Transfers among unrestricted net assets	38,129,054	(11,620,330)	26,508,724	(26,323,775)	(184,949)	—
Total expenses and transfers	<u>340,724,222</u>	<u>(8,836,690)</u>	<u>331,887,532</u>	<u>(6,140,929)</u>	<u>(184,949)</u>	<u>325,561,654</u>
Increase (decrease) in unrestricted net assets before extraordinary items	<u>581,821</u>	<u>9,029,663</u>	<u>9,611,484</u>	<u>6,581,688</u>	<u>(15,663,051)</u>	<u>530,121</u>
Nonoperating:						
Effect of adoption of FSP 117-1 (note 4)	—	—	—	—	(87,472,236)	(87,472,236)
Stipulation changed by donor	—	—	—	—	(10,001,048)	(10,001,048)
Increase (decrease) in unrestricted net assets after nonoperating items	<u>581,821</u>	<u>9,029,663</u>	<u>9,611,484</u>	<u>6,581,688</u>	<u>(113,136,335)</u>	<u>(96,943,163)</u>
Changes in temporarily restricted net assets:						
Private gifts	11,417,281	—	11,417,281	3,942,961	402,323	15,762,565
Endowment income	3,068,639	—	3,068,639	—	(2,781)	3,065,858
Other investment income	2,372	—	2,372	(15,778)	—	(13,406)
Net realized and unrealized gains (losses) on endowments	6,325,366	—	6,325,366	—	(32,785,306)	(26,459,940)
Net realized and unrealized gains (losses) on other investments	(115,275)	—	(115,275)	—	—	(115,275)
Net assets released from restrictions	(19,057,304)	—	(19,057,304)	(117,110)	—	(19,174,414)
Net assets reclassified to permanently restricted	1,038,527	—	1,038,527	—	(651,198)	387,329
Effect of adoption of FSP 117-1 (note 4)	—	—	—	—	87,472,236	87,472,236
Actuarial adjustment on annuity obligations	(55,142)	—	(55,142)	—	(1,881,032)	(1,936,174)
Increase in temporarily restricted net assets	<u>2,624,464</u>	<u>—</u>	<u>2,624,464</u>	<u>3,810,073</u>	<u>52,554,242</u>	<u>58,988,779</u>
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	2,123,803	2,123,803
Net realized and unrealized losses on other investments	—	—	—	—	28,139	28,139
Net assets reclassified from temporarily restricted	—	—	—	—	(387,329)	(387,329)
Stipulation changed by donor	—	—	—	—	10,001,048	10,001,048
Actuarial adjustment on annuity obligations	—	—	—	—	(762,675)	(762,675)
Increase in permanently restricted net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,002,986</u>	<u>11,002,986</u>
Change in net assets	<u>3,206,285</u>	<u>9,029,663</u>	<u>12,235,948</u>	<u>10,391,761</u>	<u>(49,579,107)</u>	<u>(26,951,398)</u>
Net assets at beginning 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>
Net assets at end of year	\$ <u>36,896,012</u>	<u>70,321,013</u>	<u>107,217,025</u>	<u>408,913,967</u>	<u>281,671,044</u>	<u>797,802,036</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)

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (26,951,398)	66,047,089
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property, plant, and equipment	11,473,554	11,468,222
Disposal of property, plant, and equipment	2,454,355	2,252,839
Amortization of premium	267,747	295,545
Decrease (increase) in accounts receivable	1,619,357	(1,534,231)
Decrease (increase) in pledges receivable	5,465,683	(6,081,690)
Decrease (increase) in inventories, prepaid expenses and other assets	1,088,153	(394,277)
Decrease (increase) in accounts payable and accrued liabilities	(528,744)	6,198,690
Increase in deferred revenues	315,145	1,613,136
Decrease in other liabilities	(382,483)	(152,059)
Actuarial adjustment for annuity obligation	(1,067,028)	448,190
Contributions of real property and personal property	(2,400,168)	(13,249,135)
Contributions restricted for long-term investment	(2,748,481)	(1,959,562)
Interest and dividends for long-term investments	(13,712)	(172,220)
Net realized and unrealized (gains) and or losses on investments	48,535,645	(924,336)
Net cash provided by operating activities	<u>37,127,625</u>	<u>63,856,201</u>
Cash flows from investing activities:		
Proceeds from sale of investments	679,675,463	420,141,739
Purchases of investments	(709,944,102)	(426,278,307)
Purchases of property, plant, and equipment	(26,038,636)	(41,556,105)
Disbursements for Perkins and University loans to students	(2,032,204)	(3,876,748)
Repayment of Perkins and University loans to students	2,719,601	3,158,973
Increase in deposits with bond trustees, net	3,432,368	26,720,533
Net cash used by investing activities	<u>(52,187,510)</u>	<u>(21,689,915)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	2,748,481	1,959,562
Interest and dividends restricted for reinvestment	13,712	172,220
Payments of bonds payable	(4,605,000)	(3,875,000)
Decrease (increase) in refundable government loan funds, net	(116,528)	114,722
Net cash used by financing activities	<u>(1,959,335)</u>	<u>(1,628,496)</u>
Net decrease (increase) in cash and cash equivalents	<u>(17,019,220)</u>	<u>40,537,790</u>
Cash and cash equivalents at beginning of year	<u>41,008,453</u>	<u>470,663</u>
Cash and cash equivalents at end of year	\$ <u><u>23,989,233</u></u>	<u><u>41,008,453</u></u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2009 and 2008

(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 Colorado 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. Certain portions of 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 9), are near maturity. Other liabilities are long term in nature. Balances and activities are either unrestricted, temporarily restricted, or have been released from restrictions.

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

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

Long-term investment – Endowment, annuity, and loan activity 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.

(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. An allowance for uncollectibility is provided based on specific review of outstanding balances.

Account receivables are net of allowances for uncollectible accounts of \$1,143,000 and \$876,000 as of June 30, 2009 and 2008, respectively.

(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. The University also holds shares or units in alternative investment funds involving hedge, private equity, and real estate strategies. For financial statement presentation purposes, and investment may be considered alternative if the investment does not meet the following four criteria: (1) it is registered with the Securities Exchange Commission (SEC) on Form N-1A, (2) it makes semiannual filings with the SEC on forms N_CSR or N_SAR, (3) it calculates a net asset value daily, and (4) purchase and redemption of shares may be done daily. Such alternative investment funds may hold securities or other financial instruments for which a ready

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market exists and are price accordingly. In addition, such funds may hold assets that require the estimation of fair values in the absence of readily determinable market values. See further discussion at note 1(o).

(f) Pledges Receivable

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

Donor-restricted contributions whose restrictions are met in the same reporting period are initially reported as restricted revenue, which increases 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. The bond reserve requirements for all other issuances are funded by a reserve fund insurance policy.

(i) Property, Plant, and Equipment

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.

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Donated works of art are considered collections under the University's policy. In the current year, the University received the Photographic Archive of Semyon Fridly valued at approximately \$7,000,000. The collection is held for public exhibition and education in furtherance of public service rather than financial gain. As such, the value of the collection is not recorded in the statements of financial position.

(j) Revenue

Unrestricted revenues include those items attributable to the University's undergraduate programs, graduate programs, research conducted by academic departments, sales and services of educational activities, and the sales and services of auxiliary services. Tuition and fee revenue are recognized ratably over the academic term. Summer school tuition, fee revenue, and related expenses that are not earned or incurred as of year end are deferred at June 30, 2009 and 2008 and recorded as revenue and expenses in the succeeding fiscal year.

(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. University employees' accumulated unused sick leaves are carried over to the next year and are 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. The University had no material amounts of unrelated business income for the years ended June 30, 2009 and 2008.

Effective July 1, 2007, the University adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income tax recognized

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in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely being realized upon settlement. The adoption of FIN 48 had no impact on the University's financial statements.

(n) Functional Expenses

The cost of providing the various programs and supporting services has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs allocated among programs include expenses associated with the following: facilities management and planning, the depreciation and disposal expense of property, plant, and equipment, and the interest expense on long-term debt. Costs of facilities management and planning and depreciation and the disposal of property, plant, and equipment are allocated to the programs based upon square footage. Interest expense on long-term debt is allocated to the programs that benefit from the long-term financing of the University.

(o) 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 the carrying (book) value because of its short maturity.

Short- and long-term investments – Fair value of cash equivalents and U.S. government securities is estimated to be the same as the carrying (book) value because of its short maturity. 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 the net asset value reported by each fund because it serves as a practical expedient to estimate the fair value of the University's interest. See further discussion at note 3.

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

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. The 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 1 year and on average carry a 7% interest rate. The Federal Perkins Loan program (Perkins) has a maximum repayment period of 10 years and carries an average interest rate of 5%.

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

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Accounts payable and accrued liabilities – Fair value is estimated to be the same as the 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. The University's agreements are tied to interest rates that range from 5.0% to 11.3%. Annuity obligations are adjusted annually for these factors.

Long-term debt – Fair value, which is disclosed in note 8, is determined by computing the present value of future payments discounted at the prevailing interest rate for comparable debt instruments at year-end.

(p) *Net Assets Reclassified from Temporarily Restricted to Permanently Restricted*

These balances represent transfers that were recorded to adhere to the requirements of donors. During the years ended June 30, 2009 and 2008, the University received permanently restricted gifts in which the donors required the University to match. The University's required match totaled \$200,000 and \$0 for the years ended June 30, 2009 and 2008, respectively.

(q) *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 significantly from those estimates.

(r) *Recent Accounting Pronouncements*

In September 2006, FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (FAS 157). This standard establishes a framework for measuring fair value, clarifies the definition of fair value for financial reporting, and expands disclosures about fair value measurements. Management adopted FAS 157 for fiscal year ended June 30, 2009. See further discussion at note 3.

In conjunction with the adoption of FAS 157, the University elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends FAS 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to FAS 157.

In August 2008, the FASB issued FASB Staff Position FSP 117-1, *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*

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Endowment Funds (FSP 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 (the Act) and expands disclosures about endowment funds. Management adopted FSP 117-1 for the fiscal year ended June 30, 2009. The effect of the adoption was a reclassification from unrestricted net assets to temporarily restricted net assets as of July 1, 2008 of approximately \$87,482,000 and additional note disclosures in 2009 for endowments. See further discussion at note 4.

(s) ***Effect of Adoption of FASB Statement No. 165***

Effective June 30, 2009, the University adopted FASB Statement No. 165, *Subsequent Events* (FAS 165). FAS 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The University evaluated events subsequent to June 30, 2009 and through November 23, 2009. The adoption of FAS 165 had no impact on the University's financial statements.

(2) **Short- and Long-Term Investments**

Investments at June 30 consist of the following:

	2009		
	Cost	Unrealized gain (loss)	Market value
Operations:			
U.S. government securities	\$ 168,082,742	438,332	168,521,074
Mutual funds	10,000,000	1,315,327	11,315,327
Domestic equities	341,360	(220,560)	120,800
Short-term investments	1,280,106	—	1,280,106
Other	156,718	—	156,718
	<u>179,860,926</u>	<u>1,533,099</u>	<u>181,394,025</u>
Long-term investment:			
Short-term investments	16,837,963	—	16,837,963
U.S. government securities	30,270,047	41,385	30,311,432
Alternative investments	116,082,727	19,540,158	135,622,885
Domestic equities	28,396,761	3,921,420	32,318,181
International equities	6,414,870	(950,506)	5,464,364
Real estate	23,667,241	4,741,843	28,409,084
Mutual funds	14,123,395	(2,324,039)	11,799,356
Beneficial trust interest	10,087,468	(1,243,833)	8,843,635
Other	525,238	268,449	793,687
	<u>246,405,710</u>	<u>23,994,877</u>	<u>270,400,587</u>
Total all funds	\$ <u>426,266,636</u>	<u>25,527,976</u>	<u>451,794,612</u>

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	2008		
	Cost	Unrealized gain (loss)	Market value
Operations:			
U.S. government securities	\$ 104,072,333	285,074	104,357,407
Mutual funds	10,000,000	2,458,618	12,458,618
Domestic equities	351,381	(105,360)	246,021
Short-term investments	1,396,169	—	1,396,169
Other	156,718	—	156,718
	<u>115,976,601</u>	<u>2,638,332</u>	<u>118,614,933</u>
Long-term investment:			
Short-term investments	23,657,269	—	23,657,269
U.S. government securities	40,258,132	(24,400)	40,233,732
Alternative investments	119,395,339	42,401,030	161,796,369
Domestic equities	35,704,697	20,119,608	55,824,305
International equities	10,000,000	2,684,581	12,684,581
Real estate	23,118,158	4,741,843	27,860,001
Mutual funds	15,019,603	1,171,755	16,191,358
Beneficial trust interest	9,952,337	27,830	9,980,167
Other	546,135	272,600	818,735
	<u>277,651,670</u>	<u>71,394,847</u>	<u>349,046,517</u>
	<u>\$ 393,628,271</u>	<u>74,033,179</u>	<u>467,661,450</u>

During the years ended June 30, 2009 and 2008, the University paid approximately \$429,000 and \$478,000, 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, 2009, the pool had 57,298,498 shares outstanding, with a fair value of approximately \$4.24 per share or \$242,879,000. 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 2009 was \$0.17 per share, of which \$0.05 represented income yield. The remaining \$0.12 represented spending of realized and unrealized gains. At June 30, 2008, the pool had 53,058,276 shares outstanding, with a fair value of approximately \$5.14 per share or \$272,800,000. 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.

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The investment pool consists of 678 individual endowments at June 30, 2009. Of these endowments, 139 are considered to be “under water” as the fair value of the underlying investments is less than the original gift value. At June 30, 2009, the fair value of the underlying investments related to these 139 endowments totaled approximately \$66,500,000 while the original gift value was approximately \$72,422,000. See additional discussion in note 4(b).

At June 30, 2008, the investment pool consisted of 645 individual endowments. Of these, 18 were considered to be “under water” with underlying investments of approximately \$10,382,000 while the original gift value was approximately \$10,498,000. See the additional discussion in note 4(b).

The University has the following split-interest agreements, which are included in long-term investments at June 30, 2009 and 2008:

	2009		
	Number of agreements	Net assets classification	
		Temporary	Permanent
Perpetual trusts held by third party	4	\$ —	6,690,512
Charitable Remainder Trusts:			
University named trustee	24	5,413,295	4,683,483
Third-party named trustee	8	1,587,314	1,656,843
Charitable Annuity Agreements	63	2,931,256	1,257,554
	<u>99</u>	<u>\$ 9,931,865</u>	<u>14,288,392</u>
	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>

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

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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 2009 and 2008 was approximately \$442,000 and \$824,000, respectively.

(3) FAS 157 – Fair Value Measurements

FAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are as follows:

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

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

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

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the University. The University considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the University's perceived risk of that instrument.

In determining the placement of an investment within the hierarchy, the University separates the University's investment portfolio into two categories: investments and derivative instruments.

(a) *Investments*

Investments whose values are based on quoted market prices in active markets, and are, therefore, classified within Level 1, include active listed equities, certain U.S. government and sovereign obligations, and certain money market securities. The University does not adjust the quoted price for such instruments, even in situations where the University holds a large position and a sale could reasonably impact the quoted price.

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Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2. These include certain U.S. government and sovereign obligations, most government agency securities, investment grade corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, state, municipal, and provincial obligations, most physical commodities, and certain loan commitments. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect liquidity and/or nontransferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include private equity and real estate investments, certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, investments in other funds, and less liquid mortgage securities (backed by either commercial or residential real estate).

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct investments in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the statements of financial position. If the interest can be redeemed in the near term, the investment is classified in level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(b) *Derivative Instruments*

Derivative instruments can be exchange-traded or privately negotiated over the counter (OTC). Exchange-traded derivatives, such as futures contracts and exchange traded option contracts, are typically classified within Level 1 or 2 of the fair value hierarchy depending on whether or not they are deemed to be actively traded.

OTC derivatives, including forwards, credit default swaps, total return equity swaps, and interest rate swaps, are valued by the University using observable inputs, such as quotations received from the counterparty, dealers, or brokers, whenever available and considered reliable. In instances where models are used, the value of an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, and measures of volatility, prepayment rates, and correlations of such inputs. Certain OTC derivatives, such as generic forwards, swaps, and options, have inputs that can generally be corroborated by market data and are, therefore, classified within Level 2.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2009 and 2008

The following table represents the fair value of financial instruments carried on the statement of financial position and by level with in the valuation hierarchy as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. government securities	\$ 198,602,506	230,000	—	198,832,506
Alternative investments	—	11,641,249	123,981,636	135,622,885
Mutual funds	11,799,356	—	11,315,327	23,114,683
Domestic equities	32,438,981	—	—	32,438,981
International equities	5,464,364	—	—	5,464,364
Short-term investments	18,118,069	—	—	18,118,069
Real estate	—	28,409,084	—	28,409,084
Beneficial trusts	7,866,889	—	976,746	8,843,635
Other	206,135	—	744,270	950,405
Total investments	<u>\$ 274,496,300</u>	<u>40,280,333</u>	<u>137,017,979</u>	<u>451,794,612</u>

The following table includes a rollforward of the amounts for the year ended June 30, 2009 for financial instruments classified within Level 3. The classification of a financial instrument within the Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

Fair value measurement using Level 3 inputs:

	<u>Mutual funds/other</u>	<u>Private equity</u>	<u>Hedged/ absolute</u>	<u>Total</u>
Balances at June 30, 2008	\$ 13,202,888	32,965,970	113,987,054	160,155,912
Purchases	1,066,753	25,334,260	23,348,418	49,749,431
Sales	—	(15,129,154)	(36,866,137)	(51,995,291)
Unrealized losses	<u>(1,233,298)</u>	<u>(6,704,792)</u>	<u>(12,953,983)</u>	<u>(20,892,073)</u>
Balances at June 30, 2009	<u>\$ 13,036,343</u>	<u>36,466,284</u>	<u>87,515,352</u>	<u>137,017,979</u>

All unrealized gains (losses) in the table above are reflected in the accompanying statement of activities for the year ended June 30, 2009.

(4) Endowments

As discussed in note 1(r), the University adopted FSP 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 the Act and expands disclosures about endowment funds. The act was effective September 1, 2008 and provides for statutory guidance for the management, investment, and expenditure of endowment funds held by not-for-profit organizations. Amongst other provisions, the Act eliminates the “historical dollar value” rule for endowment funds in favor of guidelines regarding what constitutes prudent spending.

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Notes to Financial Statements

June 30, 2009 and 2008

The University's endowments consist of approximately 700 individual funds established for a variety of purposes, including both donor restricted endowment funds (true endowment) and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The board of trustees of the University has interpreted the version of the UPMIFA enacted by the state of Colorado as not requiring an institution subject to UPMIFA to implement a reclassification within its financial statements to reflect the effect of price inflation on the historic dollar value of endowment funds, bringing the current purchasing power of such funds to their original purchasing power and denominating the result as permanently restricted.

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

1. The duration and the preservation of the fund.
2. The purposes of the University and the donor restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the University.
7. The investment policies of the University.

Net assets comprising true endowments funds and funds designated by the board of trustees to function as endowments were as follows at June 30:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2009:				
Board-designated endowment funds	\$ 51,329,973	—	—	51,329,973
Donor-restricted endowment funds	—	55,161,003	163,418,351	218,579,354
	<u>\$ 51,329,973</u>	<u>55,161,003</u>	<u>163,418,351</u>	<u>269,909,327</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2009 and 2008

The changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 164,445,293	—	152,006,587	316,451,880
Net asset reclassified based on adoption of FSP 117-1	<u>(87,472,236)</u>	<u>87,472,236</u>	<u>—</u>	<u>—</u>
Endowment net assets, after adoption of FSP 117-1	76,973,057	87,472,236	152,006,587	316,451,880
Investment return:				
Investment income	2,963,575	(2,781)	—	2,960,794
Net unrealized loss	<u>(9,345,976)</u>	<u>(32,785,306)</u>	<u>—</u>	<u>(42,131,282)</u>
Total investment return	(6,382,401)	(32,788,087)	—	(39,170,488)
Private gifts	222,357	252,261	1,831,552	2,306,170
Appropriation of endowment assets for expenditures	(9,656,725)	—	—	(9,656,725)
Present value adjustments	(10,216)	—	(137,176)	(147,392)
Reinvested income	—	224,593	—	224,593
Transfer to quasi-endowments	184,949	—	—	184,949
Reclassification of restricted net assets	—	—	(483,660)	(483,660)
Stipulations changed by donor	(10,001,048)	—	10,001,048	—
Net assets restricted to comply with donor matches	<u>—</u>	<u>—</u>	<u>200,000</u>	<u>200,000</u>
Changes	<u>(25,643,084)</u>	<u>(32,311,233)</u>	<u>11,411,764</u>	<u>(46,542,553)</u>
Endowment net assets, June 30, 2009	\$ <u>51,329,973</u>	<u>55,161,003</u>	<u>163,418,351</u>	<u>269,909,327</u>

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the level of the book value (underwater). When a fund is classified as underwater then only income earned (interest and dividends) will be distributed for spending. Due to the market losses on long-term investments that occurred in the later part of 2008 and early 2009, the University has 139 funds considered underwater with a deficiency of approximately \$6 million at June 30, 2009. The deficiency is recorded as unrestricted net unrealized losses on endowment within the statements of activities.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

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(c) Return Objectives and Risk Parameters

The primary objective of the investment for the endowment, quasi-endowment, and similar funds is the concept of preservation of purchasing power of the funds with an emphasis on long-term growth of the funds and with a risk profile that would be deemed to be prudent by institutional fiduciaries generally. Consistent with this objective, a reasonable return is expected.

(d) Strategies Employed for Achieving Objectives

The University targets a diversified asset allocation that places emphasis on investments in: Large Capitalization Equities 15.0%, Small/Mid Capitalization Equities (12.5%), International Equities (12.5%), Hedged Funds 15.0%, Private Equities (2.5%), Absolute Return funds (12.5%), Fixed Income 15.0%, Real Estate and Other investment 15.0%. The profile is reviewed quarterly and rebalanced as needed.

(e) Spending Policy

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. As of June 30, 2009, the approved percentage was 4.5% of a moving 12-quarter average of the market value of such funds.

(5) Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	<u>2009</u>	<u>2008</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 32,113,098	4,185,612
One to five years	15,790,795	46,626,049
	<u>47,903,893</u>	<u>50,811,661</u>
Less allowance for uncollectible pledges	(4,790,390)	(2,540,583)
Less present value discount (2.70% – 6.25%)	<u>(7,453,581)</u>	<u>(7,145,473)</u>
Net pledges receivable	<u>\$ 35,659,922</u>	<u>41,125,605</u>

Included in pledges receivable is the present value of approximately \$21,254,000 and \$23,076,000 as of June 30, 2009 and 2008, respectively, in pledges from members of the board of trustees. For the years ended June 30, 2009 and 2008, the University did not conduct any additional, significant transactions with members of the board of trustees that were not negotiated at arm's length.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2009 and 2008

(6) Property, Plant, and Equipment

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

	<u>2009</u>	<u>2008</u>
Land	\$ 8,570,140	8,135,034
Land improvements	19,876,285	19,757,373
Buildings and improvements	506,152,723	458,571,261
Equipment	47,353,801	49,739,348
Library books	8,213,331	8,055,488
Construction in progress	17,214,448	46,038,251
	<u>607,380,728</u>	<u>590,296,755</u>
Less accumulated depreciation	<u>(114,710,448)</u>	<u>(109,737,202)</u>
	<u>\$ 492,670,280</u>	<u>480,559,553</u>

The University had approximately \$11,474,000 and \$11,468,000 of depreciation expense for the years ended June 30, 2009 and 2008, respectively, which was reported within all functions in the accompanying statements of activities.

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143*. Under FIN 47, costs related to the legal obligation to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued. The University has identified asbestos abatement as a conditional retirement obligation. For the years ended June 30, 2009 and 2008, respectively, an asset retirement obligation of approximately \$9,409,000 and \$10,035,000 is included in accounts payable and accrued liabilities.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2009 and 2008

(7) Long-Term Debt

Bonds payable at June 30 consist of the following:

	<u>2009</u>	<u>2008</u>
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2008	\$ 8,785,000	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	30,105,000	30,155,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2005B	45,255,000	46,620,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2001B	17,970,000	19,060,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 2000	1,395,000	2,190,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 1999	—	700,000
	<u>\$ 143,430,000</u>	<u>148,035,000</u>

The University had approximately \$5,714,000 and \$5,090,000 of interest expense for the years ended June 30, 2009 and 2008, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately \$6,929,000 and \$7,282,000 was paid in cash during the years ended June 30, 2009 and 2008, respectively. Net interest cost capitalized in fiscal years 2009 and 2008 was approximately \$1,216,000 and \$2,094,000, respectively. The fair value of bonds payable was approximately \$142,817,000 and \$147,248,000 at June 30, 2009 and 2008, 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% to 5%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

(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

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

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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 fiscal year 2007 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.

(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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

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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)

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June 30, 2009 and 2008

(h) Aggregate Annual Maturities of Bonds Payable

At June 30, 2009, the aggregate annual maturities of bonds payable for the five succeeding years and thereafter are as follows:

2010	\$	4,785,000
2011		4,960,000
2012		5,055,000
2013		5,370,000
2014		5,705,000
Thereafter		<u>117,555,000</u>
	\$	<u><u>143,430,000</u></u>

(i) 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 and maintain a debt service coverage ratio (as defined by the Loan Agreement) of at least 1.20. 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.

(j) Security for the bonds

Under all the University's bond loan agreements, the University is obligated to pay amounts sufficient to provide payment of the principal of and interest on the bonds. The obligation of the University to make such payments under the loan agreements is secured by a security interest in the gross revenues of the University as defined.

(8) Retirement Plan

Full-time employees, including part-time employees who work at least 20 hours per week for at least six months, of the University are eligible to participate in a contributory tax-deferred annuity retirement plan (the Retirement Plan) under Section 403(b) of the Code. Administrators, faculty members, and staff-appointed employees are eligible to participate in the Retirement Plan after one year of service. Participating employees may contribute up to 4% of their base salary, limited by the Code to \$14,000 per employee. The University contributes an amount twice that of the employee up to 8%. Participants have a fully vested interest in the total contributions immediately. Accounts of each employee are invested at the employee's discretion. Under the Retirement Plan, the University contributed approximately \$8,692,000 and \$8,146,000 for the years ended June 30, 2009 and 2008, respectively, which were charged to operations expenses.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2009 and 2008

(9) Postretirement Benefits Other than Pensions

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – 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.

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, 2009, the Healthcare Plan covered 242 retirees with an additional 2,209 active employees potentially eligible for coverage. At June 30, 2008, the Healthcare Plan covered 236 retirees with an additional 2,319 active employees potentially eligible for coverage. The Healthcare Plan is noncontributory.

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

	<u>2009</u>	<u>2008</u>
Accrued postretirement benefit obligation (APBO), beginning of year	\$ 2,624,485	2,692,522
Service cost	23,780	18,828
Interest cost	151,434	161,648
Change in assumptions loss (gain)	54,216	(16,332)
Actuarial loss (gain)	22,801	(84,898)
Benefits paid	<u>(198,739)</u>	<u>(147,283)</u>
APBO (all unfunded), end of year	\$ <u>2,677,977</u>	<u>2,624,485</u>

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

	<u>2009</u>	<u>2008</u>
Service cost	\$ 23,780	18,828
Interest cost	151,434	161,648
Amortization of transition obligation	37,478	99,471
Amortization of prior service cost	99,472	37,478
Recognized net actuarial gain	<u>(6,447)</u>	<u>—</u>
Net periodic postretirement benefit cost	\$ <u>305,717</u>	<u>317,425</u>

The weighted average discount rate used in determining the APBO was 5.78% and 6.00% for June 30, 2009 and 2008, 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 \$199,000 and \$147,000 for the years ended June 30, 2009 and 2008, respectively, which were charged to operating expenses.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2009 and 2008

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

2010	\$	208,635
2011		210,829
2012		211,834
2013		211,583
2014		210,603
2015 – 2024		<u>2,004,361</u>
Total	\$	<u><u>3,057,845</u></u>

For the year ended June 30, 2009, 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 received the full \$60.

The measurement date for the Healthcare Plan was June 30, 2009.

(10) Loans to Students

Student loans made through Perkins constitute substantially all of the student loans outstanding at June 30, 2009 and 2008. 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 2009 and 2008, 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, 2009 and 2008, the allowance for possible loan losses of Perkins approximated \$750,000 and \$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, 2009 and 2008, the allowance for possible loan losses of these funds was \$153,000 and \$142,000, respectively.

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

(11) Fund-Raising Expenses

The University had fund-raising expenses of approximately \$5,548,000 and \$5,137,000 in 2009 and 2008, respectively, which were recognized in institutional support in the accompanying statements of activities.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2009 and 2008

(12) Commitments and Contingencies

At June 30, 2009 and 2008, the University had outstanding commitments totaling approximately \$16,700,000 and \$2,400,000, respectively, for contracts related to various construction projects on campus.

During the 2009 fiscal year, the University invested approximately \$10,000,000 in 13 long-term partnerships, which were formed prior to the 2009 fiscal year, bringing its cumulative contributions to the partnerships, to approximately \$40,500,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of June 30, 2009, the University's remaining commitments to these 13 partnerships total approximately \$17,500,000.

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.



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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, 2009 and have issued our report thereon dated November 23, 2009. Our report included an explanatory paragraph stating that the University adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*; Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*; Financial Accounting Standards Board Staff Position 117-1, *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, and Enhanced Disclosures for All Endowment Funds*; and Statement of Financial Accounting Standards No. 165, *Subsequent Events*, during fiscal year 2009. 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 *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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, 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 23, 2009



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, 2009. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and 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 09-01 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 Federal 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, 2009.

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. However, we do not consider this deficiency to be a material weakness.

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 over compliance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-01 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control over compliance. The significant deficiency over compliance described in the accompanying schedule of findings and questioned costs as item 09-01 is not considered to be a material weakness.

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

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

KPMG LLP

November 23, 2009

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal granting agency	CFDA number	Federal expenditures
Research and Development Cluster:		
Department of Agriculture:		
Direct payments	10.001	\$ 36,862
Pass-through awards	10.558	32,740
Total Department of Agriculture		<u>69,602</u>
Department of Commerce:		
National Institute of Standards and Technology:		
Direct payments	11.609	37,575
Pass-through awards	11.612	62,258
Total Department of Commerce		<u>99,833</u>
Department of Housing and Urban Development:		
Pass-through awards	14.228	12,108
Direct payments	14.511	8,887
Direct payments	14.517	11,253
Pass-through awards	14.866	9,104
Total Department of Housing and Urban Development		<u>41,352</u>
Department of the Interior:		
Direct payments	15.915	122,191
Direct payments	15.929	2,780
Total Department of the Interior		<u>124,971</u>
Department of Justice:		
Pass-through awards	16.540	14,610
Pass-through awards	16.543	(3,465)
Direct payments	16.560	2,206,479
Pass-through awards	16.560	798,138
Subtotal 16.560	16.560	<u>3,004,617</u>
Total Department of Justice		<u>3,015,762</u>
Department of Labor:		
Pass-through awards	17.258	41,674
Pass-through awards	17.261	287,103
Total Department of Labor		<u>328,777</u>
Department of Transportation:		
Pass-through awards	20.215	7,875
Direct payments	20.514	61,155
Direct payments	20.801	521,794
Total Department of Transportation		<u>590,824</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal granting agency	CFDA number	Federal expenditures
Department of the Treasury:		
Direct payments	21.008	\$ 77,305
Total Department of the Treasury		<u>77,305</u>
National Aeronautics and Space Administration (NASA):		
Direct payments	43.000	53,995
Direct payments	43.001	586,594
Pass-through awards	43.001	98,452
Subtotal 43.001		<u>685,046</u>
Total NASA		<u>739,041</u>
National Endowment for the Arts and Humanities:		
Pass-through awards	45.024	5,000
Direct payments	45.313	120,423
Total National Endowment for the Arts and Humanities		<u>125,423</u>
National Science Foundation:		
Direct payments	47.041	820,198
Pass-through awards	47.041	22,322
Subtotal 47.041		<u>842,520</u>
Direct payments	47.049	55,670
Direct payments	47.050	87,139
Direct payments	47.070	102,575
Direct payments	47.074	306,897
Pass-through awards	47.074	465
Subtotal 47.074		<u>307,362</u>
Direct payments	47.075	17,528
Direct payments	47.076	390,702
Pass-through awards	47.076	39,051
Subtotal 47.076		<u>429,753</u>
Total National Science Foundation		<u>1,842,547</u>
United States Nuclear Regulation Commission:		
Direct payments	77.006	142,676
Total United States Nuclear Regulation Commission		<u>142,676</u>
Department of Education:		
Pass-through awards	84.017	29,000
Direct payments	84.116	9,368
Direct payments	84.324	144,939

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal granting agency	CFDA number	Federal expenditures
Total Department of Education		183,307
Department of Health and Human Services:		
Pass-through awards	93.004	\$ 10,500
Pass-through awards	93.010	18,294
Direct payments	93.173	269,495
Direct payments	93.242	931,152
Pass-through awards	93.242	7,316
Subtotal 93.242		938,468
Direct payments	93.272	27,697
Direct payments	93.279	238,404
Direct payments	93.282	17,588
Pass-through awards	93.293	155,312
Direct payments	93.286	1,013,110
Pass-through awards	93.286	249,386
Subtotal 93.286		1,262,496
Pass-through awards	93.307	12,940
Pass-through awards	93.556	7,442
Direct payments	93.575	27,975
Direct payments	93.595	426,308
Direct payments	93.600	122,717
Direct payments	93.648	442,608
Pass-through awards	93.648	268,019
Subtotal 93.648		710,627
Pass-through awards	93.652	198,864
Pass-through awards	93.847	6,099
Direct payments	93.853	299,080
Direct payments	93.855	302,886
Pass-through awards	93.856	581,515
Direct payments	93.859	77
Direct payments	93.865	1,968,470
Pass-through awards	93.865	440,376
Subtotal 93.865		2,408,846
Direct payments	93.866	133,255
Direct payments	93.867	96,284
Direct payments	93.910	202,824
Pass-through awards	93.958	496,937
Total Department of Health and Human Services		8,972,930
Total Research and Development Cluster		16,354,350

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal granting agency	CFDA number	Federal expenditures
Student Financial Assistance Cluster:		
Department of Education:		
Federal Supplemental Education Opportunity Grant Program	84.007	\$ 561,610
Federal Family Education Loans	84.032	118,044,787
Federal Work Study Program	84.033	1,764,053
Job Location and Development	84.033	48,320
Subtotal 84.033		<u>1,812,373</u>
Total Department of Education		<u>120,418,770</u>
Federal Perkins Loan Program	84.038	1,984,399
Federal Pell Grant Program	84.063	2,411,135
Federal Academic Competitiveness Grants	84.375	124,650
Federal National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	135,999
		<u>4,656,183</u>
Total Department of Education – Student Financial Assistance Cluster		<u>125,074,953</u>
Total federal awards		<u>\$ 141,429,303</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, 2009

(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, 2009. 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, 2009, 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. During the year ended June 30, 2009, the University received and disbursed approximately \$118 million 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.

During the year ended June 30, 2008, the University made loans directly to students under FFELP. Prior to June 30, 2008, the University sold the loans under FFELP to a third party without recourse. As such, the University is no longer a direct lender and no longer contracts 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 \$19,363,000 as of June 30, 2009.

Prior to fiscal year 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, 2009

(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 number</u>	<u>Expenditures</u>
Colorado Department of Public Health and Environment	10.558	00013-09	\$ 32,740
Nano Electronics Research Corp.	11.612	2008-NE-1462D	62,258
City and County Of Denver	14.228	CE72126	12,108
Denver Housing Authority	14.866	CO06URD001/102	9,104
Colorado Dept of Criminal Justice	16.540	26-JD-13-97	2,838
Colorado Dept of Criminal Justice	16.540	27-JD-13-97	11,772
National Center for Missing and Exploited Children	16.543	Agreement dated 6/22/06	(3,465)
Pennsylvania State University	16.560	SA08-11	376,523
Pennsylvania State University	16.560	SA08-11	245,859
Pennsylvania State University	16.560	SA08-11	175,756
Metro Denver Economic Development Corporation	17.258	Contract dated 2/1/07	41,674
Metro Denver Economic Development Corporation	17.261	SIGNED 7/1/08	287,103
City and County of Denver	20.215	CE54014	7,875
Jet Propulsion Lab	43.001	1310757	30
Jet Propulsion Lab	43.001	1310816	9,602
Jet Propulsion Lab	43.001	1349936	9,605
Smithsonian Astrophysical Observatory	43.001	SV8-78003	69,219
University of Utah	43.001	2502098B/PQ#0000138026	9,996
Western States Arts Federation	45.024	TWP090044	2,500
Western States Arts Federation	45.024	TWP090176	2,500
Eureka Scientific Inc.	47.041	023.HOFFMAN	22,322
University of Colorado/Boulder	47.074	SPO S4007	465
University of Colorado at Denver	47.076	1203.05.119D-04/58464	39,051
United Negro College Fund Special Corporation	84.017	Agreement dated 7/25/08	29,000
University of Miami	93.004	403553	10,500
WAIT (Why Am I Tempted) Training	93.010	Agreement dated 7/10/07	18,294
Texas A and M University	93.242	3080064	7,316
University of Chicago	93.286	35152-1	222,029
University of Chicago Medical Center	93.286	TRACS #30764	10,882

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Grantor agency</u>	<u>CFDA number</u>	<u>Contract/grantor number</u>	<u>Expenditures</u>
University of Nebraska	93.286	24-0503-0024-003	\$ 16,475
Colo Found for Pub Health & Envir	93.293	2007-RIHEL-DU	71,645
Colo Found for Pub Health & Envir	93.293	2007-RIHEL-DU	83,667
San Francisco State University	93.307	C7-94383/SFRSP-C7-94383	12,940
University of California	93.556	SA5230-15784/1234618	7,442
Jefferson County Department of Human Services	93.648	Agreement dated 7/21/08	4,212
Jefferson County Department of Human Services	93.648	Agreement dated 9/18/07	10,994
Jefferson County Department of Human Services	93.648	Contract dated 8/19/08	6,100
Research Foundation of State University of New York	93.648	1075195-5-48396	246,713
City and County Of Denver	93.652	CC #GE81304	21,932
Colorado Coalition of Adoptive Families	93.652	Agreement dated 3/31/05	8,680
Colorado Coalition of Adoptive Families	93.652	Agreement dated 3/31/05	15,092
University of Texas/Arlington	93.652	26-1601-62-61	153,160
UCHSC-Barbara Davis Center for Childhood Diabetes	93.847	FY07.129.004/61784	6,099
Colorado Department of Human Services	93.856	08 IHA 00025	1,772
Colorado Department of Human Services	93.856	08-IHA-00026	6,240
Colorado Department of Human Services	93.856	08-IHA-00633	510,806
Colorado Department of Human Services	93.856	08-IHA-00633	62,697
University of Colorado/Boulder	93.865	1544287/64572	133,291
University of Colorado/Boulder	93.865	1544288/64573	138,689
University of Colorado/Boulder	93.865	PO#0000068450	125,331
University of Colorado/Boulder	93.865	SPO68327	43,066
Colorado Department of Human Services	93.958	08I HA 00050	99
Colorado Department of Human Services	93.958	08I HA 00051	95
Colorado Department of Human Services	93.958	08I HA 00052	96

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Grantor agency</u>	<u>CFDA number</u>	<u>Contract/grantor number</u>	<u>Expenditures</u>
Colorado Department of Human Services	93.958	09-IHA-00045	\$ 62,882
Colorado Department of Human Services	93.958	09-IHA-00046	131,920
Colorado Department of Human Services	93.958	09-IHA-00047	17,911
Colorado Department of Human Services	93.958	09-IHA-00053	250,025
Colorado Department of Human Services	93.958	OE IHA STFC0800002	628
Colorado Department of Human Services	93.958	OE IHA STFC0800003	(3)
Colorado Department of Human Services	93.958	OE-IHA-STFC0900004	18,660
University Of Wisconsin	93.958	K087589	14,624
		Total	\$ <u>3,909,436</u>

(6) Subrecipients

The University passed through approximately \$1,732,000 to subrecipients in the Research and Development cluster for the year ended June 30, 2009. On the accompanying Schedule, the following amounts were disbursed to subrecipients:

<u>Grantor agency</u>	<u>CFDA number</u>	<u>Contract/grantor number</u>	<u>Expenditures</u>
Aimee Weber Studio Inc	77.006	NRC-38-07-500	\$ 4,167
American Humane Assoc	93.958	09-IHA-00053	3,000
Applied Research Associates	16.560	SA08-11	69,077
Aurora Mental Health Center	93.958	09-IHA-00046	10,351
Aurora Mental Health Center	93.242	R34MH080102-01A2	19,414
Capital College	47.076	DUE-0416969	5,000
Colorado Collision Consultants	16.560	2005-IJ-CX-K001	11,860
Correct Tech LLC	16.560	2005-IJ-CX-K001	63,888
Correct Tech LLC	16.560	SA08-11	17,525
Denver Domestic Violence	16.560	2007-WG-BX-0002	2,688
Denver VALE Board	16.560	2007-WG-BX-0002	5,376
Eugene Atherton	16.560	2005-IJ-CX-K001	49,830
Eugene Atherton	16.560	SA08-11	13,343
Fred Eugene Walker	16.560	SA08-11	27,995
Gene McCausey	16.560	SA08-11	27,990
Kinsley & Associates LLC	16.560	2005-IJ-CX-K001	282,264
L-3 Services Inc	16.560	2005-IJ-CX-K001	137,523

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Grantor agency</u>	<u>CFDA number</u>	<u>Contract/grantor number</u>	<u>Expenditures</u>
Mississippi State University	20.801	DTRT06-G-0050	\$ 299,941
Native American Training	93.958	90CT0146/01	17,801
TEQ Services Inc	16.560	SA08-11	26,892
The Adoption Exchange Inc	93.958	09-IHA-00046	6,210
University of Colorado Health Services Center	93.853	5 R01 NS051539	5,492
University of Colorado Health Services Center	93.865	HD049027	59,061
University of Colorado Health Services Center	93.865	HD053314-21	14,303
University of Northern Colorado	84.324	H325A030049	2,476
University of Chicago	93.286	5R01EB000557-07	27,830
University of Colorado at Denver	93.242	HD048780-03	36,766
University of Colorado at Denver	47.075	SES-0551931	1,234
University of Kansas	93.648	90CT0122/05	46,049
University of Nebraska	93.865	HD049027	159,716
University of North Dakota	93.242	5 R01 MH065431-05	3,433
University of North Dakota	93.648	90CT0146/01	1,756
University of Wisconsin	93.865	HD049027	28,204
University of Wyoming	43.001	NNX08AW61G	38,993
Vail and Associates LLC	16.560	2005-IJ-CX-K001	204,400
		Total	\$ <u>1,731,848</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

(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 program: **Yes**
Material weaknesses: **No**
- (e) The type of report issued on compliance for major program: **Qualified Opinion Regarding Special Tests and Provisions – Return of Title IV Funds for the Student Financial Assistance Cluster; Unqualified Opinion on the Other Compliance Requirement for the Student Financial Assistance Cluster**
- (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 reported

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No. 09-01 – Federal Student Financial Assistance Cluster

Pass-Through Agency or Direct Award: Direct Award

Program Identification

Student Financial Assistance Cluster, Federal Family Education Loan Program (84.032)

Student Financial Assistance Cluster, Federal Pell Grant Program (84.063)

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

Year ended June 30, 2009

the difference between the amounts must be treated as a postwithdrawal 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 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 six instances in 40 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).

Questioned Costs

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

Context

Of the 40 return of Title IV calculations tested, we noted 6 instances in which the University did not return its unearned portion of Title IV funds 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 the return of Title IV funds is made by the University in a timely manner.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

View of Client Official

Agreed

Corrective Action Plan

Management has responded with additional steps to improve the processes that allowed these continuing lapses to occur, including termination of a member of Financial Aid management. In addition, written warnings were placed in the personnel files of staff who did not execute the steps required of them to successfully process the return of Title IV funds. A customized work flow was tested and put into place in September 2009, which has automated the system of tracking withdrawals. This will improve the timely processing and review related to the calculation and return of Title IV funds in the future as it actively prompts staff to take action as the withdrawals occur.

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