

**UNIVERSITY OF DENVER
(COLORADO SEMINARY)**

Financial Statements and
Uniform Guidance Single Audit Reports

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)



November 16, 2018

To Readers and Users of the University of Denver's Financial Statements:

The University's management is responsible for the fair presentation of the University's financial statements, prepared in accordance with generally accepted accounting principles (GAAP), and has full responsibility for their integrity and accuracy. Management believes that effective internal controls are maintained to provide reasonable assurance at reasonable costs that assets are protected and that transactions and events are recorded properly.

Management, with oversight of the Board of Trustees, maintains a strong ethical climate to ensure that the University's affairs are conducted at the highest standards of personal and corporate conduct. The University has voluntarily adopted best practices in corporate governance and responsibility including:

- We have clear codes of business conduct and conflicts of interest - approved by the Board of Trustees - that are monitored by the Office of Internal Audit and annually affirmed by our deans, directors, officers and trustees.
- All University deans and directors have individually certified the accuracy and completeness of the underlying financial transactions and the non-financial activities as well as the adherence to internal controls within their scope of their responsibility.
- We have a confidential hotline in the Office of Internal Audit available to all employees to submit complaints on accounting, internal controls and auditing matters. The Audit Committee of the Board of Trustees reviews the nature and disposition of all matters reported under this mechanism.
- Our Internal Audit function oversees the University's key areas of business, financial processes and internal controls, and reports directly to the Audit Committee.
- Both the internal audit function and the independent accountants meet with the Audit Committee at least annually without the presence of management representatives.

We are dedicated to maintaining our high standards for financial accounting and reporting as well as our system of internal controls. The University's culture demands integrity and we have confidence that our employees and processes reflect the highest level of ethical standards.

Rebecca Chopp
Chancellor

Jeremy Haefner
Provost and
Executive Vice Chancellor

Craig Woody
Senior Vice Chancellor
for Business and
Financial
Affairs/Treasurer

Andrew Cullen
Associate Vice Chancellor
for Finance/Assistant
Treasurer

UNIVERSITY OF DENVER (COLORADO SEMINARY)

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
University of Denver
Denver, Colorado

Report on Financial Statements

We have audited the accompanying financial statements of University of Denver (Colorado Seminary) (the University), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The 2018 Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the presentation of the operating, plant and long-term investment fund information in the statements of financial position and statements of activities are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedule of Expenditures of Federal Awards and the presentation of the operating, plant and long-term investment fund information in the statements of financial position and statements of activities are the responsibility of management, and were derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Denver, Colorado
November 16, 2018

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

As of June 30, 2018

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 38,875,316	7,359,176	7,869,836	54,104,328
Short-term investments	75,558,317	1,000,002	489,990	77,048,309
Accounts receivable, net	23,868,248	—	220,408	24,088,656
Pledges receivable, net	12,451,628	2,507,009	27,057,655	42,016,292
Inventories, prepaid expenses, and other assets	4,031,785	3,858,824	—	7,890,609
Long-term investments	235,602	—	790,952,022	791,187,624
Loans to students, net	—	—	14,360,929	14,360,929
Deposits with bond trustees	—	147,649,748	—	147,649,748
Property, plant, and equipment, net of accumulated depreciation	—	659,247,991	—	659,247,991
Total assets	\$ 155,020,896	821,622,750	840,950,840	1,817,594,486
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 57,600,675	15,862,298	—	73,462,973
Deferred revenues	23,250,704	—	—	23,250,704
Other liabilities	—	—	659,911	659,911
Annuity obligations	—	—	9,150,514	9,150,514
Long-term debt	—	252,414,082	—	252,414,082
U.S. government grants refundable	—	—	14,501,430	14,501,430
Total liabilities	80,851,379	268,276,380	24,311,855	373,439,614
Net assets:				
Unrestricted:				
Available for operations	9,142,701	3,100,251	—	12,242,952
Designated student loans	—	—	1,660,211	1,660,211
Designated gain sharing	30,330,850	—	—	30,330,850
Board-designated endowments	—	—	252,889,606	252,889,606
Designated plant	—	543,401,296	—	543,401,296
Donor advised funds	—	—	9,870,710	9,870,710
Total unrestricted net assets	39,473,551	546,501,547	264,420,527	850,395,625
Temporarily restricted:				
Gifts and distributed endowment income	34,695,966	—	—	34,695,966
Plant	—	6,844,823	—	6,844,823
Endowments	—	—	183,741,097	183,741,097
Annuity life income	—	—	4,871,279	4,871,279
Total temporarily restricted net assets	34,695,966	6,844,823	188,612,376	230,153,165
Permanently restricted:				
Endowments	—	—	352,379,176	352,379,176
Annuity life income	—	—	9,087,621	9,087,621
Student loans	—	—	2,139,285	2,139,285
Total permanently restricted net assets	—	—	363,606,082	363,606,082
Total net assets	74,169,517	553,346,370	816,638,985	1,444,154,872
Commitments and contingencies (notes 8, 9, and 12)				
Total liabilities and net assets	\$ 155,020,896	821,622,750	840,950,840	1,817,594,486

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

As of June 30, 2017

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 38,021,783	13,992,425	348,557	52,362,765
Short-term investments	71,332,679	1,000,014	501,387	72,834,080
Accounts receivable, net	24,406,612	—	259,448	24,666,060
Pledges receivable, net	10,407,326	3,612,041	22,499,396	36,518,763
Inventories, prepaid expenses, and other assets	5,903,573	200,000	—	6,103,573
Long-term investments	500,180	—	749,237,028	749,737,208
Loans to students, net	—	—	16,219,039	16,219,039
Deposits with bond trustees	—	156,364,410	—	156,364,410
Property, plant, and equipment, net of accumulated depreciation	—	643,716,475	—	643,716,475
Total assets	<u>\$ 150,572,153</u>	<u>818,885,365</u>	<u>789,064,855</u>	<u>1,758,522,373</u>
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 54,214,990	13,391,832	—	67,606,822
Deferred revenues	21,905,507	—	—	21,905,507
Other liabilities	—	—	1,053,392	1,053,392
Annuity obligations	—	—	9,463,511	9,463,511
Long-term debt	—	260,533,863	—	260,533,863
U.S. government grants refundable	—	—	16,117,394	16,117,394
Total liabilities	<u>76,120,497</u>	<u>273,925,695</u>	<u>26,634,297</u>	<u>376,680,489</u>
Net assets:				
Unrestricted:				
Available for operations	8,639,484	7,768,834	—	16,408,318
Designated student loans	—	—	1,667,943	1,667,943
Designated gain sharing	34,661,752	—	—	34,661,752
Board-designated endowments	—	—	249,380,920	249,380,920
Designated plant	—	530,055,657	—	530,055,657
Donor advised funds	—	—	9,977,669	9,977,669
Total unrestricted net assets	<u>43,301,236</u>	<u>537,824,491</u>	<u>261,026,532</u>	<u>842,152,259</u>
Temporarily restricted:				
Gifts and distributed endowment income	31,150,420	—	—	31,150,420
Plant	—	7,135,179	—	7,135,179
Endowments	—	—	156,781,127	156,781,127
Annuity life income	—	—	6,021,290	6,021,290
Total temporarily restricted net assets	<u>31,150,420</u>	<u>7,135,179</u>	<u>162,802,417</u>	<u>201,088,016</u>
Permanently restricted:				
Endowments	—	—	327,683,147	327,683,147
Annuity life income	—	—	8,778,853	8,778,853
Student loans	—	—	2,139,609	2,139,609
Total permanently restricted net assets	<u>—</u>	<u>—</u>	<u>338,601,609</u>	<u>338,601,609</u>
Total net assets	<u>74,451,656</u>	<u>544,959,670</u>	<u>762,430,558</u>	<u>1,381,841,884</u>
Commitments and contingencies (notes 8, 9, and 12)				
Total liabilities and net assets	<u>\$ 150,572,153</u>	<u>818,885,365</u>	<u>789,064,855</u>	<u>1,758,522,373</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities

Year ended June 30, 2018

	Operations	Designated unrestricted	Total operations	Plant	Long-term investment	Total
Change in unrestricted net assets:						
Revenues and gains (losses):						
Tuition and fees	\$ 475,896,298	—	475,896,298	—	—	475,896,298
Less institutional scholarships	157,486,911	—	157,486,911	—	—	157,486,911
	318,409,387	—	318,409,387	—	—	318,409,387
Less noninstitutional scholarships	18,854,879	—	18,854,879	—	—	18,854,879
Net tuition and fees	299,554,508	—	299,554,508	—	—	299,554,508
Private gifts	442,456	269,726	712,182	—	10,220	722,402
Grants and contracts	34,422,696	—	34,422,696	—	—	34,422,696
Endowment income	—	—	—	3,083	84,920	88,003
Other investment income	1,546,707	—	1,546,707	1,378,662	300,279	3,225,648
Net realized and unrealized gains (losses) on endowments	9,531,382	—	9,531,382	—	10,346,101	19,877,483
Net realized and unrealized gains (losses) on other investments	(215,770)	—	(215,770)	(1,364,978)	(410,946)	(1,991,694)
Sales and services of educational activities	14,813,891	2,304,805	17,118,696	—	—	17,118,696
Sales and services of auxiliary enterprise	40,114,630	—	40,114,630	—	—	40,114,630
Other sources	23,464,952	11,344	23,476,296	688,955	—	24,165,251
Total unrestricted revenues and gains (losses)	423,675,452	2,585,875	426,261,327	705,722	10,330,574	437,297,623
Net assets released from restrictions	35,812,108	—	35,812,108	1,800,174	—	37,612,282
Net assets reclassified to permanently restricted	—	—	—	—	(5,554,144)	(5,554,144)
Net assets reclassified to temporarily restricted	—	—	—	—	(547,550)	(547,550)
Total unrestricted revenues, gains (losses), and other support	459,487,560	2,585,875	462,073,435	2,505,896	4,228,880	468,808,211
Expenses:						
Educational and general:						
Instruction	162,864,481	79,593	162,944,074	10,930,020	—	173,874,094
Research	13,506,476	760	13,507,236	775,159	—	14,282,395
Public service	12,325,873	—	12,325,873	270,676	—	12,596,549
Academic support	73,126,952	5,582,096	78,709,048	3,286,862	—	81,995,910
Student services	53,024,762	168	53,024,930	4,479,759	—	57,504,689
Institutional support	70,899,277	587,043	71,486,320	2,664,157	—	74,150,477
Total educational and general expenses	385,747,821	6,249,660	391,997,481	22,406,633	—	414,404,114
Auxiliary enterprises	31,747,147	—	31,747,147	14,413,584	—	46,160,731
Total expenses	417,494,968	6,249,660	423,744,628	36,820,217	—	460,564,845
Transfers among unrestricted net assets	10,574,873	20,531,619	31,106,492	(31,941,377)	834,885	—
Total expenses and transfers	428,069,841	26,781,279	454,851,120	4,878,840	834,885	460,564,845
Increase (decrease) in unrestricted net assets-before board designated transfers	31,417,719	(24,195,404)	7,222,315	(2,372,944)	3,393,995	8,243,366
Board designated transfers of operating margin	(30,915,478)	19,865,478	(11,050,000)	11,050,000	—	—
Increase (decrease) in unrestricted net assets	502,241	(4,329,926)	(3,827,685)	8,677,056	3,393,995	8,243,366
Changes in temporarily restricted net assets:						
Private gifts	21,977,576	—	21,977,576	344,109	61,044	22,382,729
Endowment income	1,236,221	—	1,236,221	—	—	1,236,221
Other investment income (expense)	39,625	—	39,625	399	—	40,024
Net realized and unrealized gains on endowments	20,595,441	—	20,595,441	—	19,827,464	40,422,905
Net realized and unrealized losses on other investments	(41,927)	—	(41,927)	—	—	(41,927)
Net assets released from restrictions	(35,812,108)	—	(35,812,108)	(1,800,174)	—	(37,612,282)
Net assets reclassified from unrestricted	—	—	—	—	547,550	547,550
Net assets reclassified from permanently restricted	—	—	—	—	1,769,119	1,769,119
Actuarial adjustment on annuity obligations	—	—	—	—	320,810	320,810
Transfers among temporarily restricted net assets	(4,449,282)	—	(4,449,282)	1,165,310	3,283,972	—
Increase (decrease) in temporarily restricted net assets	3,545,546	—	3,545,546	(290,356)	25,809,959	29,065,149
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	20,873,210	20,873,210
Net realized and unrealized gains (losses) on other investments	—	—	—	—	18,978	18,978
Net assets reclassified from unrestricted	—	—	—	—	5,554,144	5,554,144
Net assets reclassified to temporarily restricted	—	—	—	—	(1,769,119)	(1,769,119)
Actuarial adjustment on annuity obligations	—	—	—	—	327,260	327,260
Increase in permanently restricted net assets	—	—	—	—	25,004,473	25,004,473
Change in net assets	4,047,787	(4,329,926)	(282,139)	8,386,700	54,208,427	62,312,988
Net assets at beginning of year	39,790,880	34,660,776	74,451,656	544,959,670	762,430,558	1,381,841,884
Net assets at end of year	\$ 43,838,667	30,330,850	74,169,517	553,346,370	816,638,985	1,444,154,872

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities
Year ended June 30, 2017

	Operations	Designated unrestricted	Total operations	Plant	Long-term investment	Total
Change in unrestricted net assets:						
Revenues and gains (losses):						
Tuition and fees	\$ 455,148,806	—	455,148,806	—	—	455,148,806
Less institutional scholarships	144,251,078	—	144,251,078	—	—	144,251,078
	<u>310,897,728</u>	<u>—</u>	<u>310,897,728</u>	<u>—</u>	<u>—</u>	<u>310,897,728</u>
Less noninstitutional scholarships	16,031,167	—	16,031,167	—	—	16,031,167
Net tuition and fees	294,866,561	—	294,866,561	—	—	294,866,561
Private gifts	886,075	—	886,075	80,000	59,236	1,025,311
Grants and contracts	32,485,143	—	32,485,143	—	—	32,485,143
Endowment income	281,174	—	281,174	3,071	229,724	513,969
Other investment income	1,200,247	—	1,200,247	3,636	522,747	1,726,630
Net realized and unrealized gains on endowments	7,246,322	—	7,246,322	—	13,538,815	20,785,137
Net realized and unrealized gains (losses) on other investments	(17,697)	—	(17,697)	(76,761)	(472,429)	(566,887)
Sales and services of educational activities	14,545,699	507,596	15,053,295	—	—	15,053,295
Sales and services of auxiliary enterprise	37,515,111	—	37,515,111	—	—	37,515,111
Other sources	22,153,865	7,659	22,161,524	754,024	—	22,915,548
Total unrestricted revenues and gains	411,162,500	515,255	411,677,755	763,970	13,878,093	426,319,818
Net assets released from restrictions	31,486,793	—	31,486,793	12,541,478	419,572	44,447,843
Net assets reclassified to permanently restricted	—	—	—	—	(3,154,677)	(3,154,677)
Total unrestricted revenues, gains, and other support	<u>442,649,293</u>	<u>515,255</u>	<u>443,164,548</u>	<u>13,305,448</u>	<u>11,142,988</u>	<u>467,612,984</u>
Expenses:						
Educational and general:						
Instruction	156,309,448	57,968	156,367,416	9,429,601	—	165,797,017
Research	13,522,379	1,171	13,523,550	2,065,568	—	15,589,118
Public service	10,602,327	—	10,602,327	79,616	—	10,681,943
Academic support	66,148,722	4,730,885	70,879,607	1,347,997	—	72,227,604
Student services	51,996,004	214	51,996,218	3,367,018	—	55,363,236
Institutional support	62,158,537	24,372	62,182,909	1,832,575	—	64,015,484
Total educational and general expenses	360,737,417	4,814,610	365,552,027	18,122,375	—	383,674,402
Auxiliary enterprises	29,478,429	—	29,478,429	7,895,390	—	37,373,819
Total expenses	390,215,846	4,814,610	395,030,456	26,017,765	—	421,048,221
Transfers among unrestricted net assets	8,571,313	13,132,659	21,703,972	(22,157,688)	453,716	—
Total expenses and transfers	<u>398,787,159</u>	<u>17,947,269</u>	<u>416,734,428</u>	<u>3,860,077</u>	<u>453,716</u>	<u>421,048,221</u>
Increase (decrease) in unrestricted net assets - before board designated transfers	43,862,134	(17,432,014)	26,430,120	9,445,371	10,689,272	46,564,763
Board designated transfers of operating margin	(43,362,139)	31,201,128	(12,161,011)	12,161,011	—	—
Board designated transfers of reserves to quasi-endowment	—	(32,500,000)	(32,500,000)	(17,500,000)	50,000,000	—
Increase (decrease) in unrestricted net assets	499,995	(18,730,886)	(18,230,891)	4,106,382	60,689,272	46,564,763
Changes in temporarily restricted net assets:						
Private gifts	17,454,877	—	17,454,877	2,735,623	84,470	20,274,970
Endowment income	1,302,191	—	1,302,191	—	—	1,302,191
Other investment income	46,303	—	46,303	1,179	—	47,482
Net realized and unrealized gains on endowments	18,515,799	—	18,515,799	—	26,644,047	45,159,846
Net realized and unrealized gains (losses) on other investments	246,851	—	246,851	(184)	111,233	357,900
Net assets released from restrictions	(31,486,793)	—	(31,486,793)	(12,541,478)	(419,572)	(44,447,843)
Net assets reclassified to permanently restricted	—	—	—	—	(67,799)	(67,799)
Actuarial adjustment on annuity obligations	—	—	—	—	768,469	768,469
Transfers among temporarily restricted net assets	(1,376,139)	—	(1,376,139)	101,290	1,274,849	—
Increase (decrease) in temporarily restricted net assets	4,703,089	—	4,703,089	(9,703,570)	28,395,697	23,395,216
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	11,933,238	11,933,238
Net realized and unrealized gains (losses) on other investments	—	—	—	—	(25,523)	(25,523)
Net assets reclassified from unrestricted	—	—	—	—	3,154,677	3,154,677
Net assets reclassified from temporarily restricted	—	—	—	—	67,799	67,799
Actuarial adjustment on annuity obligations	—	—	—	—	1,725,378	1,725,378
Increase in permanently restricted net assets	—	—	—	—	16,855,569	16,855,569
Change in net assets	5,203,084	(18,730,886)	(13,527,802)	(5,597,188)	105,940,538	86,815,548
Net assets at beginning of year	34,587,796	53,391,662	87,979,458	550,556,858	656,490,020	1,295,026,336
Net assets at end of year	\$ <u>39,790,880</u>	<u>34,660,776</u>	<u>74,451,656</u>	<u>544,959,670</u>	<u>762,430,558</u>	<u>1,381,841,884</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 62,312,988	86,815,548
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property, plant, and equipment	17,040,253	14,826,480
Disposal of property, plant, and equipment	194,795	234,784
Amortization of premium and cost of issuance	(914,781)	(846,918)
(Increase) decrease in accounts receivable	577,404	(4,482,837)
(Increase) decrease in pledges receivable	(5,497,529)	1,274,336
Increase in inventories, prepaid expenses, and other assets	(1,787,036)	(2,201,562)
(Decrease) increase in accounts payable and accrued liabilities	5,856,151	(8,780,215)
Increase in deferred revenues	1,345,197	2,620,071
(Decrease) increase in other liabilities	(393,481)	639,629
Actuarial adjustment for annuity obligation	(193,683)	(5,144)
Contributions of real property and personal property	(309,000)	(1,925,000)
Contributions restricted for long-term investment	(20,944,474)	(12,076,944)
Interest and dividends for long-term investments	(261,886)	(249,230)
Net realized and unrealized gains on investments	(58,285,745)	(65,710,473)
Net cash provided (used) by operating activities	<u>(1,260,827)</u>	<u>10,132,525</u>
Cash flows from investing activities:		
Proceeds from sale of investments	244,710,733	763,311,580
Purchases of investments	(231,899,947)	(784,139,893)
Purchases of property, plant, and equipment	(32,766,564)	(26,776,868)
Disbursements for Perkins and University loans to students	(1,434,920)	(2,087,921)
Repayment of Perkins and University loans to students	3,293,030	3,426,115
(Increase) decrease in deposits with bond trustees	8,714,662	(156,364,410)
Net cash used in investing activities	<u>(9,383,006)</u>	<u>(202,631,397)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	20,944,474	12,076,944
Interest and dividends restricted for reinvestment	261,886	249,230
Proceeds from bonds payable	—	156,289,084
Payments of bonds payable	(7,205,000)	(6,955,000)
Decrease in refundable government loan funds, net	(1,615,964)	(77,660)
Net cash provided by financing activities	<u>12,385,396</u>	<u>161,582,598</u>
Net increase (decrease) in cash and cash equivalents	1,741,563	(30,916,274)
Cash and cash equivalents at beginning of year	52,362,765	83,279,039
Cash and cash equivalents at end of year	\$ <u>54,104,328</u>	<u>52,362,765</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

(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 12,500 students of which approximately 5,500 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 by either 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 long term investments, are current in nature. Accounts payable and accrued liabilities, other than accumulated postretirement benefit obligations (note 10), are near maturity. Balances and activities are unrestricted, temporarily restricted, or have been released from restrictions.

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

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

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 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, except those relating to endowments or annuities, 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.

Accounts that are 120 days delinquent are reviewed to determine if they should be assigned to an outside collection agency. If a student has assets or income, has not made a payment and has not entered into a repayment agreement with the University, accounts may be assigned to preselected collection agencies.

In June of each year, student tuition accounts with delinquent balances over 365 days and no payment activity for the prior 12 months which are deemed uncollectible are written off to bad debt reserve. Holds are placed on written off student accounts, which prevent future registration and the release of official transcripts and diplomas.

Account receivables are net of allowances for uncollectible accounts of \$1,975,000 and \$1,944,000 as of June 30, 2018 and 2017, 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, an 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), (2) it makes semiannual filings with the SEC, (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 market exists and are priced accordingly. In addition, such funds may hold assets that require the estimation of fair values in the absence of readily determinable market values.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

The University evaluates the fair value of its investments in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820-10, *Fair Value Measurements and Disclosures*, updated by Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. 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. See further discussion at note 3.

In conjunction with the provisions of FASB ASC Topic 820-10, the University evaluates the fair value of its investments in accordance with the provisions of ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, for 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 FASB ASC Topic 820-10 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 other provisions of FASB ASC Topic 820-10.

(f) Pledges Receivable

Unconditional promises to give are recorded when pledges are made by the respective donors at the estimated present value of future cash flows discounted at the prevailing interest rate as of the period in which the agreement is received. 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 athletic and golf course merchandise and operating supplies, are valued at the lower of cost or net realizable value using the first-in, first-out (FIFO) method.

(h) Deposits with Bond Trustees

Deposits with bond trustees represents unspent funds from the Series 2017A and Series 2017B proceeds held in cash and U.S. government securities.

(i) Property, Plant, and Equipment

Property, plant, and equipment exceeding a capitalization threshold of \$5,000 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.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

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.

Donated works of art are considered collections under the University's policy. Collections held for public exhibition and education in furtherance of public service rather than financial gain are 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, 2018 and 2017 and recorded as revenue and expenses in the succeeding fiscal year.

(k) Compensated Absences

Eligible University 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 in the amount of \$4,430,000 and \$3,958,000 as of June 30, 2018 and 2017, respectively, and is included in accounts payable and accrued liabilities in the accompanying statements of financial position.

The University has a sick leave plan covering substantially all employees. The University provides employees approximately eight hours of paid sick leave per month depending on employment status. The University 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.

(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, 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 4.9% to 9.6%. Annuity obligations are adjusted annually for these factors.

(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, 2018 and 2017.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

The University evaluates its tax position in accordance with the provisions of FASB ASC Topic 740-10, *Income Taxes*. FASB ASC Topic 740-10 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FASB ASC Topic 740-10 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 50% likely being realized upon settlement. The University has no uncertain income tax positions as of June 30, 2018 and 2017.

(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) *Net Asset Reclassifications*

In 2011, The University initiated a matching program to increase endowed scholarships for undergraduates, graduates, and performing arts students. The board of trustees has designated \$66 million of the University's strategic reserves to match commitments to new and existing scholarship endowments. For the years ended June 30, 2018 and 2017, the University matched commitments to the matching program in the amount of \$6,102,000 and \$3,155,000, respectively. Other reclassifications included reclassifications from permanently restricted to temporarily restricted net assets of \$1,769,000 for the year ended June 30, 2018, and reclassifications from temporarily restricted to unrestricted net assets of \$420,000 and from temporarily restricted to permanently restricted net assets of \$68,000 for the year ended June 30, 2017.

(p) *Use of Estimates*

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

(q) *Endowment Funds*

The University presents its endowment funds in accordance with the provisions of FASB ASC Topic 958-205, *Presentation of Financial Statements*, 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 the Uniform Prudent Management of Institutional Funds Act (the Act) and expands disclosures about endowment funds. See further discussion at note 4.

(r) *Subsequent Events*

FASB ASC Topic 855-10, *Subsequent Events*, 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, 2018 and through November 16, 2018.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

(2) Short- and Long-Term Investments

Investments at June 30 consist of the following:

	2018		
	Cost	Unrealized gain (loss)	Market value
Short-term investments:			
U.S. government securities	\$ 69,745,101	(156,937)	69,588,164
Mutual funds	4,072,301	426,100	4,498,401
Real estate	2,709,000	—	2,709,000
Other	252,744	—	252,744
	<u>76,779,146</u>	<u>269,163</u>	<u>77,048,309</u>
Long-term investment:			
Trustee cash and cash equivalents for endowments and annuities	8,765,409	—	8,765,409
U.S. Government Securities	34,776,427	(1,000,511)	33,775,916
Alternative Investments	191,079,497	38,203,741	229,283,238
Global Equities	313,371,712	73,156,791	386,528,503
Mutual Funds	23,581,863	2,823,626	26,405,489
Real Estate	22,765,356	25,603,315	48,368,671
Private Equities	44,583,146	1,435,278	46,018,424
Beneficial Trust Interest	9,582,466	1,995,461	11,577,927
Other	464,047	—	464,047
	<u>648,969,923</u>	<u>142,217,701</u>	<u>791,187,624</u>
Total all funds	\$ <u>725,749,069</u>	<u>142,486,864</u>	<u>868,235,933</u>
		2017	
	Cost	Unrealized gain (loss)	Market value
Short-term investments:			
U.S. government securities	\$ 68,948,845	(34,594)	68,914,251
Mutual funds	678,411	507,095	1,185,506
Real estate	2,400,001	—	2,400,001
Other	334,322	—	334,322
	<u>72,361,579</u>	<u>472,501</u>	<u>72,834,080</u>
Long-term investment:			
Trustee cash and cash equivalents for endowments and annuities	17,649,332	—	17,649,332
U.S. government securities	32,049,822	(674,733)	31,375,089
Alternative investments	210,969,327	29,123,299	240,092,626
Global equities	317,924,112	43,222,740	361,146,852
Mutual funds	20,454,358	2,929,690	23,384,048
Real estate	22,872,325	17,793,315	40,665,640
Private equities	22,423,305	320,297	22,743,602
Beneficial trust interest	10,174,549	1,767,148	11,941,697
Other	738,322	—	738,322
	<u>655,255,452</u>	<u>94,481,756</u>	<u>749,737,208</u>
Total all funds	\$ <u>727,617,031</u>	<u>94,954,257</u>	<u>822,571,288</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

During the years ended June 30, 2018 and 2017, the University paid approximately \$3,330,000 and \$2,926,000, 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, 2018, the pool had 130,484,814 shares outstanding, with a fair value of approximately \$725,095,779. 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 2018 was \$0.24 per share, which represented spending of realized and unrealized gains. At June 30, 2017, the pool had 116,527,173 shares outstanding, with a fair value of approximately \$622,374,848. The distribution for spending in 2017 was \$0.23 per share, which represented spending of realized and unrealized gains.

The investment pool consisted of 1,262 individual endowments at June 30, 2018. Of these endowments, 12 are considered to be "under water" as the fair value of the underlying investments is less than the original gift value. At June 30, 2018 the fair value of the underlying investment related to these 12 endowments totaled approximately \$1,291,000 while the original gift value was approximately \$1,298,000

The investment pool consisted of 1,221 individual endowments at June 30, 2017. Of these endowments, 35 are considered to be "under water" as the fair value of the underlying investments is less than the original gift value. At June 30, 2017 the fair value of the underlying investment related to these 35 endowments totaled approximately \$12,303,000 while the original gift value was approximately \$12,388,000. See additional discussion in note 4(b).

The University has the following split-interest agreements, which are included in long-term investments at June 30, 2018 and 2017:

	2018		
	Number of agreements	Net assets classification	
		Temporary	Permanent
Perpetual trusts held by third party	2	\$ —	8,115,222
Charitable Remainder Trusts:			
University named trustee	20	4,268,115	11,136,606
Third-party named trustee	8	1,835,928	1,629,625
Charitable Annuity Agreements	50	1,903,799	2,606,302
	<u>80</u>	<u>\$ 8,007,842</u>	<u>23,487,755</u>
	2017		
	Number of agreements	Net assets classification	
		Temporary	Permanent
Perpetual trusts held by third party	2	\$ —	7,876,996
Charitable Remainder Trusts:			
University named trustee	21	4,865,652	11,046,492
Third-party named trustee	8	2,469,099	1,595,601
Charitable Annuity Agreements	57	2,017,449	2,539,202
	<u>88</u>	<u>\$ 9,352,200</u>	<u>23,058,291</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

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

The Charitable Remainder Trusts and Charitable Annuity Agreements are split-interest agreements that are held and administered either by the University or by others. In the period when the agreement is established, the University recognizes an asset at fair value, a liability to the beneficiary for the estimated future benefits to be distributed, and contribution revenue for the difference. The annuity obligation is primarily based on the person's age at time of the gift, their life expectancy, and the prevailing interest rate as of the date of the agreement. Annual adjustments are made to the liability for the estimated future benefits to be distributed due to changes in the actuarial assumptions and the discount rate, where applicable, over the term of the agreement.

Contribution revenue recognized for new split-interest agreements in 2018 and 2017 was approximately \$119,000 and \$193,000, respectively.

(3) **FASB ASC Topic 820-10, *Fair Value Measurements and Disclosures***

FASB ASC Topic 820-10 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 FASB ASC Topic 820-10 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.

(a) *Investments*

Investments whose values are based on quoted market prices in active markets, and are, therefore, classified within Level 1, include actively listed global equities, certain U.S. government and sovereign obligations, and certain money market securities.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

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, certain 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).

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) *Fair Value Hierarchy Table*

The following tables summarize the University's short and long-term investments in the fair value hierarchy as of June 30, 2018 and 2017, as well as liquidity of the investments. Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the short-term investments and long-term investments amounts presented in the statement of position.

Deposits with bond trustees represents unspent funds from the Series 2017A and Series 2017B proceeds held in cash and U.S. government securities as discussed in Note 1(h). Fair value of U.S. government securities held as Deposits with bond trustees is the unadjusted quoted market price of the securities. Deposits with bond trustees are categorized as Level 1 investments, however they are not included in the fair value hierarchy table.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

Investment/liquidity	June 30, 2018				
	Level 1	Level 2	Level 3	NAV	Total
U.S. government securities:					
Daily	\$ 103,134,080	—	—	—	103,134,080
Monthly	—	230,000	—	—	230,000
Total	103,134,080	230,000	—	—	103,364,080
Alternative investments:					
Quarterly	—	—	—	167,603,132	167,603,132
Illiquid	—	—	—	61,680,106	61,680,106
Total	—	—	—	229,283,238	229,283,238
Mutual funds:					
Daily	30,903,890	—	—	—	30,903,890
Total	30,903,890	—	—	—	30,903,890
Global equities:					
Daily	6,131,636	—	—	—	6,131,636
Monthly	—	—	—	299,555,482	299,555,482
Quarterly	537,996	—	—	68,449,705	68,987,701
Illiquid	—	—	—	11,853,684	11,853,684
Total	6,669,632	—	—	379,858,871	386,528,503
Trustee cash and cash equivalents:					
Daily	8,765,409	—	—	—	8,765,409
Total	8,765,409	—	—	—	8,765,409
Real estate:					
Semiannually	—	48,677,670	—	—	48,677,670
Locked-up 1	—	2,400,001	—	—	2,400,001
Total	—	51,077,671	—	—	51,077,671
Private equities:					
Illiquid	—	—	—	46,018,424	46,018,424
Total	—	—	—	46,018,424	46,018,424
Beneficial trust interest:					
Locked-up 1	9,304,216	1,050,000	1,223,711	—	11,577,927
Total	9,304,216	1,050,000	1,223,711	—	11,577,927
Other:					
Daily	185,604	—	—	—	185,604
Locked-up 2	228,445	—	—	—	228,445
Illiquid	—	—	302,742	—	302,742
Total	414,049	—	302,742	—	716,791
Grand total	\$ 159,191,276	52,357,671	1,526,453	655,160,533	868,235,933

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June 30, 2018 and 2017

Investment/liquidity	June 30, 2017				
	Level 1	Level 2	Level 3	NAV	Total
U.S. government securities:					
Daily	\$ 100,059,340	—	—	—	100,059,340
Monthly	—	230,000	—	—	230,000
Total	<u>100,059,340</u>	<u>230,000</u>	<u>—</u>	<u>—</u>	<u>100,289,340</u>
Alternative investments:					
Quarterly	—	—	—	166,241,421	166,241,421
Annual	—	—	—	8,250,000	8,250,000
Illiquid	—	—	—	65,601,205	65,601,205
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>240,092,626</u>	<u>240,092,626</u>
Mutual funds:					
Daily	24,569,554	—	—	—	24,569,554
Total	<u>24,569,554</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>24,569,554</u>
Global equities:					
Daily	3,098,405	—	—	—	3,098,405
Monthly	—	—	—	291,790,109	291,790,109
Quarterly	523,703	—	—	54,615,509	55,139,212
Illiquid	—	—	—	11,119,126	11,119,126
Total	<u>3,622,108</u>	<u>—</u>	<u>—</u>	<u>357,524,744</u>	<u>361,146,852</u>
Trustee cash and cash equivalents:					
Daily	17,649,332	—	—	—	17,649,332
Total	<u>17,649,332</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>17,649,332</u>
Real estate:					
Semiannually	—	40,665,640	—	—	40,665,640
Locked-up 1	—	2,400,001	—	—	2,400,001
Total	<u>—</u>	<u>43,065,641</u>	<u>—</u>	<u>—</u>	<u>43,065,641</u>
Private equities:					
Illiquid	—	—	—	22,743,602	22,743,602
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>22,743,602</u>	<u>22,743,602</u>
Beneficial trust interest:					
Locked-up 1	9,031,967	1,050,000	1,859,730	—	11,941,697
Total	<u>9,031,967</u>	<u>1,050,000</u>	<u>1,859,730</u>	<u>—</u>	<u>11,941,697</u>
Other:					
Daily	450,180	—	—	—	450,180
Locked-up 2	238,142	—	—	—	238,142
Illiquid	—	—	384,322	—	384,322
Total	<u>688,322</u>	<u>—</u>	<u>384,322</u>	<u>—</u>	<u>1,072,644</u>
Grand total	<u>\$ 155,620,623</u>	<u>44,345,641</u>	<u>2,244,052</u>	<u>620,360,972</u>	<u>822,571,288</u>

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The following table includes a rollforward of the amounts for the years ended June 30, 2018 and 2017 for financial instruments classified within Level 3. The classification of a financial instrument within 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>Beneficial</u>		
	<u>Trust Interest</u>	<u>Other</u>	<u>Total</u>
Balances at June 30, 2017	\$ 1,859,730	384,322	2,244,052
Purchases	641,251	—	641,251
Sales	(1,251,099)	(11,397)	(1,262,496)
Unrealized losses	<u>(26,171)</u>	<u>(70,183)</u>	<u>(96,354)</u>
Balances at June 30, 2018	\$ <u>1,223,711</u>	<u>302,742</u>	<u>1,526,453</u>
	<u>Beneficial</u>		
	<u>Trust Interest</u>	<u>Other</u>	<u>Total</u>
Balances at June 30, 2016	\$ 1,749,573	393,296	2,142,869
Purchases	30,318	—	30,318
Sales	(8,404)	(8,974)	(17,378)
Unrealized losses	<u>88,243</u>	<u>—</u>	<u>88,243</u>
Balances at June 30, 2017	\$ <u>1,859,730</u>	<u>384,322</u>	<u>2,244,052</u>

All unrealized gains (losses) in the tables above are reflected in the accompanying statements of activities. There have been no transfers into or out of Level 3 investments during the years ended June 30, 2018 and June 30, 2017.

(4) Endowments

As discussed in note 1(q), FASB ASC Topic 958-205 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.

The University’s endowments consist of 1,262 and 1,221 individual funds as of June 30, 2018 and 2017, respectively. The endowments were 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 Act enacted by the State of Colorado as not requiring an institution subject to the Act 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.

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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, 2018:				
Board-designated endowment funds	\$ 252,889,606	—	—	252,889,606
Donor-restricted endowment funds	<u>—</u>	<u>183,741,097</u>	<u>352,379,176</u>	<u>536,120,273</u>
	<u>\$ 252,889,606</u>	<u>183,741,097</u>	<u>352,379,176</u>	<u>789,009,879</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2017:				
Board-designated endowment funds	\$ 249,380,920	—	—	249,380,920
Donor-restricted endowment funds	<u>—</u>	<u>156,781,127</u>	<u>327,683,147</u>	<u>484,464,274</u>
	<u>\$ 249,380,920</u>	<u>156,781,127</u>	<u>327,683,147</u>	<u>733,845,194</u>

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The changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ 249,380,920	156,781,127	327,683,147	733,845,194
Investment return:				
Investment income	88,003	1,236,221	—	1,324,224
Net realized and unrealized gains	<u>19,877,483</u>	<u>40,422,905</u>	<u>—</u>	<u>60,300,388</u>
Total investment return	19,965,486	41,659,126	—	61,624,612
Private gifts	10,218	1,426,332	20,891,647	22,328,197
Appropriation of endowment assets for expenditures	(10,958,579)	(22,376,440)	(443,996)	(33,779,015)
Reinvested income	704,196	3,924,177	—	4,628,373
Transfer to board-designated endowments	111,960	56,000	194,558	362,518
Reclassification of restricted net assets	<u>(6,324,595)</u>	<u>2,270,776</u>	<u>4,053,819</u>	<u>—</u>
Changes	<u>3,508,686</u>	<u>26,959,971</u>	<u>24,696,028</u>	<u>55,164,685</u>
Endowment net assets, June 30, 2018	\$ <u>252,889,606</u>	<u>183,741,098</u>	<u>352,379,175</u>	<u>789,009,879</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2016	\$ 189,625,647	128,656,364	310,237,094	628,519,105
Investment return:				
Investment income	513,969	1,302,190	—	1,816,159
Net realized and unrealized gains	<u>20,785,137</u>	<u>45,159,846</u>	<u>—</u>	<u>65,944,983</u>
Total investment return	21,299,106	46,462,036	—	67,761,142
Private gifts	59,234	30,633	14,223,578	14,313,445
Appropriation of endowment assets for expenditures	(7,832,937)	(20,487,563)	(86,979)	(28,407,479)
Reinvested income	358,391	618,620	—	977,011
Transfer to board-designated endowments	49,026,156	1,501,037	154,777	50,681,970
Reclassification of restricted net assets	<u>(3,154,677)</u>	<u>—</u>	<u>3,154,677</u>	<u>—</u>
Changes	<u>59,755,273</u>	<u>28,124,763</u>	<u>17,446,053</u>	<u>105,326,089</u>
Endowment net assets, June 30, 2017	\$ <u>249,380,920</u>	<u>156,781,127</u>	<u>327,683,147</u>	<u>733,845,194</u>

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(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). The University had 12 funds considered underwater with a deficiency of approximately \$7,000 at June 30, 2018. The University had 35 funds considered underwater with a deficiency of approximately \$85,000 at June 30, 2017. The deficiency is recorded as unrestricted net unrealized losses on endowment within the statement of activities.

(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 has entered into an agreement with Investure, LLC for investment advisory and management services. The scope of the agreement pertains to management of the University's Consolidated Endowment Fund. The University has authorized Investure, LLC to act as the University's attorney-in-fact to enter into, make, execute and perform agreements or other undertakings on behalf of the University in connection with each investment. The University, through Investure, LLC's management, targets a diversified asset allocation. Investure, LLC's long-term investment allocation guidelines include the following targets and maximum allocations by investment: global equity target of 30% and maximum allocation of 60%, alternative equity target of 30% and maximum allocation of 40%, private equity target of 30% and maximum allocation of 40%, fixed income target of 10% with no maximum allocation.

(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, 2018 and 2017, 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>2018</u>	<u>2017</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 10,684,563	11,735,394
One to five years	19,782,531	16,172,453
Greater than five years	<u>43,981,587</u>	<u>34,179,134</u>
	74,448,681	62,086,981
Less allowance for uncollectible pledges	(7,444,868)	(6,208,697)
Less present value discount (4.75% - 8.0%)	<u>(24,987,521)</u>	<u>(19,359,521)</u>
Net pledges receivable	<u>\$ 42,016,292</u>	<u>36,518,763</u>

Included in pledges receivable is the present value of approximately \$4,388,705 and \$6,161,000 as of June 30, 2018 and 2017, respectively, in pledges from members of the board of trustees. For the years ended June 30, 2018 and 2017, the University did not conduct any additional transactions with members of the board of trustees that were not negotiated at arm's length.

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(6) Property, Plant, and Equipment

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

	<u>2018</u>	<u>2017</u>
Land	\$ 9,280,984	9,280,984
Land improvements	30,055,167	28,699,932
Buildings and improvements	748,150,670	638,821,982
Equipment	66,129,002	63,809,298
Library books	9,196,829	9,040,019
Construction in progress	<u>12,113,937</u>	<u>95,566,061</u>
	874,926,589	845,218,276
Less accumulated depreciation	<u>(215,678,598)</u>	<u>(201,501,801)</u>
	<u>\$ 659,247,991</u>	<u>643,716,475</u>

The University had approximately \$17,040,000 and \$14,826,000 of depreciation expense for the years ended June 30, 2018 and 2017, respectively, which was reported within all functions in the accompanying statements of activities.

The University monitors asset retirement obligations in accordance with the provisions of FASB ASC Topic 410-20, *Asset Retirement and Environmental Obligations*. Under FASB ASC Topic 410-20, 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, 2018 and 2017, respectively, an asset retirement obligation of approximately \$7,730,000 and \$7,941,000 is included in accounts payable and accrued liabilities.

(7) Operating Leases

The University leases apartments in two buildings adjacent to the campus under operating leases. Rent expense on the leases for the years ended June 30, 2018 and 2017 was approximately \$1,310,000 and \$780,000, respectively.

Future minimum lease payments under the operating leases as of June 30, 2018 through the years ending June 30, 2022 are:

2019	1,466,998
2020	1,523,390
2021	1,004,967
2022	<u>921,877</u>
	<u>\$ 4,917,232</u>

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Notes to Financial Statements

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(8) Long-Term Debt

Bonds payable at June 30 consist of the following:

	<u>2018</u>	<u>2017</u>
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2017A	\$ 119,480,000	119,480,000
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2017B	24,535,000	24,535,000
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2014A	24,975,000	26,185,000
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2014B	7,250,000	9,265,000
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2013	20,825,000	22,270,000
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2008	—	2,535,000
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2007	<u>39,920,000</u>	<u>39,920,000</u>
	236,985,000	244,190,000
Unamortized bond premium	16,648,691	17,616,748
Unamortized bond cost of issuance	<u>(1,219,609)</u>	<u>(1,272,885)</u>
Total long-term debt	252,414,082	260,533,863
Less current installments	<u>7,610,000</u>	<u>7,205,000</u>
Long-term debt, excluding current installments	<u>\$ 244,804,082</u>	<u>253,328,863</u>

The University had approximately \$10,162,000 and \$4,148,000 of interest expense for the years ended June 30, 2018 and 2017, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately \$8,208,000 and \$4,160,000 was paid in cash during the years ended June 30, 2018 and 2017, respectively.

(a) Issuance of Series 2017 Bonds

In June 2017, the Colorado Educational and Cultural Facilities Authority (the Authority) issued \$144,015,000 of University of Denver Revenue Bonds, Tax-Exempt Series 2017A \$119,480,000 and Taxable Series 2017B \$24,535,000. The proceeds from the sale of 2017 bonds will be used to (1) finance a portion of the construction, improvement, renovation, and equipping of certain campus improvements including a freshman residential dormitory, the campus career center, a substantial demolition, renovation and expansion of the student center to become a community commons, and other campus improvements; (2) pay certain capitalized interest on the Bonds; and (3) pay certain costs associated with the issuance of the Bonds.

The bond agreement provides for principal payments of \$1,555,000 in 2021, increasing to \$9,810,000 in 2047. Interest is payable semiannually at rates ranging from 2.244% to 5.000%.

(b) Issuance of Series 2014A Bonds

In September 2015, the Authority issued \$29,075,000 of University of Denver Revenue Bonds, Series 2014A. The proceeds from the sale of the 2014A bonds were used to (1) refund \$28,105,000 aggregate principal amount of the Authority's Revenue Bonds Series 2005A and (2) pay certain costs associated with the issuance of the 2014A Bonds.

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The bond agreement provides for principal payments of \$1,715,000 in 2016, increasing to \$6,490,000 in 2022. Interest is payable semiannually at a fixed rate of 2.620%.

(c) Issuance of Series 2014B Bonds

In March 2016, the Authority issued \$12,500,000 of University of Denver Revenue Bonds, Series 2014B. The proceeds from the sale of the 2014B bonds were used to (1) refund \$12,085,000 aggregate principal amount of the Authority's Revenue Bonds Series 2005B and (2) pay certain costs associated with the issuance of the 2014B Bonds.

The bond agreement provides for principal payments of \$3,235,000 in 2017, increasing to \$6,820,000 in 2023. Interest is payable semiannually at a fixed rate of 2.710%.

(d) Issuance of Series 2013 Bonds

In February 2013, the Authority issued \$22,780,000 of University of Denver Revenue Bonds, Series 2013. The proceeds from the sale of the 2013 bonds were used to (1) refund \$21,240,000 aggregate principal amount of the Authority's Revenue Bonds Series 2005B and (2) pay certain costs associated with the issuance of the 2013 Bonds.

The bond agreement provides for principal payments of \$125,000 in 2016, increasing to \$2,255,000 in 2030. Interest is payable semiannually at rates ranging from 2.00% to 4.00%.

(e) Issuance of Series 2008 Bonds

In February 2008, 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 principal payments of \$630,000 in 2016, increasing to \$2,535,000 in 2018. Interest is payable semiannually at rates ranging from 4.00% to 5.00%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

In March 2018, the remaining principal amount of \$2,535,000 was paid.

(f) Issuance of Series 2007 Bonds

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

The bond agreement provides for principal payments of \$1,650,000 in 2023, \$5,825,000 in 2024, \$6,135,000 in 2025, \$6,455,000 in 2026, \$6,790,000 in 2027, 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.

(g) Aggregate Annual Maturities of Bonds Payable

At June 30, 2018, the aggregate annual maturities of bonds payable for the five succeeding years and thereafter are as follows:

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2019	7,610,000
2020	7,825,000
2021	9,605,000
2022	9,955,000
2023	10,370,000
Thereafter	191,620,000
	\$ 236,985,000

(h) 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 1.15. 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.

(i) 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 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.

(9) 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 \$18,000 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 \$12,533,000 and \$11,855,000 for the years ended June 30, 2018 and 2017, respectively, which were charged to operations expenses.

(10) Postretirement Benefits Other than Pensions

The University records postretirement benefits in accordance with the provisions of FASB ASC Topic 715-20, Compensations – Retirement Benefits. FASB ASC Topic 715-20 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 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, 2018, the Healthcare Plan covered 220 retirees with an additional 2,519 active employees potentially eligible for coverage. At June 30, 2017, the Healthcare Plan covered 214 retirees with an additional 2,464 active employees potentially eligible for coverage. The Healthcare Plan is noncontributory.

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

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	<u>2018</u>	<u>2017</u>
Accrued postretirement benefit obligation (APBO), beginning of year	\$ 2,908,585	3,035,684
Service cost	59,113	62,589
Interest cost	101,395	95,442
Actuarial loss (gain)	(122,755)	(129,010)
Benefits paid	<u>(149,400)</u>	<u>(156,120)</u>
APBO (all unfunded), end of year	\$ <u>2,796,938</u>	<u>2,908,585</u>

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

	<u>2018</u>	<u>2017</u>
Service cost	\$ 59,113	62,589
Interest cost	101,395	95,442
Amortization of prior service cost	11,125	11,125
Recognized net actuarial gain	<u>(11,726)</u>	<u>(1,179)</u>
Net periodic postretirement benefit cost	\$ <u>159,907</u>	<u>167,977</u>

An accrual has been made for the APBO and is included in accounts payable and accrued liabilities in the accompanying statements of financial position. The weighted average discount rate used in determining the APBO was 4.00% and 3.60% for June 30, 2018 and 2017, 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 \$149,000 and \$156,000 for the years ended June 30, 2018 and 2017, respectively, which were charged to operating expenses.

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

2019	\$ 186,840
2020	182,919
2021	181,364
2022	180,614
2023	177,252
2024 – 2028	<u>850,243</u>
Total	\$ <u>1,759,232</u>

For the years ended June 30, 2018 and 2017, 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, 2018.

(11) Loans to Students

Student loans made through Perkins constitute substantially all of the student loans outstanding at June 30, 2018 and 2017. 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 2018 and 2017, no additional contributions were funded. Perkins provides for cancellation of a note at rates of 10% to 30% per year up to a maximum of 100% if the debtor complies with certain provisions of Perkins. The federal government reimburses the loan funds of the University at rates of 10% to 30% for canceled indebtedness due to certain teaching service and various types of services for the U.S. government and 100% for loans declared not collectible due to death, permanent disability, or a declaration of bankruptcy.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2018 and 2017

Academic year 2017-18 was the last year in which new Perkins loans were allowed to be disbursed to students, as Congress did not renew the program. No new loans were allowed after June 30, 2018. Institutions have been given the option of assigning existing Perkins loans back to the federal government or continuing to collect on these loans while returning the Federal Capital Contributions (FCC) portion as loans are repaid. The University has elected to continue to collect on Perkins loans and return the FCC portion as the loans are collected. As payments are made back to the U.S. government, the U.S. government grants refundable will be reduced.

At June 30, 2018 and 2017, the allowance for possible loan losses of Perkins approximated \$750,000; however, due to federal regulations, no loans of Perkins have been written off since the inception of Perkins.

The University has other loan funds obtained primarily through gifts and grants from individuals, corporations, and foundations. At June 30, 2018 and 2017, the allowance for possible loan losses of these funds was \$153,000.

(12) Fund-Raising Expenses

The University had fund-raising expenses of approximately \$21,256,000 and \$17,798,000 in 2018 and 2017, respectively, which were recognized in institutional support in the accompanying statements of activities.

(13) Commitments and Contingencies

At June 30, 2018 and 2017, the University had outstanding commitments totaling approximately \$13,860,000 and \$16,149,000, respectively, for contracts related to various construction projects on campus.

During the 2018 fiscal year, the University invested approximately \$29,234,000 in 19 long-term partnerships, 18 of which were formed prior to the 2018 fiscal year, bringing its cumulative contributions to the partnerships to approximately \$164,632,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of June 30, 2018, the University's remaining commitments to 17 partnerships total approximately \$154,756,000.

During the 2017 fiscal year, the University invested approximately \$29,505,000 in 21 long-term partnerships, 19 of which were formed prior to the 2017 fiscal year, bringing its cumulative contributions to the partnerships to approximately \$127,763,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of June 30, 2017, the University's remaining commitments to 16 partnerships total approximately \$92,550,000.

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.

Single Audit Reports and Schedules

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

June 30, 2018

<u>Cluster</u>	<u>Federal Granting Agency</u>	<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
NON-CLUSTERED PROGRAMS:						
	Dept of Agriculture <i>Total Department of Agriculture</i>	Child and Adult Care Food Program	10.558	Colorado Dept of Public Health and Environment	\$ -	\$ 109,730
					<u>-</u>	<u>109,730</u>
	Dept of the Interior <i>Total Department of the Interior</i>	Native American Graves Protection and Repatriation Act	15.922		-	10,981
					<u>-</u>	<u>10,981</u>
	Dept of the Treasury <i>Total Department of the Treasury</i>	Low-Income Taxpayer Clinic	21.008		-	100,593
					<u>-</u>	<u>100,593</u>
	Total Non-Clustered Programs				-	221,304
RESEARCH AND DEVELOPMENT CLUSTER:						
	Dept of Defense	Military Medical Research and Development	12.420	University of Texas Health Science Center - San Antonio	-	16,026
	Dept of Defense	Basic Scientific Research	12.431		-	311,626
	Dept of Defense	Basic Scientific Research	12.431	Center for Forensic Science Research and Education	-	52,685
	Dept of Defense	Air Force Defense Research Sciences Program	12.800	University of Pennsylvania	-	11,880
	Dept of Defense <i>Total Department of Defense</i>	Mathematical Sciences Grants Program	12.901		-	8,712
					<u>-</u>	<u>400,929</u>
	Dept of the Interior	Cultural Resources Management	15.511		-	6,011
	Dept of the Interior <i>Total Department of the Interior</i>	Research and Data Collection	15.808		-	12,585
					<u>-</u>	<u>18,596</u>
	Dept of Justice	Juvenile Justice and Delinquency Prevention	16.540		-	46,850
	Dept of Justice	Justice Research, Development and Evaluation	16.560		75,067	206,934
	Dept of Justice	Justice Research, Development and Evaluation	16.560	RAND Corporation	7,031	206,347
	Dept of Justice	Justice Research, Development and Evaluation	16.560	Center for Forensic Science Research and Education	-	21,143
	Dept of Justice	Criminal Justice Research and Development-Graduate Research Fellowships	16.562		-	47,227
	Dept of Justice <i>Total Department of Justice</i>	Crime Victim Assistance/Discretionary Grants	16.582	Rocky Mountain Victim Law Center	-	44,690
					<u>82,098</u>	<u>573,191</u>
	Dept of Transportation	Pipeline Safety Program State Base Grant	20.700	North Dakota State University	-	27,947
	Dept of Transportation	DOT Office of the Secretary	20.701	North Dakota State University	-	103,173
	Dept of Transportation <i>Total Department of Transportation</i>	Crime Victim Assistance/Discretionary Grants	20.801	Mississippi State University	-	(1)
					<u>-</u>	<u>131,119</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

June 30, 2018

Cluster	Federal Granting Agency	Program Title	CFDA Number	Pass-Through Entity	Passed Through to Subrecipients	Expenditures
	National Aeronautics and Space Admin (NASA)	Aerospace Education Services Program	43.001		\$ 77,225	\$ 413,368
	National Aeronautics and Space Admin (NASA)	Aerospace Education Services Program	43.001	NASA/Space Telescope Science Institute	-	15,786
	<i>Total National Aeronautics and Space Administration (NASA)</i>				<u>77,225</u>	<u>429,154</u>
	National Endowment for the Arts & Humanities	National Leadership Grants	45.312		-	29,216
	<i>Total National Endowment for the Arts & Humanities</i>				<u>-</u>	<u>29,216</u>
	National Science Foundation	Engineering Grants	47.041		-	717,710
	National Science Foundation	Engineering Grants	47.041	Howard University	-	36,177
	National Science Foundation	Mathematical and Physical Sciences	47.049		-	636,181
	National Science Foundation	Geosciences	47.050		-	119,387
	National Science Foundation	Geosciences	47.050	National Center for Atmospheric Research	-	80,426
	National Science Foundation	Geosciences	47.050	University of Colorado/Boulder	-	163
	National Science Foundation	Computer and Information Science and Engineering	47.070		64,106	668,214
	National Science Foundation	Biological Sciences	47.074		-	75,416
	National Science Foundation	Social	47.075		188,551	662,384
	National Science Foundation	Social	47.075	Keck Institute	-	5,534
	National Science Foundation	Social	47.075	Wake Forest University	-	3,854
	National Science Foundation	Social	47.075	University of Colorado/Boulder		5,172
	National Science Foundation	Education and Human Resources	47.076		6,940	61,883
	National Science Foundation	Education and Human Resources	47.076	Colorado State University	-	42,295
	National Science Foundation	Education and Human Resources	47.076	University of North Dakota	-	14,845
	National Science Foundation	Education and Human Resources	47.076	Illinois State University	-	34,066
	National Science Foundation	Polar Programs	47.078		-	(1,400)
	<i>Total National Science Foundation</i>				<u>259,597</u>	<u>3,162,307</u>
	Dept of Energy	Renewable Energy Research and Development	81.087	Commonwealth Edison Company	-	208,128
	Dept of Energy	Electricity Delivery and Energy Reliability, Research, Development and Analysis (B)	81.122	Commonwealth Edison Company	-	23,600
	<i>Total Department of Energy</i>				<u>-</u>	<u>231,728</u>
	Dept of Education	Doctoral Dissertation Research Abroad	84.022		-	15,933
	Dept of Education	Graduate Assistance in Areas of National Need	84.200	Colorado Department of Education	-	96,832
	Dept of Education	Education Research, Development and Dissemination	84.305		7,657	693,916
	Dept of Education	Education Research, Development and Dissemination	84.305	University of Colorado Denver	-	24,986
	Dept of Education	Graduate Research Opportunities for Minority Students	84.414	Colorado Department of Education	-	28,000
	<i>Total Department of Education</i>				<u>7,657</u>	<u>859,667</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

June 30, 2018

Cluster	Federal Granting Agency	Program Title	CFDA Number	Pass-Through Entity	Passed	
					Through to Subrecipients	Expenditures
	Dept of Health and Human Services	Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086		\$ 371,782	\$ 1,166,898
	Dept of Health and Human Services	Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	Center for Relationship Education	-	211,479
	Dept of Health and Human Services	Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	Public Strategies, Inc.	-	122,983
	Dept of Health and Human Services	Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	University of Miami	-	52,112
	Dept of Health and Human Services	Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	Mathematica Policy Research, Inc. OK Dept of Mental Health and	251,175	288,673
	Dept of Health and Human Services	Enhance Safety of Children Affected by Substance Abuse	93.087	Substance Abuse Services	-	59,572
	Dept of Health and Human Services	Research Related to Deafness & Communication Disorders	93.173	University of Colorado Denver		24,971
	Dept of Health and Human Services	Research on Healthcare Costs, Quality and Outcomes	93.226	University of Louisville Colorado Department of Human	-	15,528
	Dept of Health and Human Services	Traumatic Brain Injury State Demonstration Grant Program	93.234	Services	-	67,798
	Dept of Health and Human Services	Mental Health Research Grants	93.242		183,273	667,506
	Dept of Health and Human Services	Mental Health Research Grants	93.242	University of California/Irvine	-	17,175
	Dept of Health and Human Services	Mental Health Research Grants	93.242	University of Washington	-	5,872
	Dept of Health and Human Services	Mental Health Research Grants	93.242	Wake Forest University	-	36,332
	Dept of Health and Human Services	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		-	113,959
	Dept of Health and Human Services	Substance Abuse and Mental Health Service - Projects of Regional and National Significance	93.243	Boston University	-	19,411
	Dept of Health and Human Services	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	Casa Esperanza	-	274,751
	Dept of Health and Human Services	Alcohol Research Programs	93.273		16,949	205,953
	Dept of Health and Human Services	Drug Abuse and Addiction Research Programs	93.279		-	106,540
	Dept of Health and Human Services	Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	Colorado Foundation for Public Health & Environment	-	139,366
	Dept of Health and Human Services	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		-	272,649
	Dept of Health and Human Services	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	University of Chicago	-	365,204
	Dept of Health and Human Services	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	University of Nebraska Cleveland Clinic Educational	-	73,213
	Dept of Health and Human Services	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	Foundation	-	15,073
	Dept of Health and Human Services	Cancer Detection and Diagnosis Research	93.394		68,475	343,751
	Dept of Health and Human Services	Head Start	93.600		97,327	270,544
	Dept of Health and Human Services	Head Start	93.600	Zero to Three	-	359,642
	Dept of Health and Human Services	ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	Colorado State Innovation Model	-	19,506
	Dept of Health and Human Services	Social Services Research and Demonstration	93.647		-	712
	Dept of Health and Human Services	Child Welfare Services Training Grants	93.648	Research Foundation of State University of New York	46,845	705,956
	Dept of Health and Human Services	Child Welfare Services Training Grants	93.648	University of Maryland-Baltimore	-	56,347
	Dept of Health and Human Services	Adoption Opportunities	93.652	University of Vermont	-	16,672
	Dept of Health and Human Services	Foster Care - Title IV-E	93.658		3,820,260	4,637,220

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

June 30, 2018

Cluster	Federal Granting Agency	Program Title	CFDA Number	Pass-Through Entity	Passed Through to Subrecipients	Expenditures
	Dept of Health and Human Services	Foster Car - Title IV-E	93.658	Colorado Department of Human Services	-	251,464
	Dept of Health and Human Services	Chafee Foster Care Independence Program	93.674	University of Southern Maine	-	2,346
	Dept of Health and Human Services	Mental and Behavioral Health Education and Training Grants	93.732		-	381,764
	Dept of Health and Human Services	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		-	128,808
	Dept of Health and Human Services	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.855	Immunology and Transplantation Research	-	200,205
	Dept of Health and Human Services	Biomedical Research and Research Training	93.859		-	1,199,329
	Dept of Health and Human Services	Child Health and Human Development Extramural Research	93.865		79,530	748,421
	Dept of Health and Human Services	Child Health and Human Development Extramural Research	93.865	Center for Policy Research	-	4,110
	Dept of Health and Human Services	Child Health and Human Development Extramural Research	93.865	University of California	-	86,987
	Dept of Health and Human Services	Child Health and Human Development Extramural Research	93.865	University of California at Los Angeles	-	61,333
	Dept of Health and Human Services	Child Health and Human Development Extramural Research	93.865	University of California/Irvine	-	(3)
	Dept of Health and Human Services	Child Health and Human Development Extramural Research	93.865	University of Colorado/Boulder	5,290	143,288
	Dept of Health and Human Services	Child Health and Human Development Extramural Research	93.865	University of Colorado-Cororado Springs	-	56,481
	Dept of Health and Human Services	Aging Research	93.866		65,491	511,598
	<i>Total Department of Health and Human Services</i>				<u>5,006,397</u>	<u>14,509,499</u>
	Corporation for National and Community Service	National Service and Civic Engagement Research Competition	94.026		15,053	32,973
	<i>Total Corporation for National and Community Service</i>				<u>15,053</u>	<u>32,973</u>
	US Agency for International Development (USAID)	USAID Foreign Assistance for Programs Overseas	98.001	QED Inc.	-	117,149
	<i>Total US Agency for International Development (USAID)</i>				<u>-</u>	<u>117,149</u>
	Total Research and Development Cluster				5,448,027	20,495,528
STUDENT FINANCIAL ASSISTANCE CLUSTER:						
	Dept of Education	Federal Supplemental Education Opportunity Grant Program	84.007		-	668,507
	Dept of Education	Federal Work Study Program	84.033		-	1,742,651
	Dept of Education	Federal Perkins Loan Program	84.038		-	18,025,274
	Dept of Education	Federal Pell Grant Program	84.063		-	4,501,752
	Dept of Education	Federal Direct Student Loan Program	84.268		-	141,117,576
	Dept of Education	Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379		-	170,214
	<i>Total Department of Education</i>				<u>-</u>	<u>166,225,974</u>
	Total Student Financial Assistance Cluster				-	166,225,974
	Total Federal Awards				\$ 5,448,027	\$ 186,942,806

See accompanying notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards

June 30, 2018

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the University of Denver (Colorado Seminary) (the University) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 INDIRECT COST RATE

The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 FEDERAL STUDENT LOAN PROGRAMS

The federal student loan program listed subsequently is administered directly by the University, and balances and transactions relating to this program is included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2018 consists of:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Federal Perkins Loans	84.038	\$ 14,802,105



**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**

Board of Trustees
University of Denver
Denver, Colorado

We have audited, in accordance with the 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, the financial statements of University of Denver (Colorado Seminary), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered University of Denver's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of University of Denver's internal control. Accordingly, we do not express an opinion on the effectiveness of University of Denver's internal control.

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 *material weakness* is a deficiency, or a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University of Denver's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Denver, Colorado
November 16, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees
University of Denver
Denver, Colorado

Report on Compliance for Each Major Federal Program

We have audited the University of Denver's (Colorado Seminary) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University of Denver's major federal program for the year ended June 30, 2018. The University of Denver's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the University of Denver's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 of Denver'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the University of Denver's compliance.

Opinion on Each Major Federal Program

In our opinion, the University of Denver complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002. Our opinion on the major federal program is not modified with respect to these matters.

University of Denver's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. University of Denver's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University of Denver is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University of Denver's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 of Denver's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

Board of Trustees
University of Denver

University of Denver's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. University of Denver's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Denver, Colorado
November 16, 2018

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? yes no
 - Significant deficiency(ies) identified? yes none reported
3. Noncompliance material to financial statements noted? yes no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes no
 - Significant deficiency(ies) identified? yes none reported
2. Type of auditors' report issued on Compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of Major Federal Programs

CFDA Number(s)

84.007, 84.003, 84.038,
84.063, 84.268, 84.379

Name of Federal Program or Cluster

Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Section III – Findings and Questioned Costs – Major Federal Programs

2018-001: Verification

Federal Agency: Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Numbers: 84.063 – Federal Pell Grant Program
84.007 - Federal Supplemental Educational Opportunity Grant (FSEOG)
Award Period: 7/1/2017 – 6/30/2018
Type of Finding:

- Compliance and Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: The Code of Federal Regulations, 34 CFR 685.309, requires verification of information for each applicant who is selected for verification by the Department. The specific information required to be verified is based on the tracking group to which the applicant is assigned. A verification tracking flag will be set on the applicant's Institutional Student Information Record (ISIR) to indicate placement in one of the 2017-2018 verification tracking groups. Students who are selected for verification will be placed in one of the following groups to determine which Free Application for Federal Student Aid (FAFSA) information must be verified. The groups are as follows: V1 - Standard Verification Group, V2 - Reserved for future use by the Department, V3 - Reserved for future use by the Department, V4 - Custom Verification Group, V5 - Aggregate Verification Group, and V6 - Reserved for future use by the Department.

Condition: During our testing of the Federal Supplemental Educational Opportunity Grant (FSEOG) and Pell Grant programs, we selected a sample of students to determine whether the institution established policies and procedures to properly verify information in student aid applications determined by the verification code listed on the ISIR. We verified all required information of selected applications in accordance with the specific verification requirements.

We noted, during our testing, that one out of the 40 students was verified under a tracking group of V1 when they should have been verified under V5 due to an error in the system coding that identifies student verification group. The University did not examine the correct documents required by the V5 verification tracking group and aid was improperly awarded.

Questioned Costs: \$1,253 of federal funds were disbursed to the student before the student's information was properly verified.

Context: Out of a sample of 40 student selected for testing for the requirement noted above, we noted one exception as described above.

Cause: The system coding used to identify students for verification did not correctly identify the V5 verification group for this student. The student was incorrectly verified under V1 due to their status as an Undergraduate (UG) University College (UC) student in their first quarter of enrollment. The coding was not set up to identify this student type for V5 verification.

Effect: The verification process was not correctly completed for the student. This may result in the University incorrectly awarding aid to students that are required to be verified before they receive aid.

Recommendation: We recommend that the University revise its coding structure to identify these certain types of students for V5 verification tracking groups.

Views of responsible officials: There is no disagreement with this audit finding.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Section III – Findings and Questioned Costs – Major Federal Programs

2018-002: Return of Title IV Funds

Federal Agency: Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Numbers: 84.268 – Federal Direct Student Loans

Award Period: 7/1/2017 – 6/30/2018

Type of Finding:

- Compliance and Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: The Code of Federal Regulations, 34 CFR 668.22, requires that when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursements may be made to the student unless the amount earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement.

Condition: During our testing of the return of Title IV funds, we noted that the University incorrectly returned federal funds for subsidized direct loans. The University returned the full amount of funds awarded to a student when they withdrew to the ED; however, the student was entitled to keep a portion of the funds under return of Title IV fund requirements.

Questioned Costs: None.

Context: Out of a sample of 40 students selected for testing, we noted one exception in which the incorrect amount of Title IV funds were returned to the ED. The University returned more than required.

Cause: The return of title IV fund calculation was performed correctly; however, during the manual process of the return of funds to the Department of Education, an input error in the return process caused the University to return the full amount of the Direct Loan instead of the proper calculated return amount.

Effect: The University returned the incorrect amount to the Department of Education. In this case, the University returned too much of Direct Loan funds to the Department.

Recommendation: We recommend the University reconcile returned funds per the Common Origination and Disbursement (COD) System to the calculated amount of returned funds per banner.

Views of responsible officials: There is no disagreement with this audit finding.



**COLORADO SEMINARY – UNIVERSITY OF DENVER
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2018**

Office of Naval Research

University of Denver respectfully submits the following corrective action plan for the year ended June 30, 2018.

Audit period: July 1, 2017 - June 30, 2018

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

There were no financial statement audit findings to be communicated for the fiscal year 2018 audit.

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

Department of Education

2018-001 Verification

Recommendation: We recommend that the University revise its coding structure to identify these certain types of students for V5 verification tracking groups.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: We reviewed every student in our database selected for V4/V5 and, in every instance except for this one student, the University gathered the correct identity verification documents for this verification code. Very few students fall into this admission category at the University College level and she was the only student in our database who fell outside of the selection controls. We have updated the system coding as of mid-July 2018 so that all undergraduate University College students with a V4 or V5 now are properly identified to collect the appropriate verification documents.

Names of the contact persons responsible for corrective action:

John Gudvangen, Director of Financial Aid

Dennis Becker, Registrar

Paul Myskiw, Associate Registrar

Planned completion date for corrective action plan: Effective immediately



**COLORADO SEMINARY – UNIVERSITY OF DENVER
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2018**

2018-002 Return of Title IV Funds

Recommendation: We recommend the University reconcile returned funds per the Common Origination and Disbursement (COD) System to the calculated amount of returned funds per banner.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: In order to prevent data input errors when returning funds, we have added an additional monthly reconciliation step to compare returned amounts for each student with the required calculated amount.

Names of the contact persons responsible for corrective action:

John Gudvangen, Director of Financial Aid

Dennis Becker, Registrar

Paul Myskiw, Associate Registrar

Planned completion date for corrective action plan: Effective immediately

If the Office of Naval Research has questions regarding this schedule, please call Andrew Cullen, Associate Vice-Chancellor, Finance, at 303-871-3740.



**COLORADO SEMINARY – UNIVERSITY OF DENVER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

Office of Naval Research

The University of Denver respectfully submits the following summary schedule of prior audit findings for the year ended June 30, 2018.

Audit period: July 1, 2017 to June 30, 2018

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS—FINANCIAL STATEMENT AUDIT

2017 – 001: Information Technology Access Rights

Condition: While testing information technology general controls, we noted that there was a lack of segregation of duties within the University's information technology system as it relates to payroll and non-payroll disbursement transaction cycles. Two users in each transaction cycle had the ability to create, approve and disburse transactions. In addition, there was not a monitoring control in place that notifies University personnel when an individual unilaterally moved a transaction through the entire transaction cycle.

Status: Corrected. The University has removed the access to process payroll and non-payroll disbursements from the security profile of the Director of Shared Services. The Manager of Payment Services continues to have access that allows the recording and payment of invoices and the Assistant Director of Shared Services continues to have access that allows for the recording and payment of invoices, and the creation and payment of payroll. The University has determined it is necessary for these users to have access to process all phases of the accounts payable and payroll processes in order to ensure business continuity in the event of a disruption to normal processing. A monitoring control has been implemented to notify the Director of Shared Services when an individual performs all steps in the disbursement process unilaterally. The Information Technology department saves activity logs from all disbursement processes and reviews for instances of individuals completing all steps in the disbursement processes. In the event the Manager of Payment Services or the Assistant Director of Shared Services is required to perform all steps in the disbursement process, the Director of Shared Services will be notified.



**COLORADO SEMINARY – UNIVERSITY OF DENVER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

FINDINGS— FEDERAL AWARD PROGRAMS AUDITS

2017-002: Enrollment Reporting

Condition: During our testing of the Direct Loan and Pell Grant programs, we selected a sample of students to test for timeliness of reporting student status changes to the NSLDS.

We noted, during our testing, that 1 out of the 40 students was not timely reported as enrolled at the University to NSLDS within the time frame of 30 days due to an error in the student’s personal information submitted.

Status: Corrected. The Student Financial Aid office assigned and trained a staff member in the Registrar’s Office and a backup staff member in the same office to resolve social security number errors on the National Student Clearinghouse reports. National Student Clearinghouse (NSC) error reports are reviewed in a timely manner so that the updated information becomes a part of the regular enrollment data transmissions to the NSLDS. The Registrar’s office staff now has access to update the records directly in NSLDS when necessary if resolution with the NSC cannot be done in a timely manner.

If the Office of Naval Research has questions regarding this schedule, please call Andrew Cullen, Associate Vice-Chancellor, Finance, at 303-871-3740.