

**UNIVERSITY OF DENVER  
(COLORADO SEMINARY)**

Financial Statements and  
Uniform Guidance Single Audit Reports

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)



November 30, 2016

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



Gregg Kvistad  
Provost and  
Executive Vice Chancellor



Craig Woody  
Vice Chancellor for Business  
and Financial  
Affairs/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, 2016 and 2015, 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.

Board of Trustees  
University of Denver

## **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, 2016 and 2015, 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 2016 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 30, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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**

Greenwood Village, Colorado  
November 30, 2016

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Statement of Financial Position

As of June 30, 2016

| <b>Assets</b>  | <b>Operations</b>     | <b>Plant</b>       | <b>Long-term<br/>investment</b> | <b>Total</b>         |
|--|-----------------------|--------------------|---------------------------------|----------------------|
| Cash and cash equivalents  | \$ 36,510,190         | 42,407,208         | 4,361,641                       | 83,279,039           |
| Short-term investments   | 94,393,191            | —                  | 510,361                         | 94,903,552           |
| Accounts receivable, net   | 19,854,781            | —                  | 328,442                         | 20,183,223           |
| Pledges receivable, net  | 11,697,925            | 4,944,359          | 21,150,815                      | 37,793,099           |
| Inventories, prepaid expenses, and other assets                    | 3,902,011             | —                  | —                               | 3,902,011            |
| Long-term investments  | 544,950               | —                  | 639,481,841                     | 640,026,791          |
| Loans to students, net   | —                     | —                  | 17,557,233                      | 17,557,233           |
| Property, plant, and equipment, net of<br>accumulated depreciation | —                     | 632,000,871        | —                               | 632,000,871          |
| Total assets   | <u>\$ 166,903,048</u> | <u>679,352,438</u> | <u>683,390,333</u>              | <u>1,529,645,819</u> |
| <b>Liabilities and Net Assets</b>                                  |                       |                    |                                 |                      |
| Accounts payable and accrued liabilities                           | \$ 59,638,154         | 16,748,883         | —                               | 76,387,037           |
| Deferred revenues  | 19,285,436            | —                  | —                               | 19,285,436           |
| Other liabilities  | —                     | —                  | 413,763                         | 413,763              |
| Annuity obligations  | —                     | —                  | 10,291,496                      | 10,291,496           |
| Long-term debt   | —                     | 112,046,697        | —                               | 112,046,697          |
| U.S. government grants refundable                                  | —                     | —                  | 16,195,054                      | 16,195,054           |
| Total liabilities  | <u>78,923,590</u>     | <u>128,795,580</u> | <u>26,900,313</u>               | <u>234,619,483</u>   |
| Net assets:  |                       |                    |                                 |                      |
| Unrestricted:  |                       |                    |                                 |                      |
| Available for operations   | 8,140,465             | 13,763,935         | —                               | 21,904,400           |
| Designated student loans   | —                     | —                  | 1,676,751                       | 1,676,751            |
| Designated gain sharing  | 53,391,662            | —                  | —                               | 53,391,662           |
| Board-designated endowments  | —                     | —                  | 189,625,647                     | 189,625,647          |
| Designated plant   | —                     | 519,954,174        | —                               | 519,954,174          |
| Donor advised funds  | —                     | —                  | 9,034,862                       | 9,034,862            |
| Total unrestricted net assets                                      | <u>61,532,127</u>     | <u>533,718,109</u> | <u>200,337,260</u>              | <u>795,587,496</u>   |
| Temporarily restricted:  |                       |                    |                                 |                      |
| Gifts and distributed endowment income                             | 26,447,331            | —                  | —                               | 26,447,331           |
| Plant  | —                     | 16,838,749         | —                               | 16,838,749           |
| Endowments   | —                     | —                  | 128,656,364                     | 128,656,364          |
| Annuity life income  | —                     | —                  | 5,750,356                       | 5,750,356            |
| Total temporarily restricted net assets                            | <u>26,447,331</u>     | <u>16,838,749</u>  | <u>134,406,720</u>              | <u>177,692,800</u>   |
| Permanently restricted:  |                       |                    |                                 |                      |
| Endowments   | —                     | —                  | 310,237,094                     | 310,237,094          |
| Annuity life income  | —                     | —                  | 9,343,796                       | 9,343,796            |
| Student loans  | —                     | —                  | 2,165,150                       | 2,165,150            |
| Total permanently restricted net assets                            | <u>—</u>              | <u>—</u>           | <u>321,746,040</u>              | <u>321,746,040</u>   |
| Total net assets   | <u>87,979,458</u>     | <u>550,556,858</u> | <u>656,490,020</u>              | <u>1,295,026,336</u> |
| Commitments and contingencies (notes 10, 11, and 13)               |                       |                    |                                 |                      |
| Total liabilities and net assets                                   | <u>\$ 166,903,048</u> | <u>679,352,438</u> | <u>683,390,333</u>              | <u>1,529,645,819</u> |

See accompanying notes to financial statements.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Statement of Financial Position

As of June 30, 2015

| <b>Assets</b>  | <b>Operations</b>     | <b>Plant</b>       | <b>Long-term<br/>investment</b> | <b>Total</b>         |
|--|-----------------------|--------------------|---------------------------------|----------------------|
| Cash and cash equivalents  | \$ 1,502,327          | 60,053,944         | 4,793,894                       | 66,350,165           |
| Short-term investments   | 113,148,628           | 15,710,971         | 125,510,361                     | 254,369,960          |
| Accounts receivable, net   | 19,129,729            | 80,961             | 308,098                         | 19,518,788           |
| Pledges receivable, net  | 12,539,916            | 11,225,150         | 18,636,984                      | 42,402,050           |
| Inventories, prepaid expenses, and other assets                    | 3,982,204             | —                  | —                               | 3,982,204            |
| Long-term investments  | 438,270               | —                  | 539,597,706                     | 540,035,976          |
| Loans to students, net   | —                     | —                  | 17,876,730                      | 17,876,730           |
| Property, plant, and equipment, net of<br>accumulated depreciation | —                     | 587,965,074        | —                               | 587,965,074          |
| Total assets   | <u>\$ 150,741,074</u> | <u>675,036,100</u> | <u>706,723,773</u>              | <u>1,532,500,947</u> |
| <b>Liabilities and Net Assets</b>                                  |                       |                    |                                 |                      |
| Accounts payable and accrued liabilities                           | \$ 65,475,228         | 16,128,274         | —                               | 81,603,502           |
| Deferred revenues  | 19,585,571            | —                  | —                               | 19,585,571           |
| Other liabilities  | —                     | —                  | 450,583                         | 450,583              |
| Annuity obligations  | —                     | —                  | 11,440,164                      | 11,440,164           |
| Long-term debt   | —                     | 118,050,581        | —                               | 118,050,581          |
| U.S. government grants refundable                                  | —                     | —                  | 16,262,713                      | 16,262,713           |
| Total liabilities  | <u>85,060,799</u>     | <u>134,178,855</u> | <u>28,153,460</u>               | <u>247,393,114</u>   |
| Net assets:  |                       |                    |                                 |                      |
| Unrestricted:  |                       |                    |                                 |                      |
| Available for operations   | 6,869,384             | 18,136,078         | —                               | 25,005,462           |
| Designated student loans   | —                     | —                  | 1,684,425                       | 1,684,425            |
| Designated gain sharing  | 31,552,426            | —                  | —                               | 31,552,426           |
| Board-designated endowments  | —                     | —                  | 200,184,201                     | 200,184,201          |
| Designated plant   | —                     | 469,914,493        | —                               | 469,914,493          |
| Donor advised funds  | —                     | —                  | 7,963,189                       | 7,963,189            |
| Total unrestricted net assets                                      | <u>38,421,810</u>     | <u>488,050,571</u> | <u>209,831,815</u>              | <u>736,304,196</u>   |
| Temporarily restricted:  |                       |                    |                                 |                      |
| Gifts and distributed endowment income                             | 27,258,465            | —                  | —                               | 27,258,465           |
| Plant  | —                     | 52,806,674         | —                               | 52,806,674           |
| Endowments   | —                     | —                  | 157,405,243                     | 157,405,243          |
| Annuity life income  | —                     | —                  | 6,024,109                       | 6,024,109            |
| Total temporarily restricted net assets                            | <u>27,258,465</u>     | <u>52,806,674</u>  | <u>163,429,352</u>              | <u>243,494,491</u>   |
| Permanently restricted:  |                       |                    |                                 |                      |
| Endowments   | —                     | —                  | 293,808,754                     | 293,808,754          |
| Annuity life income  | —                     | —                  | 9,366,832                       | 9,366,832            |
| Student loans  | —                     | —                  | 2,133,560                       | 2,133,560            |
| Total permanently restricted net assets                            | <u>—</u>              | <u>—</u>           | <u>305,309,146</u>              | <u>305,309,146</u>   |
| Total net assets   | <u>65,680,275</u>     | <u>540,857,245</u> | <u>678,570,313</u>              | <u>1,285,107,833</u> |
| Commitments and contingencies (notes 10, 11, and 13)               |                       |                    |                                 |                      |
| Total liabilities and net assets                                   | <u>\$ 150,741,074</u> | <u>675,036,100</u> | <u>706,723,773</u>              | <u>1,532,500,947</u> |

See accompanying notes to financial statements.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Statement of Activities

Year ended June 30, 2016

|   | <b>Operating</b> | <b>Designated<br/>unrestricted</b> | <b>Total<br/>operating</b> | <b>Plant</b> | <b>Long-term<br/>investment</b> | <b>Total</b>  |
|---|------------------|------------------------------------|----------------------------|--------------|---------------------------------|---------------|
| Change in unrestricted net assets:                              |                  |                                    |                            |              |                                 |               |
| Revenues and gains (losses):                                    |                  |                                    |                            |              |                                 |               |
| Tuition and fees  | \$ 444,343,003   | —                                  | 444,343,003                | —            | —                               | 444,343,003   |
| Less institutional scholarships                                 | 136,883,022      | —                                  | 136,883,022                | —            | —                               | 136,883,022   |
|   | 307,459,981      | —                                  | 307,459,981                | —            | —                               | 307,459,981   |
| Less noninstitutional scholarships                              | 14,865,432       | —                                  | 14,865,432                 | —            | —                               | 14,865,432    |
| Net tuition and fees  | 292,594,549      | —                                  | 292,594,549                | —            | —                               | 292,594,549   |
| Private gifts   | 588,038          | 175                                | 588,213                    | 5,000        | 1,519,231                       | 2,112,444     |
| Grants and contracts  | 29,364,139       | —                                  | 29,364,139                 | —            | —                               | 29,364,139    |
| Endowment income  | 2,410,154        | —                                  | 2,410,154                  | 3,041        | 178,610                         | 2,591,805     |
| Other investment income   | 1,140,380        | —                                  | 1,140,380                  | 10,216       | 314,612                         | 1,465,208     |
| Net realized and unrealized gains (losses) on endowments        | 3,557,423        | —                                  | 3,557,423                  | —            | (9,726,637)                     | (6,169,214)   |
| Net realized and unrealized gains (losses) on other investments | (1,130,030)      | —                                  | (1,130,030)                | 23,882       | (406,830)                       | (1,512,978)   |
| Sales and services of educational activities                    | 14,203,727       | 779,121                            | 14,982,848                 | —            | —                               | 14,982,848    |
| Sales and services of auxiliary enterprise                      | 35,506,190       | —                                  | 35,506,190                 | —            | —                               | 35,506,190    |
| Other sources   | 20,966,807       | 32,832                             | 20,999,639                 | 234,504      | 20,431                          | 21,254,574    |
| Total unrestricted revenues and gains (losses)                  | 399,201,377      | 812,128                            | 400,013,505                | 276,643      | (8,100,583)                     | 392,189,565   |
| Net assets released from restrictions                           | 30,992,713       | —                                  | 30,992,713                 | 38,086,406   | —                               | 69,079,119    |
| Net assets reclassified to permanently restricted               | —                | —                                  | —                          | —            | (2,879,512)                     | (2,879,512)   |
| Net assets reclassified from temporarily restricted             | —                | —                                  | —                          | —            | 377,496                         | 377,496       |
| Total unrestricted revenues, gains (losses), and other support  | 430,194,090      | 812,128                            | 431,006,218                | 38,363,049   | (10,602,599)                    | 458,766,668   |
| Expenses:   |                  |                                    |                            |              |                                 |               |
| Educational and general:  |                  |                                    |                            |              |                                 |               |
| Instruction   | 152,837,022      | 20,301                             | 152,857,323                | 9,472,375    | —                               | 162,329,698   |
| Research  | 13,850,493       | 9                                  | 13,850,502                 | 1,832,906    | —                               | 15,683,408    |
| Public service  | 8,229,594        | —                                  | 8,229,594                  | 78,277       | —                               | 8,307,871     |
| Academic support  | 64,289,227       | 3,724,569                          | 68,013,796                 | 1,292,506    | —                               | 69,306,302    |
| Student services  | 49,732,866       | —                                  | 49,732,866                 | 3,454,406    | —                               | 53,187,272    |
| Institutional support   | 52,226,652       | 2,781                              | 52,229,433                 | 1,739,299    | —                               | 53,968,732    |
| Total educational and general expenses                          | 341,165,854      | 3,747,660                          | 344,913,514                | 17,869,769   | —                               | 362,783,283   |
| Auxiliary enterprises   | 27,546,578       | —                                  | 27,546,578                 | 9,153,507    | —                               | 36,700,085    |
| Total expenses  | 368,712,432      | 3,747,660                          | 372,460,092                | 27,023,276   | —                               | 399,483,368   |
| Transfers among unrestricted net assets                         | 60,210,573       | (24,774,768)                       | 35,435,805                 | (34,327,765) | (1,108,040)                     | —             |
| Total expenses and transfers                                    | 428,923,005      | (21,027,108)                       | 407,895,897                | (7,304,489)  | (1,108,040)                     | 399,483,368   |
| Increase (decrease) in unrestricted net assets                  | 1,271,085        | 21,839,236                         | 23,110,321                 | 45,667,538   | (9,494,559)                     | 59,283,300    |
| Changes in temporarily restricted net assets:                   |                  |                                    |                            |              |                                 |               |
| Private gifts   | 14,554,567       | —                                  | 14,554,567                 | 1,775,209    | 11,899                          | 16,341,675    |
| Endowment income  | 4,894,833        | —                                  | 4,894,833                  | —            | 8,591                           | 4,903,424     |
| Other investment income   | 16,600           | —                                  | 16,600                     | 17,201       | —                               | 33,801        |
| Net realized and unrealized gains (losses) on endowments        | 13,315,198       | —                                  | 13,315,198                 | —            | (30,621,313)                    | (17,306,115)  |
| Net realized and unrealized gains (losses) on other investments | (67,725)         | —                                  | (67,725)                   | (18)         | —                               | (67,743)      |
| Net assets released from restrictions                           | (30,992,713)     | —                                  | (30,992,713)               | (38,086,406) | —                               | (69,079,119)  |
| Net assets reclassified to unrestricted                         | —                | —                                  | —                          | —            | (377,496)                       | (377,496)     |
| Actuarial adjustment on annuity obligations                     | —                | —                                  | —                          | —            | (250,118)                       | (250,118)     |
| Transfers among temporarily restricted net assets               | (2,531,898)      | —                                  | (2,531,898)                | 326,089      | 2,205,809                       | —             |
| Increase (decrease) in temporarily restricted net assets        | (811,138)        | —                                  | (811,138)                  | (35,967,925) | (29,022,628)                    | (65,801,691)  |
| Changes in permanently restricted net assets:                   |                  |                                    |                            |              |                                 |               |
| Private gifts   | —                | —                                  | —                          | —            | 13,454,862                      | 13,454,862    |
| Net realized and unrealized gains (losses) on other investments | —                | —                                  | —                          | —            | 17,767                          | 17,767        |
| Net assets reclassified from unrestricted                       | —                | —                                  | —                          | —            | 2,879,512                       | 2,879,512     |
| Actuarial adjustment on annuity obligations                     | —                | —                                  | —                          | —            | 84,753                          | 84,753        |
| Increase in permanently restricted net assets                   | —                | —                                  | —                          | —            | 16,436,894                      | 16,436,894    |
| Change in net assets  | 459,947          | 21,839,236                         | 22,299,183                 | 9,699,613    | (22,080,293)                    | 9,918,503     |
| Net assets at beginning of year                                 | 34,127,849       | 31,552,426                         | 65,680,275                 | 540,857,245  | 678,570,313                     | 1,285,107,833 |
| Net assets at end of year                                       | \$ 34,587,796    | 53,391,662                         | 87,979,458                 | 550,556,858  | 656,490,020                     | 1,295,026,336 |

See accompanying notes to financial statements.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Statement of Activities  
Year ended June 30, 2015

|   | <b>Operating</b>     | <b>Designated<br/>unrestricted</b> | <b>Total<br/>operating</b> | <b>Plant</b>        | <b>Long-term<br/>investment</b> | <b>Total</b>         |
|---|----------------------|------------------------------------|----------------------------|---------------------|---------------------------------|----------------------|
| Change in unrestricted net assets:                              |                      |                                    |                            |                     |                                 |                      |
| Revenues and gains (losses):                                    |                      |                                    |                            |                     |                                 |                      |
| Tuition and fees  | \$ 433,463,512       | —                                  | 433,463,512                | —                   | —                               | 433,463,512          |
| Less institutional scholarships                                 | 127,479,651          | —                                  | 127,479,651                | —                   | —                               | 127,479,651          |
|   | <u>305,983,861</u>   | <u>—</u>                           | <u>305,983,861</u>         | <u>—</u>            | <u>—</u>                        | <u>305,983,861</u>   |
| Less noninstitutional scholarships                              | 12,751,269           | —                                  | 12,751,269                 | —                   | —                               | 12,751,269           |
| Net tuition and fees  | 293,232,592          | —                                  | 293,232,592                | —                   | —                               | 293,232,592          |
| Private gifts   | 978,388              | 250                                | 978,638                    | 5,000               | 7,457,246                       | 8,440,884            |
| Grants and contracts  | 25,712,692           | —                                  | 25,712,692                 | —                   | —                               | 25,712,692           |
| Endowment income  | 156,323              | —                                  | 156,323                    | 2,954               | 654,659                         | 813,936              |
| Other investment income   | 920,290              | —                                  | 920,290                    | 38,556              | 465,337                         | 1,424,183            |
| Net realized and unrealized gains (losses) on endowments        | 557,481              | —                                  | 557,481                    | —                   | 3,101,449                       | 3,658,930            |
| Net realized and unrealized gains (losses) on other investments | (231,879)            | —                                  | (231,879)                  | (182,373)           | (311,046)                       | (725,298)            |
| Sales and services of educational activities                    | 14,215,915           | 289,346                            | 14,505,261                 | —                   | —                               | 14,505,261           |
| Sales and services of auxiliary enterprise                      | 34,110,542           | —                                  | 34,110,542                 | —                   | —                               | 34,110,542           |
| Other sources   | 20,549,035           | 231,942                            | 20,780,977                 | 607,620             | —                               | 21,388,597           |
| Total unrestricted revenues and gains (losses)                  | 390,201,379          | 521,538                            | 390,722,917                | 471,757             | 11,367,645                      | 402,562,319          |
| Net assets released from restrictions                           | 30,378,136           | —                                  | 30,378,136                 | 7,064,952           | —                               | 37,443,088           |
| Net assets reclassified to permanently restricted               | —                    | —                                  | —                          | —                   | (6,400,641)                     | (6,400,641)          |
| Net assets reclassified to temporarily restricted               | —                    | —                                  | —                          | —                   | (2,406,336)                     | (2,406,336)          |
| Total unrestricted revenues, gains (losses), and other support  | <u>420,579,515</u>   | <u>521,538</u>                     | <u>421,101,053</u>         | <u>7,536,709</u>    | <u>2,560,668</u>                | <u>431,198,430</u>   |
| Expenses:   |                      |                                    |                            |                     |                                 |                      |
| Educational and general:  |                      |                                    |                            |                     |                                 |                      |
| Instruction   | 148,228,650          | 109,054                            | 148,337,704                | 9,405,751           | —                               | 157,743,455          |
| Research  | 13,069,928           | —                                  | 13,069,928                 | 1,762,721           | —                               | 14,832,649           |
| Public service  | 5,839,706            | —                                  | 5,839,706                  | 78,904              | —                               | 5,918,610            |
| Academic support  | 59,831,895           | 3,805,130                          | 63,637,025                 | 1,262,633           | —                               | 64,899,658           |
| Student services  | 47,046,757           | —                                  | 47,046,757                 | 3,495,723           | —                               | 50,542,480           |
| Institutional support   | 50,479,021           | 14,383                             | 50,493,404                 | 1,556,404           | —                               | 52,049,808           |
| Total educational and general expenses                          | 324,495,957          | 3,928,567                          | 328,424,524                | 17,562,136          | —                               | 345,986,660          |
| Auxiliary enterprises   | 25,864,354           | —                                  | 25,864,354                 | 10,245,710          | —                               | 36,110,064           |
| Total expenses  | 350,360,311          | 3,928,567                          | 354,288,878                | 27,807,846          | —                               | 382,096,724          |
| Transfers among unrestricted net assets                         | 68,900,878           | 61,821,374                         | 130,722,252                | (8,647,781)         | (122,074,471)                   | —                    |
| Total expenses and transfers                                    | <u>419,261,189</u>   | <u>65,749,941</u>                  | <u>485,011,130</u>         | <u>19,160,065</u>   | <u>(122,074,471)</u>            | <u>382,096,724</u>   |
| Increase (decrease) in unrestricted net assets                  | 1,318,326            | (65,228,403)                       | (63,910,077)               | (11,623,356)        | 124,635,139                     | 49,101,706           |
| Changes in temporarily restricted net assets:                   |                      |                                    |                            |                     |                                 |                      |
| Private gifts   | 15,128,302           | —                                  | 15,128,302                 | 3,929,855           | 89,662                          | 19,147,819           |
| Endowment income  | 4,661,149            | —                                  | 4,661,149                  | —                   | 6,128                           | 4,667,277            |
| Other investment income   | 39,362               | —                                  | 39,362                     | 198                 | —                               | 39,560               |
| Net realized and unrealized gains (losses) on endowments        | 12,288,876           | —                                  | 12,288,876                 | —                   | 3,505,014                       | 15,793,890           |
| Net realized and unrealized gains (losses) on other investments | 67,155               | —                                  | 67,155                     | (16,201)            | —                               | 50,954               |
| Net assets released from restrictions                           | (30,378,136)         | —                                  | (30,378,136)               | (7,064,952)         | —                               | (37,443,088)         |
| Net assets reclassified from unrestricted                       | —                    | —                                  | —                          | —                   | 2,406,336                       | 2,406,336            |
| Net assets reclassified from permanently restricted             | —                    | —                                  | —                          | —                   | 776,043                         | 776,043              |
| Actuarial adjustment on annuity obligations                     | —                    | —                                  | —                          | —                   | (198,669)                       | (198,669)            |
| Transfers among temporarily restricted net assets               | (25,014,777)         | —                                  | (25,014,777)               | 986,288             | 24,028,489                      | —                    |
| Increase (decrease) in temporarily restricted net assets        | <u>(23,208,069)</u>  | <u>—</u>                           | <u>(23,208,069)</u>        | <u>(2,164,812)</u>  | <u>30,613,003</u>               | <u>5,240,122</u>     |
| Changes in permanently restricted net assets:                   |                      |                                    |                            |                     |                                 |                      |
| Private gifts   | —                    | —                                  | —                          | —                   | 9,215,562                       | 9,215,562            |
| Net realized and unrealized gains (losses) on other investments | —                    | —                                  | —                          | —                   | 16,963                          | 16,963               |
| Net assets reclassified from unrestricted                       | —                    | —                                  | —                          | —                   | 6,400,641                       | 6,400,641            |
| Net assets reclassified to temporarily restricted               | —                    | —                                  | —                          | —                   | (776,043)                       | (776,043)            |
| Actuarial adjustment on annuity obligations                     | —                    | —                                  | —                          | —                   | 4,268                           | 4,268                |
| Increase in permanently restricted net assets                   | —                    | —                                  | —                          | —                   | 14,861,391                      | 14,861,391           |
| Change in net assets  | <u>(21,889,743)</u>  | <u>(65,228,403)</u>                | <u>(87,118,146)</u>        | <u>(13,788,168)</u> | <u>170,109,533</u>              | <u>69,203,219</u>    |
| Net assets at beginning of year                                 | 56,017,592           | 96,780,829                         | 152,798,421                | 554,645,413         | 508,460,780                     | 1,215,904,614        |
| Net assets at end of year                                       | \$ <u>34,127,849</u> | <u>31,552,426</u>                  | <u>65,680,275</u>          | <u>540,857,245</u>  | <u>678,570,313</u>              | <u>1,285,107,833</u> |

See accompanying notes to financial statements.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Statements of Cash Flows

Years ended June 30, 2016 and 2015

|   | <u>2016</u>                 | <u>2015</u>                 |
|---|-----------------------------|-----------------------------|
| Cash flows from operating activities:   |                             |                             |
| Change in net assets  | \$ 9,918,503                | 69,203,219                  |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                             |                             |
| Depreciation of property, plant, and equipment  | 14,461,435                  | 14,587,873                  |
| Disposal of property, plant, and equipment  | 111,638                     | 39,343                      |
| Amortization of premium   | (348,884)                   | (514,366)                   |
| (Increase) in accounts receivable   | (664,435)                   | (1,163,418)                 |
| Decrease in pledges receivable  | 4,608,951                   | 12,884,138                  |
| Decrease in inventories, prepaid expenses, and other assets                                 | 80,193                      | 907,197                     |
| Increase (decrease) in accounts payable and accrued liabilities                             | (5,216,465)                 | 14,110,043                  |
| Increase (decrease) in deferred revenues  | (300,135)                   | (8,386,813)                 |
| Increase (decrease) in other liabilities  | (36,820)                    | 9,831                       |
| Actuarial adjustment for annuity obligation   | (975,207)                   | (483,215)                   |
| Contributions of investments  | —                           | (6,620,151)                 |
| Contributions restricted for long-term investment   | (14,985,992)                | (16,762,470)                |
| Interest and dividends for long-term investments  | (210,610)                   | (126,272)                   |
| Net realized and unrealized gains on investments  | 25,038,283                  | (18,795,439)                |
| Net cash provided by operating activities   | <u>31,480,455</u>           | <u>58,889,500</u>           |
| Cash flows from investing activities:   |                             |                             |
| Proceeds from sale of investments   | 437,309,894                 | 526,182,828                 |
| Purchases of investments  | (403,046,045)               | (549,570,951)               |
| Purchases of property, plant, and equipment   | (58,608,870)                | (37,591,657)                |
| Disbursements for Perkins and University loans to students                                  | (2,990,277)                 | (4,025,560)                 |
| Repayment of Perkins and University loans to students                                       | 3,309,774                   | 3,486,396                   |
| Net cash used in investing activities   | <u>(24,025,524)</u>         | <u>(61,518,944)</u>         |
| Cash flows from financing activities:   |                             |                             |
| Proceeds from contributions restricted for long-term investment                             | 14,985,992                  | 16,762,470                  |
| Interest and dividends restricted for reinvestment  | 210,610                     | 126,272                     |
| Payments of bonds payable   | (5,655,000)                 | (6,050,000)                 |
| Decrease in refundable government loan funds, net   | (67,659)                    | (174,945)                   |
| Net cash provided by financing activities   | <u>9,473,943</u>            | <u>10,663,797</u>           |
| Net increase in cash and cash equivalents   | 16,928,874                  | 8,034,353                   |
| Cash and cash equivalents at beginning of year  | <u>66,350,165</u>           | <u>58,315,812</u>           |
| Cash and cash equivalents at end of year  | \$ <u><u>83,279,039</u></u> | \$ <u><u>66,350,165</u></u> |

In fiscal year 2016, the University issued Series 2014A bonds in the amount of \$29,075,000 to refund series 2005A bonds in the amount of \$28,105,000, and issued 2014B bonds in the amount of \$12,500,000 to refund series 2005B bonds in the amount of \$12,085,000.

See accompanying notes to financial statements.

# UNIVERSITY OF DENVER (COLORADO SEMINARY)

## Notes to Financial Statements

June 30, 2016 and 2015

### (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. Other liabilities are long term in nature. Balances and activities are unrestricted, temporarily restricted, or have been released from restrictions.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2016 and 2015

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

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

**Long-term investment** – Endowment, annuity, and loan activity 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 \$1,491,000 and \$1,160,000 as of June 30, 2016 and 2015, 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

## UNIVERSITY OF DENVER (COLORADO SEMINARY)

### Notes to Financial Statements

June 30, 2016 and 2015

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. See further discussion at note 1(n).

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 their estimated present value. An allowance for uncollectibility is provided based on review of individually significant pledges and an estimated rate of uncollectibility. All contributions are available for unrestricted use unless specifically restricted by the donor.

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

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

**(g) Inventories**

Inventories, which consist mainly of athletic and golf course merchandise and operating supplies, are valued at the lower of cost or fair value using the first-in, first-out (FIFO) method.

## UNIVERSITY OF DENVER (COLORADO SEMINARY)

### Notes to Financial Statements

June 30, 2016 and 2015

**(h) *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.

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.

**(i) *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, 2016 and 2015 and recorded as revenue and expenses in the succeeding fiscal year.

**(j) *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 \$3,905,000 and \$3,823,000 as of June 30, 2016 and 2015, 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.

**(k) *Annuity Obligations***

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

## UNIVERSITY OF DENVER (COLORADO SEMINARY)

### Notes to Financial Statements

June 30, 2016 and 2015

**(l) 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, 2016 and 2015.

The University evaluates its tax position in accordance with the provisions of FASB ASC Topic 740-10, *Income Taxes* (formerly, FASB Interpretation No. 48). 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, 2016.

**(m) 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.

**(n) Fair Value of Financial Instruments**

The fair value of the University's financial instruments is determined as follows:

**Cash and cash equivalents** – Fair value is estimated to be the same as the carrying (book) value because of its short maturity.

**Short and long-term investments** – Fair value of U.S. government securities, mutual funds, stocks, and bonds is the market value based on quoted market prices. For alternative investments, which include hedge funds and private equity investments, fair values are based on the net asset value reported by each fund because it serves as a practical expedient to estimate the fair value of the University's interest. See further discussion at note 3.

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

## UNIVERSITY OF DENVER (COLORADO SEMINARY)

### Notes to Financial Statements

June 30, 2016 and 2015

**Pledges receivable** – Fair value is determined by computing the present value of future cash flows discounted at the prevailing interest rate as of the period in which the agreement was received. The carrying (book) value of pledges receivable approximates fair value.

**Loans to students** – Fair value cannot be determined without incurring excessive costs. Repayment terms for University loans average less than one year and on average carry a 5% interest rate. The Federal Perkins Loan program (Perkins) has a maximum repayment period of 10 years and carries an average interest rate of 5%.

**Accounts payable and accrued liabilities** – Fair value is estimated to be the same as the carrying (book) value due to the short maturities of accounts payable; included in accrued liabilities is the present value of future obligations, which is adjusted annually. This carrying (book) value approximates fair value.

**Annuity obligations** – Fair value is determined by computing the present value of the University's obligation to pay beneficiaries based on the beneficiaries' life expectancies from actuarial tables published by the Internal Revenue Service, using the prevailing interest rate as of the date of each agreement. The University's agreements are tied to interest rates that range from 4.9% to 10.0%. Annuity obligations are adjusted annually for these factors.

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

**(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, 2016 and 2015, the University matched commitments to the matching program in the amount of \$2,970,000 and \$4,618,000, respectively. Other reclassifications included reclassifications from temporarily restricted to unrestricted net assets of \$377,000 and from permanently restricted to unrestricted net assets of \$80,000 for the year ended June 30, 2016, and reclassifications from unrestricted to permanently restricted net assets of \$1,783,000 and from permanently restricted to temporarily restricted net assets of \$776,000 for the year ended June 30, 2015.

**(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

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2016 and 2015

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, 2016 and through November 30, 2016.

**(s) Reclassifications**

Certain 2015 amounts have been reclassified to conform to the current year presentation.

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

Investments at June 30 consist of the following:

|   | <b>2016</b>           |                                   |                     |
|---|-----------------------|-----------------------------------|---------------------|
|   | <b>Cost</b>           | <b>Unrealized<br/>gain (loss)</b> | <b>Market value</b> |
| Short-term investments:   |                       |                                   |                     |
| U.S. government securities  | \$ 93,217,992         | (54,280)                          | 93,163,712          |
| Mutual funds  | 610,242               | 311,288                           | 921,530             |
| Real estate   | 475,000               | —                                 | 475,000             |
| Other   | 343,310               | —                                 | 343,310             |
|   | <u>94,646,544</u>     | <u>257,008</u>                    | <u>94,903,552</u>   |
| Long-term investment:   |                       |                                   |                     |
| Trustee cash and cash equivalents<br>for endowments and annuities | 3,595,196             | —                                 | 3,595,196           |
| U.S. government securities  | 162,094,623           | (675,780)                         | 161,418,843         |
| Alternative investments   | 165,556,720           | 38,443,196                        | 203,999,917         |
| Domestic equities   | 98,735,143            | 28,912,434                        | 127,647,577         |
| International equities  | 56,414,870            | (1,697,082)                       | 54,717,788          |
| Real estate   | 22,979,293            | 17,793,315                        | 40,772,607          |
| Mutual funds  | 33,977,781            | 1,906,567                         | 35,884,348          |
| Beneficial trust interest   | 10,254,715            | 944,585                           | 11,199,300          |
| Other   | 791,215               | —                                 | 791,215             |
|   | <u>554,399,556</u>    | <u>85,627,235</u>                 | <u>640,026,791</u>  |
| Total all funds   | \$ <u>649,046,100</u> | <u>85,884,243</u>                 | <u>734,930,343</u>  |

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|   | <b>2015</b>           |                                   |                     |
|---|-----------------------|-----------------------------------|---------------------|
|   | <b>Cost</b>           | <b>Unrealized<br/>gain (loss)</b> | <b>Market value</b> |
| Short-term investments:   |                       |                                   |                     |
| U.S. government securities  | \$ 237,818,808        | (175,649)                         | 237,643,159         |
| Mutual funds  | 10,545,525            | 5,362,966                         | 15,908,491          |
| Real estate   | 475,000               | —                                 | 475,000             |
| Other   | 343,310               | —                                 | 343,310             |
|   | <u>249,182,643</u>    | <u>5,187,317</u>                  | <u>254,369,960</u>  |
| Long-term investment:   |                       |                                   |                     |
| Trustee cash and cash equivalents<br>for endowments and annuities | 1,938,545             | —                                 | 1,938,545           |
| U.S. government securities  | 49,035,612            | (112,487)                         | 48,923,126          |
| Alternative investments   | 138,058,707           | 59,610,348                        | 197,669,055         |
| Domestic equities   | 98,926,610            | 30,119,973                        | 129,046,583         |
| International equities  | 56,414,870            | 5,826,562                         | 62,241,432          |
| Real estate   | 24,020,538            | 20,649,038                        | 44,669,576          |
| Mutual funds  | 39,482,099            | 3,048,200                         | 42,530,299          |
| Beneficial trust interest   | 10,844,605            | 1,480,306                         | 12,324,910          |
| Other   | 692,450               | —                                 | 692,450             |
|   | <u>419,414,036</u>    | <u>120,621,940</u>                | <u>540,035,976</u>  |
| Total all funds   | \$ <u>668,596,679</u> | <u>125,809,257</u>                | <u>794,405,936</u>  |

During the years ended June 30, 2016 and 2015, the University paid approximately \$771,000 and \$814,000, 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, 2016, the pool had 97,042,743 shares outstanding, with a fair value of approximately \$483,083,083. 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 2016 was \$0.23 per share, of which \$0.05 represented income yield. The remaining \$0.18 represented spending of realized and unrealized gains. At June 30, 2015, the pool had 87,032,379 shares outstanding, with a fair value of approximately \$471,978,751. The distribution for spending in 2015 was \$0.22 per share, of which \$0.05 represented income yield. The remaining \$0.17 represented spending of realized and unrealized gains.

The investment pool consisted of 1,179 individual endowments at June 30, 2016. Of these endowments, 320 are considered to be "under water" as the fair value of the underlying investments is less than the original

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gift value. At June 30, 2016 the fair value of the underlying investment related to these 320 endowments totaled approximately \$54,369,000 while the original gift value was approximately \$56,853,000. See additional discussion in note 4(b).

The investment pool consisted of 1,126 individual endowments at June 30, 2015. Of these endowments, none are considered to be “under water” as the fair value of the underlying investments is more than the original gift value for all endowments. 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, 2016 and 2015:

|                                      | <b>2016</b>                 |                                  |                   |
|--------------------------------------|-----------------------------|----------------------------------|-------------------|
|                                      | <b>Number of agreements</b> | <b>Net assets classification</b> |                   |
|                                      |                             | <b>Temporary</b>                 | <b>Permanent</b>  |
| Perpetual trusts held by third party | 2                           | \$ —                             | 7,475,042         |
| Charitable Remainder Trusts:         |                             |                                  |                   |
| University named trustee             | 24                          | 4,552,255                        | 12,448,580        |
| Third-party named trustee            | 8                           | 2,420,576                        | 1,303,681         |
| Charitable Annuity Agreements        | 68                          | 2,293,638                        | 2,623,405         |
|                                      | <u>102</u>                  | <u>\$ 9,266,469</u>              | <u>23,850,708</u> |
|                                      |                             |                                  |                   |
|                                      | <b>2015</b>                 |                                  |                   |
|                                      | <b>Number of agreements</b> | <b>Net assets classification</b> |                   |
|                                      |                             | <b>Temporary</b>                 | <b>Permanent</b>  |
| Perpetual trusts held by third party | 3                           | \$ —                             | 8,333,590         |
| Charitable Remainder Trusts:         |                             |                                  |                   |
| University named trustee             | 24                          | 4,704,778                        | 13,292,329        |
| Third-party named trustee            | 8                           | 2,418,600                        | 1,572,719         |
| Charitable Annuity Agreements        | 70                          | 2,505,077                        | 2,608,380         |
|                                      | <u>105</u>                  | <u>\$ 9,628,455</u>              | <u>25,807,018</u> |

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

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

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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 2016 and 2015 was approximately \$188,000 and \$2,021,000, 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.

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

#### **(a) *Investments***

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

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

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that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect liquidity and/or nontransferability, which are generally based on available market information.

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

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

**(b) 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, 2016 and 2015, as well as liquidity of the investments:

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| Investment/liquidity               | June 30, 2016  |            |             |             |
|------------------------------------|----------------|------------|-------------|-------------|
|                                    | Level 1        | Level 2    | Level 3     | Total       |
| U.S. government securities:        |                |            |             |             |
| Daily                              | \$ 254,352,554 | —          | —           | 254,352,554 |
| Monthly                            | —              | 230,000    | —           | 230,000     |
| Total                              | 254,352,554    | 230,000    | —           | 254,582,554 |
| Alternative investments:           |                |            |             |             |
| Monthly                            | —              | 17,614,937 | 15,068,780  | 32,683,717  |
| Quarterly                          | —              | —          | 86,101,784  | 86,101,784  |
| Annual                             | —              | —          | 14,927,843  | 14,927,843  |
| Illiquid                           | —              | —          | 70,286,573  | 70,286,573  |
| Total                              | —              | 17,614,937 | 186,384,980 | 203,999,917 |
| Mutual funds:                      |                |            |             |             |
| Daily                              | 36,805,879     | —          | —           | 36,805,879  |
| Total                              | 36,805,879     | —          | —           | 36,805,879  |
| Domestic equities:                 |                |            |             |             |
| Daily                              | 107,229,410    | —          | —           | 107,229,410 |
| Monthly                            | —              | 19,914,160 | —           | 19,914,160  |
| Quarterly                          | 504,008        | —          | —           | 504,008     |
| Total                              | 107,733,418    | 19,914,160 | —           | 127,647,578 |
| International equities:            |                |            |             |             |
| Daily                              | 24,121,210     | 15,085,518 | —           | 39,206,728  |
| Illiquid                           | —              | —          | 15,511,060  | 15,511,060  |
| Total                              | 24,121,210     | 15,085,518 | 15,511,060  | 54,717,788  |
| Trustee cash and cash equivalents: |                |            |             |             |
| Daily                              | 3,595,195      | —          | —           | 3,595,195   |
| Total                              | 3,595,195      | —          | —           | 3,595,195   |
| Real estate:                       |                |            |             |             |
| Semiannually                       | —              | 40,772,606 | —           | 40,772,606  |
| Locked-up 1                        | —              | 475,001    | —           | 475,001     |
| Total                              | —              | 41,247,607 | —           | 41,247,607  |
| Beneficial trust interest:         |                |            |             |             |
| Locked-up 1                        | 8,399,727      | 1,050,000  | 1,749,573   | 11,199,300  |
| Total                              | 8,399,727      | 1,050,000  | 1,749,573   | 11,199,300  |
| Other:                             |                |            |             |             |
| Daily                              | 494,964        | —          | —           | 494,964     |
| Illiquid                           | —              | —          | 393,296     | 393,296     |
| Locked-up 2                        | 246,265        | —          | —           | 246,265     |
| Total                              | 741,229        | —          | 393,296     | 1,134,525   |
| Grand total                        | \$ 435,749,212 | 95,142,222 | 204,038,909 | 734,930,343 |

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| <u>Investment/liquidity</u>        | <u>June 30, 2015</u>  |                    |                    |                    |
|------------------------------------|-----------------------|--------------------|--------------------|--------------------|
|                                    | <u>Level 1</u>        | <u>Level 2</u>     | <u>Level 3</u>     | <u>Total</u>       |
| U.S. government securities:        |                       |                    |                    |                    |
| Daily                              | \$ 286,336,285        | —                  | —                  | 286,336,285        |
| Monthly                            | —                     | 230,000            | —                  | 230,000            |
| Total                              | <u>286,336,285</u>    | <u>230,000</u>     | <u>—</u>           | <u>286,566,285</u> |
| Alternative investments:           |                       |                    |                    |                    |
| Monthly                            | —                     | 19,578,447         | 28,039,909         | 47,618,356         |
| Quarterly                          | —                     | —                  | 81,189,556         | 81,189,556         |
| Annual                             | —                     | —                  | 15,438,023         | 15,438,023         |
| Illiquid                           | —                     | —                  | 53,423,120         | 53,423,120         |
| Total                              | <u>—</u>              | <u>19,578,447</u>  | <u>178,090,608</u> | <u>197,669,055</u> |
| Mutual funds:                      |                       |                    |                    |                    |
| Daily                              | 43,501,239            | —                  | —                  | 43,501,239         |
| Monthly                            | —                     | —                  | 14,937,551         | 14,937,551         |
| Total                              | <u>43,501,239</u>     | <u>—</u>           | <u>14,937,551</u>  | <u>58,438,790</u>  |
| Domestic equities:                 |                       |                    |                    |                    |
| Daily                              | 108,839,064           | —                  | —                  | 108,839,064        |
| Monthly                            | —                     | 19,648,065         | —                  | 19,648,065         |
| Quarterly                          | 559,454               | —                  | —                  | 559,454            |
| Total                              | <u>109,398,518</u>    | <u>19,648,065</u>  | <u>—</u>           | <u>129,046,583</u> |
| International equities:            |                       |                    |                    |                    |
| Daily                              | 30,420,955            | 15,714,081         | —                  | 46,135,036         |
| Illiquid                           | —                     | —                  | 16,106,396         | 16,106,396         |
| Total                              | <u>30,420,955</u>     | <u>15,714,081</u>  | <u>16,106,396</u>  | <u>62,241,432</u>  |
| Trustee cash and cash equivalents: |                       |                    |                    |                    |
| Daily                              | 1,938,545             | —                  | —                  | 1,938,545          |
| Total                              | <u>1,938,545</u>      | <u>—</u>           | <u>—</u>           | <u>1,938,545</u>   |
| Real estate:                       |                       |                    |                    |                    |
| Semiannually                       | —                     | 44,579,575         | —                  | 44,579,575         |
| Locked-up 1                        | —                     | 475,001            | —                  | 475,001            |
| Locked-up 3                        | —                     | 90,000             | —                  | 90,000             |
| Total                              | <u>—</u>              | <u>45,144,576</u>  | <u>—</u>           | <u>45,144,576</u>  |
| Beneficial trust interest:         |                       |                    |                    |                    |
| Locked-up 1                        | 9,301,789             | 1,050,000          | 1,973,121          | 12,324,910         |
| Total                              | <u>9,301,789</u>      | <u>1,050,000</u>   | <u>1,973,121</u>   | <u>12,324,910</u>  |
| Other:                             |                       |                    |                    |                    |
| Daily                              | 388,284               | —                  | —                  | 388,284            |
| Illiquid                           | —                     | —                  | 393,296            | 393,296            |
| Locked-up 2                        | 254,180               | —                  | —                  | 254,180            |
| Total                              | <u>642,464</u>        | <u>—</u>           | <u>393,296</u>     | <u>1,035,760</u>   |
| Grand total                        | \$ <u>481,539,795</u> | <u>101,365,169</u> | <u>211,500,972</u> | <u>794,405,936</u> |

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The following table includes a rollforward of the amounts for the years ended June 30, 2016 and 2015 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>Mutual<br/>funds/other</u> | <u>Alternative<br/>investments</u> | <u>International<br/>equities</u> | <u>Total</u>        |
|---------------------------|-------------------------------|------------------------------------|-----------------------------------|---------------------|
| Balances at June 30, 2015 | \$ 17,303,968                 | 178,090,608                        | 16,106,396                        | 211,500,972         |
| Donated                   | —                             | —                                  | —                                 | —                   |
| Purchases                 | 3,979,974                     | 60,823,435                         | —                                 | 64,803,409          |
| Sales                     | (14,198,786)                  | (25,717,531)                       | —                                 | (39,916,317)        |
| Unrealized losses         | <u>(4,942,287)</u>            | <u>(26,811,532)</u>                | <u>(595,336)</u>                  | <u>(32,349,155)</u> |
| Balances at June 30, 2016 | \$ <u>2,142,869</u>           | <u>186,384,980</u>                 | <u>15,511,060</u>                 | <u>204,038,909</u>  |
|                           | <u>Mutual<br/>funds/other</u> | <u>Alternative<br/>investments</u> | <u>International<br/>equities</u> | <u>Total</u>        |
| Balances at June 30, 2014 | \$ 17,324,528                 | 167,844,651                        | 10,454,135                        | 195,623,314         |
| Donated                   | —                             | —                                  | —                                 | —                   |
| Purchases                 | 1,119,174                     | 35,690,714                         | 5,000,000                         | 41,809,888          |
| Sales                     | (776,043)                     | (20,739,662)                       | —                                 | (21,515,705)        |
| Unrealized gains (losses) | <u>(363,691)</u>              | <u>(4,705,095)</u>                 | <u>652,261</u>                    | <u>(4,416,525)</u>  |
| Balances at June 30, 2015 | \$ <u>17,303,968</u>          | <u>178,090,608</u>                 | <u>16,106,396</u>                 | <u>211,500,972</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, 2016 and June 30, 2015.

**(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 1,179 and 1,126 individual funds as of June 30, 2016 and 2015, 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.

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**(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.

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<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Total</u>       |
|-------------------------------------|-----------------------|-----------------------------------|-----------------------------------|--------------------|
| June 30, 2016:                      |                       |                                   |                                   |                    |
| Board-designated<br>endowment funds | \$ 189,625,647        | —                                 | —                                 | 189,625,647        |
| Donor-restricted<br>endowment funds | —                     | 128,656,364                       | 310,237,094                       | 438,893,458        |
|                                     | <u>\$ 189,625,647</u> | <u>128,656,364</u>                | <u>310,237,094</u>                | <u>628,519,105</u> |
|                                     |                       |                                   |                                   |                    |
|                                     | <u>Unrestricted</u>   | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Total</u>       |
| June 30, 2015:                      |                       |                                   |                                   |                    |
| Board-designated<br>endowment funds | \$ 200,184,201        | —                                 | —                                 | 200,184,201        |
| Donor-restricted<br>endowment funds | —                     | 157,405,243                       | 293,808,754                       | 451,213,997        |
|                                     | <u>\$ 200,184,201</u> | <u>157,405,243</u>                | <u>293,808,754</u>                | <u>651,398,198</u> |

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The changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

|   | <u>Unrestricted</u>   | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Total</u>        |
|---|-----------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets,<br>June 30, 2015                | \$ 200,184,201        | 157,405,243                       | 293,808,754                       | 651,398,198         |
| Investment return:                                    |                       |                                   |                                   |                     |
| Investment income                                     | 2,591,805             | 4,903,424                         | —                                 | 7,495,229           |
| Net realized and<br>unrealized gains (losses)         | <u>(6,169,214)</u>    | <u>(17,307,378)</u>               | <u>—</u>                          | <u>(23,476,592)</u> |
| Total investment<br>return                            | (3,577,409)           | (12,403,954)                      | —                                 | (15,981,363)        |
| Private gifts   | 19,229                | 24,555                            | 13,572,727                        | 13,616,511          |
| Appropriation of endowment<br>assets for expenditures | (6,437,916)           | (18,210,031)                      | (20,720)                          | (24,668,667)        |
| Reinvested income                                     | 331,652               | 831,103                           | —                                 | 1,162,755           |
| Transfer to board-designated<br>endowments            | 2,071,253             | 920,418                           | —                                 | 2,991,671           |
| Reclassification of restricted<br>net assets          | <u>(2,965,363)</u>    | <u>89,030</u>                     | <u>2,876,333</u>                  | <u>—</u>            |
| Changes   | <u>(10,558,554)</u>   | <u>(28,748,879)</u>               | <u>16,428,340</u>                 | <u>(22,879,093)</u> |
| Endowment net assets,<br>June 30, 2016                | \$ <u>189,625,647</u> | <u>128,656,364</u>                | <u>310,237,094</u>                | <u>628,519,105</u>  |

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|   | <u>Unrestricted</u>   | <u>Temporarily<br/>restricted</u> | <u>Permanently<br/>restricted</u> | <u>Total</u>       |
|---|-----------------------|-----------------------------------|-----------------------------------|--------------------|
| Endowment net assets,<br>June 30, 2014                | \$ 83,492,410         | 127,203,092                       | 279,163,179                       | 489,858,681        |
| Investment return:                                    |                       |                                   |                                   |                    |
| Investment income                                     | 813,936               | 4,667,277                         | —                                 | 5,481,213          |
| Net realized and<br>unrealized gains (losses)         | <u>3,658,930</u>      | <u>15,793,890</u>                 | <u>—</u>                          | <u>19,452,820</u>  |
| Total investment<br>return                            | 4,472,866             | 20,461,167                        | —                                 | 24,934,033         |
| Private gifts   | 135,133               | —                                 | 8,270,941                         | 8,406,074          |
| Appropriation of endowment<br>assets for expenditures | (3,779,311)           | (17,529,504)                      | (6,331)                           | (21,315,146)       |
| Present value adjustments                             | —                     | —                                 | 1,631                             | 1,631              |
| Reinvested income                                     | 37,894                | 721,996                           | —                                 | 759,890            |
| Transfer to board-designated<br>endowments            | 122,250,733           | 26,502,302                        | —                                 | 148,753,035        |
| Reclassification of restricted<br>net assets          | <u>(6,425,524)</u>    | <u>46,190</u>                     | <u>6,379,334</u>                  | <u>—</u>           |
| Changes   | <u>116,691,791</u>    | <u>30,202,151</u>                 | <u>14,645,575</u>                 | <u>161,539,517</u> |
| Endowment net assets,<br>June 30, 2015                | \$ <u>200,184,201</u> | <u>157,405,243</u>                | <u>293,808,754</u>                | <u>651,398,198</u> |

**(b) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual endowment funds may fall below the level of the book value (underwater). The University had 320 funds considered underwater with a deficiency of approximately \$2,484,000 at June 30, 2016. The deficiency is recorded as unrestricted net unrealized losses on endowment within the statement of activities. There were no funds considered underwater at June 30, 2015.

**(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.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2016 and 2015

**(d) Strategies Employed for Achieving Objectives**

The University targets a diversified asset allocation. For the years ended June 30, 2016 and June 30, 2015 the estimated investment emphasis included: US Equities (25.0%), International Equities (20.0%), Hedged Funds (10.0%), Private Equities (10.0%), Absolute Return funds (15.0%), Fixed Income (10.0%), and Real Estate and Other investment (10.0%). The profile is reviewed quarterly and rebalanced as needed.

**(e) Spending Policy**

The University has adopted a spending policy whereby the board of trustees has authorized a stipulated percentage of the fair value of endowments participating in the investment pool to be spent for the purposes of the donors. As of June 30, 2016 and 2015, 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>2016</u>          | <u>2015</u>         |
|---|----------------------|---------------------|
| Unconditional promises expected to be collected in: |                      |                     |
| Less than one year                                  | \$ 12,515,561        | 18,197,457          |
| One to five years                                   | 17,652,144           | 14,704,634          |
| Greater than five years                             | <u>32,943,812</u>    | <u>35,867,974</u>   |
|   | 63,111,517           | 68,770,065          |
| Less allowance for uncollectible pledges            | (6,311,152)          | (6,877,007)         |
| Less present value discount (4.75% - 8.0%)          | <u>(19,007,266)</u>  | <u>(19,491,008)</u> |
| Net pledges receivable                              | <u>\$ 37,793,099</u> | <u>42,402,050</u>   |

Included in pledges receivable is the present value of approximately \$8,628,000 and \$11,459,000 as of June 30, 2016 and 2015, respectively, in pledges from members of the board of trustees. For the years ended June 30, 2016 and 2015, the University did not conduct any additional transactions with members of the board of trustees that were not negotiated at arm's length.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2016 and 2015

**(6) Property, Plant, and Equipment**

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

|                               | <b>2016</b>    | <b>2015</b>   |
|-------------------------------|----------------|---------------|
| Land                          | \$ 9,290,477   | 8,721,577     |
| Land improvements             | 28,692,747     | 28,538,796    |
| Buildings and improvements    | 631,659,761    | 623,002,401   |
| Equipment                     | 62,924,094     | 57,616,970    |
| Library books                 | 8,915,362      | 8,790,011     |
| Construction in progress      | 81,448,994     | 38,008,462    |
|                               | 822,931,435    | 764,678,217   |
| Less accumulated depreciation | (190,930,564)  | (176,713,143) |
|                               | \$ 632,000,871 | 587,965,074   |

The University had approximately \$14,461,000 and \$14,588,000 of depreciation expense for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, respectively, an asset retirement obligation of approximately \$7,799,000 and \$8,138,000 is included in accounts payable and accrued liabilities.

**(7) Operating Leases**

The University leases an apartment building adjacent to the campus under an operating lease which began on July 1, 2015 and expires on June 30, 2022. Rent expense on the lease for the year ended June 2016 was approximately \$845,000.

Future minimum lease payments under the operating lease as of June 30, 2016 through the years ending June 30, 2022 are:

|      |    |           |
|------|----|-----------|
| 2017 | \$ | 780,000   |
| 2018 |    | 811,200   |
| 2019 |    | 843,648   |
| 2020 |    | 868,957   |
| 2021 |    | 895,026   |
| 2022 |    | 921,877   |
|      |    | 921,877   |
|      | \$ | 5,120,708 |

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2016 and 2015

**(8) Long-Term Debt**

Bonds payable at June 30 consist of the following:

|   | <b>2016</b>    | <b>2015</b> |
|---|----------------|-------------|
| Colorado Educational and Cultural Facilities Authority<br>Refunding Revenue Bonds, Series 2014A | \$ 27,360,000  | —           |
| Colorado Educational and Cultural Facilities Authority<br>Refunding Revenue Bonds, Series 2014B | 12,500,000     | —           |
| Colorado Educational and Cultural Facilities Authority<br>Refunding Revenue Bonds, Series 2013  | 22,395,000     | 22,520,000  |
| Colorado Educational and Cultural Facilities Authority<br>Refunding Revenue Bonds, Series 2012  | —              | 2,860,000   |
| Colorado Educational and Cultural Facilities Authority<br>Refunding Revenue Bonds, Series 2008  | 4,955,000      | 5,585,000   |
| Colorado Educational and Cultural Facilities Authority<br>Refunding Revenue Bonds, Series 2007  | 39,920,000     | 39,920,000  |
| Colorado Educational and Cultural Facilities Authority<br>Refunding Revenue Bonds, Series 2005A | —              | 28,105,000  |
| Colorado Educational and Cultural Facilities Authority<br>Revenue Bonds, Series 2005B           | —              | 13,795,000  |
|   | 107,130,000    | 112,785,000 |
| Unamortized bond premium  | 4,916,697      | 5,265,581   |
|   | 112,046,697    | 118,050,581 |
| Total long-term debt  | 112,046,697    | 118,050,581 |
| Less current installments   | 6,955,000      | 6,260,000   |
|   | 105,091,697    | 111,790,581 |
| Long-term debt, excluding current installments  | \$ 105,091,697 | 111,790,581 |

The University had approximately \$3,622,000 and \$5,457,000 of interest expense for the years ended June 30, 2016 and 2015, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately \$4,000,000 and \$5,539,000 was paid in cash during the years ended June 30, 2016 and 2015, respectively. The fair value of bonds payable was approximately \$104,956,000 and \$112,526,000 at June 30, 2016 and 2015, respectively.

**(a) Issuance of Series 2014A Bonds**

In September 2015, the Colorado Educational and Cultural Facilities Authority (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.

The bond agreement provides for principle 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%.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2016 and 2015

**(b) Issuance of Series 2014B Bonds**

In March 2016, the Colorado Educational and Cultural Facilities Authority (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 principle 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%.

**(c) Issuance of Series 2013 Bonds**

In February 2013, the Colorado Educational and Cultural Facilities Authority (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 principle 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%.

**(d) Issuance of Series 2012 Bonds**

In March 2012, the Authority issued \$8,370,000 of University of Denver Revenue Bonds, Series 2012. The proceeds from the sale of the 2012 bonds were used to (1) refund \$8,530,000 aggregate principal amount of the Authority's Revenue Bonds Series 2001B and (2) pay certain costs associated with the issuance of the 2012 Bonds.

The bond agreement provides for principle payments of \$2,860,000 in 2016. Interest is payable semiannually at 4.00%.

The bond was matured on March 1, 2016.

**(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 principle 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.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2016 and 2015

**(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 principle 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) Issuance of Series 2005A Bonds**

In July 2005, the Authority issued \$30,255,000 of University of Denver Refunding Revenue Bonds, Series 2005A. The proceeds from the sale of the 2005A bonds were used to (1) advance refund \$29,670,000 aggregate principal amount of the Authority's Revenue Bonds (University of Denver Project) Series 2000; (2) purchase a municipal bond insurance policy and a reserve fund surety bond for the 2005A Bonds; and (3) pay certain costs associated with the issuance of the 2005A Bonds.

The Series 2005A with remaining balance of \$28,105,000 was refunded by Series 2014A on September 1, 2015.

**(h) Issuance of Series 2005B Bonds**

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

As mentioned above, \$14,905,000 of the 2005B Series Bonds was legally defeased during fiscal year 2007 from proceeds of the 2007 bonds and removed from the accounting records of the University and \$21,240,000 of the 2005B Series Bonds was legally defeased during fiscal year 2013 from proceeds of the 2013 bonds and removed from the accounting records of the University.

The Series 2005B with remaining balance of \$12,085,000 was refunded by Series 2014B on March 1, 2016.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2016 and 2015

**(i) Aggregate Annual Maturities of Bonds Payable**

At June 30, 2016, the aggregate annual maturities of bonds payable for the five succeeding years and thereafter are as follows:

|            |    |                           |
|------------|----|---------------------------|
| 2017       | \$ | 6,955,000                 |
| 2018       |    | 7,205,000                 |
| 2019       |    | 7,610,000                 |
| 2020       |    | 7,825,000                 |
| 2021       |    | 8,050,000                 |
| Thereafter |    | <u>69,485,000</u>         |
|            | \$ | <u><u>107,130,000</u></u> |

**(j) Restrictive Bond Covenants**

The University is required by bond covenants to maintain expendable resources (as defined by the Loan Agreement) of at least 75% of the outstanding principal of its long-term debt 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.

**(k) 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 \$11,568,000 and \$11,142,000 for the years ended June 30, 2016 and 2015, 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.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2016 and 2015

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, 2016, the Healthcare Plan covered 210 retirees with an additional 2,386 active employees potentially eligible for coverage. At June 30, 2015, the Healthcare Plan covered 226 retirees with an additional 2,352 active employees potentially eligible for coverage. The Healthcare Plan is noncontributory.

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

|  | <u>2016</u>         | <u>2015</u>      |
|--|---------------------|------------------|
| Acrued postretirement benefit obligation (APBO), |                     |                  |
| beginning of year                                | \$ 2,916,553        | 3,442,036        |
| Service cost                                     | 52,222              | 214,586          |
| Interest cost                                    | 114,936             | 134,115          |
| Actuarial loss (gain)                            | 107,073             | (712,184)        |
| Benefits paid                                    | <u>(155,100)</u>    | <u>(162,000)</u> |
| APBO (all unfunded), end of year                 | \$ <u>3,035,684</u> | <u>2,916,553</u> |

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

|  | <u>2016</u>       | <u>2015</u>    |
|--|-------------------|----------------|
| Service cost                             | \$ 52,222         | 90,432         |
| Interest cost                            | 114,936           | 134,115        |
| Amortization of prior service cost       | 11,125            | 18,222         |
| Recognized net actuarial gain            | <u>(10,813)</u>   | <u>—</u>       |
| Net periodic postretirement benefit cost | \$ <u>167,470</u> | <u>242,769</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 3.24% and 4.07% for June 30, 2016 and 2015, 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 \$155,000 and \$162,000 for the years ended June 30, 2016 and 2015, respectively, which were charged to operating expenses.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2016 and 2015

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

|             |    |                         |
|-------------|----|-------------------------|
| 2017        | \$ | 181,307                 |
| 2018        |    | 179,642                 |
| 2019        |    | 176,684                 |
| 2020        |    | 175,149                 |
| 2021        |    | 174,277                 |
| 2022 – 2026 |    | <u>850,115</u>          |
| Total       | \$ | <u><u>1,737,174</u></u> |

For the years ended June 30, 2016 and 2015, 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, 2016.

**(11) Loans to Students**

Student loans made through Perkins constitute substantially all of the student loans outstanding at June 30, 2016 and 2015. 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 2016 and 2015, no additional contributions were funded. Perkins provides for cancellation of a note at rates of 10% to 30% per year up to a maximum of 100% if the debtor complies with certain provisions of Perkins. The federal government reimburses the loan funds of the University at rates of 10% to 30% for canceled indebtedness due to certain teaching service and various types of services for the U.S. government and 100% for loans declared not collectible due to death, permanent disability, or a declaration of bankruptcy.

At June 30, 2016 and 2015, 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, 2016 and 2015, the allowance for possible loan losses of these funds was \$153,000.

**(12) Fund-Raising Expenses**

The University had fund-raising expenses of approximately \$16,895,000 and \$16,797,000 in 2016 and 2015, respectively, which were recognized in institutional support in the accompanying statements of activities.

## UNIVERSITY OF DENVER (COLORADO SEMINARY)

### Notes to Financial Statements

June 30, 2016 and 2015

#### **(13) Commitments and Contingencies**

At June 30, 2016 and 2015, the University had outstanding commitments totaling approximately \$10,768,000 and \$45,726,000, respectively, for contracts related to various construction projects on campus.

During the 2016 fiscal year, the University invested approximately \$5,297,000 in 20 long-term partnerships, all of which were formed prior to the 2016 fiscal year, bringing its cumulative contributions to the partnerships to approximately \$105,922,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of June 30, 2016, the University's remaining commitments to 14 partnerships total approximately \$31,727,000.

During the 2015 fiscal year, the University invested approximately \$5,676,000 in 20 long-term partnerships, 17 of which were formed prior to the 2015 fiscal year, bringing its cumulative contributions to the partnerships to approximately \$100,625,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of June 30, 2015, the University's remaining commitments to 14 partnerships totaled approximately \$39,100,000.

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.

#### **(14) Subsequent Events**

On August 29, 2016, the University entered into an investment management agreement with Investure, LLC, a Delaware limited liability company, for investment advisory and management services. The scope of the agreement pertains to the management of the University's Consolidated Endowment Fund. An initial amount of approximately \$562 million will be managed by Investure, LLC on a discretionary basis. 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.

**SINGLE AUDIT REPORTS AND SCHEDULES**

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

| Federal Grantor/Pass through Grantor/<br>Program or Cluster Title           | Federal<br>CFDA<br>Number | Pass-Through Entity                               | Passed<br>Through to<br>Subrecipients | Expenditures   |
|---|---------------------------|---|---------------------------------------|----------------|
| <b><u>NON-CLUSTERED PROGRAMS</u></b>  |                           |   |                                       |                |
| <b>Department of Agriculture</b>  |                           |   |                                       |                |
| Child and Adult Care Food Program   | 10.588                    | Colorado Dept of Public Health<br>and Environment | \$ -                                  | \$ 73,411      |
| <b>Total Department of Agriculture</b>                                      |                           |   | <u>-</u>                              | <u>73,411</u>  |
| <b>Department of the Interior</b>   |                           |   |                                       |                |
| Native American Graves Protection and Repatriation Act                      | 15.922                    |   | -                                     | 35,967         |
| <b>Total Department of the Interior</b>                                     |                           |   | <u>-</u>                              | <u>35,967</u>  |
| <b>Department of the Treasury</b>   |                           |   |                                       |                |
| Low-Income Taxpayer Clinic  | 21.008                    |   | -                                     | 102,779        |
| <b>Total Department of the Treasury</b>                                     |                           |   | <u>-</u>                              | <u>102,779</u> |
| <b>US Office of Personnel Management</b>                                    |                           |   |                                       |                |
| Intergovernmental Personnel Act (IPA) Mobility Program                      | 27.011                    |   | -                                     | 9,468          |
| <b>Total US Office of Personnel Management</b>                              |                           |   | <u>-</u>                              | <u>9,468</u>   |
| <b>National Endowment for the Arts and Humanities</b>                       |                           |   |                                       |                |
| Promotion of the Arts_Partnership Agreement                                 | 45.025                    | Western States Arts Federation                    | -                                     | 4,750          |
| Promotion of the Humanities Professional Development                        | 45.163                    | George Mason University                           | -                                     | 119,105        |
| <b>Total National Endowment for the Arts and Humanities</b>                 |                           |   | <u>-</u>                              | <u>123,855</u> |
| <b><u>RESEARCH AND DEVELOPMENT CLUSTER:</u></b>                             |                           |   |                                       |                |
| <b>Department of Defense</b>  |                           |   |                                       |                |
| Military Medical Research and Development                                   | 12.420                    | Florida State University                          | 4,490                                 | 16,250         |
| Military Medical Research and Development                                   | 12.420                    | University of Colorado Denver                     | -                                     | 2,462          |
| Basic Scientific Research   | 12.431                    |   | -                                     | 444,782        |
| Basic Scientific Research   | 12.431                    | University of Texas-Austin                        | -                                     | 53,371         |
| Mathematical Sciences Grants Program  | 12.901                    |   | -                                     | 9,952          |
| <b>Total Department of Defense</b>  |                           |   | <u>4,490</u>                          | <u>526,817</u> |
| <b>Department of Housing and Urban Development</b>                          |                           |   |                                       |                |
| Demolition and Revitalization of Severely Distressed Public<br>Housing      | 14.866                    | Denver Housing Authority                          | -                                     | 22,929         |
| <b>Total Dept of Housing and Urban Development</b>                          |                           |   | <u>-</u>                              | <u>22,929</u>  |
| <b>Department of Justice</b>  |                           |   |                                       |                |
| Justice Research, Development and Evaluation                                | 16.560                    |   | 124,570                               | 349,194        |
| Justice Research, Development and Evaluation                                | 16.560                    | RAND Corporation                                  | -                                     | 146,321        |
| Criminal Justice Research and Development, Graduate<br>Research Fellowships | 16.562                    |   | -                                     | 15,802         |
| Crime Victim Assistance/Discretionary Grants                                | 16.582                    | Rocky Mountain Victim Law<br>Center               | -                                     | 69,016         |
| <b>Total Department of Justice</b>  |                           |   | <u>124,570</u>                        | <u>580,333</u> |
| <b>Department of Transportation</b>   |                           |   |                                       |                |
| Pipeline Safety Program State Base Grant                                    | 20.700                    | North Dakota State University                     | -                                     | 7,473          |
| Development and Promotion of Ports and Intermodal<br>Transportation         | 20.801                    | Mississippi State University                      | -                                     | 377,776        |
| <b>Total Department of Transportation</b>                                   |                           |   | <u>-</u>                              | <u>385,249</u> |

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Expenditures of Federal Awards (Continued)

Year ended June 30, 2016

| Federal Grantor/Pass through Grantor/<br>Program or Cluster Title                      | Federal<br>CFDA<br>Number | Pass-Through Entity                      | Passed<br>Through to<br>Subrecipients | Expenditures     |
|--|---------------------------|--|---------------------------------------|------------------|
| <b>National Aeronautics and Space Admin (NASA)</b>                                     |                           |  |                                       |                  |
| Aerospace Education Services Program   | 43.001                    |  | -                                     | 99,832           |
|  |                           | NASA/Space Telescope Science             |                                       |                  |
| Aerospace Education Services Program   | 43.001                    | Institute                                | -                                     | 26,317           |
| <b>Total National Aeronautics and Space Administration (NASA)</b>                      |                           |  | <b>-</b>                              | <b>126,149</b>   |
| <b>National Science Foundation</b>   |                           |  |                                       |                  |
| Engineering Grants   | 47.041                    |  | -                                     | 598,183          |
| Mathematical and Physical Sciences   | 47.049                    |  | -                                     | 608,461          |
| Mathematical and Physical Sciences   | 47.049                    | Southern Illinois University             | -                                     | 2,227            |
| Geosciences  | 47.050                    |  | 4,825                                 | 64,912           |
| Computer and Information Science and Engineering                                       | 47.070                    |  | 181,144                               | 853,909          |
| Biological Sciences  | 47.074                    |  | 18,245                                | 173,983          |
| Biological Sciences  | 47.074                    | Oregon State University                  | -                                     | 15,032           |
| Social, Behavioral and Economic Sciences   | 47.075                    |  | 36,244                                | 250,206          |
| Social, Behavioral and Economic Sciences   | 47.075                    | Keck Institute                           | -                                     | 3,656            |
| Social, Behavioral and Economic Sciences   | 47.075                    | Wake Forest University                   | -                                     | 3,375            |
| Social, Behavioral and Economic Sciences   | 47.075                    | University of Colorado Boulder           | -                                     | 10,514           |
| Education and Human Resources  | 47.076                    |  | 82,214                                | 831,250          |
| Education and Human Resources  | 47.076                    | Colorado State University                | -                                     | 6,771            |
| Education and Human Resources  | 47.076                    | University of North Dakota               | -                                     | 18,839           |
| Education and Human Resources  | 47.076                    | University of Michigan                   | -                                     | 29,694           |
| Education and Human Resources  | 47.076                    | Illinois State University                | -                                     | 387,789          |
| Polar Programs   | 47.078                    |  | -                                     | 1,400            |
| Office of International Science and Engineering  | 47.079                    |  | -                                     | 18,887           |
| <b>Total National Science Foundation</b>   |                           |  | <b>322,672</b>                        | <b>3,879,088</b> |
| <b>Department of Energy</b>  |                           |  |                                       |                  |
| Renewable Energy Research and Development  | 81.087                    | Bonneville Power Administration          | -                                     | 51,448           |
| Fossil Energy Research and Development   | 81.089                    | National Renewable Energy Lab            | -                                     | 7,206            |
| Electricity Delivery and Energy Reliability, Research,<br>Development and Analysis (B) | 81.122                    | Commonwealth Edison Company              | -                                     | 189,565          |
| <b>Total Department of Energy</b>  |                           |  | <b>-</b>                              | <b>248,219</b>   |
| <b>Department of Education</b>   |                           |  |                                       |                  |
|  |                           | Colorado Department of                   |                                       |                  |
| Graduate Assistance in Areas of National Need  | 84.200                    | Education                                | -                                     | 40,524           |
| Education Research, Development and Dissemination                                      | 84.305                    |  | 80,438                                | 711,619          |
| <b>Total Department of Education</b>   |                           |  | <b>80,438</b>                         | <b>752,143</b>   |
| <b>Department of Health and Human Services</b>   |                           |  |                                       |                  |
| Special Programs for the Aging Title IV and Title II<br>Discretionary Projects         | 93.048                    | Colorado Department of Human<br>Services | -                                     | 19,744           |
| Healthy Marriage Promotion and Responsible Fatherhood<br>Grants                        | 93.086                    |  | 54,311                                | 217,978          |
| Healthy Marriage Promotion and Responsible Fatherhood<br>Grants                        | 93.086                    | Center for Relationship<br>Education     | -                                     | 18,168           |
| Healthy Marriage Promotion and Responsible Fatherhood<br>Grants                        | 93.086                    | Public Strategies, Inc.                  | -                                     | 64,873           |
| Healthy Marriage Promotion and Responsible Fatherhood<br>Grants                        | 93.086                    | University of Miami                      | -                                     | 12,021           |

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Expenditures of Federal Awards (Continued)

Year ended June 30, 2016

| Federal Grantor/Pass through Grantor/<br>Program or Cluster Title                            | Federal<br>CFDA<br>Number | Pass-Through Entity                                    | Passed<br>Through to<br>Subrecipients | Expenditures |
|--|---------------------------|--|---------------------------------------|--------------|
| Enhance Safety of Children Affected by Substance Abuse                                       | 93.087                    | OK Dept of Mental Health &<br>Substance Abuse Services | -                                     | 74,021       |
| Maternal and Child Health Federal Consolidated Programs                                      | 93.110                    |  | -                                     | 69,911       |
| Research Related to Deafness & Communication Disorder:                                       | 93.173                    | University of Colorado Denver                          | -                                     | 69,934       |
| Research on Healthcare Costs, Quality and Outcomes   | 93.226                    | University of Louisville                               | -                                     | 947          |
|  |                           | Colorado Department of Human<br>Services               | -                                     | 94,357       |
| Traumatic Brain Injury State Demonstration Grant Program                                     | 93.234                    |  | 31,850                                | 465,488      |
| Mental Health Research Grants  | 93.242                    | University of California Irvine                        | -                                     | 61,389       |
| Mental Health Research Grants  | 93.242                    | University of Colorado Boulder                         | -                                     | 145,665      |
| Mental Health Research Grants  | 93.242                    | University of Washington                               | -                                     | 9,119        |
| Mental Health Research Grants  | 93.242                    | Wake Forest University                                 | -                                     | 36,251       |
| Substance Abuse and Mental Health Services Projects of<br>Regional and National Significance | 93.243                    |  | -                                     | 34,637       |
| Alcohol Research Programs  | 93.273                    |  | -                                     | 31,288       |
| Drug Abuse and Addiction Research Programs   | 93.279                    |  | -                                     | 14,853       |
| Mental Health National Research Service Awards for<br>Research                               | 93.282                    |  | -                                     | 3,746        |
| Centers for Disease Control and Prevention Investigations<br>and Technical Assistance        | 93.283                    | Colo Found for Pub Health &<br>Envir                   | -                                     | 152,928      |
| Discovery and Applied Research for Technological<br>Innovations to Improve Human Health      | 93.286                    |  | -                                     | 214,381      |
| Discovery and Applied Research for Technological<br>Innovations to Improve Human Health      | 93.286                    | University of Chicago                                  | -                                     | 248,239      |
| Discovery and Applied Research for Technological<br>Innovations to Improve Human Health      | 93.286                    | University of Nebraska                                 | -                                     | 10,905       |
| Cancer Detection and Diagnosis Research  | 93.394                    |  | 14,000                                | 375,264      |
| Child Care and Development Block Grant   | 93.575                    |  | -                                     | 41,554       |
| Head Start   | 93.600                    |  | 51,641                                | 258,057      |
| Head Start   | 93.600                    | Zero to Three  | -                                     | 76,928       |
| Social Services Research and Demonstrator  | 93.647                    |  | -                                     | 68,229       |
|  |                           | Research Foundation of State                           |                                       |              |
| Child Welfare Services Training Grants   | 93.648                    | University of New York                                 | 68,681                                | 698,280      |
| Adoption Opportunities   | 93.652                    | University of Vermont                                  | -                                     | 18,658       |
| Foster Care_Title IV-E   | 93.658                    |  | 2,331,732                             | 2,999,407    |
|  |                           | Colorado Department of Human<br>Services               | 11,500                                | 303,085      |
|  |                           | New York State Office of<br>Children & Family Services | -                                     | 549,611      |
| Social Services Block Grant  | 93.667                    |  | -                                     | 1,870        |
| Chafee Foster Care Independence Program  | 93.674                    | University of Southern Maine                           | -                                     |              |
| Diabetes, Digestive, and Kidney Diseases Extramural<br>Research                              | 93.847                    |  | -                                     | 78,533       |
| Extramural Research Programs in the Neurosciences and<br>Neurological Disorders              | 93.853                    |  | -                                     | 199,914      |
| Biomedical Research and Research Training  | 93.859                    |  | -                                     | 316,551      |
| Biomedical Research and Research Training  | 93.859                    | TDA Research, Inc.                                     | -                                     | 1,037        |
| Child Health and Human Development Extramural Research                                       | 93.865                    |  | 129,049                               | 1,180,309    |
| Child Health and Human Development Extramural Research                                       | 93.865                    | Center for Policy Research                             | -                                     | 17,784       |

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Expenditures of Federal Awards (Continued)

Year ended June 30, 2016

| Federal Grantor/Pass through Grantor/<br>Program or Cluster Title            | Federal<br>CFDA<br>Number | Pass-Through Entity                     | Passed<br>Through to<br>Subrecipients | Expenditures          |
|--|---------------------------|---|---------------------------------------|-----------------------|
| Child Health and Human Development Extramural Research                       | 93.865                    | Univ of California                      | -                                     | 115,117               |
| Child Health and Human Development Extramural Research                       | 93.865                    | University of California at Los Angeles | -                                     | 62,024                |
| Child Health and Human Development Extramural Research                       | 93.865                    | University of California Irvine         | -                                     | 121,703               |
| Child Health and Human Development Extramural Research                       | 93.865                    | University of Colorado Boulder          | -                                     | 471,258               |
| Child Health and Human Development Extramural Research                       | 93.865                    | University of Colorado Colorado Springs | -                                     | 60,497                |
| Aging Research   | 93.866                    | Beth Isreal Deaconess Medical Center    | -                                     | 6,764                 |
| Aging Research   | 93.866                    | University of Colorado/Boulder          | -                                     | 17,281                |
| Aging Research   | 93.866                    | University of Colorado/Boulder          | -                                     | 35,008                |
| <b>Total Department of Health and Human Services</b>                         |                           |   | <b>2,692,764</b>                      | <b>10,145,566</b>     |
| <b>Corporation for National and Community Service</b>                        |                           |   |                                       |                       |
| Social Innovation Fund   | 94.019                    | Mile High United Way                    | -                                     | 130,788               |
| <b>Total Corporation for National and Community Service</b>                  |                           |   | <b>-</b>                              | <b>130,788</b>        |
| <b>US Agency for International Development (USAID)</b>                       |                           |   |                                       |                       |
| USAID Foreign Assistance for Programs Overseas                               | 98.001                    | Institute of International Education    | -                                     | 36,172                |
| <b>Total US Agency for International Development (USAID)</b>                 |                           |   | <b>-</b>                              | <b>36,172</b>         |
| <b>Total Research and Development Cluster</b>                                |                           |   | <b>\$ 3,224,934</b>                   | <b>\$ 16,833,453</b>  |
| <b><u>STUDENT FINANCIAL ASSISTANCE CLUSTER:</u></b>                          |                           |   |                                       |                       |
| <b>Department of Education</b>   |                           |   |                                       |                       |
| Federal Supplemental Education Opportunity Grant Program                     | 84.007                    |   | -                                     | 781,055               |
| Federal Work-Study Program   | 84.033                    |   | -                                     | 1,359,273             |
| Federal Perkins Loan Program   | 84.038                    |   | -                                     | 21,243,167            |
| Federal Pell Grant Program   | 84.063                    |   | -                                     | 4,100,005             |
| Federal Direct Student Loan Program  | 84.268                    |   | -                                     | 131,267,704           |
| Teacher Education Assistance for College and Higher Education Grants (TEACH) | 84.379                    |   | -                                     | 255,659               |
| <b>Total Department of Education</b>   |                           |   | <b>-</b>                              | <b>159,006,863</b>    |
| <b>Total Student Financial Assistance Cluster</b>                            |                           |   | <b>\$ -</b>                           | <b>\$ 159,006,863</b> |
| <b>Total Federal Awards</b>  |                           |   | <b>\$ 3,224,934</b>                   | <b>\$ 176,185,796</b> |

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2016

**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, 2016. 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. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 3 FEDERAL STUDENT LOAN PROGRAMS**

The federal student loan programs listed subsequently are administered directly by the University, and balances and transactions relating to these programs are 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, 2016 consists of:

| <u>Program Title</u>  | <u>CFDA Number</u> | <u>Amount Outstanding</u> |
|-----------------------|--------------------|---------------------------|
| Federal Perkins Loans | 84.038             | \$ 17,978,985             |



**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 statement of financial position, the related statements of activities, and cash flows as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise University of Denver's (Colorado Seminary) basic financial statements, and have issued our report thereon dated November 30, 2016.

**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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2016-001 that we consider to be a significant deficiency.

### **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*.

### **The University's Response to Findings**

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

### **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**

Greenwood Village, Colorado  
November 30, 2016



**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 programs for the year ended June 30, 2016. The University of Denver's major federal programs are 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 each of the University of Denver's major federal programs 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 each 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 each of its major federal programs for the year ended June 30, 2016.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-002. Our opinion on each major federal program is not modified with respect to this matter.

University of Denver's response to the noncompliance finding 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-002 that we consider to be a significant deficiency.

Board of Trustees  
University of Denver

University of Denver's response to the internal control over compliance finding 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**

Greenwood Village, Colorado  
November 30, 2016

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

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**Section I – Summary of Auditors’ Results**

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**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,  
84.408

93.600, 16.560, 47.076,  
93.242, 93.865, 12.431,  
93.658, 93.865, 93.110

**Name of Federal Program or Cluster**

Student Financial Assistance Cluster

Research and Development Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

yes  no

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

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**Section II – Financial Statement Findings**

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**2016 – 001: Promises to Give**

**Type of Finding:** Significant Deficiency in Internal Control over Financial Reporting

**Criteria or specific requirement:** FASB ASC Section 958 addresses recognition of promises to give on a nonprofit organization's general ledger. Paragraphs 8-10 of FASB ASC 958-605-25 provide recognition guidance for unconditional promises to give. An unconditional promise to give shall be recognized when it is received. However, to be recognized there must be sufficient evidence in the form of verifiable documentation that a promise was made and received.

In addition, as management is responsible for the preparation and fair presentation of the financial statements, they are responsible for ensuring the amount of contribution receivables reported in the financial statements are materially correct. This responsibility includes the design, implementation, and maintenance of internal controls relevant to contribution receivables to prevent material misstatement, whether due to fraud or error.

**Condition:** During our test work over contribution receivables and additional follow-up by management as a result of our procedures, the following instances were noted which occurred between June 2014 and June 2016:

1. **Conditional pledges:** Three contribution receivable balances for \$1,000,000, \$75,000 and \$50,000 (totaling \$1,006,274 after discount and allowances) that were conditional and should not have been recognized as a contribution receivable as of June 30, 2016, as the condition for recognition had not yet been met.
2. **Foundation grants:** Three foundation grants were being recorded and tracked in two separate systems – the grants were recorded as a contribution receivable by the Advancement Department but were also being recorded as exchange transactions by the Office of Research and Sponsored Programs. As a result, revenue and the related receivables were overstated by \$386,410 (gross amount prior to allowance and discount was \$439,057).
3. **Application of receipts:** Two cash payments for \$86,097 that should have reduced an outstanding contribution receivable, but were incorrectly recognized as revenue instead.
4. **Authentication of donor signatures:** In addition to the exceptions noted above, during the course of the audit, management brought to our attention that an employee in the Advancement Department had falsified certain promises to give. Advancement discovered the falsified document through their review of new agreements. The agreement was not recorded since Advancement determined that it was not authentic. Upon investigation by Advancement, it was determined that an additional promise to give from 2009 and a third promise to give, which was submitted at the time the forged document was discovered, had also been falsified by the same employee. Three other promises submitted prior to 2016 were deemed "likely forged". All of these agreements were testamentary bequests intentions which were not recorded on the University's general ledger. The employee did facilitate other promises that were recorded on the general ledger. Upon investigation by management, these were deemed to be legitimate.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

All evidence from the Advancement investigation and procedures performed by Internal Audit indicate that the falsified documents were prepared by one employee without the knowledge of any other employee. The employee was immediately terminated.

5. **Misclassification of bequest type:** one bequest intention for \$500,000 was improperly classified as a binding bequest and recorded on the financial statements. The supporting documentation specified that the bequest was an intention and therefore should not have been recorded on the financial statements in accordance with U.S. Generally Accepted Accounting Principles. As a result, revenue and the related receivables were overstated by \$136,010 (gross amount prior to allowance and discount was \$500,000).

**Effect:** Contribution receivables were overstated by \$1,614,791. The University recorded an audit adjustment to correct \$1,006,274 and passed on adjustment for the remainder of the errors noted given immateriality of the remainder of the difference. In addition, controls in the Advancement Department did not prevent an employee from fraudulently creating promise to give documents.

**Cause:** Internal controls were not in place to prevent the errors noted above.

**Recommendation:** The University should increase the controls over promises to give as follows:

1. **Conditional pledges:** Perform an enhanced review over promises to give to determine if they are conditional or unconditional. We recommend this review occur outside of the Advancement Department and it should be performed by someone knowledgeable of generally accepted accounting principles.
2. **Foundation grants:** Clarify between the Advancement Department and the Office of Research and Sponsored Programs when promises to give are considered contributions versus exchange transactions to ensure that they are being recorded properly in the general ledger. This determination and communication should be documented.
3. **Application of receipts:** The University should update their checklist fields for cash payments received for contributions to provide more information to the employee processing payments. A new field should be added which will prompt the employee to look for unique situations, such as the unique situation that occurred in this instance (donor with a future promise to give made payments for another purpose, but asked that the payment made go towards reducing his future promise to give). In addition, the University should periodically perform a search of cash payments recorded as revenue by donor to determine if the donors have outstanding contribution receivable balances. For those that do, review of the payments to determine if the payment should have been used to reduce accounts receivable versus recorded as current year revenue.
4. **Authentication of donor signatures:** The Advancement Department should consider implementing additional processes to prevent employees from creating fictional pledge agreements. Such controls could include involving two employees in securing the agreement and confirming with the donor through a thank you letter that confirms the amounts and terms of the agreement.
5. **Classification of bequest type:** We recommend that the Advancement Department perform an enhanced review over bequests to ensure that bequest types are properly classified and recorded in University ledgers.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**Views of responsible officials and planned corrective actions:**

**Explanation of disagreement with audit finding:** Agree

**Actions planned in response to finding:**

1. **Conditional pledges:** Management agrees with the auditor's recommendation to perform enhanced review over promises to give in order to determine if the promises are conditional or unconditional. Advancement will continue to populate the pledge category field with "COND", which indicates a conditional pledge, and describe the condition in the text field when entering new pledges. ASC 958-605-8 states **unconditional** promises to give shall be recognized when the promises are received. Advancement will not use pledge type "RP", which indicates regular pledge, for any pledges that do not meet the recognition criteria of the accounting standard.

Each quarter after the financial close but before the preparation of the Quarterly Pledge Report, Advancement will provide the Controller's office with the conditional pledge report, including a determination of whether the conditions of each pledge have been met. ASC 958-605-25-11 states that conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, shall be recognized when the conditions on which they depend are substantially met. The Controller's office will review the conditional pledge report and Advancement's description of the condition in order to determine if recognition should be delayed until conditions are met. Per ASC 958-605-25-12, a conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote. This occurs when the promise involves a report of activities to the donor before future payments are made. In this case, the Controller's office will indicate that recognition should occur per ASC 958-605-25-12. The Controller's office will record the determination of whether or not to recognize the pledge in the current period on the conditional pledge report.

The Controller's office will ensure that any conditional pledges that do not meet criteria for recognition during the current period are not included on the Quarterly Pledge Report. The Quarterly Pledge Report is the source document for the financial statement entry to record pledge receivable and adjust contribution revenue.

Any new pledge agreements of \$100,000 or more will be reviewed by Administration for conditions as described in the "Large gifts and pledges" later in this document.

2. **Foundation grants:** Management agrees with the auditor's recommendation to document the determination that a foundation grant is included in the activities of the Office of Research and Sponsored Programs (ORSP). ORSP will continue to notify Advancement of new foundation grants, including grant fund numbers assigned by ORSP. Advancement will continue to use pledge type "OP" for any foundation grants that are included in the activities of ORSP and will record the associated grant fund number in the pledge record that is created. The grant fund number assigned by ORSP and entered to the pledge record will provide evidence of the determination that the foundation grant transactions are to be included in ORSP activities as an exchange transaction and not as a contribution.

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### Schedule of Findings and Questioned Costs

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ORSP will continue to provide Advancement with a report of new foundation grants that are recorded in the grants system each quarter, and a list of all foundation grants with activity during the year at year-end. ORSP will also send each of these reports to the Controller's office. Each quarter after the financial close but before the preparation of the Quarterly Pledge Report, the Controller's office will verify that there are no foundation grants recorded as regular pledges or otherwise included in the net assets of the University.

- Application of receipts to pledge balance:** Management agrees with the auditor's recommendation to enhance the Advancement "pre-feed" report which is reviewed by the Director of Gifts and Records before payments are posted to the general ledger. The Advancement "pre-feed" report compares the donor ID entered on payment records to the donor ID's of all active pledges before the payment transactions are fed to the general ledger. The Director of Gifts and Records reviews any payments received from donors who have active pledges to determine if the receipt is a payment on an existing pledge or new contribution revenue. Any information that is necessary for the proper recording of future donor payments will be added to a text field on the pledge record. Advancement will enhance the "pre-feed" report to display this field on the report so that the information will be available when determining whether a receipt is a pledge payment or new contribution revenue.

Management agrees with the auditor's recommendation to periodically review cash receipts recorded as new contribution revenue from donors who have active pledges. Advancement's process to prepare pledge reminder notices currently requires review of recent donor receipts to verify correct pledge balance. Advancement will apply this process at the end of each quarter to all pledges which are included in the University's net assets by reviewing any receipts of \$10,000 or more from donors with active regular pledges or binding bequests as of the end of the quarter.

- Authentication of donor signatures:** Management agrees with the auditor's recommendation to implement controls to detect fictitious pledge agreements. Upon receiving signed pledge agreements, Advancement will perform a records search to determine if an authentic donor signature is available from existing documents and compare to the donor's signature on the new pledge agreement. In addition, the Associate Vice Chancellor for University Development and the Executive Director of Advancement Services will review the agreement and thank you letter which will communicate the amount and terms of the agreement to the donor. The Executive Director of Advancement Services will ensure the thank you letters are sent independent of the development officer.
- Classification of bequest type:** Management agrees with the auditor's recommendation to perform an enhanced review of binding bequests. The review of large gifts and pledges by the Administration described below will include a review of the bequest classification to ensure new binding bequests are properly classified and recorded. In addition, Advancement will review the agreements for all binding bequests that are currently recorded as pledge receivables to ensure the proper classification was used. There were approximately 140 binding bequest agreements included in the June 30, 2016 pledge receivables.

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6. **Large gifts and pledges:** In addition to the implementation of the internal controls described above, the Administration will review the following each quarter:

- All new pledge and gift agreements of \$100,000 or more will be reviewed by the Controller or the Controller's designee.
- All new pledge and gift agreements of \$500,000 or more will be reviewed by the Vice Chancellor-Financial Affairs.

**Responsible Parties:**

Armin Afsahi, Vice Chancellor for Advancement  
303-871-2647  
2190 E. Asbury Ave.  
Denver, CO 80208

Craig Woody, Vice Chancellor for Business and Financial Affairs  
303-871-3558  
2199 S. University Blvd.  
Denver, CO 80208

Andrew Cullen, Associate Vice Chancellor for Finance/Controller  
303-871-3740  
2199 S. University Blvd.  
Denver, CO 80208

**Planned completion date for corrective action plan:**

Corrective Action for Issue 1: Conditional pledge procedures—12/31/16

Corrective Action for Issue 2: Foundation grant procedures—12/31/16

Corrective Action for Issue 3: Advancement "pre-feed" report enhancements—12/31/16

Corrective Action for Issue 3: Review of receipts of \$10,000 or more from donors with pledges—  
12/31/16

Corrective Action for Issue 4: Signature verification of new agreements—Implemented

Corrective Action for Issue 4: Correspondence to donors following new agreements—12/31/16

Corrective Action for Issue 5: Administration's review of large pledge and gift agreements—  
12/31/16

**Plan to monitor completion of corrective action plan:** The Controller's office will report the status of the implementation of the corrective action plan in writing to the Vice Chancellor for Business and Financial Affairs on January 15, 2017, and by the 15<sup>th</sup> of each following month until the corrective action plan has been fully implemented.

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Schedule of Findings and Questioned Costs

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***Section III – Findings and Questioned Costs – Major Federal Programs***

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**2016-002: Student Financial Aid Cluster**

Federal agency: Department of Education  
Federal program title: Student Financial Aid Cluster  
CFFA Number: 84.258 – Federal Direct Student Loans

**Type of Finding:** Compliance, Other Matter and Significant Deficiency in Internal Control over Compliance

**Criteria or specific requirement:** The Code of Federal Regulations, 34 CFR 685.304(b)(4) states that the University is required to perform exit counseling for all students who cease enrollment at the school who have received Federal Direct Student Loans within 30 days of the student ceasing attendance.

**Condition:** During our testing, we noted that for one of the 12 students tested did not receive exit counseling within the required 30 days of a student ceasing attendance.

**Context:** Of a total of 40 students tested, 12 students were subject to exit counseling. For one of the 12, evidence could not be provided that exit counseling was provided or that the University attempted to contact the student regarding the requirement for exit counseling.

**Cause:** Controls were not in place to prevent the error noted above.

**Effect:** A lack of providing loan counseling to students may contribute to higher student loan default rates. In addition, the University was not in compliance with the regulations described above.

**Questioned Costs:** None.

**Auditors' Recommendation:** We recommend the University review its policies and procedures for providing exit counseling information to students and implement a control to ensure students are receiving proper counseling and ensure evidence of counseling is documented.

**Views of responsible officials and planned corrective actions:**

**Explanation of disagreement with audit finding:** Agree.

**Actions planned in response to finding:** We will expand our timeline and our search for graduating students to be certain we are covering every possible student who is eligible for graduation. We will run the standard Banner reports to identify graduating students and send exit counseling materials the last week of the expected graduation term. We will continue running this process to find newly reported graduated students who were not previously notified on the following timelines: 15 days beyond the end of the term and 30 days beyond the end of the term. At the point of 30 days beyond the end of term we will run a reconciliation process to provide the appropriate exit counseling materials to any graduated student who has not completed the exit process. We will run this process for each term in the academic year.

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**Responsible Parties:** John Gudvangen, director of financial aid. Brandon Huiner, associate director, compliance. Karen Woodrum, associate director, systems.

**Planned completion date for corrective action plan:** Immediately (November 2016)

**Plan to monitor completion of corrective action plan:** We will verify that the expanded timelines to search for and notify graduates are implemented and we will independently monitor the university's graduate lists with the exit counseling notification lists to ensure that all graduated students are included in the exit counseling notifications.

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Year ended June 30, 2016

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**Section IV – Status of Prior Year Findings**

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**2015-001: Student Financial Aid Cluster**

Federal agency: Department of Education

Federal program title: Student Financial Aid Cluster

CFFA Number: 84.SFA (All)

Type of Finding:

- Significant Deficiency in Internal Control over Compliance

**Summary:** Per the requirements of OMB Circular A-133, for each direct and material compliance requirement, the auditor must obtain an understanding of internal control, assess risk of noncompliance, and test control to ensure the non-federal entity has proper controls in place to prevent and detect noncompliance within the federal program. The auditor must determine the specific procedures to test internal control on a case-by-case basis considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in OMB Circular A-133. During our testing of a sample of three reconciliations of cash draws (Cash Management) for internal control and compliance, we noted that one reconciliation was not approved per the prescribed controls established by the University.

In addition, during testing of three monthly Borrower Data Transmission Reconciliations (Special Test), we noted that there was no review process for monthly reconciliations.

**Status:** During the current year's audit and testing of the controls surrounding the Federal student aid cash management process, we determined and reviewed the control processes put in place during the current year. No similar findings were noted in the current year audit.

**2015-002: Student Financial Aid Cluster**

Federal agency: Department of Education

Federal program title: Student Financial Aid Cluster

CFFA Number: 84.SFA (All)

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Compliance, Other Matter

**Summary:** Per 34 CFRs 685 and 690, and as outlined in the OMB A-133 Compliance Supplement, Part 5, institutions are required to update all information included in the enrollment report from the National Student Loan Data System (NSLDS) and return the report within the prescribed timeframe (30 days). Schools are also required to make necessary corrections, and return, within the prescribed timeframe (ten days) for any report errors subsequently noted by NSLDS.

In addition, timely and accurate enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. During our testing we reviewed the enrollment reporting data, which showed errors were not corrected and returned to NSLDS within the prescribed timeframe (10 days).

**Status:** During the current year's audit and testing of the controls surrounding the NSLDS reporting process, we determined and reviewed the control processes were put in place during the current year. No similar findings were noted in the current year audit.