KPMG

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

and

OMB Circular A-133 Reports

Year ended June 30, 2012

UNIVERSITY OF DENVER (COLORADO SEMINARY)

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KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying statements of financial position of the University of Denver (Colorado Seminary) (the University) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Denver (Colorado Seminary) as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was 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 audit 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

November 5, 2012

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2012

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	$ 526,207	24,464,633	17,107,257	42,098,097
Short-term investments	175,123,993	50,801,425	—	225,925,418
Accounts receivable, net	18,230,590	33,346	540,777	18,804,713
Pledges receivable, net	7,231,428	10,102,839	13,354,423	30,688,690
Inventories, prepaid expenses, and other assets	4,764,779	—	—	4,764,779
Long-term investments	150,000	—	383,685,366	383,835,366
Loans to students, net	—	—	19,198,620	19,198,620
Property, plant, and equipment, net of accumulated depreciation	—	534,801,238	—	534,801,238
Total assets	$ 206,026,997	620,203,481	433,886,443	1,260,116,921
Liabilities and Net Assets				
Accounts payable and accrued liabilities	$ 41,410,126	13,956,210	—	55,366,336
Deferred revenues	24,044,983	—	—	24,044,983
Other liabilities	—	5,429,290	405,235	5,834,525
Annuity obligations	—	—	9,960,053	9,960,053
Long-term debt	—	128,470,000	—	128,470,000
U.S. government grants refundable	—	—	16,678,892	16,678,892
Total liabilities	65,455,109	147,855,500	27,044,180	240,354,789
Net assets:				
Unrestricted:				
Available for operations	4,377,794	—	—	4,377,794
Designated student loans	—	—	1,731,626	1,731,626
Designated gain sharing	90,339,911	—	—	90,339,911
Board-designated endowments	—	—	75,314,356	75,314,356
Designated plant	—	449,914,969	—	449,914,969
Total unrestricted net assets	94,717,705	449,914,969	77,045,982	621,678,656
Temporarily restricted:				
Gifts and distributed endowment income	45,854,183	—	—	45,854,183
Plant	—	22,433,012	—	22,433,012
Endowments	—	—	82,899,860	82,899,860
Annuity life income	—	—	5,123,860	5,123,860
Total temporarily restricted net assets	45,854,183	22,433,012	88,023,720	156,310,915
Permanently restricted:				
Endowments	—	—	228,535,641	228,535,641
Annuity life income	—	—	11,173,569	11,173,569
Student loans	—	—	2,063,351	2,063,351
Total permanently restricted net assets	—	—	241,772,561	241,772,561
Total net assets	140,571,888	472,347,981	406,842,263	1,019,762,132
Commitments and contingencies (notes 8, 9, and 12)				
Total liabilities and net assets	$ 206,026,997	620,203,481	433,886,443	1,260,116,921

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2011

Assets	**Operations**	**Plant**	**Long-term investment**	**Total**
Cash and cash equivalents	$ 10,697,617	7,284,416	1,282,351	19,264,384
Short-term investments	159,739,367	72,299,860	10,000,000	242,039,227
Accounts receivable, net	21,519,526	69,774	531,677	22,120,977
Pledges receivable, net	9,033,753	9,691,685	8,996,303	27,721,741
Inventories, prepaid expenses, and other assets	5,510,612	100,000	—	5,610,612
Long-term investments	125,000	—	358,976,582	359,101,582
Loans to students, net	—	—	17,451,479	17,451,479
Property, plant, and equipment, net of accumulated depreciation	—	520,001,795	—	520,001,795
Total assets	$ 206,625,875	609,447,530	397,238,392	1,213,311,797
Liabilities and Net Assets				
Accounts payable and accrued liabilities	$ 45,611,084	13,385,108	—	58,996,192
Deferred revenues	24,497,997	—	—	24,497,997
Other liabilities	—	5,200,603	379,926	5,580,529
Annuity obligations	—	—	11,033,207	11,033,207
Long-term debt	—	133,685,000	—	133,685,000
U.S. government grants refundable	—	—	16,717,410	16,717,410
Total liabilities	70,109,081	152,270,711	28,130,543	250,510,335
Net assets:				
Unrestricted:				
Available for operations	3,832,413	—	—	3,832,413
Designated student loans	—	—	1,735,846	1,735,846
Designated gain sharing	85,680,807	—	—	85,680,807
Board-designated endowments	—	—	84,444,567	84,444,567
Designated plant	—	435,294,021	—	435,294,021
Total unrestricted net assets	89,513,220	435,294,021	86,180,413	610,987,654
Temporarily restricted:				
Gifts and distributed endowment income	47,003,574	—	—	47,003,574
Plant	—	21,882,798	—	21,882,798
Endowments	—	—	84,614,636	84,614,636
Annuity life income	—	—	5,018,231	5,018,231
Total temporarily restricted net assets	47,003,574	21,882,798	89,632,867	158,519,239
Permanently restricted:				
Endowments	—	—	185,150,949	185,150,949
Annuity life income	—	—	6,069,978	6,069,978
Student loans	—	—	2,073,642	2,073,642
Total permanently restricted net assets	—	—	193,294,569	193,294,569
Total net assets	136,516,794	457,176,819	369,107,849	962,801,462
Commitments and contingencies (notes 8, 9, and 12)				
Total liabilities and net assets	$ 206,625,875	609,447,530	397,238,392	1,213,311,797

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities

Year ended June 30, 2012

	Operating	Designated unrestricted	Total operating	Plant	Long-term investment	Total
Change in unrestricted net assets:						
Revenues and gains (losses):						
Tuition and fees	$ 372,174,802	—	372,174,802	—	—	372,174,802
Less institutional scholarships	95,100,132	—	95,100,132	—	—	95,100,132
	277,074,670	—	277,074,670	—	—	277,074,670
Less noninstitutional scholarships	10,018,006	—	10,018,006	—	—	10,018,006
Net tuition and fees	267,056,664	—	267,056,664	—	—	267,056,664
Private gifts	1,659,368	—	1,659,368	144,979	99,748	1,904,095
Grants and contracts	23,255,367	—	23,255,367	—	—	23,255,367
Endowment income	265,975	—	265,975	885	11,277	278,137
Other investment income	4,182,536	—	4,182,536	35,985	—	4,218,521
Net realized and unrealized gains (losses) on endowments	366,247	—	366,247	1,783	(2,127,715)	(1,759,685)
Net realized and unrealized gains (losses) on other investments	(325,882)	54,483	(271,399)	(22,714)	(4,221)	(298,334)
Sales and services of educational activities	11,807,920	60,644	11,868,564	—	—	11,868,564
Sales and services of auxiliary enterprise	30,447,845	1,200	30,449,045	—	—	30,449,045
Other sources	19,547,416	315,632	19,863,048	269,437	—	20,132,485
Total unrestricted revenues and gains (losses)	358,263,456	431,959	358,695,415	430,355	(2,020,911)	357,104,859
Net assets released from restrictions	24,145,518	—	24,145,518	3,054,897	(17,279,568)	9,920,847
Total unrestricted revenues, gains (losses), and other support	382,408,974	431,959	382,840,933	3,485,252	(19,300,479)	367,025,706
Expenses:						
Educational and general:						
Instruction	135,524,199	115,480	135,639,679	6,900,806	—	142,540,485
Research	12,639,703	—	12,639,703	1,852,242	—	14,491,945
Public service	5,880,804	—	5,880,804	44,196	—	5,925,000
Academic support	59,494,699	2,720,207	62,214,906	1,327,899	—	63,542,805
Student services	44,191,386	—	44,191,386	2,506,488	—	46,697,874
Institutional support	44,307,907	107,142	44,415,049	1,471,609	—	45,886,658
Total educational and general expenses	302,038,698	2,942,829	304,981,527	14,103,240	—	319,084,767
Auxiliary enterprises	28,845,637	—	28,845,637	8,404,300	—	37,249,937
Total expenses	330,884,335	2,942,829	333,827,164	22,507,540	—	356,334,704
Transfers among unrestricted net assets	50,979,258	(7,169,974)	43,809,284	(33,643,236)	(10,166,048)	—
Total expenses and transfers	381,863,593	(4,227,145)	377,636,448	(11,135,696)	(10,166,048)	356,334,704
Increase (decrease) in unrestricted net assets	545,381	4,659,104	5,204,485	14,620,948	(9,134,431)	10,691,002
Changes in temporarily restricted net assets:						
Private gifts	10,371,672	—	10,371,672	3,564,239	5,107	13,941,018
Endowment income	5,065,145	—	5,065,145	—	2,926	5,068,071
Other investment income (expense)	257,400	—	257,400	41,076	—	298,476
Net realized and unrealized gains on endowments	7,973,310	—	7,973,310	—	(2,394,877)	5,578,433
Net realized and unrealized losses on other investments	661,252	—	661,252	(204)	—	661,048
Net assets released from restrictions	(24,145,518)	—	(24,145,518)	(3,054,897)	17,279,568	(9,920,847)
Net assets reclassified to permanently restricted	(1,332,652)	—	(1,332,652)	—	(16,594,400)	(17,927,052)
Actuarial adjustment on annuity obligations	—	—	—	—	92,529	92,529
Increase (decrease) in temporarily restricted net assets	(1,149,391)	—	(1,149,391)	550,214	(1,609,147)	(2,208,324)
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	29,780,395	29,780,395
Net realized and unrealized gains (losses) on other investments	—	—	—	—	708	708
Net assets reclassified from temporarily restricted	—	—	—	—	17,927,052	17,927,052
Actuarial adjustment on annuity obligations	—	—	—	—	769,837	769,837
Increase in permanently restricted net assets	—	—	—	—	48,477,992	48,477,992
Change in net assets	(604,010)	4,659,104	4,055,094	15,171,162	37,734,414	56,960,670
Net assets at beginning of year	50,835,987	85,680,807	136,516,794	457,176,819	369,107,849	962,801,462
Net assets at end of year	$ 50,231,977	90,339,911	140,571,888	472,347,981	406,842,263	1,019,762,132

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities

Year ended June 30, 2011

	Operating	Designated unrestricted	Total operating	Plant	Long-term investment	Total
Change in unrestricted net assets:						
Revenues and gains (losses):						
Tuition and fees	$ 359,877,907	—	359,877,907	—	—	359,877,907
Less institutional scholarships	89,930,920	—	89,930,920	—	—	89,930,920
	269,946,987	—	269,946,987	—	—	269,946,987
Less noninstitutional scholarships	8,946,170	—	8,946,170	—	—	8,946,170
Net tuition and fees	261,000,817	—	261,000,817	—	—	261,000,817
Private gifts	651,852	—	651,852	127,840	44,319	824,011
Grants and contracts	25,255,304	—	25,255,304	—	—	25,255,304
Endowment income	208,731	—	208,731	2,682	37,911	249,324
Other investment income	3,613,315	—	3,613,315	28,775	—	3,642,090
Net realized and unrealized gains on endowments	416,867	—	416,867	—	7,087,617	7,504,484
Net realized and unrealized gains (losses) on other investments	1,232,378	—	1,232,378	6,967,857	(27,181)	8,173,054
Sales and services of educational activities	12,006,685	105,417	12,112,102	—	—	12,112,102
Sales and services of auxiliary enterprise	32,355,856	250	32,356,106	—	—	32,356,106
Other sources	18,584,692	208,882	18,793,574	370,144	—	19,163,718
Total unrestricted revenues and gains	355,326,497	314,549	355,641,046	7,497,298	7,142,666	370,281,010
Net assets released from restrictions	18,714,961	—	18,714,961	9,340,581	(7,960,131)	20,095,411
Total unrestricted revenues, gains (losses), and other support	374,041,458	314,549	374,356,007	16,837,879	(817,465)	390,376,421
Expenses:						
Educational and general:						
Instruction	130,673,869	135,800	130,809,669	8,081,652	—	138,891,321
Research	13,126,562	—	13,126,562	1,792,705	—	14,919,267
Public service	3,881,625	—	3,881,625	62,768	—	3,944,393
Academic support	55,946,289	2,382,095	58,328,384	1,390,381	—	59,718,765
Student services	39,875,945	—	39,875,945	2,691,456	—	42,567,401
Institutional support	41,173,967	14,415	41,188,382	1,467,119	—	42,655,501
Total educational and general expenses	284,678,257	2,532,310	287,210,567	15,486,081	—	302,696,648
Auxiliary enterprises	30,575,325	—	30,575,325	9,742,350	—	40,317,675
Total expenses	315,253,582	2,532,310	317,785,892	25,228,431	—	343,014,323
Transfers among unrestricted net assets	58,248,218	(7,712,727)	50,535,491	(34,110,387)	(16,425,104)	—
Total expenses and transfers	373,501,800	(5,180,417)	368,321,383	(8,881,956)	(16,425,104)	343,014,323
Increase in unrestricted net assets	539,658	5,494,966	6,034,624	25,719,835	15,607,639	47,362,098
Changes in temporarily restricted net assets:						
Private gifts	15,494,768	—	15,494,768	5,893,403	85,859	21,474,030
Endowment income	3,346,173	—	3,346,173	—	19,065	3,365,238
Other investment income (expense)	46,910	—	46,910	14,601	—	61,511
Net realized and unrealized gains on endowments	9,276,199	—	9,276,199	—	20,883,245	30,159,444
Net realized and unrealized losses on other investments	402,286	—	402,286	83	—	402,369
Net assets released from restrictions	(18,714,961)	—	(18,714,961)	(9,340,581)	7,960,131	(20,095,411)
Net assets reclassified to permanently restricted	(2,409,271)	—	(2,409,271)	—	(7,441,215)	(9,850,486)
Actuarial adjustment on annuity obligations	23,678	—	23,678	—	891,178	914,856
Increase (decrease) in temporarily restricted net assets	7,465,782	—	7,465,782	(3,432,494)	22,398,263	26,431,551
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	12,737,285	12,737,285
Net realized and unrealized gains (losses) on other investments	—	—	—	—	(4,492)	(4,492)
Net assets reclassified from temporarily restricted	—	—	—	—	9,850,486	9,850,486
Actuarial adjustment on annuity obligations	—	—	—	—	163,207	163,207
Increase in permanently restricted net assets	—	—	—	—	22,746,486	22,746,486
Change in net assets	8,005,440	5,494,966	13,500,406	22,287,341	60,752,388	96,540,135
Net assets at beginning of year	42,830,547	80,185,841	123,016,388	434,889,478	308,355,461	866,261,327
Net assets at end of year	$ 50,835,987	85,680,807	136,516,794	457,176,819	369,107,849	962,801,462

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	56,960,670	96,540,135
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation of property, plant, and equipment		13,604,818	12,714,925
Disposal of property, plant, and equipment		450,909	1,745,706
Amortization of premium		(433,226)	(267,747)
Decrease (increase) in accounts receivable		3,316,264	(2,671,489)
Increase in pledges receivable		(2,966,949)	(1,954,033)
Decrease (increase) in inventories, prepaid expenses, and other assets		845,833	(622,498)
Decrease in accounts payable and accrued liabilities		(3,629,856)	(506,539)
Increase (decrease) in deferred revenues		(453,014)	1,738,431
Increase (decrease) in other liabilities		687,222	(530,767)
Actuarial adjustment for annuity obligation		(1,073,154)	648,842
Contributions of investments		(20,623,701)	(3,267,196)
Contributions restricted for long-term investment		(9,156,694)	(12,867,463)
Interest and dividends for long-term investments		(11,277)	(37,911)
Net realized and unrealized gains on investments		(4,182,170)	(46,234,859)
Net cash provided by operating activities		33,335,675	44,427,537
Cash flows from investing activities:			
Proceeds from sale of investments		887,825,283	677,774,404
Purchases of investments		(871,639,387)	(697,812,422)
Purchases of property, plant, and equipment		(28,855,170)	(17,479,013)
Disbursements for Perkins and University loans to students		(4,690,085)	(3,456,158)
Repayment of Perkins and University loans to students		2,942,944	3,372,566
Net cash used in investing activities		(14,416,415)	(37,600,623)
Cash flows from financing activities:			
Proceeds from contributions restricted for long-term investment		9,156,694	12,867,463
Interest and dividends restricted for reinvestment		11,277	37,911
Payments of bonds payable		(5,215,000)	(4,960,000)
Decrease in refundable government loan funds, net		(38,518)	(239,645)
Net cash provided by financing activities		3,914,453	7,705,729
Net increase in cash and cash equivalents		22,833,713	14,532,643
Cash and cash equivalents at beginning of year		19,264,384	4,731,741
Cash and cash equivalents at end of year	$	42,098,097	19,264,384

See accompanying notes to financial statements.

In fiscal year 2012, the University issued Series 2012 bonds in the amount of $8,370,000 to refund Series 2001B bonds in the amount of $8,530,000.

(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 other assets, are current in nature. Accounts payable and accrued liabilities, other than accumulated postretirement benefit obligations (note 9), are near maturity. Other liabilities are long term in nature. Balances and activities are unrestricted, temporarily restricted, or have been released from restrictions.

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

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, or entered into a repayment agreement with the University, accounts are assigned to preselected collection agencies. In June of each year, all student tuition accounts with delinquent balances over 365 days and no payment activity for the prior 12 months are reviewed to determine collectibility. If an account is deemed uncollectible, the balance is written off to bad debt reserve and permanent holds are placed on the student account, which prevents future registration and the release of official transcripts and diplomas.

Account receivables are net of allowances for uncollectible accounts of $1,080,000 and $1,167,000 as of June 30, 2012 and 2011, respectively.

(e) Investments

Investments received by gift, including investments in real estate, are recorded at estimated fair value at the date of the gift and are subsequently adjusted for changes in fair value thereafter. Purchased investments are carried at fair value. Realized and unrealized gains and losses are reported in the appropriate net asset classification. The University also holds shares or units in alternative investment funds involving hedge, private equity, and real estate strategies. For financial statement presentation purposes, an investment may be considered alternative if the investment does not meet the following four criteria: (1) it is registered with the Securities Exchange Commission (SEC), (2) it makes semiannual filings with the SEC, (3) it calculates a net asset value daily, and (4) purchase and redemption of shares may be done daily. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds may hold assets that require the estimation of fair values in the absence of readily determinable market values. See further discussion at note 1(o).

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*. 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 Accounting Standards Update (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 reclassed (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.

(h) Property, Plant, and Equipment

Property, plant, and equipment are carried at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation on property, plant, and equipment is calculated on the straight-line method over the estimated useful lives of the assets, which range from 3 to 15 years for equipment and 10 to 80 years for buildings and improvements.

The University reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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, 2012 and 2011 and recorded as revenue and expenses in the succeeding fiscal year.

(j) Compensated Absences

The University's employees, with the exception of faculty members, earn paid vacation each month based upon their years of service with the University. Vacation time accrues and vests proportionately between July 1 and June 30 of the current year and employees can carry a maximum of 22 days to the next fiscal year. An accrual has been made for earned vacation time and is included in accounts payable and accrued liabilities in the accompanying statements of financial position.

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

(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, 2012 and 2011.

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 provisions of FASB ASC Topic 740-10 do not have a significant impact on the University's financial statements.

(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.

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 5.0% to 11.3%. Annuity obligations are adjusted annually for these factors.

Long-term debt – Fair value, which is disclosed in note 7, is determined by computing the present value of future payments discounted at the prevailing interest rate for comparable debt instruments at year-end.

(o) Net Assets Reclassified from Temporarily Restricted to Permanently Restricted

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 $25 million, $10 million, and $5.2 million, respectively, of the University's strategic reserves to match commitments to new and existing scholarship endowments dollar for dollar. For the years ended June 30, 2012 and 2011, the University matched commitments to the matching program in the amount of $17,090,568 and $7,854,965, respectively. Other reclassifications from temporarily restricted to permanently restricted net assets resulted from changes in donor stipulations and totaled $836,484 and $1,995,521 for the years ended June 30, 2012 and 2011, respectively.

(p) Use of Estimates

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

(q) Endowment Funds

The University presents its endowment funds in accordance with the provisions of FASB ASC Topic 958-205, *Presentation of Financial Statements*, which provides guidance about the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (the Act) and expands disclosures about endowment funds. See further discussion at note 4.

(r) Subsequent Events

FASB ASC Topic 855-10, *Subsequent Events*, establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The University evaluated events subsequent to June 30, 2012 and through November 5, 2012, and there were no significant events subsequent to year-end.

(2) Short- and Long-Term Investments

Investments at June 30 consist of the following:

	2012		
	Cost	**Unrealized gain (loss)**	**Market value**
Short-term investments:			
U.S. government securities	$ 197,763,895	36,538	197,800,433
Mutual funds	11,929,843	3,181,977	15,111,820
Domestic equities	343,464	(223,234)	120,230
Real estate	11,800,000	—	11,800,000
Other	1,092,935	—	1,092,935
	222,930,137	2,995,281	225,925,418
Long-term investment:			
Trustee cash and cash equivalents for endowments and annuities	1,801,724	—	1,801,724
U.S. government securities	53,416,145	(233,216)	53,182,929
Alternative investments	115,578,853	48,736,353	164,315,206
Domestic equities	67,156,341	6,497,763	73,654,104
International equities	6,414,870	79,167	6,494,037
Real estate	29,145,439	7,925,366	37,070,805
Mutual funds	29,535,211	2,705,988	32,241,199
Beneficial trust interest	14,169,659	590,208	14,759,867
Other	315,495	—	315,495
	317,533,737	66,301,629	383,835,366
Total all funds	$ 540,463,874	69,296,910	609,760,784

	2011		
	Cost	**Unrealized gain (loss)**	**Market value**
Short-term investments:			
U.S. government securities	$ 213,142,916	370,648	213,513,564
Mutual funds	12,294,308	3,215,062	15,509,370
Domestic equities	350,183	(146,160)	204,023
Real estate	11,800,000	—	11,800,000
Other	1,012,270	—	1,012,270
	238,599,677	3,439,550	242,039,227
Long-term investment:			
Trustee cash and cash equivalents for endowments and annuities	6,346,239	—	6,346,239
U.S. government securities	53,745,958	53,741	53,799,699
Alternative investments	114,463,299	48,689,741	163,153,040
Domestic equities	34,527,782	6,453,670	40,981,452
International equities	6,414,870	1,491,475	7,906,345
Real estate	23,741,193	4,888,920	28,630,113
Mutual funds	44,554,866	2,633,006	47,187,872
Beneficial trust interest	9,758,098	882,064	10,640,162
Other	456,660	—	456,660
	294,008,965	65,092,617	359,101,582
Total all funds	$ 532,608,642	68,532,167	601,140,809

During the years ended June 30, 2012 and 2011, the University paid approximately $418,000 and $416,000, 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, 2012, the pool had 69,260,291 shares outstanding, with a fair value of approximately $4.79 per share, or $332,072,540. 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 2012 was $0.20 per share, of which $0.07 represented income yield. The remaining $0.13 represented spending of realized and unrealized gains. At June 30, 2011, the pool had 64,075,790 shares outstanding, with a fair value of approximately $4.88 per share, or $312,619,807. The distribution for spending in 2011 was $0.21 per share, of which $0.05 represented income yield. The remaining $0.16 represented spending of realized and unrealized gains.

The investment pool consisted of 840 individual endowments at June 30, 2012. Of these endowments, 22 are considered to be "under water" as the fair value of the underlying investments is less than the original gift value. At June 30, 2012, the fair value of the underlying investment related to these 22 endowments totaled approximately $3,321,000 while the original gift value was approximately $3,343,000. See additional discussion in note 4(b).

The investment pool consisted of 737 individual endowments at June 30, 2011. Of these endowments, none of them were considered to be "under water" as the fair value of the underlying investments is more than the original gift value of all the individual 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, 2012 and 2011:

	2012			
	Number of agreements		Net assets classification: Temporary	Permanent
Perpetual trusts held by third party	3	$	—	7,483,749
Charitable Remainder Trusts:				
University named trustee	25		4,812,072	9,481,998
Third-party named trustee	9		1,604,024	6,722,092
Charitable Annuity Agreements	71		2,726,382	1,157,272
	108	$	9,142,478	24,845,111

	2011			
	Number of agreements		Net assets classification: Temporary	Permanent
Perpetual trusts held by third party	3	$	—	8,086,090
Charitable Remainder Trusts:				
University named trustee	26		4,945,704	10,095,337
Third-party named trustee	8		1,587,314	2,016,757
Charitable Annuity Agreements	63		2,917,645	816,815
	100	$	9,450,663	21,014,999

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

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

Contribution revenue recognized for new split-interest agreements in 2012 and 2011 was approximately $4,338,861 and $1,603,000, 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 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, most government agency securities, investment grade corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, state, municipal, and provincial obligations, most physical commodities, and certain loan commitments. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect liquidity and/or nontransferability, which are generally based on available market information.

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

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct investments in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the statements of financial position 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) Derivative Instruments

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

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

The following tables summarize the University's short and long-term investments in the fair value hierarchy as of June 30, 2012 and 2011, as well as liquidity of the investments:

	June 30, 2012			
Investment/liquidity	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government securities:				
Daily	$ 250,753,362	—	—	250,753,362
Monthly	—	230,000	—	230,000
Total	250,753,362	230,000	—	250,983,362
Alternative investments:				
Monthly	—	10,455,396	24,791,163	35,246,559
Quarterly	—	—	64,145,409	64,145,409
Semiannually	—	—	410,608	410,608
Illiquid	—	—	64,512,630	64,512,630
Total	—	10,455,396	153,859,810	164,315,206
Mutual funds:				
Daily	34,214,271	—	—	34,214,271
Monthly	—	—	13,138,748	13,138,748
Total	34,214,271	—	13,138,748	47,353,019
Domestic equities:				
Daily	73,252,356	—	—	73,252,356
Quarterly	521,978	—	—	521,978
Total	73,774,334	—	—	73,774,334
International equities:				
Daily	6,494,037	—	—	6,494,037
Total	6,494,037	—	—	6,494,037
Trustee cash and cash equivalents:				
Daily	1,801,724	—	—	1,801,724
Total	1,801,724	—	—	1,801,724
Real estate:				
Semiannually	—	46,967,807	—	46,967,807
Locked-up 1	—	1,655,001	—	1,655,001
Locked-up 3	—	90,000	—	90,000
Illiquid	—	157,997	—	157,997
Total	—	48,870,805	—	48,870,805

Investment/liquidity	June 30, 2012 Level 1	Level 2	Level 3	Total
Beneficial trust interest:				
Locked-up 1	$ 8,711,729	—	6,048,138	14,759,867
Total	8,711,729	—	6,048,138	14,759,867
Other:				
Daily	885,000	—	—	885,000
Illiquid	—	—	393,296	393,296
Locked-up 2	19,337	—	110,797	130,134
Total	904,337	—	504,093	1,408,430
Grand total	$ 376,653,793	59,556,201	173,550,789	609,760,783

Investment/liquidity	June 30, 2011 Level 1	Level 2	Level 3	Total
U.S. government securities:				
Daily	$ 267,083,263	—	—	267,083,263
Monthly	—	230,000	—	230,000
Total	267,083,263	230,000	—	267,313,263
Alternative investments:				
Monthly	—	11,258,108	15,504,706	26,762,814
Quarterly	—	—	68,580,014	68,580,014
Semiannually	—	2,272,112	735,322	3,007,434
Illiquid	—	—	64,802,778	64,802,778
Total	—	13,530,220	149,622,820	163,153,040
Mutual funds:				
Daily	49,575,732	—	—	49,575,732
Monthly	—	—	13,121,510	13,121,510
Total	49,575,732	—	13,121,510	62,697,242
Domestic equities:				
Daily	40,656,720	—	—	40,656,720
Quarterly	528,755	—	—	528,755
Total	41,185,475	—	—	41,185,475
International equities:				
Daily	7,906,345	—	—	7,906,345
Total	7,906,345	—	—	7,906,345

(Continued)

Investment/liquidity		June 30, 2011 Level 1	Level 2	Level 3	Total
Trustee cash and cash equivalents:					
Daily	$	6,346,239	—	—	6,346,239
Total		6,346,239	—	—	6,346,239
Real estate:					
Semiannually		—	38,510,553	—	38,510,553
Locked-up 1		—	1,919,560	—	1,919,560
Illiquid		—	—	—	—
Total		—	40,430,113	—	40,430,113
Beneficial trust interest:					
Locked-up 1		9,452,514	—	1,187,648	10,640,162
Total		9,452,514	—	1,187,648	10,640,162
Other:					
Daily		955,553	—	—	955,553
Illiquid		—	—	213,015	213,015
Locked-up 2		41,837	—	258,525	300,362
Total		997,390	—	471,540	1,468,930
Grand total	$	382,546,958	54,190,333	164,403,518	601,140,809

The following table includes a rollforward of the amounts for the years ended June 30, 2012 and 2011 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:

		Mutual funds/other	Private equity	Hedged/ absolute	Total
Balances at June 30, 2011	$	14,780,698	50,937,010	98,685,810	164,403,518
Donated		4,641,070	—	—	4,641,070
Purchases		446,513	17,944,926	20,248,202	38,639,641
Sales		(423,870)	(18,777,180)	(17,401,120)	(36,602,170)
Unrealized gains		246,568	596,699	1,625,463	2,468,730
Balances at June 30, 2012	$	19,690,979	50,701,455	103,158,355	173,550,789

(Continued)

		Mutual funds/other	Private equity	Hedged/ absolute	Total
Balances at June 30, 2010	$	13,642,072	41,711,375	91,462,417	146,815,864
Purchases		469,428	16,302,446	35,004,426	51,776,300
Sales		(206,173)	(12,425,618)	(33,647,102)	(46,278,893)
Unrealized gains		875,371	5,348,807	5,866,069	12,090,247
Balances at June 30, 2011	$	14,780,698	50,937,010	98,685,810	164,403,518

All unrealized gains (losses) in the tables above are reflected in the accompanying statements of activities.

(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 840 and 737 individual funds as of June 30, 2012 and 2011, respectively. The endowments were established for a variety of purposes, including both donor-restricted endowment funds (true endowment) and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

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

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:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2012:				
Board-designated endowment funds	$ 75,314,356	—	—	75,314,356
Donor-restricted endowment funds	—	82,899,860	228,535,641	311,435,501
	$ 75,314,356	82,899,860	228,535,641	386,749,857

	Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2011:				
Board-designated endowment funds	$ 84,444,567	—	—	84,444,567
Donor-restricted endowment funds	—	84,614,636	185,150,949	269,765,585
	$ 84,444,567	84,614,636	185,150,949	354,210,152

(Continued)

The changes in endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2011	$ 84,444,567	84,614,636	185,150,949	354,210,152
Investment return:				
Investment income	4,447,819	2,926	—	4,450,745
Net realized and unrealized gains (losses)	6,808,004	(2,394,877)	—	4,413,127
Total investment return	11,255,823	(2,391,951)	—	8,863,872
Private gifts	99,748	—	25,446,640	25,546,388
Appropriation of endowment assets for expenditures	(13,372,262)	—	—	(13,372,262)
Present value adjustments	—	(7,993)	—	(7,993)
Reinvested income	—	685,168	—	685,168
Transfer to board-designated endowments	(7,113,520)	—	—	(7,113,520)
Reclassification of restricted net assets	—	—	17,938,052	17,938,052
Changes	(9,130,211)	(1,714,776)	43,384,692	32,539,705
Endowment net assets, June 30, 2012	$ 75,314,356	82,899,860	228,535,641	386,749,857

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2010	$ 68,809,747	63,149,591	163,978,475	295,937,813
Investment return:				
Investment income	3,156,189	19,065	—	3,175,254
Net realized and unrealized gains	16,753,952	20,871,409	—	37,625,361
Total investment return	19,910,141	20,890,474	—	40,800,615
Private gifts	44,319	—	11,206,524	11,250,843
Appropriation of endowment assets for expenditures	(12,784,614)	—	—	(12,784,614)
Present value adjustments	—	—	32,391	32,391
Reinvested income	—	574,571	—	574,571
Transfer to board-designated endowments	8,464,974	—	—	8,464,974
Reclassification of restricted net assets	—	—	9,933,559	9,933,559
Changes	15,634,820	21,465,045	21,172,474	58,272,339
Endowment net assets, June 30, 2011	$ 84,444,567	84,614,636	185,150,949	354,210,152

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the level of the book value (underwater). When a fund is classified as underwater, then only income earned (interest and dividends) will be distributed for spending. The University has 22 funds considered underwater with a deficiency of approximately $22,000 at June 30, 2012. The deficiency is recorded as unrestricted net unrealized losses on endowment within the statement of activities.

(c) Return Objectives and Risk Parameters

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

(d) Strategies Employed for Achieving Objectives

The University targets a diversified asset allocation. For the years ended June 30, 2012 and 2011, the estimated investment emphasis included: Large Capitalization Equities (15.0%), Small/Mid Capitalization Equities (12.5%), International Equities (12.5%), Hedged Funds (15.0%), Private

Equities (2.5%), Absolute Return funds (12.5%), Fixed Income (15.0%), and Real Estate and Other investment (15.0%). The profile is reviewed quarterly and rebalanced as needed.

(e) Spending Policy

The University has adopted a spending policy whereby the board of trustees has authorized a stipulated percentage of the fair value of endowments participating in the investment pool to be spent for the purposes of the donors. As of June 30, 2012 and 2011, 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:

		2012	2011
Unconditional promises expected to be collected in:			
Less than one year	$	12,851,731	11,097,094
One to five years		20,825,975	18,045,845
Greater than six years		8,788,000	5,873,000
		42,465,706	35,015,939
Less allowance for uncollectible pledges		(4,246,571)	(3,501,592)
Less present value discount (2.7% – 8.0%)		(7,530,445)	(3,792,606)
Net pledges receivable	$	30,688,690	27,721,741

Included in pledges receivable is the present value of approximately $9,947,000 and $10,738,000 as of June 30, 2012 and 2011, respectively, in pledges from members of the board of trustees. For the years ended June 30, 2012 and 2011, the University did not conduct any additional, significant transactions with members of the board of trustees that were not negotiated at arm's length.

(6) Property, Plant, and Equipment

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

		2012	2011
Land	$	8,673,427	8,384,661
Land improvements		22,903,391	22,281,919
Buildings and improvements		568,756,057	556,456,546
Equipment		48,293,266	50,140,321
Library books		8,490,392	8,406,120
Construction in progress		18,860,338	7,071,463
		675,976,871	652,741,030
Less accumulated depreciation		(141,175,633)	(132,739,235)
	$	534,801,238	520,001,795

The University had approximately $13,605,000 and $12,715,000 of depreciation expense for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, respectively, an asset retirement obligation of approximately $8,080,000 and $9,259,000 is included in accounts payable and accrued liabilities.

(7) Long-Term Debt

Bonds payable at June 30 consist of the following:

		2012	2011
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2012	$	8,370,000	—
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2008		7,270,000	7,790,000
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2007		39,920,000	39,920,000
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2005A		29,945,000	30,000,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2005B		40,440,000	42,585,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2001B		2,525,000	13,390,000
Total long-term debt		128,470,000	133,685,000
Less current installments		5,370,000	5,055,000
Long-term debt, excluding current installments	$	123,100,000	128,630,000

The University had approximately $6,368,667 and $6,568,549 of interest expense for the years ended June 30, 2012 and 2011, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately $6,441,000 and $6,632,330 was paid in cash during the years ended June 30, 2012 and 2011, respectively. The fair value of bonds payable was approximately $128,150,000 and $133,359,000 at June 30, 2012 and 2011, respectively.

(a) Issuance of Series 2012 Bonds

In March 2012, the Colorado Educational and Cultural Facilities Authority (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 mandatory annual sinking fund redemption payments starting in 2014 of $2,685,000, increasing to $2,860,000 in 2016. Interest is payable semiannually at 4%.

(b) 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 mandatory annual sinking fund redemption payments of $520,000 in 2012, increasing to $2,535,000 in 2018. Interest is payable semiannually at rates ranging from 3% to 5%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

(c) Issuance of Series 2007 Bonds

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

The bond agreement provides for mandatory annual sinking fund redemption payments of $1,650,000 in 2023, $5,825,000 in 2024, $6,135,000 in 2025, $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.

(d) Issuance of Series 2005A Bonds

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

The bond agreement provides for mandatory annual sinking fund redemption payments of $55,000 in 2012, increasing to $6,750,000 in 2022. Interest is payable semiannually at rates ranging from 3.00% to 5.00%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

(e) Issuance of Series 2005B Bonds

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

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

The bond agreement provides for mandatory annual sinking fund redemption payments of $2,145,000 in 2012, increasing to $2,285,000 in 2030. Interest is payable semiannually at rates ranging from 4.00% to 5.25%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

(f) Issuance of Series 2001B Bonds

In December 2001, the Authority issued $23,000,000 of University of Denver Revenue Bonds, Series 2001B. The proceeds from the sale of the 2001B bonds were used to (1) finance the construction of a law school; (2) obtain a municipal bond insurance policy for the bonds; (3) obtain a reserve fund surety bond for the bonds; (4) obtain a liquidity facility for the bonds; and (5) pay certain costs associated with the issuance of the bonds.

The initial bond agreement provides for mandatory annual sinking fund redemption payments of $500,000, which began in 2004, increasing to $2,930,000 in 2016. Interest is payable semiannually at rates ranging from 1.8% to 4.6%. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

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

In March 2012, $8,530,000 was legally defeased from proceeds of the Series 2012 bonds and removed from the accounting records of the University.

(g) Aggregate Annual Maturities of Bonds Payable

At June 30, 2012, the aggregate annual maturities of bonds payable for the five succeeding years and thereafter are as follows:

2013	$	5,370,000
2014		5,665,000
2015		5,930,000
2016		6,135,000
2017		6,465,000
Thereafter		98,905,000
	$	128,470,000

(h) Restrictive Bond Covenants

The University is required by bond covenants to maintain expendable resources (as defined by the Loan Agreement) of at least 75% of the outstanding principal of its long-term debt and maintain a debt service coverage ratio (as defined by the Loan Agreement) of at least 1.20. The University is also required to comply with various other covenants while the bonds are outstanding. Management believes the University is in compliance with the bond covenants.

(i) Security for the Bonds

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

(8) Retirement Plan

Full-time employees, including part-time employees who work at least 20 hours per week for at least six months, of the University are eligible to participate in a contributory tax-deferred annuity retirement plan (the Retirement Plan) under Section 403(b) of the Code. Administrators, faculty members, and staff-appointed employees are eligible to participate in the Retirement Plan after one year of service. Participating employees may contribute up to 4% of their base salary, limited by the Code to $17,000 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 $9,493,000 and $8,882,000 for the years ended June 30, 2012 and 2011, respectively, which were charged to operations expenses.

(9) Postretirement Benefits Other than Pensions

The University records postretirement benefits in accordance with the provisions of FASB ASC Topic 715-20, *Compensations – Retirement Benefits*. FASB ASC Topic 715-20 requires balance sheet recognition of the net asset or liability for the overfunded or underfunded status of defined-benefit pension and other postretirement benefit plans and recognition of changes in the funded status in the year in which the changes occur.

The University sponsors a defined-benefit healthcare plan (the Healthcare Plan) that provides postretirement medical benefits to full-time employees who have worked 10 years and attained age 55 while in service with the University if hired prior to January 1, 1992, or full-time employees who have worked 20 years and attained age 55 while in service with the University if hired after December 31, 1991. Participants receive $60 per month toward the cost of their postretirement medical costs. At June 30, 2012, the Healthcare Plan covered 224 retirees with an additional 2,111 active employees potentially eligible for coverage. At June 30, 2011, the Healthcare Plan covered 227 retirees with an additional 2,311 active employees potentially eligible for coverage. The Healthcare Plan is noncontributory.

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

		2012	2011
Accrued postretirement benefit obligation (APBO), beginning of year	$	3,057,249	2,879,033
Service cost		66,027	33,237
Interest cost		149,863	136,334
Change in assumptions loss		—	(51,995)
Actuarial loss		563,938	234,465
Benefits paid		(162,012)	(173,825)
APBO (all unfunded), end of year	$	3,675,065	3,057,249

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

		2012	2011
Service cost	$	66,027	33,237
Interest cost		149,863	136,334
Amortization of transition obligation		99,472	99,472
Amortization of prior service cost		37,478	37,478
Recognized net actuarial gain		—	—
Net periodic postretirement benefit cost	$	352,840	306,521

The weighted average discount rate used in determining the APBO was 3.74% and 5.06% for June 30, 2012 and 2011, 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 $162,000 and $174,000 for the years ended June 30, 2012 and 2011, respectively, which were charged to operating expenses.

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

2013	$	201,276
2014		204,183
2015		204,132
2016		205,244
2017		207,876
2018 – 2022		1,103,956
Total	$	2,126,667

For the years ended June 30, 2012 and 2011, 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, 2012.

(10) Loans to Students

Student loans made through Perkins constitute substantially all of the student loans outstanding at June 30, 2012 and 2011. 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 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, the allowance for possible loan losses of these funds was $153,000.

(11) Fund-Raising Expenses

The University had fund-raising expenses of approximately $10,381,000 and $10,393,000 in 2012 and 2011, respectively, which were recognized in institutional support in the accompanying statements of activities.

(12) Commitments and Contingencies

At June 30, 2012 and 2011, the University had outstanding commitments totaling approximately $12,544,000 and $2,318,000, respectively, for contracts related to various construction projects on campus.

During the 2012 fiscal year, the University invested approximately $8,900,000 in 17 long-term partnerships, 15 of which were formed prior to the 2012 fiscal year, bringing its cumulative contributions to the partnerships to approximately $80,800,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of June 30, 2012, the University's remaining commitments to 11 partnerships total approximately $28,900,000.

During the 2011 fiscal year, the University invested approximately $10,500,000 in 15 long-term partnerships, 13 of which were formed prior to the 2011 fiscal year, bringing its cumulative contributions to the partnerships to approximately $71,900,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of June 30, 2011, the University's remaining commitments to 11 partnerships total approximately $31,400,000.

The University participates in a number of federal programs, which are subject to financial and compliance audits. The amount of expenses that may be disallowed by the granting agencies cannot be determined at this time although the University does not expect these amounts, if any, to be material to the financial statements.

The University is a party to a number of matters of litigation. It is the opinion of management, based on the advice of counsel, that the University's liability insurance is sufficient to cover the potential judgments and that the outcome of the suits will not have a material adverse effect on the financial position or operations of the University.

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

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

We have audited the financial statements of the University of Denver (Colorado Seminary) (the University) as of and for the year ended June 30, 2012 and have issued our report thereon dated November 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated November 5, 2012

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

KPMG LLP

November 5, 2012

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the University of Denver's (Colorado Seminary) (the University) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2012. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University of Denver (Colorado Seminary) complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

KPMG LLP

November 5, 2012

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal granting agency	CFDA number		Federal expenditures
Research and Development Cluster:			
Department of Agriculture:			
Pass-through awards	10.558	$	37,451
Direct payments	10.912		13,436
Total Department of Agriculture			50,887
Department of Commerce:			
National Institute of Standards and Technology:			
Direct payments	11.302		19,147
Direct payments	11.609		446,404
Total Department of Commerce			465,551
Department of Defense:			
Pass-through awards	12.300		10,359
Pass-through awards	12.404		53,665
Pass-through awards	12.800		38,256
Total Department of Defense			102,280
Department of Housing and Urban Development:			
Direct payments	14.516		6,108
Pass-through awards	14.866		10,921
Total Department of Housing and Urban Development			17,029
Department of the Interior:			
Direct payments	15.922		1,685
Total Department of the Interior			1,685
Department of Justice:			
Direct payments	16.560		856,431
Pass-through awards	16.560		1,155,642
Subtotal 16.560			2,012,073
Direct payments	16.562		13,595
Total Department of Justice			2,025,668
Department of Transportation:			
Direct payments	20.801		368,361
Pass-through awards	20.801		32,277
Total Department of Transportation			400,638
Department of the Treasury:			
Direct payments	21.008		108,500
Total Department of the Treasury			108,500

(Continued)

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal granting agency	CFDA number		Federal expenditures
National Aeronautics and Space Administration (NASA):			
Direct payments	43.000	$	38,793
Direct payments	43.001		205,179
Pass-through awards	43.001		123,840
Subtotal 43.001			329,019
Total NASA			367,812
National Endowment for the Arts and Humanities:			
Pass-through awards	45.025		5,000
Direct payments	45.169		107,023
Direct payments	45.313		503,790
Total National Endowment for the Arts and Humanities			615,813
National Science Foundation:			
Direct payments	47.041		113,149
Pass-through awards	47.041		53,534
Pass-through awards – American Recovery and Reinvestment Act	47.041		69,224
Subtotal 47.041			235,907
Direct payments	47.049		572,285
Direct payments – American Recovery and Reinvestment Act	47.049		123,629
Subtotal 47.049			695,914
Direct payments	47.050		24,408
Direct payments	47.070		461,888
Pass-through awards	47.070		23,169
Subtotal 47.070			485,057
Direct payments	47.074		337,116
Pass-through awards	47.074		99,113
Subtotal 47.074			436,229
Direct payments	47.075		25,874
Pass-through awards	47.076		43,809
Direct payments	47.078		10,614
Direct payments	47.081		286,236
Total National Science Foundation			2,244,048
Department of Energy			
Direct payments	81.049		196,153
Pass-through awards – American Recovery and Reinvestment Act	81.087		38,177
Pass-through awards	81.089		127,775
Direct payments – American Recovery and Reinvestment Act	81.122		132,299

(Continued)

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal granting agency	CFDA number	Federal expenditures
Pass-through awards	81.135	$ 122,168
Total Department of Energy		616,572
Department of Education:		
Direct payments	84.116	37,593
Direct payments	84.133	41,215
Direct payments	84.305	130,965
Pass-through awards	84.366	13,311
Pass-through awards	84.367	94,352
Total Department of Education		317,436
National Archives and Records Administration:		
Direct payments	89.003	38,441
Total National Archives and Records Administration		38,441
Department of Health and Human Services:		
Pass-through awards	93.113	40,775
Direct payments	93.173	317,647
Direct payments	93.213	110,476
Direct payments	93.242	285,810
Direct payments – American Recovery and Reinvestment Act	93.242	43,566
Subtotal 93.242		329,376
Direct payments	93.279	195,422
Pass-through awards	93.279	16,497
Subtotal 93.279		211,919
Pass-through awards	93.283	165,536
Direct payments	93.286	294,238
Pass-through awards	93.286	270,707
Subtotal 93.286		564,945
Direct payments	93.389	6,066
Direct payments	93.595	105,452
Direct payments	93.600	322,597
Pass-through awards	93.605	27,073
Direct payments	93.648	446,830
Pass-through awards	93.648	421,944
Subtotal 93.648		868,774
Pass-through awards	93.652	462,341
Pass-through awards	93.658	1,116,935
Pass-through awards	93.667	9,034

(Continued)

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal granting agency	CFDA number		Federal expenditures
Direct payments – American Recovery and Reinvestment Act	93.701	$	327,960
Pass-through awards – American Recovery and Reinvestment Act	93.701		73,287
Subtotal 93.701			401,247
Direct payments	93.847		120,809
Direct payments	93.853		238,471
Direct payments	93.855		295,455
Direct payments	93.859		202,058
Direct payments	93.865		1,926,963
Pass-through awards – American Recovery and Reinvestment Act	93.865		73,787
Pass-through awards	93.865		158,509
Subtotal 93.865			2,159,259
Direct payments	93.866		2,467
Pass-through awards	93.866		21,451
Subtotal 93.866			23,918
Direct payments	93.933		191,026
Total Department of Health and Human Services			8,291,189
Corporation for National and Community Service			
Pass-through awards	94.019		2,590
Total Corporation for National and Community Service			2,590
Total Research and Development Cluster			15,666,139
Student Financial Assistance Cluster:			
Department of Education:			
Federal Supplemental Education Opportunity Grant Program	84.007		590,959
Federal Work Study Program	84.033		1,708,301
Job Location and Development	84.033		1,532
Subtotal 84.033			1,709,833
Total Department of Education			2,300,792

(Continued)

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal granting agency	CFDA number		Federal expenditures
Federal Perkins Loan Program	84.038	$	4,594,552
Federal Pell Grant Program	84.063		4,071,531
Federal Direct Student Loan Program	84.268		137,935,453
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379		347,027
			146,948,563
Total Department of Education – Student Financial Assistance Cluster			149,249,355
Total federal awards		$	164,915,494

See accompanying notes to schedule of expenditures of federal awards.

(1) Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) presents the activity of federal award programs of the University of Denver (Colorado Seminary) (the University) for the year ended June 30, 2012. Federal awards received directly from federal agencies are included in the Schedule as well as federal guaranteed loans disbursed by other sources. Additionally, all federal awards passed through from other entities have also been included on the Schedule. Although the University is required to match certain grants, as defined in the grants, no such matching is included in the Schedule.

(2) Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting, which is described in note 1 to the University's financial statements.

(3) Federal Direct Student Loan Program

During the year ended June 30, 2012, the University participated in the Federal Direct Student Loan Program (Direct Student Loans). Such transactions are not reported in the University's statement of activities as they represent agency transactions under accounting principles generally accepted in the United States of America. During the year ended June 30, 2012, the University received and disbursed approximately $138 million in Direct Student Loans funds on a cash basis. Amounts reported on the Schedule are reported on an accrual basis. The difference between the University's receipts and disbursements is reported as accounts receivable under operations in the statement of financial position.

(4) Federal Perkins Loan Program

Student loans made through the Federal Perkins Loan Program (Perkins) constitute substantially all of the student loans outstanding at year-end. The total balance due on Perkins loans is approximately $20 million as of June 30, 2012.

Prior to fiscal year 2005, contributions to the Perkins programs were funded 75% by the federal government with the University providing the remaining 25%; for fiscal years after 2006, no additional contributions were funded.

Perkins provides for cancellation of a note at rates of 10% to 30% per year up to a maximum of 100% if the debtor complies with certain provisions of Perkins. The federal government reimburses the loan funds of the University at rates of 10% to 30% for canceled indebtedness due to certain teaching service and various types of services for the U.S. government and 100% for loans declared not collectible due to death, permanent disability, or a declaration of bankruptcy. Due to federal regulations, no loans of Perkins have been written off since the inception of Perkins.

(5) Pass-Through Awards

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

Grantor agency	CFDA number	Contract/grantor number	Expenditures
Colorado Department of Public Health and Environment	10.558	00013-09	$ 26,154
Colorado Department of Public Health and Environment	10.558	11 FLA 14649	11,297
eCrossCulture Corporation	12.300	NGO00001	10,359
University of Colorado Denver	12.404	FY12.315.001	53,665
Stanford University	12.800	24479840-44895-C	38,256
Denver Housing Authority	14.866	Contract dated 3/6/12	10,921
Lockheed Martin	16.560	7200006724 & 8946	442,810
Pennsylvania State University	16.560	SA11-08	713,624
Mississippi State University	20.801	0631300-363277-02	32,277
United Negro College Fund Special Corporation	43.001	Letter dated 1/25/11	3,242
NASA/Space Telescope Science Institute	43.001	HST-GO-12157.01-A	14,393
Jet Propulsion Lab	43.001	RSA NO. 1428128	91,557
NASA/Space Telescope Science Institute	43.001	HST-AR-12205.01-A	14,648
Western States Arts Federation	45.025	TW20110173	2,500
Western States Arts Federation	45.025	TW2011021	2,500
Johns Hopkins University	47.041	2000752485	53,534
Tennessee Technical University	47.041	P005673	69,224
University Of Minnesota	47.070	A001976601	23,169
Biological Sciences Curriculum Study	47.074	Contract dated 9/28/10	99,113
American Assoc of Variable Star Observers	47.076	Contract dated 12/1/09	43,809
National Renewable Energy Lab	81.087	KXEA-9-99014-02	38,177
National Renewable Energy Lab	81.089	KXEA-9-99014-01	43,266
National Renewable Energy Lab	81.089	KXEA-9-99014-03	35,203
National Renewable Energy Lab	81.089	KXEA-9-99014-04	49,306
Physical Sciences, Inc	81.135	SC 1733-53365	122,168
Eagle County Schools	84.366	Letter dated 11/17/11	13,311
Colorado Department of Public Education	84.367	B2011-12-3	94,352
Dartmouth College	93.113	822	35,281
University of Colorado Boulder	93.113	1548993	3,318

(Continued)

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Grantor agency	CFDA number	Contract/grantor number		Expenditures
Dartmouth College	93.113	980	$	2,176
University of Colorado Denver	93.279	FY10.243.003		16,497
Colo Found for Pub Health & Envir	93.283	2007-RIHEL-DU		165,536
University of Chicago	93.286	35152-1, AMEND 4		258,835
University of Nebraska	93.286	24-0509-0024-003		11,872
Kids Central, Inc.	93.605	P1112TRG-D090		27,073
Research Foundation of State University of New York	93.648	Subcontract 10-31		103,744
Research Foundation of State University of New York	93.648	Contract Dated 10/21/11		298,692
University of Montana	93.648	PG12-64360-01		19,508
City and County Of Denver	93.652	CC #GE81304-2		54,068
University of Texas/Arlington	93.652	26-1601-74-61		94,406
University of Texas/Arlington	93.652	26-1602		280,920
University of Southern Maine	93.652	Contract Dated 10/05/10		5,140
Colorado Department of Human Services	93.652	OE-IHA-CWSX1200024		27,807
Colorado Department of Human Services	93.658	PO IHA 1230925		62,578
Colorado Department of Human Services	93.658	OE-IHA-STFC1200002		9,085
Colorado Department of Human Services	93.658	PO# IHA STFC1230891		637,860
Colorado Department of Human Services	93.658	CMS 15768		3,057
Colorado Department of Human Services	93.658	CMS 16554		410
Colorado Department of Human Services	93.658	PO# OE-IHA-STFC1230949		132,336
Colorado Department of Human Services	93.658	PO# OE-IHA-STFC1200003		18,655
Colorado Department of Human Services	93.658	PO# IHA STFC1117175		252,954
University of Southern Maine	93.667	PO#610051795		9,034
University of Colorado Denver	93.701	FY10.541.002		719
University of Colorado/Boulder	93.701	SPO#0000075476		72,568
University of Colorado/Boulder	93.865	SPO# 72072		27,503
University of Colorado/Boulder	93.865	SPO# 71883		6,124
University of Colorado/Boulder	93.865	SPO# 71885		4,844
University of Colorado/Boulder	93.865	1547514 SPO 75475		67,663
University of Colorado/Boulder	93.866	1548899		52,724
University of Colorado/Boulder	93.865	1548897-PO1000064837		73,438
University of Colorado/Boulder	93.865	SPO#00000764469		21,451
Mile High United Way	94.019	Agreement Dated 5/18/12		2,508
Mile High United Way	94.019	Sub-Grant 2012-010		82
Total			$	5,013,301

(Continued)

(6) Subrecipients

The University passed through approximately $1.0 million to subrecipients in the Research and Development cluster for the year ended June 30, 2012. On the accompanying Schedule, the following amounts were disbursed to subrecipients:

Grantor agency	CFDA number	Contract/grantor number		Expenditures
Aurora Mental Health Center	93.242	3R34MH080102-02S1	$	4,674
Aurora Mental Health Center	93.658	IHA STFC1230949		9,400
Aurora Mental Health Center	93.242	R34MH080102-03		5,877
Capital Meeting Planning	45.313	RE-06-09-0116-09		21,452
Colorado Coalition Against Domestic Violence	93.865	1R01HD066503-02		54,654
Correct Tech, LLC.	16.560	2010-IJ-CX-K003		72,713
Correctional Consulting Services	16.560	2009-IJ-CX-K010		14,344
Dayton T. Brown, Inc.	16.560	SA11-08		5,000
Georgia Tech Research Corporation	84.133	ECCS-1028710		1,623
Hazardous Devices Program Support, Inc.	16.560	SA11-08		142,320
Joseph Dempsey	16.560	SA11-08		71,500
Kinsley and Associates, LLC	16.560	2010-IJ-CX-K003		125,382
Minot State University	93.648	90CT0146/03		77
Mississippi State University	20.801	DTRT06-G-0050; MOD#5		229,476
Native American Training Institute	93.648	90CT0146/03		15,186
Native American Training Institute	93.648	90CT0146/04		22,636
Nicholson and Associates, Inc.	93.658	PO# IHA STFC1117175		5,471
Oregon Social Learning Center Foundation	93.600	90YR0056/01		21,510
Paul Millard Seldon	16.560	2010-IJ-CX-K003		3,000
Portland State University	84.116	P116J080019-11		7,131
TEQ Services, Inc.	16.560	SA11-08		16,346
The Adoption Exchange	93.658	IHA STFC1230949		1,797
The Adoption Exchange	93.667	IPO #6100051795		500
Trustees of the University of Pennsylvania	47.070	CNS-0923518		11,461
Universidad del Valle de Guatemala	47.075	BCS-0852648		2,500
University of Chicago	93.286	5R01EB000557-09		31,965
University of Colorado at Denver	93.865	5 RO1 HD 053314-24		8,075
University of Colorado at Denver	93.865	HD048780-06A1		38,121
University of North Dakota	93.648	90CT0146/03		4,262
University of North Dakota	93.648	90CT0146/04		5,154
University of Wyoming	93.648	90CT0146/03		6,039
Total			$	959,646

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unqualified Opinion**

(b) Significant deficiencies in internal control over financial reporting disclosed by the audit of the financial statements: **None Reported**

Material weaknesses: **No**

(c) Noncompliance that is material to the financial statements: **No**

(d) Significant deficiencies in internal control over major program: **No**

Material weaknesses: **No**

(e) The type of report issued on compliance for major program: **Unqualified Opinion**

(f) Any audit findings, which are required to be reported under Section 510(A) of OMB Circular A-133: **No**

(g) Major program: **Student Financial Assistance** (various CFDA numbers)

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$3,000,000**

(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

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

None reported

(3) Findings and Questioned Costs Relating to Federal Awards

None reported