

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



UNIVERSITY of
DENVER

CHANCELLOR

November 21, 2014

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


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

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

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

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


Rebecca Chopp
Chancellor


Craig Woody
Vice Chancellor for Business
and Financial
Affairs/Treasurer


Margaret Henry
Controller

UNIVERSITY OF DENVER (COLORADO SEMINARY)

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
University of Denver
Denver, Colorado

Report on Financial Statements

We have audited the accompanying financial statements of University of Denver (Colorado Seminary) (the University), which comprise the statements of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The 2013 financial statements were audited by other auditors, whose report dated November 19, 2013, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2014 financial statements as a whole. The 2014 Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the presentation of the operating, plant and long-term investment fund information in the statement of financial position and statement of activities are presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule of Expenditures of Federal Awards and the presentation of the operating, plant and long-term investment fund information in the statement of financial position and statement of activities are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of Denver's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP



Greenwood Village, Colorado
November 21, 2014

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2014

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 1,289,258	51,173,052	5,853,502	58,315,812
Short-term investments	201,564,117	52,699,442	523,710	254,787,269
Accounts receivable, net	17,933,300	5,726	416,344	18,355,370
Pledges receivable, net	11,117,363	21,563,059	22,605,766	55,286,188
Inventories, prepaid expenses, and other assets	4,889,401	—	—	4,889,401
Long-term investments	289,273	—	488,741,406	489,030,679
Loans to students, net	—	—	17,337,566	17,337,566
Property, plant, and equipment, net of accumulated depreciation	—	565,000,633	—	565,000,633
Total assets	<u>\$ 237,082,712</u>	<u>690,441,912</u>	<u>535,478,294</u>	<u>1,463,002,918</u>
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 56,311,907	11,181,552	—	67,493,459
Deferred revenues	27,972,384	—	—	27,972,384
Other liabilities	—	—	440,752	440,752
Annuity obligations	—	—	10,139,104	10,139,104
Long-term debt	—	124,614,947	—	124,614,947
U.S. government grants refundable	—	—	16,437,658	16,437,658
Total liabilities	<u>84,284,291</u>	<u>135,796,499</u>	<u>27,017,514</u>	<u>247,098,304</u>
Net assets:				
Unrestricted:				
Available for operations	5,551,058	59,288,241	—	64,839,299
Designated student loans	—	—	1,704,266	1,704,266
Designated gain sharing	96,780,829	—	—	96,780,829
Board-designated endowments	—	—	83,492,410	83,492,410
Designated plant	—	440,385,686	—	440,385,686
Total unrestricted net assets	<u>102,331,887</u>	<u>499,673,927</u>	<u>85,196,676</u>	<u>687,202,490</u>
Temporarily restricted:				
Gifts and distributed endowment income	50,466,534	—	—	50,466,534
Plant	—	54,971,486	—	54,971,486
Endowments	—	—	127,203,092	127,203,092
Annuity life income	—	—	5,613,257	5,613,257
Total temporarily restricted net assets	<u>50,466,534</u>	<u>54,971,486</u>	<u>132,816,349</u>	<u>238,254,369</u>
Permanently restricted:				
Endowments	—	—	279,163,179	279,163,179
Annuity life income	—	—	9,176,920	9,176,920
Student loans	—	—	2,107,656	2,107,656
Total permanently restricted net assets	<u>—</u>	<u>—</u>	<u>290,447,755</u>	<u>290,447,755</u>
Total net assets	<u>152,798,421</u>	<u>554,645,413</u>	<u>508,460,780</u>	<u>1,215,904,614</u>
Commitments and contingencies (notes 8, 9, and 12)				
Total liabilities and net assets	<u>\$ 237,082,712</u>	<u>690,441,912</u>	<u>535,478,294</u>	<u>1,463,002,918</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2013

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 1,058,632	29,832,866	6,667,303	37,558,801
Short-term investments	172,667,588	71,684,799	—	244,352,387
Accounts receivable, net	22,018,447	3,881	521,720	22,544,048
Pledges receivable, net	7,145,499	7,716,696	15,882,958	30,745,153
Inventories, prepaid expenses, and other assets	4,513,851	50,000	—	4,563,851
Long-term investments	150,000	—	424,357,099	424,507,099
Loans to students, net	—	—	18,341,113	18,341,113
Property, plant, and equipment, net of accumulated depreciation	—	553,792,923	—	553,792,923
Total assets	<u>\$ 207,554,017</u>	<u>663,081,165</u>	<u>465,770,193</u>	<u>1,336,405,375</u>
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 43,014,406	15,388,333	—	58,402,739
Deferred revenues	26,025,805	—	—	26,025,805
Other liabilities	—	1,000,000	379,688	1,379,688
Annuity obligations	—	—	9,956,198	9,956,198
Long-term debt	—	130,934,313	—	130,934,313
U.S. government grants refundable	—	—	16,496,853	16,496,853
Total liabilities	<u>69,040,211</u>	<u>147,322,646</u>	<u>26,832,739</u>	<u>243,195,596</u>
Net assets:				
Unrestricted:				
Available for operations	4,934,274	48,611,417	—	53,545,691
Designated student loans	—	—	1,710,980	1,710,980
Designated gain sharing	90,540,320	—	—	90,540,320
Board-designated endowments	—	—	87,162,130	87,162,130
Designated plant	—	422,858,610	—	422,858,610
Total unrestricted net assets	<u>95,474,594</u>	<u>471,470,027</u>	<u>88,873,110</u>	<u>655,817,731</u>
Temporarily restricted:				
Gifts and distributed endowment income	43,039,212	—	—	43,039,212
Plant	—	44,288,492	—	44,288,492
Endowments	—	—	86,711,515	86,711,515
Annuity life income	—	—	5,010,492	5,010,492
Total temporarily restricted net assets	<u>43,039,212</u>	<u>44,288,492</u>	<u>91,722,007</u>	<u>179,049,711</u>
Permanently restricted:				
Endowments	—	—	245,475,883	245,475,883
Annuity life income	—	—	10,779,980	10,779,980
Student loans	—	—	2,086,474	2,086,474
Total permanently restricted net assets	<u>—</u>	<u>—</u>	<u>258,342,337</u>	<u>258,342,337</u>
Total net assets	<u>138,513,806</u>	<u>515,758,519</u>	<u>438,937,454</u>	<u>1,093,209,779</u>
Commitments and contingencies (notes 8, 9, and 12)				
Total liabilities and net assets	<u>\$ 207,554,017</u>	<u>663,081,165</u>	<u>465,770,193</u>	<u>1,336,405,375</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities
Year ended June 30, 2014

	<u>Operating</u>	<u>Designated unrestricted</u>	<u>Total operating</u>	<u>Plant</u>	<u>Long-term investment</u>	<u>Total</u>
Change in unrestricted net assets:						
Revenues and gains (losses):						
Tuition and fees	\$ 409,691,566	—	409,691,566	—	—	409,691,566
Less institutional scholarships	114,932,846	—	114,932,846	—	—	114,932,846
	294,758,720	—	294,758,720	—	—	294,758,720
Less noninstitutional scholarships	11,896,657	—	11,896,657	—	—	11,896,657
Net tuition and fees	282,862,063	—	282,862,063	—	—	282,862,063
Private gifts	774,190	—	774,190	—	1,367,369	2,141,559
Grants and contracts	25,358,373	—	25,358,373	—	—	25,358,373
Endowment income	845,520	—	845,520	2,853	11,285	859,658
Other investment income	1,055,695	—	1,055,695	31,446	393,280	1,480,421
Net realized and unrealized gains (losses) on endowments	451,306	—	451,306	—	9,950,601	10,401,907
Net realized and unrealized gains (losses) on other investments	1,449,357	6,550	1,455,907	841,615	(373,375)	1,924,147
Sales and services of educational activities	12,049,668	833,455	12,883,123	—	—	12,883,123
Sales and services of auxiliary enterprise	26,943,065	—	26,943,065	—	—	26,943,065
Other sources	20,170,892	304,751	20,475,643	283,770	—	20,759,413
Total unrestricted revenues and gains (losses)	371,960,129	1,144,756	373,104,885	1,159,684	11,349,160	385,613,729
Net assets released from restrictions	29,833,841	—	29,833,841	9,595,619	—	39,429,460
Net assets reclassified to permanently restricted	—	—	—	—	(17,370,272)	(17,370,272)
Net assets reclassified to temporarily restricted	—	—	—	—	(11,355,529)	(11,355,529)
Total unrestricted revenues, gains (losses), and other support	401,793,970	1,144,756	402,938,726	10,755,303	(17,376,641)	396,317,388
Expenses:						
Educational and general:						
Instruction	147,053,071	48,750	147,101,821	7,007,640	—	154,109,461
Research	14,548,528	5,950	14,554,478	1,520,135	—	16,074,613
Public service	4,232,063	—	4,232,063	37,592	—	4,269,655
Academic support	59,699,011	3,504,007	63,203,018	951,912	—	64,154,930
Student services	44,393,948	—	44,393,948	2,496,793	—	46,890,741
Institutional support	44,932,862	8,270	44,941,132	1,244,287	—	46,185,419
Total educational and general expenses	314,859,483	3,566,977	318,426,460	13,258,359	—	331,684,819
Auxiliary enterprises						
Total expenses	339,504,492	3,566,977	343,071,469	21,861,162	—	364,932,631
Transfers among unrestricted net assets	61,672,696	(8,662,730)	53,009,966	(39,309,759)	(13,700,207)	—
Total expenses and transfers	401,177,188	(5,095,753)	396,081,435	(17,448,597)	(13,700,207)	364,932,631
Increase (decrease) in unrestricted net assets	616,782	6,240,509	6,857,291	28,203,900	(3,676,434)	31,384,757
Changes in temporarily restricted net assets:						
Private gifts	23,002,294	—	23,002,294	19,614,400	62,945	42,679,639
Endowment income	4,255,823	—	4,255,823	—	9,881	4,265,704
Other investment income (expense)	29,514	—	29,514	(1,236,197)	—	(1,206,683)
Net realized and unrealized gains on endowments	10,713,772	—	10,713,772	—	26,985,361	37,699,133
Net realized and unrealized losses on other investments	451,856	—	451,856	(5,368)	11	446,499
Net assets released from restrictions	(29,833,841)	—	(29,833,841)	(9,595,619)	—	(39,429,460)
Net assets reclassified from unrestricted	—	—	—	—	11,355,529	11,355,529
Net assets reclassified from permanently restricted	—	—	—	—	2,441,081	2,441,081
Actuarial adjustment on annuity obligations	—	—	—	—	953,218	953,218
Transfers among temporarily restricted net assets	(1,192,094)	—	(1,192,094)	1,905,778	(713,684)	—
Increase (decrease) in temporarily restricted net assets	7,427,324	—	7,427,324	10,682,994	41,094,342	59,204,660
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	16,043,449	16,043,449
Net realized and unrealized gains (losses) on other investments	—	—	—	—	21,352	21,352
Net assets reclassified from unrestricted	—	—	—	—	17,370,272	17,370,272
Net assets reclassified to temporarily restricted	—	—	—	—	(2,441,081)	(2,441,081)
Actuarial adjustment on annuity obligations	—	—	—	—	1,111,426	1,111,426
Increase in permanently restricted net assets	—	—	—	—	32,105,418	32,105,418
Change in net assets	8,044,106	6,240,509	14,284,615	38,886,894	69,523,326	122,694,835
Net assets at beginning of year	47,973,486	90,540,320	138,513,806	515,758,519	438,937,454	1,093,209,779
Net assets at end of year	\$ 56,017,592	96,780,829	152,798,421	554,645,413	508,460,780	1,215,904,614

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities
Year ended June 30, 2013

	<u>Operating</u>	<u>Designated unrestricted</u>	<u>Total operating</u>	<u>Plant</u>	<u>Long-term investment</u>	<u>Total</u>
Change in unrestricted net assets:						
Revenues and gains (losses):						
Tuition and fees	\$ 387,595,371	—	387,595,371	—	—	387,595,371
Less institutional scholarships	108,467,493	—	108,467,493	—	—	108,467,493
	<u>279,127,878</u>	<u>—</u>	<u>279,127,878</u>	<u>—</u>	<u>—</u>	<u>279,127,878</u>
Less noninstitutional scholarships	10,468,735	—	10,468,735	—	—	10,468,735
Net tuition and fees	268,659,143	—	268,659,143	—	—	268,659,143
Private gifts	869,899	—	869,899	31,300	1,223,213	2,124,412
Grants and contracts	26,225,335	—	26,225,335	—	—	26,225,335
Endowment income	316,793	—	316,793	1,098	14,766	332,657
Other investment income	1,111,605	—	1,111,605	15,514	377,918	1,505,037
Net realized and unrealized gains (losses) on endowments	342,326	14,355	356,681	1,670	12,283,839	12,642,190
Net realized and unrealized gains (losses) on other investments	933,458	262	933,720	305,748	(398,564)	840,904
Sales and services of educational activities	12,301,231	387,847	12,689,078	—	—	12,689,078
Sales and services of auxiliary enterprise	26,192,592	—	26,192,592	—	—	26,192,592
Other sources	19,700,395	216,829	19,917,224	239,700	—	20,156,924
Total unrestricted revenues and gains (losses)	356,652,777	619,293	357,272,070	595,030	13,501,172	371,368,272
Net assets released from restrictions	25,665,799	—	25,665,799	10,954,276	—	36,620,075
Net assets reclassified to permanently restricted	—	—	—	—	(6,557,807)	(6,557,807)
Total unrestricted revenues, gains (losses), and other support	<u>382,318,576</u>	<u>619,293</u>	<u>382,937,869</u>	<u>11,549,306</u>	<u>6,943,365</u>	<u>401,430,540</u>
Expenses:						
Educational and general:						
Instruction	141,013,109	90,015	141,103,124	7,362,245	—	148,465,369
Research	14,693,696	—	14,693,696	1,348,698	—	16,042,394
Public service	7,192,764	—	7,192,764	53,519	—	7,246,283
Academic support	61,070,867	2,931,812	64,002,679	1,074,846	—	65,077,525
Student services	45,385,293	—	45,385,293	3,280,931	—	48,666,224
Institutional support	45,423,483	4,588	45,428,071	1,322,675	—	46,750,746
Total educational and general expenses	314,779,212	3,026,415	317,805,627	14,442,914	—	332,248,541
Auxiliary enterprises	23,790,839	—	23,790,839	11,252,085	—	35,042,924
Total expenses	338,570,051	3,026,415	341,596,466	25,694,999	—	367,291,465
Transfers among unrestricted net assets	43,192,044	(2,607,531)	40,584,513	(35,700,751)	(4,883,762)	—
Total expenses and transfers	<u>381,762,095</u>	<u>418,884</u>	<u>382,180,979</u>	<u>(10,005,752)</u>	<u>(4,883,762)</u>	<u>367,291,465</u>
Increase (decrease) in unrestricted net assets	<u>556,481</u>	<u>200,409</u>	<u>756,890</u>	<u>21,555,058</u>	<u>11,827,127</u>	<u>34,139,075</u>
Changes in temporarily restricted net assets:						
Private gifts	13,571,902	—	13,571,902	27,246,247	—	40,818,149
Endowment income	6,561,687	—	6,561,687	—	1,341	6,563,028
Other investment income (expense)	414,335	—	414,335	96,453	—	510,788
Net realized and unrealized gains on endowments	9,199,193	—	9,199,193	—	392,789	9,591,982
Net realized and unrealized losses on other investments	284,190	—	284,190	(2,633,731)	—	(2,349,541)
Net assets released from restrictions	(25,665,799)	—	(25,665,799)	(10,954,276)	—	(36,620,075)
Net assets reclassified from permanently restricted	—	—	—	—	3,373,470	3,373,470
Actuarial adjustment on annuity obligations	46,662	—	46,662	—	804,332	850,994
Transfers among temporarily restricted net assets	(7,227,142)	—	(7,227,142)	8,100,787	(873,645)	—
Increase (decrease) in temporarily restricted net assets	<u>(2,814,972)</u>	<u>—</u>	<u>(2,814,972)</u>	<u>21,855,480</u>	<u>3,698,287</u>	<u>22,738,795</u>
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	12,407,142	12,407,142
Net realized and unrealized gains (losses) on other investments	—	—	—	—	23,098	23,098
Net assets reclassified from unrestricted	—	—	—	—	6,557,807	6,557,807
Net assets reclassified to temporarily restricted	—	—	—	—	(3,373,470)	(3,373,470)
Actuarial adjustment on annuity obligations	—	—	—	—	955,200	955,200
Increase in permanently restricted net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16,569,777</u>	<u>16,569,777</u>
Change in net assets	<u>(2,258,491)</u>	<u>200,409</u>	<u>(2,058,082)</u>	<u>43,410,538</u>	<u>32,095,191</u>	<u>73,447,647</u>
Net assets at beginning of year	50,231,977	90,339,911	140,571,888	472,347,981	406,842,263	1,019,762,132
Net assets at end of year	\$ <u>47,973,486</u>	<u>90,540,320</u>	<u>138,513,806</u>	<u>515,758,519</u>	<u>438,937,454</u>	<u>1,093,209,779</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 122,694,835	73,447,647
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property, plant, and equipment	13,823,765	12,204,441
Disposal of property, plant, and equipment	470,849	502,234
Amortization of premium	(514,366)	(514,366)
Decrease (increase) in accounts receivable	4,188,678	(3,739,335)
Increase in pledges receivable	(24,541,035)	(56,463)
Decrease (increase) in inventories, prepaid expenses, and other assets	(325,550)	200,929
Increase in accounts payable and accrued liabilities	9,090,720	3,036,403
Increase in deferred revenues	1,946,579	1,980,822
Increase (decrease) in other liabilities	(938,936)	974,453
Actuarial adjustment for annuity obligation	268,685	(3,855)
Contributions of investments	(1,355,610)	(29,531,277)
Contributions restricted for long-term investment	(17,473,763)	(10,679,816)
Interest and dividends for long-term investments	(11,285)	(14,766)
Net realized and unrealized gains on investments	(50,440,343)	(20,748,633)
Net cash provided by operating activities	<u>56,883,223</u>	<u>27,058,418</u>
Cash flows from investing activities:		
Proceeds from sale of investments	982,087,791	916,852,920
Purchases of investments	(1,005,336,080)	(925,671,711)
Purchases of property, plant, and equipment	(25,502,324)	(31,698,361)
Disbursements for Perkins and University loans to students	(2,245,565)	(2,423,939)
Repayment of Perkins and University loans to students	3,249,113	3,281,445
Net cash used in investing activities	<u>(47,747,065)</u>	<u>(39,659,646)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	17,473,763	10,679,816
Interest and dividends restricted for reinvestment	11,285	14,766
Proceeds from bonds payable	—	22,780,000
Payments of bonds payable	(5,805,000)	(25,230,611)
Decrease in refundable government loan funds, net	(59,195)	(182,039)
Net cash provided by financing activities	<u>11,620,853</u>	<u>8,061,932</u>
Net increase (decrease) in cash and cash equivalents	20,757,011	(4,539,296)
Cash and cash equivalents at beginning of year	<u>37,558,801</u>	<u>42,098,097</u>
Cash and cash equivalents at end of year	<u>\$ 58,315,812</u>	<u>37,558,801</u>

In fiscal year 2013, the University issued Series 2013 bonds in the amount of \$22,780,000 to refund Series 2005B bonds in the amount of \$21,240,000.

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2014 and 2013

(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 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:

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Operations – Activities that define the University’s “level of operations” relating to its educational activities and auxiliary enterprises. All assets, excluding pledges receivable and long-term investments, are current in nature. Accounts payable and accrued liabilities, other than accumulated postretirement benefit obligations (note 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 and has not entered into a repayment agreement with the University, accounts may be assigned to preselected collection agencies.

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

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Account receivables are net of allowances for uncollectible accounts of \$1,142,000 and \$1,144,000 as of June 30, 2014 and 2013, 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(n).

The University evaluates the fair value of its investments in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820-10, *Fair Value Measurements and Disclosures*, updated by Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This standard establishes a framework for measuring fair value, clarifies the definition of fair value for financial reporting, and expands disclosures about fair value measurements. See further discussion at note 3.

In conjunction with the provisions of FASB ASC Topic 820-10, the University evaluates the fair value of its investments in accordance with the provisions of ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, for certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends FASB ASC Topic 820-10 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to other provisions of FASB ASC Topic 820-10.

(f) Pledges Receivable and Contributions

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

Donor-restricted contributions whose restrictions are met in the same reporting period are initially reported as restricted revenue, which increases temporarily restricted net assets, then reclassified (or

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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, 2014 and 2013 and recorded as revenue and expenses in the succeeding fiscal year.

(j) Compensated Absences

Eligible University employees earn paid vacation each month based upon their years of service with the University. Vacation time accrues and vests proportionately between July 1 and June 30 of the current year and employees can carry a maximum of 22 days to the next fiscal year. An accrual has

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been made for earned vacation time in the amount of \$3,723,000 and \$3,623,000 as of June 30, 2014 and 2013, respectively, and is included in accounts payable and accrued liabilities in the accompanying statements of financial position.

The University has a sick leave plan covering substantially all employees. The University provides employees approximately eight hours of paid sick leave per month depending on employment status. The University employees' accumulated unused sick leaves are carried over to the next year and are cumulative. Unused sick pay is forfeited by employees when they cease to be employed by the University. Therefore, no amount is accrued for sick leave.

(k) Annuity Obligations

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

(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, 2014 and 2013.

The University evaluates its tax position in accordance with the provisions of FASB ASC Topic 740-10, *Income Taxes* (formerly, FASB Interpretation No. 48). FASB ASC Topic 740-10 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FASB ASC Topic 740-10 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than 50% likely being realized upon settlement. The University has no uncertain income tax positions as of June 30, 2014. The University is no longer subject to U.S. federal or state income tax examinations by tax authorities for the years ended June 30, 2010.

(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.

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(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 Unrestricted 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 \$41 million of the University's strategic reserves to match commitments to new and existing scholarship endowments dollar for dollar. For the years ended June 30, 2014 and 2013, the University matched commitments to the matching program in the amount of \$17,370,272 and

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\$6,557,807, respectively. Other reclassifications included reclassifications from permanently restricted to temporarily restricted net assets of \$2,441,081 and \$3,373,470 for the years ended June 30, 2014 and June 30, 2013, 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, 2014 and through November 14, 2014.

(s) Recent Accounting Pronouncements

ASU No. 2012-05, *Not-for-Profit Entities: Classification of the Sale of Proceeds of Donated Financial Assets in the Statement of Cash Flows*, is effective for the University beginning in 2014. The objective of ASU No. 2012-05 is to address the diversity in practice about how to classify cash receipts arising from the sale of certain donated financial assets, such as securities, in the statement of cash flows of not-for-profit entities (NFPs). The amendments in ASU No. 2012-05 require NFPs to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those receipts were from the sales of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash.

The University has evaluated ASU No. 2012-05 and has classified cash receipts arising from the sale of donated financial assets accordingly for reporting periods after the effective date.

(t) Reclassifications

Certain 2013 amounts have been reclassified to conform to the current year presentation.

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Notes to Financial Statements

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

Investments at June 30 consist of the following:

		2014	
	Cost	Unrealized gain (loss)	Market value
Short-term investments:			
U.S. government securities	\$ 236,419,886	170,512	236,590,398
Mutual funds	11,289,196	5,841,830	17,131,026
Domestic equities	341,360	(107,188)	234,172
Real estate	475,000	—	475,000
Other	356,673	—	356,673
	<u>248,882,115</u>	<u>5,905,154</u>	<u>254,787,269</u>
Long-term investment:			
Trustee cash and cash equivalents for endowments and annuities	2,111,773	—	2,111,773
U.S. government securities	47,104,384	40,142	47,144,526
Alternative investments	123,107,656	63,225,760	186,333,416
Domestic equities	92,868,896	32,226,476	125,095,372
International equities	41,414,870	6,645,356	48,060,226
Real estate	24,354,291	7,376,510	31,730,801
Mutual funds	31,077,838	4,232,840	35,310,678
Beneficial trust interest	10,922,403	2,016,358	12,938,761
Other	305,126	—	305,126
	<u>373,267,237</u>	<u>115,763,442</u>	<u>489,030,679</u>
Total all funds	\$ <u>622,149,352</u>	<u>121,668,596</u>	<u>743,817,948</u>

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Notes to Financial Statements

June 30, 2014 and 2013

		2013	
	Cost	Unrealized gain (loss)	Market value
Short-term investments:			
U.S. government securities	\$ 199,925,948	(355,610)	199,570,338
Mutual funds	11,261,223	4,756,283	16,017,506
Domestic equities	341,360	(228,940)	112,420
Real estate	27,558,790	—	27,558,790
Other	1,093,333	—	1,093,333
	<u>240,180,654</u>	<u>4,171,733</u>	<u>244,352,387</u>
Long-term investment:			
Trustee cash and cash equivalents for endowments and annuities	1,998,361	—	1,998,361
U.S. government securities	54,801,047	(197,660)	54,603,387
Alternative investments	115,675,960	54,119,655	169,795,615
Domestic equities	78,640,222	12,379,813	91,020,035
International equities	11,414,870	1,270,478	12,685,348
Real estate	28,418,166	7,248,100	35,666,266
Mutual funds	42,567,618	2,375,541	44,943,159
Beneficial trust interest	12,284,297	1,266,255	13,550,552
Other	244,376	—	244,376
	<u>346,044,917</u>	<u>78,462,182</u>	<u>424,507,099</u>
Total all funds	\$ <u>586,225,571</u>	<u>82,633,915</u>	<u>668,859,486</u>

During the years ended June 30, 2014 and 2013, the University paid approximately \$603,000 and \$501,000, 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, 2014, the pool had 80,468,242 shares outstanding, with a fair value of approximately \$5.38 per share, or \$433,307,782. 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 2014 was \$0.21 per share, of which \$0.05 represented income yield. The remaining \$0.16 represented spending of realized and unrealized gains. At June 30, 2013, the pool had 75,657,983 shares outstanding, with a fair value of approximately \$4.96 per share, or \$375,109,335. The University has adopted a spending policy whereby the board of trustees has authorized a stipulated

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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 2013 was \$0.21 per share, of which \$0.08 represented income yield. The remaining \$0.13 represented spending of realized and unrealized gains

The investment pool consisted of 1,033 individual endowments at June 30, 2014. Of these endowments, none are considered to be “under water” as the fair value of the underlying investments is more than the original gift value for all endowments.

The investment pool consisted of 934 individual endowments at June 30, 2013. Of these endowments, 12 were considered to be “under water” as the fair value of the underlying investments was less than the original gift value. At June 30, 2013, the fair value of the underlying investment related to these 12 endowments totaled approximately \$1,205,500 while the original gift value was approximately \$1,207,000. See additional discussion in note 4(b).

The University has the following split-interest agreements, which are included in long-term investments at June 30, 2014 and 2013:

	2014		
	Number of agreements	Net assets classification	
		Temporary	Permanent
Perpetual trusts held by third party	3	\$ —	8,773,416
Charitable Remainder Trusts:			
University named trustee	21	4,851,718	10,964,717
Third-party named trustee	8	1,808,299	2,357,046
Charitable Annuity Agreements	69	2,581,256	2,649,722
	<u>101</u>	<u>\$ 9,241,273</u>	<u>24,744,901</u>
			2013
	Number of agreements	Net assets classification	
		Temporary	Permanent
Perpetual trusts held by third party	3	\$ —	7,950,300
Charitable Remainder Trusts:			
University named trustee	22	4,360,619	9,901,838
Third-party named trustee	9	1,692,494	4,957,757
Charitable Annuity Agreements	73	2,706,216	2,386,348
	<u>107</u>	<u>\$ 8,759,329</u>	<u>25,196,243</u>

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

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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 2014 and 2013 was approximately \$125,414 and \$693,790, respectively.

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

FASB ASC Topic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820-10 are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

(a) *Investments*

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

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

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

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

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(b) Fair Value Hierarchy Table

The following tables summarize the University's short and long-term investments in the fair value hierarchy as of June 30, 2014 and 2013, as well as liquidity of the investments:

Investment/liquidity	June 30, 2014			
	Level 1	Level 2	Level 3	Total
U.S. government securities:				
Daily	\$ 283,504,924	—	—	283,504,924
Monthly	—	230,000	—	230,000
Total	283,504,924	230,000	—	283,734,924
Alternative investments:				
Monthly	—	18,488,765	32,862,135	51,350,900
Quarterly	—	—	74,265,216	74,265,216
Illiquid	—	—	60,717,300	60,717,300
Total	—	18,488,765	167,844,651	186,333,416
Mutual funds:				
Daily	37,260,394	—	—	37,260,394
Monthly	—	—	15,181,309	15,181,309
Total	37,260,394	—	15,181,309	52,441,703
Domestic equities:				
Daily	106,566,697	18,200,610	—	124,767,307
Quarterly	562,237	—	—	562,237
Total	107,128,934	18,200,610	—	125,329,544
International equities:				
Daily	32,291,409	5,314,682	—	37,606,091
Illiquid	—	—	10,454,135	10,454,135
Total	32,291,409	5,314,682	10,454,135	48,060,226
Trustee cash and cash equivalents:				
Daily	2,111,773	—	—	2,111,773
Total	2,111,773	—	—	2,111,773
Real estate:				
Semiannually	—	31,414,015	—	31,414,015
Locked-up 1	—	580,001	—	580,001
Locked-up 3	—	90,000	—	90,000
Illiquid	—	121,785	—	121,785
Total	—	32,205,801	—	32,205,801

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<u>Investment/liquidity</u>	June 30, 2014			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial trust interest:				
Locked-up 1	<u>10,138,838</u>	<u>1,050,000</u>	<u>1,749,924</u>	<u>12,938,762</u>
Total	<u>10,138,838</u>	<u>1,050,000</u>	<u>1,749,924</u>	<u>12,938,762</u>
Other:				
Daily	252,650	—	—	252,650
Illiquid	—	—	393,295	393,295
Locked-up 2	<u>15,854</u>	—	—	<u>15,854</u>
Total	<u>268,504</u>	—	<u>393,295</u>	<u>661,799</u>
Grand total	<u>\$ 472,704,776</u>	<u>75,489,858</u>	<u>195,623,314</u>	<u>743,817,948</u>

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Investment/liquidity	June 30, 2013			
	Level 1	Level 2	Level 3	Total
U.S. government securities:				
Daily	\$ 253,943,725	—	—	253,943,725
Monthly	—	230,000	—	230,000
Total	253,943,725	230,000	—	254,173,725
Alternative investments:				
Monthly	—	16,114,444	25,713,161	41,827,605
Quarterly	—	—	69,401,389	69,401,389
Semiannually	—	—	38,857	38,857
Illiquid	—	—	58,527,765	58,527,765
Total	—	16,114,444	153,681,172	169,795,616
Mutual funds:				
Daily	46,539,159	—	—	46,539,159
Monthly	—	—	14,421,506	14,421,506
Total	46,539,159	—	14,421,506	60,960,665
Domestic equities:				
Daily	80,626,648	9,970,474	—	90,597,122
Quarterly	535,333	—	—	535,333
Total	81,161,981	9,970,474	—	91,132,455
International equities:				
Daily	12,685,348	—	—	12,685,348
Total	12,685,348	—	—	12,685,348
Trustee cash and cash equivalents:				
Daily	1,998,361	—	—	1,998,361
Total	1,998,361	—	—	1,998,361
Real estate:				
Semiannually	—	34,255,839	—	34,255,839
Locked-up 1	—	1,655,001	—	1,655,001
Locked-up 3	—	27,173,790	—	27,173,790
Illiquid	—	140,426	—	140,426
Total	—	63,225,056	—	63,225,056

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<u>Investment/liquidity</u>	<u>June 30, 2013</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial trust interest:				
Locked-up 1	9,199,316	—	4,351,236	13,550,552
Total	<u>9,199,316</u>	<u>—</u>	<u>4,351,236</u>	<u>13,550,552</u>
Other:				
Daily	885,398	—	—	885,398
Illiquid	—	—	393,296	393,296
Locked-up 2	22,082	—	36,932	59,014
Total	<u>907,480</u>	<u>—</u>	<u>430,228</u>	<u>1,337,708</u>
Grand total	<u>\$ 406,435,370</u>	<u>89,539,974</u>	<u>172,884,142</u>	<u>668,859,486</u>

The following table includes a rollforward of the amounts for the years ended June 30, 2014 and 2013 for financial instruments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

Fair value measurement using Level 3 inputs:

	<u>Mutual funds/other</u>	<u>Alternative investments</u>	<u>International equities</u>	<u>Total</u>
Balances at June 30, 2013	\$ 19,202,970	153,681,171	—	172,884,141
Donated	—	—	—	—
Purchases	30,226	31,360,285	10,000,000	41,390,511
Sales	(2,713,514)	(23,928,589)	—	(26,642,103)
Unrealized gains	804,846	6,731,784	454,135	7,990,765
Balances at June 30, 2014	<u>\$ 17,324,528</u>	<u>167,844,651</u>	<u>10,454,135</u>	<u>195,623,314</u>
	<u>Mutual funds/other</u>	<u>Alternative investments</u>		<u>Total</u>
Balances at June 30, 2012	\$ 19,690,979	153,859,810		173,550,789
Donated	—	—		—
Purchases	4,282	10,054,230		10,058,512
Sales	(1,886,001)	(14,957,122)		(16,843,123)
Unrealized gains	1,393,710	4,724,254		6,117,964
Balances at June 30, 2013	<u>\$ 19,202,970</u>	<u>153,681,172</u>		<u>172,884,142</u>

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All unrealized gains (losses) in the tables above are reflected in the accompanying statements of activities. There have been no transfers into or out of Level 3 investments during the years ended June 30, 2014 and June 30, 2013.

(4) Endowments

As discussed in note 1(q), FASB ASC Topic 958-205 provides guidance about the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Act and expands disclosures about endowment funds. The Act was effective September 1, 2008 and provides for statutory guidance for the management, investment, and expenditure of endowment funds held by not-for-profit organizations. Amongst other provisions, the Act eliminates the “historical dollar value” rule for endowment funds in favor of guidelines regarding what constitutes prudent spending.

The University’s endowments consist of 1,033 and 934 individual funds as of June 30, 2014 and 2013, 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

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2014:				
Board-designated endowment funds	\$ 83,492,410	—	—	83,492,410
Donor-restricted endowment funds	—	<u>127,203,092</u>	<u>279,163,179</u>	<u>406,366,271</u>
	<u>\$ 83,492,410</u>	<u>127,203,092</u>	<u>279,163,179</u>	<u>489,858,681</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2013:				
Board-designated endowment funds	\$ 87,162,130	—	—	87,162,130
Donor-restricted endowment funds	—	<u>86,711,515</u>	<u>245,475,883</u>	<u>332,187,398</u>
	<u>\$ 87,162,130</u>	<u>86,711,515</u>	<u>245,475,883</u>	<u>419,349,528</u>

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The changes in endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ 87,162,130	86,711,515	245,475,883	419,349,528
Investment return:				
Investment income	859,658	4,265,704	—	5,125,362
Net realized and unrealized gains (losses)	<u>10,401,907</u>	<u>37,699,133</u>	<u>—</u>	<u>48,101,040</u>
Total investment return	11,261,565	41,964,837	—	53,226,402
Private gifts	1,367,368	—	16,317,024	17,684,392
Appropriation of endowment assets for expenditures	(3,451,225)	(14,958,246)	—	(18,409,471)
Present value adjustments	—	7,492	—	7,492
Reinvested income	240,786	881,542	—	1,122,328
Transfer to board-designated endowments	12,846,470	4,031,540	—	16,878,010
Reclassification of restricted net assets	<u>(25,934,684)</u>	<u>8,564,412</u>	<u>17,370,272</u>	<u>—</u>
Changes	<u>(3,669,720)</u>	<u>40,491,577</u>	<u>33,687,296</u>	<u>70,509,153</u>
Endowment net assets, June 30, 2014	\$ <u>83,492,410</u>	<u>127,203,092</u>	<u>279,163,179</u>	<u>489,858,681</u>

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	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2012	\$ 75,314,356	82,899,860	228,535,641	386,749,857
Investment return:				
Investment income	1,223,510	5,048,695	—	6,272,205
Net realized and unrealized gains (losses)	<u>4,153,129</u>	<u>17,650,072</u>	<u>—</u>	<u>21,803,201</u>
Total investment return	5,376,639	22,698,767	—	28,075,406
Private gifts	1,223,213	—	10,382,435	11,605,648
Appropriation of endowment assets for expenditures	(3,086,067)	(12,717,923)	—	(15,803,990)
Present value adjustments	—	78,152	—	78,152
Reinvested income	93,129	754,776	—	847,905
Transfer to board-designated endowments	6,788,828	1,007,722	—	7,796,550
Reclassification of restricted net assets	<u>1,452,032</u>	<u>(8,009,839)</u>	<u>6,557,807</u>	<u>—</u>
Changes	<u>11,847,774</u>	<u>3,811,655</u>	<u>16,940,242</u>	<u>32,599,671</u>
Endowment net assets, June 30, 2013	\$ <u>87,162,130</u>	<u>86,711,515</u>	<u>245,475,883</u>	<u>419,349,528</u>

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the level of the book value (underwater). The University had no funds considered underwater at June 30, 2014, and 12 funds considered underwater with a deficiency of approximately \$1,500 at June 30, 2013. 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 generally deemed to be prudent by institutional fiduciaries. Consistent with this objective, a reasonable return is expected.

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(d) Strategies Employed for Achieving Objectives

The University targets a diversified asset allocation. For the year ended June 30, 2014 the estimated investment emphasis included: US Equities (25.0%), International Equities (20.0%), Hedged Funds (10.0%), Private Equities (10.0%), Absolute Return funds (15.0%), Fixed Income (10.0%), and Real Estate and Other investment (10.0%). For the year ended June 30, 2013 the estimated investment emphasis included: US Equities (27.5%), 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, 2014 and 2013, the approved percentage was 4.5% of a moving 12-quarter average of the market value of such funds.

(5) Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	<u>2014</u>	<u>2013</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 18,328,857	10,874,408
One to five years	31,662,819	14,074,248
Greater than six years	<u>33,486,000</u>	<u>24,899,000</u>
	83,477,676	49,847,656
Less allowance for uncollectible pledges	(8,347,769)	(4,984,766)
Less present value discount (2.7% - 8.0%)	<u>(19,843,719)</u>	<u>(14,117,737)</u>
Net pledges receivable	<u>\$ 55,286,188</u>	<u>30,745,153</u>

Included in pledges receivable is the present value of approximately \$23,130,000 and \$10,133,000 as of June 30, 2014 and 2013, respectively, in pledges from members of the board of trustees. For the years ended June 30, 2014 and 2013, the University did not conduct any additional transactions with members of the board of trustees that were not negotiated at arm's length.

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(6) Property, Plant, and Equipment

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

	<u>2014</u>	<u>2013</u>
Land	\$ 8,721,577	8,748,321
Land improvements	28,278,560	24,324,274
Buildings and improvements	617,256,854	602,946,085
Equipment	52,875,968	51,251,945
Library books	8,700,630	8,581,880
Construction in progress	<u>11,597,386</u>	<u>9,755,778</u>
	727,430,975	705,608,283
Less accumulated depreciation	<u>(162,430,342)</u>	<u>(151,815,360)</u>
	<u>\$ 565,000,633</u>	<u>553,792,923</u>

The University had approximately \$13,824,000 and \$12,204,000 of depreciation expense for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, respectively, an asset retirement obligation of approximately \$7,905,000 and \$8,253,000 is included in accounts payable and accrued liabilities.

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(7) Long-Term Debt

Bonds payable at June 30 consist of the following:

	<u>2014</u>	<u>2013</u>
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2013	\$ 22,640,000	22,780,000
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2012	5,685,000	8,370,000
Colorado Educational and Cultural Facilities Authority Refunding Revenue Bonds, Series 2008	6,170,000	6,730,000
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	29,010,000	29,885,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2005B	15,410,000	16,955,000
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2001B	—	—
	<u>118,835,000</u>	<u>124,640,000</u>
Unamortized bond premium	<u>5,779,947</u>	<u>6,294,313</u>
Total long-term debt	124,614,947	130,934,313
Less current installments	<u>6,050,000</u>	<u>5,805,000</u>
Long-term debt, excluding current installments	<u>\$ 118,564,947</u>	<u>125,129,313</u>

The University had approximately \$5,674,000 and \$6,018,000 of interest expense for the years ended June 30, 2014 and 2013, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately \$5,755,000 and \$6,126,000 was paid in cash during the years ended June 30, 2014 and 2013, respectively. The fair value of bonds payable was approximately \$118,524,000 and \$126,198,000 at June 30, 2014 and 2013, respectively.

(a) Issuance of Series 2013 Bonds

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

The bond agreement provides for principal payments of \$140,000 in 2014, increasing to \$2,255,000 in 2030. Interest is payable semiannually at rates ranging from 2.00% to 4.00%.

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(b) Issuance of Series 2012 Bonds

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

The bond agreement provides for principal payments of \$2,685,000 in 2014, increasing to \$2,860,000 in 2016. Interest is payable semiannually at 4.00%.

(c) Issuance of Series 2008 Bonds

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

The bond agreement provides for principal payments of \$560,000 in 2014, increasing to \$2,535,000 in 2018. Interest is payable semiannually at rates ranging from 4.00% to 5.00%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

(d) Issuance of Series 2007 Bonds

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

The bond agreement provides for principal payments of \$1,650,000 in 2023, \$5,825,000 in 2024, \$6,135,000 in 2025, \$6,445,000 in 2026, \$6,790,000 in 2027, and ranging from \$2,365,000 in 2031 to \$2,870,000 in 2035. Interest is payable semiannually at the rate of 5.25%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

(e) 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 principal payments of \$875,000 in 2014, increasing to \$6,750,000 in 2022. Interest is payable semiannually at rates ranging from 3.50% to 5.00%. Payment of principal and interest on the bonds is guaranteed by Financial Guaranty Insurance Corporation.

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During fiscal year 2014, the University executed a drawdown bond refunding with UMB Bank as the purchaser of the bonds. The Series 2014A will refund \$28,105,000 of Series 2005A when they are callable in 2015. The interest rate for Series 2014A is fixed at 2.62% with the final maturity in 2022.

(f) Issuance of Series 2005B Bonds

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

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

The bond agreement provides for principle payments of \$1,545,000 in 2014, increasing to \$7,140,000 in 2023. 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.

During fiscal year 2014, the University executed a drawdown bond refunding with UMB Bank as the purchaser of the bonds. The Series 2014B will refund \$12,085,000 of Series 2005B when they are callable in 2016. The interest rate for Series 2014B is fixed at 2.71% with the final maturity in 2023.

(g) Aggregate Annual Maturities of Bonds Payable

At June 30, 2014, the aggregate annual maturities of bonds payable for the five succeeding years and thereafter are as follows:

2015	\$	6,050,000
2016		6,260,000
2017		6,590,000
2018		6,895,000
2019		7,345,000
Thereafter		<u>85,695,000</u>
	\$	<u><u>118,835,000</u></u>

(h) Restrictive Bond Covenants

The University is required by bond covenants to maintain expendable resources (as defined by the Loan Agreement) of at least 75% of the outstanding principal of its long-term debt and maintain a debt service coverage ratio (as defined by the Loan Agreement) of at least 1.15. The University is also required to comply with various other covenants while the bonds are outstanding. Management believes the University is in compliance with the bond covenants.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2014 and 2013

(i) ***Security for the Bonds***

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

(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 \$17,500 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 \$10,761,000 and \$10,269,000 for the years ended June 30, 2014 and 2013, 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, 2014, the Healthcare Plan covered 214 retirees with an additional 2,130 active employees potentially eligible for coverage. At June 30, 2013, the Healthcare Plan covered 224 retirees with an additional 2,164 active employees potentially eligible for coverage. The Healthcare Plan is noncontributory.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>
Accrued postretirement benefit obligation (APBO), beginning of year	\$ 3,296,126	3,675,065
Service cost	84,974	102,315
Interest cost	142,085	133,684
Change in assumptions loss	—	—
Actuarial loss	75,811	(458,461)
Benefits paid	<u>(156,960)</u>	<u>(156,477)</u>
APBO (all unfunded), end of year	\$ <u>3,442,036</u>	<u>3,296,126</u>

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

	<u>2014</u>	<u>2013</u>
Service cost	\$ 84,974	102,315
Interest cost	142,085	133,684
Amortization of transition obligation	—	99,470
Amortization of prior service cost	25,657	37,233
Recognized net actuarial gain	<u>—</u>	<u>26,323</u>
Net periodic postretirement benefit cost	\$ <u>252,716</u>	<u>399,025</u>

An accrual has been made for the APBO and is included in accounts payable and accrued liabilities in the accompanying statements of financial position. The weighted average discount rate used in determining the APBO was 4.00% and 4.43% for June 30, 2014 and 2013, 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 \$157,000 and \$156,000 for the years ended June 30, 2014 and 2013, respectively, which were charged to operating expenses.

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

2015	\$ 178,324
2016	184,348
2017	188,057
2018	191,838
2019	195,042
2020 – 2024	<u>1,040,539</u>
Total	\$ <u>1,978,148</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2014 and 2013

For the years ended June 30, 2014 and 2013, 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, 2014.

(10) Loans to Students

Student loans made through Perkins constitute substantially all of the student loans outstanding at June 30, 2014 and 2013. 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 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, the allowance for possible loan losses of these funds was \$153,000.

(11) Fund-Raising Expenses

The University had fund-raising expenses of approximately \$15,340,000 and \$15,501,000 in 2014 and 2013, respectively, which were recognized in institutional support in the accompanying statements of activities.

(12) Commitments and Contingencies

At June 30, 2014 and 2013, the University had outstanding commitments totaling approximately \$1,646,000 and \$5,495,000, respectively, for contracts related to various construction projects on campus.

During the 2014 fiscal year, the University invested approximately \$9,056,000 in 20 long-term partnerships, 17 of which were formed prior to the 2014 fiscal year, bringing its cumulative contributions to the partnerships to approximately \$95,144,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of June 30, 2014, the University's remaining commitments to 13 partnerships total approximately \$32,600,000.

During the 2013 fiscal year, the University invested approximately \$5,308,000 in 17 long-term partnerships, all of which were formed prior to the 2013 fiscal year, bringing its cumulative contributions to the partnerships to approximately \$86,088,000. Under the terms of the partnership agreements, the University and other investors are committed to fund additional investments. As of June 30, 2013, the University's remaining commitments to 11 partnerships totaled approximately \$23,500,000.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2014 and 2013

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

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

SINGLE AUDIT REPORTS AND SCHEDULES

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal Granting Agency</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Research and Development Cluster		
Department of Agriculture:		
Pass-through Awards	10.558	\$ 66,483
Direct Payments	10.912	6,684
Total Department of Agriculture		<u>73,167</u>
Department of Commerce:		
Direct Payments	11.609	50,194
Total Department of Commerce		<u>50,194</u>
Department of Defense:		
Direct Payments	12.300	19,559
Pass-through Awards	12.300	74,076
Subtotal 12.300		<u>93,635</u>
Pass-through Awards	12.404	48,276
Direct Payments	12.420	72,695
Pass-through Awards	12.420	50,175
Subtotal 12.420		<u>122,870</u>
Pass-through Awards	12.431	22,182
Total Department of Defense		<u>286,963</u>
Department of Housing and Urban Development:		
Pass-through Awards	14.866	11,592
Total Department of Housing and Urban Development		<u>11,592</u>
Department of the Interior:		
Pass-through Awards	15.236	9,615
Direct Payments	15.511	1,827
Direct Payments	15.922	55,399
Total Department of the Interior		<u>66,841</u>
Department of Justice:		
Direct Payments	16.560	883,478
Pass-through Awards	16.560	75,218
Subtotal 16.560		<u>958,696</u>
Pass-through Awards	16.582	108,667
Total Department of Justice		<u>1,067,363</u>
Department of Transportation:		
Direct Payments	20.801	(28,178)
Pass-through Awards	20.801	482,672
Total Department of Transportation		<u>454,494</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards (Continued)

Year ended June 30, 2014

Federal Granting Agency	CFDA Number	Federal Expenditures
Department of the Treasury:		
Direct Payments	21.008	60,500
Total Department of the Treasury		<u>60,500</u>
National Aeronautics and Space Administration (NASA):		
Direct Payments	43.000	217,338
Direct Payments	43.001	140,471
Pass-through Awards	43.001	75,370
Subtotal 43.001		<u>215,841</u>
Total NASA		<u>433,179</u>
National Endowment for the Arts and Humanities:		
Pass-through Awards	45.025	4,750
Direct Payments	45.169	5,403
Direct Payments	45.313	224,999
Total National Endowment for the Arts and Humanities		<u>235,152</u>
National Science Foundation:		
Direct Payments	47.041	511,737
Pass-through Awards - ARRA	47.041	107,345
Subtotal 47.041		<u>619,082</u>
Direct Payments	47.049	536,811
Direct Payments - ARRA	47.049	98,144
Pass-through Awards	47.049	40,415
Subtotal 47.049		<u>675,370</u>
Direct Payments	47.050	53,430
Direct Payments	47.070	862,631
Direct Payments	47.074	185,999
Pass-through Awards	47.074	14,226
Subtotal 47.074		<u>200,225</u>
Direct Payments	47.075	40,775
Direct Payments	47.076	1,267,191
Pass-through Awards	47.076	201,462
Subtotal 47.076		<u>1,468,653</u>
Direct Payments	47.078	51,154
Direct Payments	47.081	19,060
Total National Science Foundation		<u>3,990,380</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards (Continued)

Year ended June 30, 2014

Federal Granting Agency	CFDA Number	Federal Expenditures
Department of Energy		
Direct Payments	81.049	46,951
Pass-through Awards	81.089	36,267
Total Department of Energy		<u>83,218</u>
 Department of Education:		
Direct Payments	84.022	2,013
Direct Payments	84.116	2,941
Direct Payments	84.305	1,897,384
Pass-through Awards	84.305	29,005
Subtotal 84.305		<u>1,926,389</u>
Pass-through Awards	84.367	6,451
Total Department of Education		<u>1,937,794</u>
 United States Institute of Peace		
Direct Payments	91.001	1,566
Total USIP		<u>1,566</u>
 Department of Health and Human Services:		
Pass-through Awards	93.113	22,629
Direct Payments	93.173	134,038
Pass-through Awards	93.173	37,416
Subtotal 93.173		<u>171,454</u>
Direct Payments	93.213	307
Direct Payments	93.242	303,709
Pass-through Awards	93.242	64,239
Subtotal 93.242		<u>367,948</u>
Direct Payments	93.273	51,934
Pass-through Awards	93.279	5,663
Direct Payments	93.282	25,632
Pass-through Awards	93.283	157,570
Direct Payments	93.286	923,530
Pass-through Awards	93.286	218,928
Subtotal 93.286		<u>1,142,458</u>
Direct Payments	93.310	20,094
Pass-through Awards	93.564	31,519
Direct Payments	93.575	20,633
Direct Payments	93.600	379,380

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Schedule of Expenditures of Federal Awards (Continued)

Year ended June 30, 2014

Federal Granting Agency	CFDA Number	Federal Expenditures
Direct Payments	93.648	299,666
Pass-through Awards	93.648	488,422
Subtotal 93.648		788,088
Pass-through Awards	93.652	364,267
Pass-through Awards	93.658	246,033
Pass-through Awards	93.667	502,947
Direct Payments	93.847	115,745
Direct Payments	93.853	227,004
Direct Payments	93.855	99,629
Direct Payments	93.859	289,753
Direct Payments	93.865	1,611,430
Pass-through Awards	93.865	563,280
Subtotal 93.865		2,174,710
Pass-through Awards	93.866	47,002
Direct Payments	93.933	87,426
Total Department of Health and Human Services		7,339,825
Corporation for National and Community Service		
Direct Payments	94.006	547,828
Pass-through Awards	94.019	111,029
Total Corporation for National and Community		658,857
Department of Homeland Security		
Pass-through Awards	97.061	17,555
		17,555
Total Research and Development Cluster		16,768,640
Student Financial Aid Cluster:		
Department of Education:		
Federal Supplemental Education Opportunity Grant Program	84.007	294,248
Federal Work Study Program	84.033	1,368,068
Federal Perkins Loan Program	84.038	17,786,406
Federal Pell Grant Program	84.063	4,117,123
Federal Direct Student Loan Program	84.268	135,023,832
Teacher Education Assistance for College and Higher Education (TEACH) Grants	87.379	422,308
Total Department of Education - Student Financial Assistance Cluster		159,011,985
Total Federal Awards		\$ 175,780,625

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2014

(1) Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) presents the activity of federal programs of the University of Denver (Colorado Seminary) (the University) for the year ended June 30, 2014. Federal awards received directly from federal agencies are included in the Schedule as well as federal guaranteed loans disbursed by the University. 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 Schedule is presented on the accrual basis of accounting as described in note 1 to the University's financial statements. Other than the programs discussed in note 3 below, amounts on the Schedule are consistent with amounts recorded in the University's financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(3) Student Financial Assistance Grants and Loans

During the year ended June 30, 2014, the University participated in the Federal Direct Student Loan Program (Direct Student Loans) and the Federal Pell Grant Program (Pell Grant), the Federal Supplemental Education Opportunity Grant Program (FSEOG) and the Teacher Education Assistance for College and Higher Education Grants (TEACH). 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. For the Direct Student Loans, Pell Grant, FSEOG, and TEACH programs, the amounts on the Schedule represent the amounts disbursed to students for these programs during fiscal year 2014. The Federal Perkins Loan Program amount on the Schedule of \$17,786,406 represents total student Perkins Loans outstanding as of June 30, 2014. Actual new loans to students as a part of the Perkins Loans program totaled approximately \$5 million.

(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 \$18 million as of June 30, 2014.

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

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

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards (Continued)

June 30, 2014

(5) Pass-Through Awards

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

Grantor Agency	Federal CFDA Number	Contract/ grantor Number	Federal Expenditures
Colorado Department of Public Health and Environment	10.558	11 FLA 14649	\$ 45,150
Colorado Department of Public Health and Environment	10.558	00013-09	21,333
University of Michigan	12.300	3002429096	74,076
University of Colorado Denver	12.404	FY13.315.002 AMD 3	48,276
Florida State University	12.420	R01731	15,397
University of Colorado Denver	12.420	W81XWH-12-0090, FY13.375.002	34,778
University of Texas-Austin	12.431	UTA13-000560	22,182
Denver Housing Authority	14.866	CONTRACT DATED 3/6/12	11,592
Tamarisk Coalition	15.236	AWARD LETTER DATED 5/28/13	9,615
Pennsylvania State University	16.560	SA 11-08	39,089
RAND Corporation	16.560	9920140062	36,129
Rocky Mountain VictimLaw Center	16.582	2012-VF-GX-K018	108,667
Mississippi State University	20.801	0631300-363277-02	1,894
Mississippi State University	20.801	0631300-363277-02	480,778
Jet Propulsion Lab	43.001	RSA NO. 1428128	66,373
NASA/Space Telescope Science Institute	43.001	HST-GO-12157.01-A	361
NASA/Space Telescope Science Institute	43.001	HST-AR-12205.01-A	3,402
United Negro College Fund Special Corporation	43.001	LETTER DATED 1/29/13	5,234
Western States Arts Federation	45.025	2013-2014#TW20130083	2,500
Western States Arts Federation	45.025	2013-2014#TW20130215	2,250
Tennessee Technical University	47.041	P005673	107,345
Southern Illinois University	47.049	SUBAGREEMENT SIUC 11-10	40,415
Oregon State University	47.074	S1535A-B	14,226
Illinois State University	47.076	12C132.01A	201,052
University of Michigan	47.076	3002994143	410
National Renewable Energy Lab	81.089	KXEA-9-99014-03	29,658
National Renewable Energy Lab	81.089	KXEA-9-99014-05	6,609
Texas AandM University	84.305	99-S130263; ACCT 99-502561-010	29,005
Colorado Department of Education	84.367	CFDA#84.367B2011-12-3	6,451
University of Colorado/Boulder	93.113	1548993/PO 1000100383	22,629
University of Colorado Denver	93.173	FY13.009.001, 2-5-94245	37,416
University of California/Irvine	93.242	2013.2985	64,239
University of Colorado Denver	93.279	FY10.243.00, FY13.243.003_AMD4	5,663
Colo Found for Pub Health & Envir	93.283	2007-RIHEL-DU; AMEND #5	157,570
University of Chicago	93.286	FP049864	218,928
Colorado Department of Human Services	93.564	OE IHA CSDR1300002	31,519

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards (Continued)

June 30, 2014

Grantor Agency	Federal CFDA Number	Contract/ grantor Number	Federal Expenditures
Research Foundation of State University of New York	93.648	12-43	233,375
Research Foundation of State University of New York	93.648	14-07	244,590
University of Maryland-Baltimore	93.648	SR00003288	2,700
University of Montana	93.648	PG13-64401-01	7,757
City and County Of Denver	93.652	CC #GE81304-2	50,311
Colorado Department of Human Services	93.652	OE-IHA-CWSX1200024	13,016
University of Texas at Arlington	93.652	26-1602-1061	4
University of Texas at Arlington	93.652	26-1602-1061	70,324
University of Texas at Arlington	93.652	26-1602-1061	16,257
University of Texas at Arlington	93.652	26-1602-1061	110,767
University of Texas at Arlington	93.652	26-1602-1061	53,198
University of Texas at Arlington	93.652	26-1602-1061	1,575
University of Texas at Arlington	93.652	26-1602-1061	746
University of Texas at Arlington	93.652	26-1602-1061	687
University of Vermont	93.652	28332SUB51623	47,382
Colorado Department of Human Services	93.658	AMEND #1: CMS 43442	1,796
Colorado Department of Human Services	93.658	AMEND #1: CMS43169	21
Colorado Department of Human Services	93.658	OE IHA STFC 1300003	205
Colorado Department of Human Services	93.658	PO# IHA STFC1344396	4,007
Colorado Department of Human Services	93.658	PO IHA IHASTFC13461	1,638
Colorado Department of Human Services	93.658	PO# IHA STFC1457109	238,366
Colorado Department of Human Services	93.667	OE IHA CWSX1300028	18,913
New York State Office of Children and Family Services	93.667	CO26725	7,783
New York State Office of Children and Family Services	93.667	CO26725 / CC27	476,251
University of California at Los Angeles	93.865	0875 GRA715	37,854
University of California/Irvine	93.865	NO. 2012-2882	119,865
University of Colorado/Boulder	93.865	1548897-PO1000064837	109
University of Colorado/Boulder	93.865	1550109 / PO1000182802	162,290
University of Colorado/Boulder	93.865	1550107 / PO100188609	77,457
University of Colorado/Boulder	93.865	1551239/PO1000313036	92,120
University of Colorado/Boulder	93.865	1551241/PO1000310179	59,788
University of Colorado-Colorado Springs	93.865	14-036-003	13,797
University of Colorado/Boulder	93.866	1547268	47,002
Mile High United Way	94.019	SUB-GRANT 2012-010; AMEND 1	111,029
University of Maryland	97.061	Z901217	17,555
			<u>\$ 4,342,746</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards (Continued)

June 30, 2014

(6) Subrecipients

The University passed through approximately \$2.1 million to subrecipients in the Research and Development cluster for the year ended June 30, 2014. On the accompanying Schedule, the following amounts were disbursed to subrecipients:

Grantor Agency	Federal CFDA Number	Contract/ grantor Number	Federal Expenditures
Abt Associates, Inc.	84.305	R305A080700	\$ 130,634
Abt Associates, Inc.	84.305	R305A120813	115,717
Adams State University	94.006	13EDHCO001	2,539
American Institute for Research	84.367	CFDA#84.367B2011-12-3	6,000
Americorp Nursing Fund	94.006	13EDHCO001	(2,288)
Arizona State University	94.006	13EDHCO001	19,492
Auburn University	12.420	R01731	2,519
Augustana College	94.006	13EDHCO001	1,606
Case Western Reserve University	47.076	DRL-1313695	294,020
Colorado Coalition against Domestic Violence	93.865	1R01HD066503-04	118,901
Colorado I Have a Dream Foundation	94.006	13EDHCO001	1,800
Colorado Mesa University	94.006	13EDHCO001	3,770
Colorado State University	94.006	13EDHCO001	4,874
Colorado State University- Pueblo	94.006	13EDHCO001	572
Correct Tech, LLC	16.560	2010-IJ-CX-K003	67,094
Correct Tech, LLC	16.560	9920140062	7,125
Dakota Wesleyan University	94.006	13EDHCO001	1,225
Flathead Valley Community College	94.006	13EDHCO001	2,727
Fort Lewis College	94.006	13EDHCO001	343
Fredric Rieders Family Renaissance	16.560	2012-DN-BX-K035	147,669
Great Fall College-Montana State University	94.006	13EDHCO001	2,051
Hazardous Devices Program Support	16.560	SA 11-08	23,798
John S. Shaeffer	16.560	2010-IJ-CX-K003	68,283
Joseph M. Dempsey	16.560	2009-IJ-CX-K010	(15,682)
Margaret J. Roberts, LLC	93.648	12-43	2,300
Mental Health Corporation of Denver	93.600	90YR0056/02	63,791
Mesa Community College	94.006	13EDHCO001	4,182
Metropolitan State University at Denver	94.006	13EDHCO001	2,347
Michigan State University	47.076	DRL-1313718	74,844
Minot State University	94.006	13EDHCO001	2,543
Montana State University-Billings	94.006	13EDHCO001	4,582
Montana State University-Bozeman	94.006	13EDHCO001	13,364
Montana State University-College of Nursing	94.006	13EDHCO001	1,111
Montana State University-Northern	94.006	13EDHCO001	573
Montana Tech of the University of Montana	94.006	13EDHCO001	2,666

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Schedule of Expenditures of Federal Awards (Continued)

June 30, 2014

<u>Grantor Agency</u>	<u>Federal CFDA Number</u>	<u>Contract/ grantor Number</u>	<u>Federal Expenditures</u>
Naropa University	94.006	13EDHCO001	1,556
National Foundation for the Centers for Disease	93.855	1R01AI109008-01	21,390
Native American Training Institute	93.648	90CT0146/05	10,146
Native Wellness Institute	93.648	90CT0146/05	3,850
Northeastern Junior College	94.006	13EDHCO001	1,270
OMNI Institute Inc.	94.019	SUB-GRANT 2012-010; AMEND 1	15,000
Oregon Social Learning Center Foundation	93.600	90YR0056/02	92,413
Portland State University	84.116	P116J080019-11	2,941
Regis University	94.006	13EDHCO001	5,397
Research Foundation of State University of New York	47.076	DRL-1313718	83,247
Research Foundation of State University of New York	84.305	R305A070491	21,891
Research Foundation of State University of New York	84.305	R305A080700	2,509
Research Foundation of State University of New York	84.305	R305A120813	245,143
Rocky Mountain College	94.006	13EDHCO001	1,698
Rutgers, The State University of New Jersey	47.076	DRL-1313718	38,838
Search Group Incorporated	16.560	2010-IJ-CX-K003	21,090
University of Colorado	84.305	R305A120233-13	130,409
University of Colorado-Boulder	94.006	13EDHCO001	2,825
University of Colorado-Denver	93.865	5R01HD048780-08	36,531
University of Colorado-Denver	93.933	5R00AT004983-03	331
University of Colorado-Denver	94.006	13EDHCO001	1,089
University of Denver	94.006	13EDHCO001	12,225
University of Kansas	93.286	1R01EB015497-01	52,231
University of Michigan	47.076	DRL-1313718	70,137
University of Montana	94.006	13EDHCO001	3,422
University of Nebraska	94.006	13EDHCO001	2,539
University of North Dakota	93.648	90CT0146/05	6,424
University of Northern Colorado	94.006	13EDHCO001	11,183
University of Pennsylvania	47.070	CNS-0923518	47,627
University of South Dakota	94.006	13EDHCO001	8,487
University of the Rockies, LLC	94.006	13EDHCO001	375
University of Toledo	43.001	NNX13AF40G	19,553
University of Wyoming	94.006	13EDHCO001	190
			<u>\$ 2,151,049</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
University of Denver
Denver, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Denver (Colorado Seminary), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2014-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

The University's Response to Findings

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

Purpose of this Report

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

CliftonLarsonAllen LLP



Greenwood Village, Colorado
November 21, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Board of Trustees
University of Denver
Denver, Colorado

Report on Compliance for Each Major Federal Program

We have audited the University of Denver's (Colorado Seminary) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the University of Denver's major federal program for the year ended June 30, 2014. The University of Denver's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the University of Denver's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 of Denver's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University of Denver's compliance.

Opinion on Each Major Federal Program

In our opinion, the University of Denver complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

CliftonLarsonAllen LLP



Greenwood Village, Colorado
November 21, 2014

UNIVERSITY OF DENVER

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes no

Type of auditors' report issued on compliance for major program: Unmodified

Any audit findings, disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

Federal Grantor/Program or Cluster Title	Federal CFDA Number
Student Financial Assistance Cluster:	
U.S. Department of Education:	
Federal Supplemental Education Opportunity Grant Program	84.007
Federal Work Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loan Program	84.268
Teacher Education Assistance for College and Higher Education (TEACH) Grants	87.379

Dollar threshold used to distinguish between type A and type B programs \$503,060

Auditee qualified as low-risk auditee? yes no

UNIVERSITY OF DENVER

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(2) **Findings – Financial Statements Audit**

Current Year

2014-001: Classification of Endowment Activity

Internal Control over Financial Reporting, Significant Deficiency

Criteria:

Generally Accepted Accounting Principles (GAAP) require that appreciation on investments of donor-restricted endowment funds should be temporarily restricted until appropriated for expenditure by governance. As such, the University is responsible for ensuring endowment assets and related earnings are appropriately classified in accordance with GAAP.

Condition:

The University tracks endowment activity and classifies such activity among net asset categories. Approximately \$9 million of un-appropriated endowment gains in fiscal year 2013 were improperly classified as unrestricted net assets by the University as of June 30, 2013.

Cause:

The allocation of appreciation error was not noted during the reconciliation process in fiscal year 2013. During the endowment reconciliation process for fiscal year 2014, this error was noted.

Effect:

There was approximately \$9 million of endowment gains improperly classified in unrestricted net assets as of June 30, 2013. In order to correct this error, the gains were transferred to temporarily restricted net assets during fiscal year 2014.

Recommendation:

For donor-restricted endowment funds, the University should enhance its allocation process for investment returns that are in excess of amounts distributed from the endowment for spending so that any income and gains retained in the endowment funds are appropriately classified to the correct restriction type. In addition, the University should continue to reconcile the endowment accounts to the general ledger on a periodic basis (at least quarterly). This reconciliation should be reviewed by someone other than the preparer.

UNIVERSITY OF DENVER

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(2) Findings – Financial Statements Audit (Continued)

2014-001: Classification of Endowment Activity (Continued)

Views of Responsible Officials and Planned Corrective Actions:

Management agrees with the description of the error and the recommendation. The University will continue to reconcile endowment accounts to the general ledger quarterly. The reconciliation will be completed by the Investment Accountant and reviewed by the Financial Reporting Manager. At year end, after the University's second close but before the completion of the financial statements, the Investment Accountant will complete the Endowment Detail Rollforward schedule which allocates investment income and gains retained in endowment accounts to the correct net asset classifications. The schedule will be reviewed by the Financial Reporting Manager. Information from the schedule will be used to calculate a financial statement level adjusting entry by the Financial Reporting Manager. The adjusting entry will classify endowment net assets to their appropriate restriction. Endowment Net Assets by restriction type as reported on the Statement of Position will be reconciled to the Endowment Detail Rollforward schedule by the Financial Reporting Manager at year-end. This reconciliation and the adjusting entry will be reviewed by the Controller.

University of Denver Contact:

Margaret Henry, Controller, 303-871-3740
2199 S. University Blvd
Denver, Colorado 80208

Corrective Action Date: November 2014

UNIVERSITY OF DENVER

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(2) Findings – Financial Statements Audit (Continued)

Prior Year

None reported

(3) Federal Award Findings and Questioned Costs

Current Year

None reported

Prior Year

None reported