METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT

June 30, 2014 and 2013

LEGISLATIVE AUDIT COMMITTEE

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Purpose and Scope

The Office of the State Auditor of the State of Colorado engaged CliftonLarsonAllen, LLP to conduct a financial and compliance audit of the Metropolitan State University of Denver (formerly, the Metropolitan State College of Denver) (the University) for the year ended June 30, 2014. CliftonLarsonAllen performed this 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. We conducted the related fieldwork from May 2014 to October 2014.

The purpose and scope of our audit were to:

- Express an opinion on the financial statements of the University as of and for the year ended June 30, 2014. This includes a report on internal control over financial reporting and compliance and other matters based on the audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate progress in implementing prior audit findings and recommendations.

The University's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in the June 30, 2014 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Reports

We expressed an unmodified opinion on the University's financial statements as of and for the year ended June 30, 2014.

No audit adjustments were proposed or made to the financial statements of the University. For the HLC @ Metro, Inc., an audit adjustment of $5.3 million was made to restate beginning net assets to properly state balances in accordance with generally accepted accounting principles.

We issued a report on the University's compliance and internal control over financial reporting based on an audit of the basic financial statements performed in accordance with *Government Auditing Standards.* 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 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.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

As part of obtaining reasonable assurance about whether University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

In addition to issuing a report on the University's compliance with internal control over financial reporting, we also performed procedures in accordance with Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-profit Organizations*, over major federal programs as determined by the Office of the State Auditor. The purpose of our procedures was not to issue an opinion over the University's compliance with the federal programs tested, but rather report any noncompliance and internal control deficiencies noted during our testing to the Office of the State Auditor for inclusion in the Statewide Single Audit report. We noted nine instances of noncompliance or internal control deficiencies during these procedures which we consider to be significant deficiencies.

Summary of Key Audit Findings

Controls over Monitoring Title IV Funds – Pell Grant Over Award (Significant Deficiency in Internal Control)

One instance (of 21 tested) was identified in which the recipient was awarded Pell grant funds that exceeded the maximum amount allowed based on his/her enrollment status and estimated financial need. The error occurred because University staff has the ability to override certain system error flags, including the Pell over award error flag; yet, there was no review and approval of such overrides.

Controls over Monitoring Student Eligibility (Significant Deficiency in Internal Control)

One instance (of one tested) was identified in which TEACH grant funds were awarded by the University despite the fact the student was failing to meet the minimum satisfactory academic progress to be eligible to receive TEACH grant funds. The Student's Title IV aid was not cancelled when they failed to meet satisfactory academic progress as prescribed for TEACH grant recipients.

Notification of Disbursement of Aid (Significant Deficiency in Internal Control)

During our review of the University's notifications of disbursement of aid, we found that, during Fiscal Year 2014, the University only notified students when their loan was approved and at the beginning of each term as opposed to each disbursement which occurred throughout the award year. Further, we noted that some of the elements required by federal regulations were not included in the notifications.

Controls over the Return of Title IV Funds (Significant Deficiency in Internal Control)

In four of 40 instances reviewed, the University did not return Title IV funds within 45 days of the student's withdrawal, as required. The University determined through its review of returns of Title IV funds during 2014 that it University staff had incorrectly calculated the amount of funds to be returned for withdrawals in the spring 2014 semester; however, the review of the return of Title IV funds occurred after the established timeframe for timely return of funds, so the funds were not returned timely. In addition, in one separate instance, the University returned $224 more than the required amount.

Controls over the Student Verification (Significant Deficiency in Internal Control)

In five of 40 cases, University staff did not comply with the University's verification policies. Specifically, we found that two students were selected for verification, but the Department could not provide documentation to support that the required verification procedures were performed. In addition, we noted two students who were selected for verification by the University whose application data was incorrectly updated in their student files, resulting in the understatement of the Expected Family Contribution for one of the students. Lastly, we noted an instance where a student was selected for verification under four different criteria and the corresponding information provided correctly waived the second criteria; however, the staff erroneously waived the other two criteria as well so the student's information was not verified.

Controls over Deferment of Federal Perkins Loans (Significant Deficiency in Internal Control)

One instance (of 40 tested) was noted in which a student was incorrectly entered into deferment during Fiscal Year 2014. Specifically, the student was granted an economic hardship deferment under a scenario for which he/she was not qualified. This was due to an incorrect calculation of monthly income compared to the federal poverty line.

Review Controls over Disbursements and Borrower Data Transmission (Significant Deficiency in Internal Control)

Management did not maintain documented evidence that a reconciliation of the School Account Statement was performed or reviewed.

Controls over Accuracy of Enrollment Reporting (Significant Deficiency in Internal Control)

The University does not have adequate controls in place to ensure that student enrollment data reported to the NSLDS is accurate or reported timely.

Compliance with Municipal Securities Continuing Disclosure Requirements (Significant Deficiency in Internal Control)

During Fiscal Year 2014, the University was not in compliance with certain continuing disclosure requirements related to its outstanding debt issuances. The University's Series 2009 and 2010 bonds both require the University to disclose certain operating information (in addition to annual audited financials) through the Electronic Municipal Market Access (EMMA) portal. The University did not properly report this operating information for Fiscal Year 2014.

METROPOLITAN STATE UNIVERSITY OF DENVER
REPORT SUMMARY
Year Ended June 30, 2014

Recommendations and the University's Responses

A summary of our recommendations and responses from the University can be found in the Recommendation Locator section of this report. The University's responses to the findings have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2013 included four findings and recommendations. Of the four prior year findings and recommendations we noted that one, with regards to Accounting and Financial Reporting for HLC @ Metro, Inc., has been implemented and is not a finding for Fiscal Year 2014. The remaining three findings, Controls over the Return of Title IV Funds, Management Review Controls over Disbursements and Borrower Data Transmission, and Controls over Accuracy of Enrollment Reporting, have not been implemented and are again included in our findings and recommendations for the year ended June 30, 2014.

METROPOLITAN STATE UNIVERSITY OF DENVER
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RECOMMENDATION LOCATOR
Year Ended June 30, 2014

Rec no.	Page no.		Agency response	Implementation date
1	10 - 11	Metropolitan State University of Denver should implement a process to ensure that all manual overrides are reviewed and approved. This process should include a review of all student profiles that appear on the Banner over award report and are manually overridden to ensure their awards are being calculated correctly based on their student information and eligibility.	Agree	August 1, 2015
2	11 - 12	The University should implement a process to review the academic progress of students who receive TEACH grant funds so that the University does not disburse TEACH grant funds to a student who does not meet satisfactory academic progress requirements.	Agree	January 1, 2015
3	12 - 13	Metropolitan State University of Denver should implement a process to ensure that students are notified of each Student Financial Aid loan and TEACH grant disbursement and that the notification includes all elements of communication as required by federal regulations. This process should include providing training to University staff to ensure they have a sufficient understanding of Student Financial Aid requirements surrounding disbursements.	Agree	Immediate
4	13 - 15	Metropolitan State University of Denver should ensure that return of Title IV fund calculations are performed correctly and reviewed on a timely basis to ensure that all applicable return of Title IV funds calculations are returned to the Department of Education within 45 days. Management should select a sample of calculations performed on a monthly basis to review to ensure that they were performed correctly.	Agree	January 10, 2015

Rec. no.	Page no.		Agency response	Implementation date
5	15 - 16	Metropolitan State University of Denver should implement appropriate internal review controls to ensure that all students selected for verification of eligibility for Student Financial Aid are verified in accordance with the University's Quality Assurance Program. Management should review a sample of student verification files performed monthly to ensure that students are being verified properly.	Agree	August 1, 2015
6	16 - 18	Metropolitan State University of Denver should implement a review process over federal Perkins loan deferment calculations to ensure that the calculations are accurate, in accordance with federal regulations, and that adequate supporting documentation is maintained.	Agree	Immediate
7	18 - 19	Metropolitan State University of Denver should implement policies and procedures to document both the performance and review of the reconciliation of the School Accounts Statements (SAS) data file to its financial records.	Agree	January 1, 2015
8	19 - 20	Metropolitan State University of Denver should implement a reconciliation process whereby the registrar generates a monthly report that contains reportable enrollment status changes that is compared to enrollment status changes reported to NSLDS within the past month. The reconciliation should be reviewed by a second individual of supervisory authority to ensure that the student enrollment data reported to the National Student Loan Data System (NSLDS) is accurate and reported in a timely manner.	Agree	January 1, 2015
9	21 - 22	The Metropolitan State University of Denver should implement appropriate internal controls to ensure that it is in compliance with all continuing disclosure requirements related to its outstanding debt.	Agree	January 1, 2015

Organization

Established in 1963 as Colorado's "College of Opportunity," Metropolitan State University of Denver (the University) is the third largest higher education institution in Colorado and one of the largest public four-year universities in the United States. With a modified open-enrollment policy, students who are at least 20 years old need only have a high school diploma, a general educational development (GED) high school equivalency certificate, or the equivalent to gain admission.

The University is governed by the Board of Trustees, an 11-member board consisting of 9 voting members appointed by the Governor of Colorado with the consent of the Senate, and a faculty and a student representative, both of which are non-voting.

The University offers 57 major fields of study and 83 minors through its School of Business; School of Letters, Arts and Sciences; and School of Professional Studies. Degrees include Bachelor of Science, Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Music, Bachelor of Music Education, and three Masters. Academic bachelor programs range from the traditional, such as English, art, history, biology, and psychology, to business related degrees in computer information systems, accounting and marketing, and professional directed programs in nursing, healthcare management, criminal justice, premedicine, prelaw, and preveterinary science. Master programs include art in teaching, social work, and professional accountancy.

Enrollment and faculty and staff information is provided below. Full-time equivalent students reported by the University for the last three fiscal years are as follows:

Fiscal Year	Resident	Nonresident	Total
2014	16,068	497	16,565
2013	16,266	660	16,926
2012	16,783	550	17,333

Full-time equivalent employees, funded by the State of Colorado, reported by the University for the last three fiscal years are as follows:

Fiscal Year	Faculty	Staff	Total
2014	860	415	1,275
2013	875	383	1,258
2012	900	368	1,268

METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2014

We have audited the financial statements of the Metropolitan State University of Denver (the University) as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon dated December 11, 2014. In planning and performing our audit of the financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the University's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated December 11, 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 grants. We have not considered internal control since December 11, 2014. We did not audit the financial statements of the Metropolitan State University of Denver Foundation, Inc., a discretely presented component unit, discussed in note 1 to the financial statements. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

The maintenance of adequate internal control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Additionally, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

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

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

The University's responses to the findings have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

As part of obtaining reasonable assurance about whether University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

In addition to issuing a report on the University's compliance and internal control over financial reporting, we also performed procedures in accordance with Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-profit Organizations*, over major federal programs as determined by the Office of the State Auditor. The purpose of our procedures was not to issue an opinion over the University's compliance with the federal programs tested, but rather report any noncompliance and internal control deficiencies noted during our testing to the Office of the State Auditor for inclusion in the Statewide Single Audit report. We noted seven instances of noncompliance or internal control deficiencies during these procedures which we consider to be significant deficiencies.

Student Financial Aid Cluster – Introduction

The Federal Student Financial Aid (SFA) programs provide assistance to eligible students attending institutions of postsecondary education. The programs are administered by the Department of Education and are authorized by Title IV of the Higher Education Act of 1965, as amended, and collectively are referred to as the "Title IV programs".

Title IV funds include several types of aid: grant funds, loan funds and Federal Work Study (FWS) funds. Grant funds and loan funds have subcategories of aid that have different eligibility requirements that are awarded based on a student's situations. The University's Title IV Grant funds include Federal Pell grants, Federal Supplemental Educational Opportunity (FSEOG) grants, and Teacher Education Assistance For College and Higher Education (TEACH) grants. The University's Title IV Loan funds include Federal Perkins loans, Federal Direct Student loans and Federal Direct Parent loans for Undergraduate Students (PLUS loans).

An original sample of 40 was selected in order to test 1) students' general eligibility, 2) satisfactory academic progress and 3) and disbursement notification requirements. Of the original sample of 40, selected students were tested for the types of aid listed below. Several students received more than one type of aid and were therefore tested for each type of aid they received.

- 33 students received either loans or TEACH grants disbursements that were tested for notification of disbursement requirements.
- 21 received PELL and were tested for specific grant requirements.
- 25 students received subsidized federal direct student loans and were tested for applicable requirements.
- 29 students received unsubsidized federal direct student loans and were tested for applicable requirements.
- 2 students received undergraduate PLUS loans and were tested for applicable requirements.
- 2 students received Perkins loans and were tested for applicable requirements.

In addition to the original 40 selected, the following samples were also selected in order to test the requirements of all types of Federal Student Financial Aid awarded by the University:

- One student who received FSEOG grant funds
- One student who received FWS funds
- One student who received federal graduate PLUS loan funds
- One student who received TEACH grant funds

Lastly, separate samples were selected in order to test compliance of:

- Return of federal Title IV funds (sample of 40)
- Student verification requirements (sample of 40)
- Perkins loan deferment and cancellation requirements (sample of 40)
- Reconciliation of school financial records to the U.S. Department of Education's Common Origination and Disbursement website (sample of 3 monthly reconciliations)
- Student loan enrollment reporting requirements (sample of 25)

Controls over monitoring Title IV awards– Pell grant over award
The Federal Pell Grant program provides grants to students enrolled in eligible undergraduate programs and certain eligible post-baccalaureate teacher certification programs. Maximum and minimum Pell grant awards are established by federal regulations.

What was the purpose of the audit work?
The purpose of the audit work was to determine whether eligible students were awarded the proper amount of Pell grant funds during Fiscal Year 2014.

What audit work was performed and how were results measured?
We tested 21 students who received Pell grant funds to ensure they were awarded the proper amount of funds. Pell grant funds should not be awarded in excess of students' financial need per 34 Code of Federal Regulations (CFR) Section 668.42.

The University's key control over student awards to ensure amounts are proper and that awards are made only to eligible students is a system check that is run in the student information module of the University's information system (Banner). The system will flag any student who appears to have been over awarded based on the student information input into Banner. Banner then generates a report listing all students flagged through this process. University staff that calculate student awards are allowed to override the system flag in cases of professional judgment.

What problem did the audit work identify?
We identified one instance of noncompliance out of the 21 students tested. Specifically, the recipient was awarded Pell grant funds that exceeded the maximum amount allowed based on the student's enrollment status and estimated financial need. In this instance, University staff overrode the Pell award error flag for the student which resulted in the student receiving an excess of $200 in Title IV Pell grant funds.

Why did the problem occur?
The University does not have a policy or process requiring manual overrides performed by staff to be reviewed and approved.

Why does this problem matter?
There is increased risk of students being awarded Pell grant funds in excess of award thresholds because of the lack of a review process over manual overrides. This problem could also lead to potential federal sanctions.

(CFDA No. 84.SFA; Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)
[1]**Total known federal questioned costs of $200:** $200 identified in one of 21 payments selected; $0 identified in payments outside of the 21 payments.

Recommendation No.1:
Metropolitan State University of Denver should implement a process to ensure that all manual overrides are reviewed and approved. This process should include a review of all student profiles that appear on the Banner over award report and are manually overridden to ensure their awards are being calculated correctly based on their student information and eligibility.

Metropolitan State University of Denver Response: Agree. The University will re-train their staff on the policies and protocols on override codes on individual student files. The University will, also, create a review list of student records that have override codes to ensure the overridden awards were calculated correctly.

Implementation Date: August 1, 2015

Controls over monitoring student eligibility– TEACH grant over award
The TEACH Grant program is a non-need-based grant program for students who are enrolled in an eligible program and agree to teach in a high-need field at an elementary or secondary school that serves low-income populations.

What was the purpose of the audit work?
The purpose of the audit work was to determine whether the University awarded students the proper amount of TEACH grant funds during Fiscal Year 2014.

What audit work was performed and how were results measured?
We tested 1 student who received TEACH grant funds during Fiscal Year 2014 to ensure he/she was awarded the proper amount of funds. To remain eligible, recipients of federal TEACH grant funds are required to remain in good standing and make satisfactory academic progress in accordance with 34 CFR section 686.11. Specifically, TEACH grant recipients must maintain a minimum grade point average of 3.25 in order to be eligible to receive grant funds.

What problem did the audit work identify?
We noted that the University awarded the student we tested $940 of TEACH grant funds although he/she was failing to meet the TEACH-specific satisfactory academic progress requirement of maintaining a minimum GPA of 3.25.

Why did the problem occur?
The University does not have a process in place that monitors students' compliance with the TEACH-specific satisfactory academic progress of maintaining a minimum GPA of 3.25.

Why does this problem matter?
Failure to follow the federal requirements for the Teach grant program increases the risk of material non-compliance in the Student Financial Aid program.

(CFDA No. 84.SFA; Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)
[1]**Total known federal questioned costs of $940:** $940 identified in the one student selected; $0 identified in payments outside of the one student selected.

Recommendation No. 2:
The University should implement a process to review the academic progress of students who receive TEACH grant funds so that the University does not disburse TEACH grant funds to a student who does not meet satisfactory academic progress requirements.

Metropolitan State University of Denver Response: Agree. The University will conduct a review of the list of students who are awarded the TEACH grant and ensure they are meetings award and disbursement requirements. This review list will pick up students who currently don't have a cumulative 3.25 GPA or greater.

Implementation Date: January 1, 2015

Notification of Disbursement of Student Financial Aid
Title IV regulations require that universities notify students of certain information as prescribed by federal regulations when loans are disbursed to a student's account.

What was the purpose of the audit work?
The purpose of the audit work was to determine whether the University notified students (or parents) of required information during Fiscal Year 2014 as prescribed by federal regulations.

What audit work was performed and how were results measured?
We tested 33 students who received loan or TEACH grant disbursements during Fiscal Year 2014 to determine whether they were notified of the information required by federal guidelines. For TEACH grants, Perkins Loans, and Federal Direct Loans (including PLUS), the University is required to notify students or parents in writing of (1) the date and amount of the federal financial aid disbursement; (2) the student's right, or parent's right, to cancel all or a portion of a loan or loan disbursement and have the loan proceeds returned to the holder of the loan or the TEACH grant payments returned to the Department of Education; and (3) the procedure and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, TEACH grant, or TEACH grant disbursement per 34 CFR 668.165.

What problem did the audit work identify?
We noted that none of the 33 students tested received proper notification that contained information on the student's and/or parent's right to cancel all or a portion of the loan and the procedure and time by which the student and/or parent must notify the University that he or she

wishes to cancel the loan. We found that the University notifies students or parents: 1) when loans are approved and 2) when loans are expected to be disbursed at the beginning of each term rather than prior to each disbursement.

Why did the problem occur?
University management reported that they were not aware of the federal compliance requirements to notify each student when each loan disbursement is made and the specific elements required to be included in the notification.

Why does this problem matter?
As a result of not notifying students at the time of loan and TEACH grant funds disbursements and by not including all required elements in the notifications, the University was out of compliance with federal program regulations. This problem could lead to potential federal sanctions.

(CFDA No. 84.SFA; Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)
[1]**Total known federal questioned costs of $0:** $0 identified in the 33 students selected; $0 identified in payments outside of the 33 students selected.

Recommendation No.3:
Metropolitan State University of Denver should implement a process to ensure that students are notified of each Student Financial Aid loan and TEACH grant disbursement and that the notification includes all elements of communication as required by federal regulations. This process should include providing training to University staff to ensure they have a sufficient understanding of Student Financial Aid requirements surrounding disbursements.

Metropolitan State University of Denver Response: Agree. The University will create an electronic notification system that sends the student an email acknowledging the date of disbursement, amount, and type of loan disbursed. The University will also create an email process to notify students of their TEACH grant disbursement for the semester. The University also plans to provide training to staff to ensure they understand Student Financial Aid disbursement notification requirements.

Implementation Date: Immediate

Controls over the Return of Title IV Funds:
When a student who has received federal student financial aid withdraws, drops out, or registers but never attends classes at an eligible institution, Title IV regulations require that the institution determine the amount of unearned Title IV aid that should be returned to the federal government for such students and return that amount to the federal government.

What was the purpose of the audit work?
The purpose of the audit work was to assess the University's compliance with the Title IV requirements related to the return of Title IV funds when students withdraw, drop out, or never attend the University during Fiscal Year 2014.

What audit work was performed and how were results measured?
We tested 40 students who received Title IV funds who either withdrew, dropped out, or registered but never attended the University during Fiscal Year 2014 to determine whether the University was in compliance with federal return of Title IV regulations. The University is required to calculate the proper amount of Title IV aid earned by a recipient at his/her date of withdrawal and return the difference in accordance with 34 CFR 668.22. The funds must be returned no later than 45 days after the University became aware that the student did not or had not begun attendance per 34 CFR section 668.21(b).We also performed testing to determine whether the University was following its internal review process to check the accuracy of return calculations.

What problem did the audit work identify?
We noted the following as a result of the 40 samples tested:

- The University incorrectly calculated the number of student attendance days for all of the return of Title IV calculations for the Spring 2014 semester. The University noticed the error in June 2014 and the calculations were corrected on June 9, 2014. As a result of this error, the University did not return the proper amount of funds within the 45-day requirement for 4 of the 40 students in our sample.
- For one separate student tested, the University incorrectly calculated the amount of Title IV funds to be returned to the Department of Education. Based on our review of the calculation, the amount of University charges used in the calculation were $448 higher than the actual charges; as a result, the University returned $224 more than the required amount.

Why did the problem occur?
When testing the University's internal review procedures, we found that staff did not perform the reviews in a timely manner to ensure that the return of Title IV fund calculations were performed correctly, and that the funds were returned within 45 days after the student's withdrawal. We determined that the staff did not perform reviews of the calculations until after June 2014, as the error in the calculation was not discovered until that time.

Why does this problem matter?
Failing to have adequate internal controls in place over the proper calculation and return of Title IV funds increases the risk that Title IV funds will not be returned timely in accordance with federal regulations and that the University will be out of compliance with Title IV requirements.

(CFDA No. 84.SFA; Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)
[1]**Total known federal questioned costs of $0:** $0 identified in the 40 samples selected; $0 identified in payments outside of the 40 samples selected.

Recommendation No.4:
Metropolitan State University of Denver should ensure that return of Title IV fund calculations are performed correctly and reviewed on a timely basis to ensure that all applicable return of Title IV funds calculations are returned to the Department of Education within 45 days. Management should select a sample of calculations performed on a monthly basis to review to ensure that they were performed correctly.

Metropolitan State University of Denver Response: Agree. The Return of Funds Coordinator will have two Associate Directors review the calendar dates that are set up in CPS to ensure that the correct beginning and end dates of a term as well as any scheduled breaks are accurate. This will happen prior to every semester. In addition, management will select a sample of calculations performed on a monthly basis to review to ensure that they were performed correctly.

Implementation Date: January 10, 2015

Controls over the Student Verification:
Title IV requires that certain student data be verified to support eligibility to receive SFA loans and grants. Students selected for verification must provide information to the University to support eligibility and the University is responsible for adjusting applications based upon this information.

What was the purpose of the audit work?
The purpose of the audit work was to determine whether the University verified student applications in accordance with federal regulations during Fiscal Year 2014.

What audit work was performed and how were results measured?
We reviewed documentation for 40 Title IV recipients who were selected by the University for verification during Fiscal Year 2014 to determine whether the processes required under the approved Quality Assurance Program were applied by the University.

Generally, the federal Central Processing System (CPS) selects which applications are to be verified, but universities also have the authority to verify additional students. The University participates under an ED-approved Quality Assurance Program (QAP) that exempts it from verifying applicants selected by the CPS. Rather, applicants are selected for verification based upon the University's own verification selection criteria per 20 United States Code 1094a; Higher Education Act 487A and the FSA handbook 2013-2014, Application and Verification Guide, Chapter 4, page AVG-92.

What problem did the audit work identify?
We identified five instances of noncompliance out of the 40 students tested as follows:

- The University could not provide documentation to show the students' application data was verified for two students.
- Application data was incorrectly updated in the students' files for two students selected for verification. One instance resulted in the student's Expected Family Contribution (EFC) being understated by $162, which resulted in the student being awarded less aid (no questioned costs). The second instance did not change the student's EFC.
- One student was selected to verify four lines of student information on the application (Federal Application for Federal Student Aid, or "FAFSA"). The information provided for one of the lines of student information changed the student's status, which resulted in the verification of the second line of student information being waived; however, the University staff also erroneously waived the verification of the third and fourth lines of student information. As a result, the student was not tested for verification in accordance with the University's policies.

Why did the problem occur?
The University does not have an internal review process in place to ensure that student records selected for verification have been verified in accordance with the Quality Assurance Program.

Why does this problem matter?
Failure to properly verify student application data increases the risk that Title IV funds will not be awarded in accordance with federal regulations.

(CFDA No. 84.SFA; Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)

[1]**Total known federal questioned costs of $0:** $0 identified in the 40 students selected; $0 identified in payments outside of the 40 students selected.

Recommendation No.5:
Metropolitan State University of Denver should implement appropriate internal review controls to ensure that all students selected for verification of eligibility for Student Financial Aid are verified in accordance with the University's Quality Assurance Program. Management should review a sample of student verification files performed monthly to ensure that students are being verified properly.

Metropolitan State University of Denver Response: Agree. The Office of Financial Aid & Scholarships will develop a plan to implement a system of internal controls that will include a management level review of a sample of student verification files performed on a monthly basis.

Implementation Date: August 1, 2015

Controls over Deferment of Federal Perkins Loans
The federal Perkins loan program is a revolving loan fund to provide low-interest loans to students with financial need. The University makes new loans to students from the proceeds of the collection of previous loans.

Borrowers of Federal Perkins loan funds may be eligible for loan deferments or cancellations under certain circumstances. Examples of when loan payments may be deferred include borrowers who are employed as full-time teachers at certain schools, employed full-time in other specified occupations, or serving in the military or as a volunteer in the Peace Corps or other comparable programs. Loans may be canceled based on full-time employment as a teacher at certain schools or specified fields, other qualifying employment, military or other volunteer service, and death and disability. To qualify for deferment or cancellation, borrowers are required to submit to the lending university a written request and documentation required by the lending university to support the deferment request.

What was the purpose of the audit work?
The purpose of the audit work was to determine whether the University granted the deferment and cancellation of Perkins loans in accordance with federal regulations during Fiscal Year 2014.

What audit work was performed and how were results measured?

We tested 40 students who were granted deferment or cancellation of outstanding Perkins Loan funds during Fiscal Year 2014 to determine whether the deferment or cancellation was made in accordance with federal regulations. The sample was tested against deferment and cancellation federal regulations as specified per 34 CFR sections 674.33 through 674.40, and 674.51 through 674.62. An example of such regulations includes:

Per 34 CFR 674.34(e) a borrower is entitled to an economic hardship deferment for periods of up to one year at a time, not to exceed three years cumulatively, if the borrower provides the school with satisfactory documentation showing that they meet one of the five scenarios below:

1. The borrower has been granted an economic hardship deferment for either a Stafford or PLUS Loan for the same period of time for which the Perkins Loan deferment has been requested.
2. The borrower is receiving federal or state general public assistance, such as Temporary Assistance to Needy Families, Supplemental Security Income, or Supplemental Nutrition Assistance Program (SNAP).
3. The borrower is working full-time and is earning a total monthly gross income that does not exceed (1) the monthly earnings of someone earning the minimum wage, or (1) 150 percent of the poverty line for the borrower's family size.
4. The borrower is not receiving total monthly gross income that is more than twice the amount in (3) above and that income minus an amount equal to the borrower's monthly payments on federal postsecondary education loans does not exceed the amount specified in (3) above.
5. The borrower is serving as a volunteer in the Peace Corps. Schools may grant deferments for Peace Corps service for periods longer than one year at a time, but these periods must not collectively exceed three years.

The University's policies require that students submit the required documentation prior to granting deferment or cancellation of a Perkins Loan.

What problem did the audit work identify?

We determined that the University did not comply with Perkins loan program deferment requirements for one of 40 students tested. Specifically, the University inappropriately granted the student an economic hardship deferment under scenario (3) above for which the student did not qualify, as the University incorrectly calculated the student's monthly income. As a result of our audit work, we subsequently found that the student did, in fact, qualify for deferment under scenario (4) above; however, the University only had documentation supporting the original deferment determination.

Why did the problem occur?

The University does not have review procedures in place to ensure that deferment calculations are performed correctly and adequately supported with documentation.

Why does this problem matter?

Failure to ensure that only eligible students are granted deferment for federal Perkins loans increases the risk of material noncompliance in the Student Financial Aid program.

(CFDA No. 84.SFA; Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)

[1]**Total known federal questioned costs of $0:** $0 identified in the 40 students selected; $0 identified in payments outside of the 40 students selected.

Recommendation No. 6:
Metropolitan State University of Denver should implement a review process over federal Perkins loan deferment calculations to ensure that the calculations are accurate, in accordance with federal regulations, and that adequate supporting documentation is maintained.

Metropolitan State University of Denver Response: Agree. The Perkins Loan Department will review all loan deferment calculations and maintain supporting documentation. For accounts that require calculations a deferment calculator has been created to ensure borrowers qualify for the selected deferment. In addition, the deferment calculator will be incorporated with the supporting calculation.

Implementation Date: Immediate

Management Review Controls over Borrower Data Transmission
Universities are required to report all Student Financial Aid loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the U.S. Department of Education's Common Origination and Disbursement (COD) website within 30 days of loan disbursement. Each month, the COD provides universities with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. Universities are required to reconcile these files to their financial records.

What was the purpose of the audit work?
The purpose of the audit work was to determine whether the University reconciled SAS data files to its records each month during Fiscal Year 2014 and, if so, whether the reconciliations were reviewed by someone other than the preparer.

What audit work was performed and how were results measured?
We requested three monthly reconciliations of SAS data files to financial records from Fiscal Year 2014 to determine whether the University performed and reviewed the reconciliations as required by federal regulations.

The University is required to report all loan disbursements and submit required records to the DLSS via the COD within 30 days of disbursement (*OMB No, 1845-0021*). In addition, the University is required to complete reconciliations of the SAS data file to its financial records per 34 CFR 685.102(b), 685.301, and 303.

What problem did the audit work identify?
We determined that the University did not maintain documented evidence that the reconciliations were prepared and reviewed. While no evidence of the performance of the control was maintained, we noted that the SAS data files agreed to the University's financial records and as such, no instances of noncompliance were identified.

Why did the problem occur?
The University does not have policies and procedures in place to ensure that evidence is maintained of the performance and review of SAS reconciliations.

Why does this problem matter?
Failure to maintain documented evidence of the performance of the reconciliation procedures (and review of the reconciliation) increases the risk of material noncompliance in the SFA program.

(CFDA No. 84.SFA; Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)

[1]**Total known federal questioned costs of $0:** $0 identified in the 3 reconciliations selected; $0 identified outside of the 3 reconciliations selected.

Recommendation No. 7:
Metropolitan State University of Denver should implement policies and procedures to document both the performance and review of the reconciliation of the School Accounts Statements (SAS) data file to its financial records.

Metropolitan State University of Denver Response: Agree. The Financial Aid Office & Scholarships will develop a better process to document reconciliation of federal direct loans. We have started to explore the DL Tools software offered by the Department of Education that identifies un-booked loans and mismatches between the universities Banner system and the COD system. After the errors and rejects are fixed the output could be saved and used as the documentation.

Implementation Date: January 1, 2015

Controls over Accuracy of Enrollment Reporting
Universities are required to notify lenders and guaranty agencies of the status of student aid recipients by accessing the National Student Loan Database (NSLDS) website and creating the Enrollment Reporting Summary Report.

Under the Pell grant and loan programs, schools must complete and return the Enrollment Reporting roster file within 30 days of receipt from the U.S. Department of Education. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Once received, universities must update the roster for changes in student statuses, report the date the enrollment statuses were effective, enter the new anticipated graduation dates, and submit the changes electronically through the NSLDS website.

What was the purpose of the audit work?
The purpose of the audit work was to determine whether the University uploaded roster files timely in accordance with federal regulations during Fiscal Year 2014.

What audit work was performed and how were results measured?
We tested 25 students who graduated from, withdrew, dropped out of, and/or registered but never attended the University during Fiscal Year 2014 to determine whether the University reported the student's change in status within the federally required timeframe.

Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days per 34 CFR section 690.83(b)(2), 34 CFR section 682.610 and 34 CFR section 685.309.

What problem did the audit work identify?
We found that, for 1 of 25 students we reviewed, the University did not report the student's change in enrollment status information into NSLDS website within the required timeframe. University staff subsequently identified the error but did not correct the error until 83 days after the enrollment status changed. We noted that there was no evidence of a reconciliation that compared the registrar's student enrollment information to the enrollment information reported by NSLDS to identify discrepancies.

Why did the problem occur?
The University does not have a review process in place to ensure that student enrollment data reported to the NSLDS is accurate and reported in a timely manner.

Why does this problem matter?
Failure to properly report student enrollment status increases the risk of material non-compliance with federal Student Financial Aid program requirements. A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to loan program holders by ED; consequently, students could be over awarded or under awarded federal financial aid, be obligated to return federal financial aid funds or obligation to pay back amounts on loans depending on the specific change to their enrollment status.

(CFDA No. 84.SFA; Student Financial Aid Cluster. Classification of Finding: Significant Deficiency.)

[1]**Total known federal questioned costs of $0:** $0 identified in the 25 students selected; $0 identified in payments outside of the 25 students selected.

Recommendation No. 8:
Metropolitan State University of Denver should implement a reconciliation process whereby the registrar generates a monthly report that contains reportable enrollment status changes that is compared to enrollment status changes reported to NSLDS within the past month. The reconciliation should be reviewed by a second individual of supervisory authority to ensure that the student enrollment data reported to the National Student Loan Data System (NSLDS) is accurate and reported in a timely manner.

Metropolitan State University of Denver Response: Agree. The Office of the Registrar has implemented the use of an additional error report, which we currently run before sending our data to the National Student Clearinghouse. We will also implement a secondary review of the error report review process.

Implementation Date: January 1, 2015

<u>Financial Statement Audit – Compliance</u>

Municipal Securities' Continuing Disclosure Requirements

Public institutions of higher education often exercise their ability to issue revenue bonds (municipal securities) as a way to obtain financing for various capital and other projects which are undertaken for the betterment of the institution and its higher education program. The issuance of municipal securities often comes with various continuing disclosure requirements which are submitted to the Electronic Municipal Market Access (EMMA), which is operated by the Municipal Securities Rulemaking Board and serves as the official source for municipal securities disclosures and related market data.

What was the purpose of the audit work?

The purpose of the audit work was to review the University's continuing disclosure requirements related to its outstanding municipal bond issuances to determine whether the University complied with those requirements by submitting the proper documentation to the EMMA database during Fiscal Year 2014.

What audit work was performed and how were results measured?

We reviewed the official statements for the three bond issuances of the University which were outstanding in Fiscal Year 2014 and identified any continuing disclosure requirements included in those statements. We then reviewed the EMMA web portal to verify whether the University submitted the proper documentation within the guidelines of the disclosure requirements and within the required time period. The University is required to submit certain financial and operating data with respect to the University and pledged revenues as describe in the official statement of the bonds.

What problem did the audit work identify?

We found that the University did not meet its continuing disclosure requirements for its three outstanding bond issuances in Fiscal Year 2014. Specifically, we noted that the University did not submit the required operational reporting information required for its outstanding bond issuances.

Why did the problem occur?

The University did not have proper procedures in place to ensure that it prepared and submitted all continuing disclosure requirements with respect to its municipal bond issuances. As a result, the University had instances of non-compliance with these continuing disclosure requirements.

Why does this problem matter?

The University was not in compliance with continuing disclosure requirements outlined in the University's debt issuances, which could impact the University's ability to issue debt in the future as all noncompliance must be disclosed in bond offering documents.

Classification of Finding: Significant Deficiency

Recommendation No. 9:

The Metropolitan State University of Denver should implement appropriate internal controls to ensure that it is in compliance with all continuing disclosure requirements related to its outstanding debt.

Metropolitan State University of Denver Response: Agree. The University has contracted with a Disclosure Dissemination Agent, Digital Assurance Certification, LLC (DAC) to not only assist with timely disclosure, but to provide continuing education as well. The University has also implemented a policy on bond disclosure requirements and is reviewing procedures to ensure they are current and accurate.

Implementation Date: January 1, 2015

METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
DISPOSITION OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2014

The following table presents the recommendations still outstanding from the June 30, 2013 audit, and its disposition as of June 30, 2014:

Recommendation No.	**Disposition**
Recommendation No. 1 – Metropolitan State University of Denver (the University) should implement appropriate internal controls to ensure that all applicable return of Title IV funds calculations are properly reviewed by someone other than the preparer to ensure accuracy and that evidence of the review is maintained.	Not implemented. See current year Recommendation No. 4.
Recommendation No. 2 – The University should implement policies and procedures to ensure documented evidence of review of disbursement dates established in the Banner system is maintained. Additionally, the University should implement policies and procedures to document both the performance and review of the SAS reconciliation.	Not implemented. See current year Recommendation No. 7.
Recommendation No. 3 – The Controller or Director of Accounting Services of the University should perform a review of the HLC @ Metro's financial statements and note disclosures to ensure that all information presented is complete and accurate and in accordance with U.S generally accepted accounting principles. An accounting and financial reporting disclosure checklist can be utilized to assist with this review. Management should also ensure that amounts reported in the financial statements of the University, the HLC @ Metro, and the Foundation are reconciled.	Implemented
Recommendation No. 4 – The University should implement appropriate internal controls to ensure that the student enrollment data reported to the NSLDS is accurate.	Not implemented. See current year Recommendation No. 8.

Independent Auditors' Report

Members of the Legislative Audit Committee:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver (formerly, Metropolitan State College of Denver) (the University), an institution of higher education of the State of Colorado, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit and the reports of other auditors. We did not audit the financial statements of the Metropolitan State University of Denver Foundation, Inc. (the Foundation), a discretely presented component unit, discussed in note 1 to the financial statements, which represents 22% of total assets, 39% of total revenues, and 98% of net position of the aggregate discretely presented component units as of and for the years ended June 30, 2014. Those financial statements were audited by an other auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of an other auditor. 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. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards.*

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 entity'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 opinions.

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 18 to the financial statements, in fiscal year 2014, the University adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This standard was implemented retroactively and resulted in the fiscal year 2013 beginning balance of net position being restated to reflect the standard implementation. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the University, an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Colorado that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 10 of the financial statements of the HLC @ Metro, Inc., a discretely presented component unit, the June 30, 2013 financial statements of HLC @ Metro, Inc. have been restated to correct certain misstatements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

The description of the Metropolitan State University of Denver on page 7 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Information

The financial statements of the University and the aggregate discretely presented component units as of June 30, 2013 were audited by other auditors whose report dated December 5, 2013 expressed an unmodified opinion. The predecessor auditor reported on the financial statements of the prior period before the prior year restatement of HLC @ Metro, Inc.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 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 results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Denver, Colorado
December 11, 2014

This section of Metropolitan State University of Denver's (MSU Denver, or the University) financial report presents management's discussion and analysis of the financial performance of MSU Denver during the years ended June 30, 2014 and 2013. This discussion focuses on current activities and known facts and provides an overview of MSU Denver's financial activities in comparison with the prior year. It should, therefore, be read in conjunction with the accompanying comparative financial statements and notes.

Understanding the Comparative Financial Report

The financial statements adhere to Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. In fiscal year 2014 the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement requires, among other things, that bond issuance costs be expensed when incurred as opposed to amortizing over the life of the bond. As per the statement this change was applied retroactively and prior year's financial information has been restated. The University also adopted GASB Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This statement requires the University to recognize a liability when it is more likely than not that we would be required to make a payment on debt that we guarantee. The University does guarantee, until they are fully paid, the bonds of the HLC@Metro Inc, a discretely presented component unit, but as of June 30th 2014, there is no likelihood that the University would have to render payment on that guarantee, and therefore no liability was recorded. Our footnotes have been modified to include additional disclosure about the guarantee. Please see note 13 for more information.

This annual report consists of a series of financial statements in compliance with the standards noted above: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. The presentation of financial information is in a format comparable to that used by for-profit colleges and universities. The statements are prepared under the accrual basis of accounting. Hence, revenues and assets are recognized when service is provided, and expenses and liabilities are recognized when others provide the goods or services, without regard to the actual date of collection or payment.

The financial statements of the Metropolitan State University of Denver Foundation, Inc. (the Foundation) and the HLC @ Metro, Inc. are included in MSU Denver's financial statements as required by GASB Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This management's discussion and analysis focuses on the financial activities of the University and not the discretely presented component units.

Financial Highlights

MSU Denver's financial position, as a whole, improved during the years ended June 30, 2014 and 2013. The combined net position increased $1.8 million and $4.7 million, respectively, over the previous year.

- In fiscal year 2014, the level of funding for MSU Denver's College Opportunity Fund (COF) stipends was set by the General Assembly at $64 per eligible credit hour. This amount increased from $62 per eligible credit hour in fiscal year 2013.
- MSU Denver's June 30, 2014 current assets of $87.4 million were sufficient to cover current liabilities of $33.9 million. The current ratio of 2.58 (current assets/current liabilities) reflects the liquidity of MSU Denver's assets and the availability of funds for current operations. As of June 30, 2013 MSU Denver had $88.9 million in current assets and $32.2 million in current liabilities, resulting in a current ratio of 2.76.
- The University had outstanding bonds payable of $61.1 million and $62.6 million in fiscal year 2014 and 2013 respectively.
- MSU Denver's headcount had decreases of 2.53%, 3.17%, and 5.54% in the summer 2013, fall 2013, and spring 2014 terms, respectively, over the previous year's terms.

Statements of Net Position

The statements of net position report on assets, liabilities, and net position (net position represent the excess of total assets over total liabilities) as of June 30, 2014 and 2013. Over time, increases or decreases in net position are one indicator of MSU Denver's financial health when considered in conjunction with nonfinancial facts such as student enrollment.

Condensed Statements of Net Position

		June 30		
		2014	**2013**	**2012**
			(In thousands)	
Assets:				
Current assets	$	87,426	88,888	81,730
Noncurrent assets		94,455	91,259	91,249
Total assets	$	181,881	180,147	172,979
Liabilities:				
Current liabilities	$	33,869	32,169	27,998
Noncurrent liabilities		69,108	70,828	72,545
Total liabilities	$	102,977	102,997	100,543
Net position:				
Net Investment in Capital Assets	$	17,569	11,752	8,399
Restricted for expendable purposes		9,363	9,371	9,413
Unrestricted		51,972	56,027	54,624
Total net position	$	78,904	77,150	72,436

At June 30, 2014 and 2013, MSU Denver's total assets were $181.9 and $180.1 million, respectively, which is an increase of $1.7 million and $7.1 million, respectively, when compared to the prior year.

A $3.0 million decrease in the total of unrestricted cash and cash equivalents, and restricted cash, a $4.2 million increase in depreciable and non-depreciable assets and a $404 thousand increase in prepaid expenses are the primary reasons for the $1.7 million increase in total assets in fiscal year 2014, which is discussed in greater detail below.

Unrestricted cash and cash equivalents, and restricted cash decreased $3.0 million in fiscal year 2014 primarily due to spending down plant reserves on new athletic fields.

Construction in progress increased $2.3 million and land increased $858 thousand, both increases are attributable to the work done on the new athletic fields. Leasehold improvements-net of related depreciation increased $694 thousand which is primarily related to remodeling and renovations to the Plaza building, King Center, and the Administrative building. Land Improvements increased $713 thousand resulting from the completion of new tennis courts.

Prepaid expenses increased approximately $404 thousand which is primarily due to increases in software maintenance contracts.

At June 30, 2013 and 2012, MSU Denver's total assets were $180.1 million and $173.0 million, respectively, which is an increase of $7.1 million and $3.2 million, respectively, when compared to the prior year.

A $3.9 million increase in unrestricted cash and cash equivalents and a $3.4 million increase in accounts receivable are the primary reasons for the $7.1 million increase in total assets in fiscal year 2013, which is discussed in greater detail below.

Unrestricted cash and cash equivalents increased $3.9 million in fiscal year 2013 primarily due to a 13% increase in tuition.

Accounts receivable-student increased $1.6 million due to the increase in tuition discussed above, but also because of student health insurance. In Fall 2012, MSU Denver took over the administration of the student health insurance. This change resulted in the student health insurance charges being recorded on the University's books and records, thereby increasing the University's receivables.

Accounts receivable-other increased $1.7 million, which is primarily a result of timing differences in receiving payments from our federal and state awards.

MSU Denver's financial position improved during both fiscal years 2014 and 2013 as evidenced by the increase in net position of $1.8 million and $4.7 million, respectively. Of the total $78.9 million in net position in fiscal year 2014, $17.6 million is net investment in capital assets, $9.4 million is restricted for expendable purposes for student loans, and $52.0 million is unrestricted and available for any lawful purpose of MSU Denver. Of the total $77.2 million in net position in fiscal year 2013, $11.8 million is net investment in capital assets, $9.4 million is restricted for expendable purposes for student loans, and $56.0 million is unrestricted and available for any lawful purpose of MSU Denver.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present the results of operations during fiscal years 2014 and 2013. Activities are reported as either operating or nonoperating. Operating revenues and expenses generally result from providing services for instruction, public service, student services, and academic and institutional support to/from an individual or entity separate from MSU Denver. Nonoperating revenues and expenses are those other than operating and include but are not limited to investment and interest income, private grants and gifts, rental income, and Pell grants.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

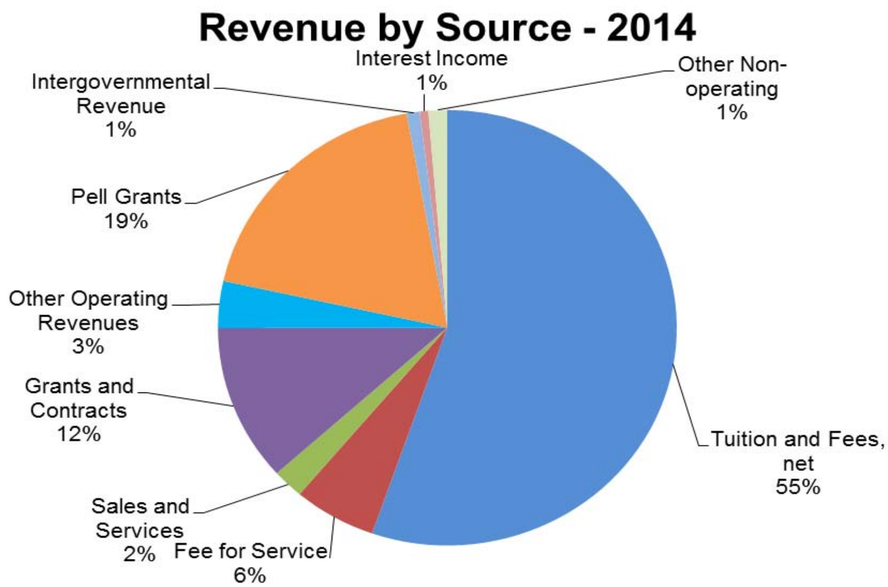
		June 30	
	2014	2013	2012
		(In thousands)	
Operating revenues:			
Tuition and fees, net	$ 96,388	92,621	84,557
Fee for service	10,156	8,657	6,634
Sales and services	3,827	2,929	3,575
Grants and contracts	20,272	19,342	18,273
Other operating revenues	6,036	6,731	5,789
Total operating revenues	136,679	130,280	118,828
Operating expenses	168,159	160,511	148,890
Operating loss	(31,480)	(30,231)	(30,062)
Nonoperating revenues:			
Pell grants	32,602	34,356	36,391
Intergovernmental revenue	1,597	1,526	1,622
Investment and interest income	1,053	(7)	902
Interest expense on capital asset-related debt	(3,893)	(3,901)	(2,957)
Loss on disposal of capital assets	(429)	(110)	(16)
Nonoperating gifts and donations	2,203	2,899	2,363
Other non operating revenue	101	182	—
Net nonoperating revenues	33,234	34,945	38,305
Increase in net position	1,754	4,714	8,243
Net position at beginning of year	77,150	72,436	64,193
Net position at end of year	$ 78,904	77,150	72,436

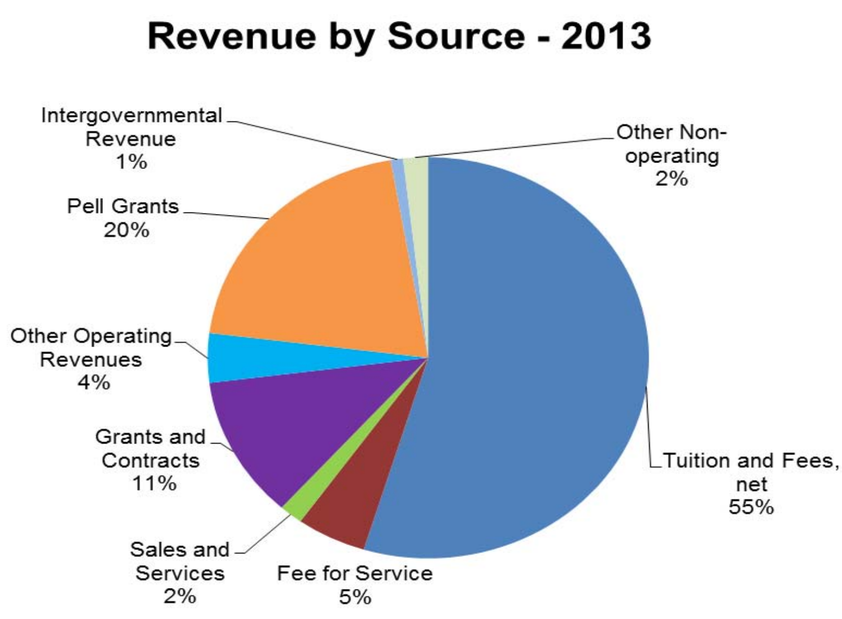
Tuition and fees revenue, net, accounted for $96.4 million of $136.7 million in operating revenue in fiscal year 2014. The tuition and fees revenue amount is net of scholarship allowances of $52.8 million and bad debt of $2.7 million. Scholarship allowances are defined as the difference between the stated charge of tuition and fees and the amount that is paid by students or third parties making payment on behalf of students.

Net tuition and fee revenue increased $3.7 million, or 4.1%, from fiscal year 2013. There was a 9% increase in tuition rates in fiscal year 2014, but enrollment began to decline, as noted in the financial highlights section above. Scholarship discounts and allowances increased $1.3 million from fiscal year 2013 due to the increase in tuition and Colorado student grants.

In fiscal year 2013 tuition and fees revenue, net, accounted for $92.6 million of $130.3 million in operating revenue. The tuition and fees revenue amount is net of scholarship allowances of $51.5 million. Tuition and fees revenue, net, accounted for $84.6 million of $118.8 million in operating revenue in fiscal year 2012. The tuition and fees revenue amount is net of scholarship allowances of $51.1 million.

Despite small decreases in enrollment in fiscal year 2013, tuition and fee revenue increased $8.1 million from fiscal year 2012. This increase is due to a 13% increase in undergraduate and graduate tuition. Scholarship discounts and allowances increased $410 thousand from fiscal year 2012 due to the increase in tuition.
The following are graphic illustrations of total revenue (operating and nonoperating) by source for MSU Denver for fiscal years 2014 and 2013, respectively. Each major revenue component is displayed relative to its proportionate share of total revenue.





Overall operating expenses show an increase of $7.6 million over fiscal year 2013 due to several factors. There was a $6.2 million increase in salary and benefit expenses in fiscal year 2014. This increase resulted from a 2% pay increase for all exempt staff as well as a 3% pay increase for all Classified staff. There was also a net increase of 54 full time employees (FTE) in fiscal year 2014. There was an $862 thousand increase in non-capital expenses, which consisted of offsetting increases and decreases. There was a $1.0 million increase for the electrical infrastructure, a $285 thousand increase for the conceptual design work for a new Aerospace building, and a $382 thousand increase in the appropriations paid to AHEC such. These increases were offset by a $284 thousand decrease in non-capital equipment purchases and a $530 thousand decrease in major remodeling. Lastly, there was a $515 thousand increase in depreciation expense.

In fiscal year 2013 overall operating expenses show an increase of $11.6 million over fiscal year 2012 due to several factors. There was a $5.6 million increase in salary and benefit expenses in fiscal year 2013. This increase resulted from a 2% pay increase for all exempt staff as well as the University paying an additional 2.5% in retirement benefits for those employees enrolled in the Public Employees Retirement Association (PERA). There was also a $4.0 million increase in materials and supplies which is predominately due to increases for computer services, such as database consulting and support. Lastly, there was a $2.0 million increase in expenses for equipment, most of which related to non-capital furniture purchases for the Hospitality Learning Center and Backfill project and small remodeling projects for the Student Success Building.

		2014	2013	2012
Operating expenses:				
Instruction	$	75,531,096	73,358,268	71,502,369
Research		16,542	48,888	43,642
Public service		813,143	884,055	696,180
Academic support		15,700,581	13,898,702	10,485,609
Student services		17,273,000	17,954,011	16,679,404
Institutional support		18,048,463	14,335,136	13,729,183
Operation of plant		12,607,469	12,133,409	11,295,306
Scholarships and fellowships, net		1,875,244	1,927,788	2,203,067
Auxiliary enterprise expenditures		21,023,242	21,215,625	18,645,863
Depreciation		5,269,745	4,755,085	3,608,920
Total operating expenses	$	168,158,525	160,510,967	148,889,543

Statements of Cash Flows

The statements of cash flows present relevant information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities. It also helps the users of financial statements gauge MSU Denver's ability to generate cash flows and meet financial obligations as they mature.

Condensed Statements of Cash Flows

		June 30	
	2014	**2013**	**2012**
		(In thousands)	
Net cash provided by (used in):			
Operating activities	$ (25,831)	(24,321)	(26,637)
Noncapital financing activities	35,657	36,939	38,502
Capital and related financing activities	(13,831)	(15,731)	(42,216)
Investing activities	968	(7)	902
Net (decrease) increase in cash	(3,037)	(3,120)	(29,449)
Cash and cash equivalents:			
Beginning of year	80,842	83,962	113,411
End of year	$ 77,805	80,842	83,962

MSU Denver's cash and cash equivalents decreased by $3.0 million and $3.1 million in fiscal year 2014 and 2013, respectively. The decrease in 2014 is a primarily due to three offsetting factors. The University spent approximately $6.6 million of plant reserves on the new athletic fields and new electrical infrastructure, the Auxiliary funds increased their cash balance $2.7 million, which was primarily due to the Metro Bond fee reserves, and lastly the Agency funds increased their cash balance approximately $1.1 million primarily resulting from timing differences in payments. The major sources of unrestricted cash inflows in fiscal year 2014 were $95.2 million from tuition and fees, $21.0 million from grants and contracts, and $32.6 million in Pell grants.The primary outflows are $114.0 million for payments to or for employees, $9.5 million for the acquisition of capital assets, and $47.8 million for payments to suppliers.

MSU Denver's cash and cash equivalents decreased by $3.1 million in fiscal year 2013; whereas, fiscal year 2012 had a decrease of $29.4 million. The decrease in 2013 is a primarily due to spending down the series 2010 bond proceeds for the completion of the backfill project. The major sources of unrestricted cash inflows in fiscal year 2013 were $90.6 million from tuition and fees, $18.6 million from grants and contracts, and $34.3 million in Pell grants. The primary outflows are $107.8 million for payments to or for employees, $11.5 million for the acquisition of capital assets, and $42.1 million for payments to suppliers.

Capital Assets

At June 30, 2014, the University had $79.6 million in property, plant, and equipment, net of accumulated depreciation of $24.6 million. Depreciation charges were $5.3 million for the current year compared to $4.8 million in fiscal year 2013 and $3.6 million in fiscal year 2012.

The $2.3 million increase in construction in progress, the $713 thousand increase in land improvements and the $858 thousand increase in land were due to construction on the new athletic fields.

Details of these assets are shown in the table below:

Capital Assets, Net of Depreciation at Year-End

		June 30	
	2014	2013	2012
		(In thousands)	
Construction in progress	$ 7,403	5,136	6,158
Land	1,005	147	
Equipment	7,654	5,927	5,467
Buildings	42,383	43,979	41,645
Leasehold/land improvements	21,133	20,224	15,183
Total	$ 79,578	75,413	68,453

Debt

In November 2009, MSU Denver issued $55.2 million of Series 2009 Taxable Institutional Enterprise Revenue Bonds to finance the construction of the University's first brick and mortar building, the Student Success Building (SSB). The SSB is estimated to add 145,000 square feet of space for classrooms and faculty offices, specifically for MSU Denver students and professors. It will also provide students with a central location for student support services. In June 2010, the University issued $10.6 million in Series 2010 Taxable Institutional Enterprise Revenue Bonds for various major remodeling projects (see note 6 for more information on these obligations) as personnel moved to the SSB. These bonds will be paid off using proceeds from a student bond fee approved by the University's students. Both bond issuances are Revenue Zone Economic Development Bonds (RZEDBs) that make them eligible for a 45% bond interest subsidy from the federal government.

In June 2014, the University issued Series 2014 Institutional Enterprise Revenue Bonds not to exceed $4.0 million to help fund the construction of new athletic fields. These bonds work like a line of credit, where the University can draw funds on an as needed basis. As of June 30, 2014 the University only drew $75 thousand to pay for issuance costs.
At June 30, 2014, the University had $68.3 million in outstanding debt compared to $70.2 million at June 30, 2013 and $72.0 million at June 30, 2012. The table below summarizes these amounts by type of debt:

Outstanding Debt at Year-End

		June 30	
	2014	2013	2012
		(In thousands)	
Series 2009	$ 51,255	52,585	53,895
Series 2010	9,811	10,055	10,293
Series 2014	75	—	—
Capital lease	7,176	7,520	7,848
Total	$ 68,317	70,160	72,036

Economic Outlook and Metropolitan State University of Denver's Future

Colorado's economy has shown significant growth recently. According to an August, 2014 article by the Business Insider, Colorado has the fastest growing economy in the United States[1]. While Colorado's economy is diversified it does have a large aerospace sector which MSU Denver is leveraging. MSU Denver plans to develop a new facility that will house aviation and aerospace science; mechanical, electrical and civil engineering technologies; industrial design; physics, computer information systems and computer science. The purpose of this building would be to support an integrated curriculum, and promote collaborative research. An estimated timeline for this building suggests MSU Denver would break ground in fall 2015, with a completion date of fall 2017. It would be built on the southeast corner of 7th Street and Auraria Parkway, and the estimated cost of $60 million would be funded with MSU Denver, state and private-sector support.

The University continued construction on the new athletic fields known as "The Regency Athletic Complex at MSU Denver". This 12.5 acre project is located south of the Colfax Avenue viaduct adjacent to Shoshone Street, and will be home to six of the Roadrunners' 15 sports teams: baseball, softball, men's and women's soccer, and men's and women's tennis. In fiscal year 2014, the tennis courts were completed. The soccer stadium is scheduled for completion by fall 2014 and the softball and baseball diamonds by early 2015. This project includes construction of a 20,000 square foot building to house locker rooms, a strength and conditioning facility, and an athletic training room.

MSU Denver retained its enterprise status during fiscal year 2014 by receiving less than 10% in state funding. The COF stipend was set by the General Assembly for fiscal year 2013 at $64 per eligible credit hour for resident undergraduate students, and was not cut during the year. The stipend has been increased to $75 per eligible credit hour for fiscal year 2015, which is currently appropriated at $27.8 million, per the long bill. MSU Denver received $10.2 million in fee-for-service revenue in fiscal year 2014, and is budgeted to receive $11.5 million in fiscal year 2015.

In fiscal year 2014, MSU Denver raised tuition by 9% for undergraduate residents. The University will raise undergraduate tuition 6% in fiscal year 2015, in accordance with Senate Bill 14-001, which increased our state appropriation for fiscal year 2015 by nearly 11% but limited the tuition increases to 6%. The University was previously approved to increase tuition by 9% in fiscal year 2015 based on the Financial Accountability Plan (FAP) that was approved by the Colorado Commission on Higher Education (CCHE) in November, 2010.

In March 2013, the federal government enacted the Balanced Budget and Emergency Deficit Control Act, and President Obama issued a sequestration order that reduced the subsidy amount the University received on its Recovery Zone Economic Development Bonds (RZEDB). Before sequester, the subsidy paid MSU Denver 45% of the interest amount on both the series 2009 and 2010 bonds. Sequester is scheduled though 2024 with reductions spanning 5.5% to 7.1%. The table below shows MSU Denver's original subsidy payment amounts and the modified payments for each RZEDB.

[1] http://www.businessinsider.com/state-economic-growth-rankings-2014-8?op=1

Series 2009 Bond Interest Payments and Corresponding Subsidy Receipts

June 30,	Interest Payment	Original Interest Subsidy	Original % of Subsidy Payments	Modified Interest Subsidy	Modified % of Subsidy Payments	Difference
2010	1,585,672	713,553	45%	713,553	45%	(0)
2011	3,052,632	1,373,684	45%	1,373,684	45%	(0)
2012	3,039,941	1,367,973	45%	1,367,973	45%	(0)
2013	3,010,744	1,354,835	45%	1,296,222	43%	(58,612)
2014	2,974,155	1,338,370	45%	1,242,007	42%	(96,363)
Total Reduction in Series 2009 Bond Subsidy Payments						**(154,975)**

Series 2010 Bond Interest Payments and Corresponding Subsidy Receipts

June 30,	Interest Payment	Original Interest Subsidy	Original Subsidy % of Interest Payment	Modified Interest Subsidy	Modified Subsidy % of Interest Payment	Difference
2011	543,193	244,437	45%	244,437	45%	(0)
2012	568,015	255,607	45%	255,607	45%	(0)
2013	563,395	253,528	45%	242,549	43%	(10,979)
2014	557,629	250,933	45%	232,866	42%	(18,067)
Total Reduction in Series 2010 Bond Subsidy Payments						**(29,046)**

Effective July 1, 2014 the University will implement the requirements of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions.* This statement establishes new financial reporting requirements for governments that provide their employees with pension benefits. The University does provide certain employees with pension benefits through the State's multiple employer cost-sharing Public Employees' Retirement Association (PERA) defined benefit program.

Statement No. 68 requires the University to record a liability equal to its proportional share of the net pension liability of the Public Employees' Retirement Association (PERA). The University does not have a legal obligation to fund PERA's shortfall, nor does it have the ability to affect funding, benefit or required annual contribution decisions which are made by PERA or the General Assembly. PERA has not yet calculated the net pension liability nor has it determined the University's proportionate share of that liability. Under existing accounting and actuarial standards, PERA disclosed an unfunded actuarial accrued liability of $9,714,265,000 as of December 31, 2013. In fiscal year 2015 when the University records its portion of the net pension liability it will directly offset unrestricted net position.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to MSU Denver at Campus Box 98, P.O. Box 173362, Denver, CO 80217

METROPOLITAN STATE UNIVERSITY OF DENVER
Business-Type Activity
Statements of Net Position
June 30, 2014 and 2013

	2014	2013 (restated)
Assets		
Current assets:		
Cash and cash equivalents	$ 71,703,193	73,572,933
Accounts receivable – student (net of allowance for doubtful accounts of $3,034,435 and $2,364,901, respectively)	11,213,072	9,676,884
Accounts receivable – other	1,833,370	3,389,131
Loans receivable	1,151,905	1,128,915
Prepaid expense	1,524,139	1,120,535
Total current assets	87,425,679	88,888,398
Noncurrent assets:		
Restricted cash	6,102,430	7,269,516
Investments	275,634	190,634
Prepaid expense	336,026	167,515
Loans receivable (net of allowance for doubtful accounts of $476,610 and $495,557, respectively)	8,163,062	8,218,155
Land	1,005,185	146,863
Construction in progress	7,402,532	5,135,740
Depreciable assets, net:		
Equipment	7,653,551	5,927,491
Buildings	42,382,791	43,979,117
Leasehold and land improvements	21,133,419	20,224,069
Total depreciable capital assets, net	71,169,761	70,130,677
Total noncurrent assets	94,454,630	91,259,100
Total assets	$ 181,880,309	180,147,498
Liabilities		
Current liabilities:		
Accounts payable	$ 8,085,138	7,705,256
Accrued payroll	11,396,219	10,791,504
Unearned revenue	8,294,356	7,107,109
Compensated absences	308,706	307,845
Bonds payable	1,600,000	1,575,000
Capital leases	361,503	343,651
Deposits held in custody and other current liabilities	3,822,724	4,338,384
Total current liabilities	33,868,646	32,168,749
Noncurrent liabilities:		
Compensated absences	2,751,542	2,587,536
Bonds payable	59,541,120	61,064,624
Capital leases	6,814,916	7,176,419
Total noncurrent liabilities	69,107,578	70,828,579
Total liabilities	102,976,224	102,997,328
Net position:		
Net investment in capital assets	17,568,548	11,752,454
Restricted for expendable purposes	9,362,915	9,370,555
Unrestricted	51,972,622	56,027,161
Total net position	$ 78,904,085	77,150,170

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
Aggregate Discretely Presented Component Units
Statements of Financial Position
June 30, 2014 and 2013

ASSETS	2014 Metropolitan State University of Denver Foundation, Inc.	2014 HLC @ Metro Inc.	2014 Total	2013 Metropolitan State University of Denver Foundation, Inc.	2013 HLC @ Metro Inc.	2013 Total
Cash and cash equivalents	$ 1,367,272	$ 530,994	$ 1,898,266	$ 1,531,853	$ 431,430	$ 1,963,283
Restricted cash and cash equivalents	-	6,663,433	6,663,433	-	4,697,736	4,697,736
Promises to give, net	808,613	-	808,613	1,131,199	-	1,131,199
Accounts receivable	204,592	475,944	680,536	-	1,553,700	1,553,700
Use of land	-	5,111,086	5,111,086	-	5,221,397	5,221,397
Beneficial interest in charitable trusts held by others	111,645	-	111,645	98,211	-	98,211
Investments	3,563,140	-	3,563,140	3,251,528	-	3,251,528
Endowment						
Promises to give, net	1,292,526	-	1,292,526	143,541	-	143,541
Investments	6,524,854	-	6,524,854	5,214,263	-	5,214,263
Land and building, net	1,618,572	41,156,363	42,774,935	1,654,014	42,225,388	43,879,402
Furniture and equipment, net	-	999,581	999,581	-	1,416,764	1,416,764
Deferred debt issuance costs (net of amortization of $344,761 and $172,380, respectively)	-	1,266,132	1,266,132	-	1,438,513	1,438,513
Other assets	25,655	127,266	152,921	19,907	126,720	146,627
Total assets	$ 15,516,869	$ 56,330,799	$ 71,847,668	$ 13,044,516	$ 57,111,648	$ 70,156,164
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	$ 14,000	$ 185,455	$ 199,455	$ 11,441	$ 473,626	$ 485,067
Accounts payable and other	129,520	-	129,520	1,372,846	-	1,372,846
Retainage payable	-	-	-	-	150,000	150,000
Interest payable	-	1,075,377	1,075,377	-	1,075,377	1,075,377
Bonds payable	-	54,589,807	54,589,807	-	54,606,629	54,606,629
Liabilities under charitable gift annuities	51,543	-	51,543	52,902	-	52,902
Other current liabilities	-	208,149	208,149	-	238,916	238,916
Total liabilities	195,063	56,058,788	56,253,851	1,437,189	56,544,548	57,981,737
Net assets						
Unrestricted	2,324,741	(4,853,080)	(2,528,339)	1,802,760	(5,632,756)	(3,829,996)
Temporarily restricted	9,988,489	5,125,091	15,113,580	8,550,655	6,199,856	14,750,511
Permanently restricted	3,008,576	-	3,008,576	1,253,912	-	1,253,912
Total net assets	15,321,806	272,011	15,593,817	11,607,327	567,100	12,174,427
Total liabilities and net assets	$ 15,516,869	$ 56,330,799	$ 71,847,668	$ 13,044,516	$ 57,111,648	59,720,716

METROPOLITAN STATE UNIVERSITY OF DENVER
Business-Type Activity
Statements of Revenues, Expenses, and Changes in Net Position
June 30, 2014 and 2013

	2014	2013 (restated)
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $52,755,531 and $51,500,994, respectively, and bad debt expense of $2,700,745 and $1,842,374, respectively.	$ 96,387,643	92,621,047
Fee for service	10,155,923	8,657,019
Sales and services of educational departments	258,817	409,683
Sales and services of auxiliary enterprises	3,567,892	2,519,041
Federal grants and contracts	6,212,819	6,344,816
State grants and contracts	13,929,959	12,048,281
Local grants and contracts	100,964	119,474
Private grants and contracts	28,568	830,207
Operating interest income	157,765	155,241
Other operating revenues	5,878,538	6,575,585
Total operating revenues	136,678,888	130,280,394
Operating expenses:		
Instruction	75,531,096	73,358,268
Research	16,542	48,888
Public service	813,143	884,055
Academic support	15,700,581	13,898,702
Student services	17,273,000	17,954,011
Institutional support	18,048,463	14,335,136
Operation of plant	12,607,469	12,133,409
Scholarships and fellowships	1,875,244	1,927,788
Auxiliary enterprise expenditures	21,023,242	21,215,625
Depreciation	5,269,745	4,755,085
Total operating expenses	168,158,525	160,510,967
Operating loss	(31,479,637)	(30,230,573)
Nonoperating revenues (expenses):	173,428,270	
Pell grants	32,602,295	34,356,222
Intergovernmental revenue	1,597,343	1,525,745
Investment and interest income	1,052,783	(7,016)
Interest expense on capital asset related debt	(3,893,049)	(3,901,533)
Loss on disposal of fixed assets	(429,459)	(109,893)
Nonoperating gifts and donations	2,202,224	2,899,364
Other nonoperating	101,415	181,682
Net nonoperating revenue	33,233,552	34,944,571
Increase in net position	1,753,915	4,713,998
Net position at beginning of year- restated	77,150,170	72,436,172
Net position at end of year	$ 78,904,085	77,150,170

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
Aggregate Discretely Presented Component Units
Statements of Activities
June 30, 2014 and 2013

	2014			2013		
	Metropolitan State University of Denver Foundation, Inc.	HLC @ Metro Inc.	Total	Metropolitan State University of Denver Foundation, Inc.	HLC @ Metro Inc.	Total
Change in unrestricted net assets:						
Support, revenue, and gains:						
Contributions	$ 109,362	$ 376,782	$ 486,144	$ 116,509	$ -	$ 116,509
In-kind contributions	1,375,485	-	1,375,485	1,193,470	1,076,407	2,269,877
Endowment management fees	93,349	-	93,349	58,691	-	58,691
Total support	1,578,196	376,782	1,954,978	1,368,670	1,076,407	2,445,077
Net investment gain (loss)	146,187	17,527	163,714	24,810	(54,233)	(29,423)
Federal interest subsidy	-	954,574	954,574	-	1,064,778	1,064,778
Rooms revenue	-	6,740,743	6,740,743	-	4,398,040	4,398,040
Food and beverage revenue	-	733,809	733,809	-	597,722	597,722
Parking, telephone and other revenue	-	799,040	799,040	-	538,313	538,313
Rent - Center for Visual Arts (CVA)	132,679	-	132,679	133,960	-	133,960
Cancellation of below-market lease provision in CVA lease to University	200,000	-	200,000	-	-	-
Net assets released from restrictions	2,765,455	1,088,770	3,854,225	3,374,767	110,311	3,485,078
Other reclassifications of net assets	11,563	-	11,563	21,972	-	21,972
Total support, revenue, and gains	4,834,080	10,711,245	15,545,325	4,924,179	7,731,338	12,655,517
Expenses and losses:						
Support provided to the University	2,523,732	-	2,523,732	3,165,000	-	3,165,000
University Hospitality Learning Center program services	-	4,154,876	4,154,876	179,311	3,146,624	3,325,935
General and administrative costs	344,589	858,709	1,203,298	312,636	3,015,779	3,328,415
Depreciation expenses	-	1,506,447	1,506,447	-	751,506	751,506
Donor development costs	1,374,485	29,846	1,404,331	1,190,720	60,713	1,251,433
Interest and amortization	-	3,381,691	3,381,691	-	3,314,733	3,314,733
Operating expenses for CVA	69,293	-	69,293	65,141	-	65,141
Total expenses and losses	4,312,099	9,931,569	14,243,668	4,912,808	10,289,355	15,202,163
Changes in unrestricted net assets	521,981	779,676	1,301,657	11,371	(2,558,017)	(2,546,646)
Change in temporarily restricted net assets:						
Support, revenue and gains:						
Contributions	3,035,812	14,005	3,049,817	2,427,160	978,459	3,405,619
In-kind contributions	71,950	-	71,950	179,311	-	179,311
Special events revenue, net	443,594	-	443,594	292,563	-	292,563
Total support	3,551,356	14,005	3,565,361	2,899,034	978,459	3,877,493
Net investment gain (loss)	663,496	-	663,496	365,054	-	365,054
Net assets released from restrictions	(2,765,455)	(1,088,770)	(3,854,225)	(3,374,767)	(110,311)	(3,485,078)
Other reclassifications of net assets	(11,563)	-	(11,563)	(21,972)	-	(21,972)
Total support, revenue, and gains	1,437,834	(1,074,765)	363,069	(132,651)	868,148	735,497
Losses:						
Loss on uncollectible promises to give	-	-	-	7,750	-	7,750
Changes in temporarily restricted net assets	1,437,834	(1,074,765)	363,069	(140,401)	868,148	727,747
Change in permanently restricted net assets:						
Support, revenue, and gains:						
Contributions	1,741,230		1,741,230	238,344	-	238,344
Special events revenue, net	-	-	-	5,044	-	5,044
Total support	1,741,230	-	1,741,230	243,388	-	243,388
Net investment (loss) gain	13,434	-	13,434	8,828	-	8,828
Total support, revenue, and gains	1,754,664	-	1,754,664	252,216	-	252,216
Changes in permanently restricted net assets	1,754,664	-	1,754,664	252,216	-	252,216
Changes in net assets	3,714,479	(295,089)	3,419,390	123,186	(1,689,869)	(1,566,683)
Net assets, beginning of year (restated Note 9)	11,607,327	567,100	12,174,427	11,484,141	2,256,969	13,741,110
Net assets, end of year	$ 15,321,806	$ 272,011	$ 15,593,817	$ 11,607,327	$ 567,100	$ 12,174,427

METROPOLITAN STATE UNIVERSITY OF DENVER
Business-Type Activity
Statements of Cash Flows
June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received:		
Tuition and fees	$ 95,190,873	90,566,707
Fee for service	10,155,923	8,657,019
Sales and services	4,163,949	2,679,001
Grants and contracts	20,974,159	18,603,169
Student loans collected	1,255,992	1,263,747
Other operating receipts	7,051,696	7,077,028
Cash payments:		
Payments to or for employees	(114,008,198)	(107,834,927)
Payments to suppliers	(47,783,517)	(42,171,319)
Scholarships disbursed	(1,875,244)	(1,927,788)
Student loans disbursed	(1,248,563)	(1,233,740)
Net cash used in operating activities	(26,122,930)	(24,321,103)
Cash flows from noncapital financing activities:		
Nonoperating gifts and donations	2,168,604	2,864,096
Pell grants	32,636,428	34,357,917
Agency (direct lending inflows)	98,830,202	106,288,986
Agency (direct lending outflows)	(98,650,784)	(106,490,043)
Other agency (inflows)	9,789,901	9,287,240
Other agency (outflows)	(9,117,069)	(9,368,915)
Net cash provided by noncapital financing activities	35,657,282	36,939,281
Cash flows from capital and related financing activities:		
Interest subsidy	1,474,873	1,541,895
Insurance Proceeds	1,260	
Debt Issuance Costs	(57,000)	
Interest on capital asset related debt	(3,836,049)	(3,901,531)
Proceeds from bond sale	75,000	
Principal paid on bonds	(1,573,505)	(1,548,505)
Principal paid on capital leases	(343,651)	(328,031)
Proceeds from sale of capital assets	202,934	
Acquisition of capital assets	(9,482,823)	(11,494,605)
Net cash used in capital and related financing activities	(13,538,961)	(15,730,777)
Cash flows from investing activity:		
Investment earnings	1,052,783	(7,016)
Purchase of investments	(85,000)	—
Net cash provided (used) by investing activities	967,783	(7,016)
Net decrease in cash	(3,036,826)	(3,119,615)
Beginning cash balance	80,842,449	83,962,064
Ending cash balance	$ 77,805,623	80,842,449

METROPOLITAN STATE UNIVERSITY OF DENVER
Business-Type Activity
Statements of Cash Flows (Continued)
June 30, 2014 and 2013

		2014	2013
Reconciliation of net operating loss to net cash used in operating activities:			
Operating loss	$	(31,479,637)	(30,230,573)
Adjustment to reconcile:			
Depreciation expense		5,269,745	4,755,085
Provision for bad debt		3,906,696	2,606,729
Nonoperating revenue		101,415	181,682
Decrease (increase) in assets:			
Accounts receivable – student		(4,873,698)	(4,320,350)
Loans receivable		(46,563)	(178,662)
Prepaid expense		(571,994)	67,874
Accounts receivable – other		839,947	(998,647)
Increase (decrease) in liabilities:			
Accounts payable		(874,023)	2,099,847
Unearned revenue		1,163,520	425,476
Accrued payroll		604,715	525,680
Other liabilities		(163,053)	744,756
Net cash used in operating activities		(26,122,930)	(24,321,103)
Noncash transactions			
Retirement of capital assets	$	1,473,825	1,257,539
Donation of capital assets		22,745	—
Write-off of uncollectible accounts receivable		3,156,511	2,469,167
Write-off of uncollectible loans receivable		99,232	154,987

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Governance

The accompanying financial statements reflect the financial activities of Metropolitan State University of Denver (the University or MSU Denver) for the fiscal years ended June 30, 2014 and 2013. Effective July 1, 2002, Colorado Revised Statute (C.R.S.) 23-54-102 established the Board of Trustees (Trustees) of the University to serve as the University's governing board. Nine of the eleven Trustees are members outside the University who are appointed by the Governor with the consent of the Senate. The remaining two members consist of a student, elected by the student body, and a faculty member, elected by tenure and tenure track faculty. Both of these members are nonvoting members. The Trustees have full authority and responsibility for the control and governance of the University, including such areas as role and mission, academic programs, curriculum, admissions, finance, personnel policies, etc. To exercise their authority appropriately, the Trustees regularly establish policies designed to enable the University to perform its statutory functions in a rational and systematic manner. To assist them in meeting their responsibilities, the Trustees delegate to the President the authority to interpret and administer their policies in all areas of operations.

(b) Reporting Entity

The State of Colorado (the State) is the primary governmental reporting entity for State financial reporting purposes. For financial reporting purposes, the University is included as part of the State's primary government. The financial statements of the University, which is an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Colorado that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted (GAAP) in the United States of America. Financial results for the State of Colorado are presented in separate state-wide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in these state wide financial statements. The accounting policies of the University conform to GAAP, as applicable to government units.

On August 17, 2010, the University's Board of Trustees approved the creation of the Metropolitan State University of Denver Roadrunner Recovery and Reinvestment Act Finance Authority (the Authority), which was responsible for issuing bonds to fund the construction of a Hotel and Hospitality Learning Center (HLC). They also approved the incorporation of a special-purpose nonprofit corporation to be known as "HLC@Metro, Inc." The special-purpose corporation was the most advantageous way to structure the University's relationship with the HLC by obtaining the lowest possible cost of financing, reducing the University's potential exposure for the debt obligations associated with the project, and maintaining the greatest level of control of the project. In October 2010, $54.9 million in bonds were issued by the Authority and were subsequently transferred to the HLC@Metro, Inc. The Authority had no additional transactions nor did any resources remain with the Authority.

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, paragraph 47, the discrete presentation of the Metropolitan State University of Denver Foundation, Inc.'s (the Foundation) and the HLC@Metro, Inc.'s financial statements appear on separate pages from the financial statements of the University. The Foundation and the HLC@Metro, Inc. warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationships with the University. Please refer to note 16 for additional discussion.

(c) Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation is incurred. All significant intra-agency transactions have been eliminated.

The University applies all applicable GASB pronouncements. In fiscal year 2014 the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires, among other things, that bond issuance costs be expensed when incurred as opposed to amortization over the life of the bond. As per the statement, this change was applied retroactively and prior year's financial information has been restated. Please refer to note 18 for additional information. The University also adopted GASB Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*; this statement requires the University to recognize a liability when it is more likely than not that we would be required to make a payment on debt that we guarantee. The University does guarantee the bonds of the HLC@Metro Inc, a discretely presented component unit, but as of June 30, 2014, there is no likelihood that the University would have to render payment on that guarantee, and therefore no liability was recorded. Our footnotes have been modified to include additional disclosure about the guarantee. Please see note 13 for more information.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents are defined as cash on hand, demand deposits, restricted cash, and certificates of deposit with financial institutions, pooled cash with the Colorado State Treasurer (the Treasurer), and all highly liquid investments with an original maturity of three months or less, except those deposits and investments representing endowments.

Restricted Cash: Restricted cash includes amounts whose use is constrained through either external party restrictions or imposition by law. Restricted purposes include bond debt service reserves and unspent bond proceeds.

Accounts Receivable: Accounts receivable result primarily from tuition, fees, and other charges to students, and grants.

Investments: Investments are stated at their fair value, which is determined based on quoted market prices. Changes in fair value of investments are reported as a component of investment income.

Bond Issuance Costs: Bond issuance costs incurred on revenue bonds are expensed in the year the bond issue occurs.

Capital Assets: Equipment, buildings, construction in progress, and leasehold and land improvements are stated at cost at the date of acquisition or fair market value at the date of donation. A physical inventory of all capital assets is taken annually with appropriate adjustments made to the financial records. The University follows the policy of capitalizing only those capital assets with an initial cost or fair value equal to or greater than $5,000. The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specific to the project. Total interest capitalized during the years ended June 30, 2014 and 2013 was $82 thousand and $76 thousand, respectively.

Leasehold Improvements: Renovations to buildings and other improvements that significantly increase the value or extend the useful life of the structure are capitalized as leasehold improvements. For renovations and improvements, the capitalization policy includes items with a value of $50,000 or more. Routine repairs and maintenance are charged to operating expense.

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 3 to 10 years for capitalized computers, 3 years for software, 3 to 50 years for other equipment, 12 years for modular buildings, 27 years for buildings, and 3 to 45 years for leasehold/land improvements.

Deposits Held in Custody for Others: Deposits held for others include accounts payable to third parties (on behalf of others) and balances representing the net position owed to the individual or organization for which the University is acting as custodian.

Unearned Revenue: Unearned revenue consists of amounts received from the provision of educational goods and services that have not yet been earned. The University prorates the summer session revenues and direct instructional expenses based on the percentage of total calendar days before June 30 to total calendar days in the selected primary summer term. To the extent revenues are earned after June 30, such amounts are recorded in unearned revenue.

Capital Leases: Capital leases consist of a lease-purchase contract for improvements related to the Science building on the Auraria Campus. The building owned by Auraria Higher Education Center (AHEC), is occupied by the University, the University of Colorado at Denver (UCD), and the Community College of Denver (CCD). The Science building has office space and technologically advanced student labs. Such contracts provide that any commitments beyond the current year are contingent upon funds being appropriated for such purposes.

Net Position: In fiscal year 2013 the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which requires the term net position to replace the previous term of net assets and provides financial reporting guidance for deferred outflows and deferred inflows of resources. The University has no deferred inflows or outflows of resources as defined by this statement. Net position is classified in the accompanying financial statements as follows:

- *Net investment in capital assets* represents the total investment in capital assets, net of related debt.
- *Restricted for expendable purposes* represents net resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- *Unrestricted* represents net resources derived from student tuition and fees, fee-for-service contracts, College Opportunity Fund (COF) stipends, Pell grants, and sales and services of education departments. These resources are used for transactions relating to the educational and general operations of the University to meet current expenses for any purpose. These resources also include those from auxiliary enterprises that are substantially self-supporting activities that provide services for students, faculty, and staff.

Classification of Revenues and Expenses: The University has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

- *Operating revenues and expenses* generally result from providing goods and services for instruction, public service, or related support services to an individual or entity separate from the University.
- *Nonoperating revenues and expenses* do not meet the definition of operating revenues, and include federal bond interest subsidies, Pell grants, gifts, investment income, rental income, and interest expense.

Scholarship Allowance: Scholarship discounts and allowances are the differences between the stated charge for goods and services provided by the University and the amount that is paid by the students or by other third parties making payments on the student’s behalf. In the accompanying financial statements, the gross student tuition and fee revenues are reported less the scholarship discounts and allowances. The University’s resources provided to students as financial aid are recorded as scholarship allowances to the extent that they are used to satisfy tuition and fees and other student charges. Any excess resources are recorded as student aid operating expenses.

Application of Restricted and Unrestricted Resources: The University’s policy is to first apply an expense against restricted resources then towards unrestricted resources, when both restricted and unrestricted resources are available to pay an expense.

Compensated Absences Policy: Employees' compensated absences are accrued when earned and are recognized based on vacation and sick leave balances due to employees at year-end upon termination. Employees accrue and vest in vacation and sick leave based on their hire date and length of service. Vacation accruals are paid in full upon separation, whereas only 25% of sick leave is paid upon specific types of separation, such as retirement. The current portion of compensated absences liability in the statements of net position is calculated based on an estimated average amount for the past three fiscal years.

Income Taxes: As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code (IRC) and a similar provision of State law. However, the University is subject to federal income tax on any unrelated business taxable income. The University did not have any significant unrelated business taxable income in fiscal year 2014 or 2013.

Use of Estimates: The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Reclassifications: Prior year amounts have been reclassified to conform to current year presentation.

(2) Cash and Cash Equivalents and Investments

At June 30, cash on hand and in banks consisted of the following:

		2014	2013
Cash on hand	$	29,171	42,671
Cash in checking and depository accounts at banks		2,386,711	5,023,608
Certificate of deposit		—	198,883
Total cash on hand and in banks	$	2,415,882	5,265,162

As of June 30, 2014, $250,000 of the cash in checking and depository accounts was covered by federal depository insurance and the remainder by collateral held by the financial institution's agent in the University's name.

The University deposits its cash with the Treasurer as required by Colorado Revised Statutes. The Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1 C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited with the Treasurer are invested until the cash is needed. Earnings are allocated in proportion to the daily cash balance for all participants in the pool. At June 30, 2014 and 2013, the University had $75,389,741 and $75,577,287, respectively, which represented approximately 1.0% of the total $7,455.0 million and 1.0% of the total of $7,260.8 million, respectively, in deposits in the Treasurer's Pool (Pool). The $75,389,741 and $75,577,286 on deposit as of June 30, 2014 and 2013, respectively, includes $6,102,430 and $7,269,516 of restricted cash as of June 30, 2014 and 2013, respectively, which is the unspent proceeds of the Series 2009 and 2010 bonds (see note 6 for further information).

For financial reporting purposes, all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of the University's participation in the Pool, the University reports as an increase or decrease in cash its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains (losses) included in income reflect only the change in fair value for the fiscal year.

For the University's deposits with the State Treasury, the University had a net unrealized gain of $206,888 in fiscal year 2014 and a net unrealized loss of $1,000,148 in fiscal year 2013. These net unrealized gains and losses are included in cash and cash equivalents on the statements of net position.

(a) Custodial Credit Risk

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2014 and 2013, none of the investments in the State Treasurer's Pool are subject to custodial credit risk

(b) Credit Quality Risk

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2014 and 2013, approximately 87.0% and 88.5%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for $15,235,458 and $41,074,270 in fiscal years 2014 and 2013, respectively, of corporate bonds rated lower medium and $25,428,000 of corporate bonds rated very speculative, these investments are rated from upper medium to the highest quality, which indicates that the issuer has a strong capacity to pay principal and interest when due.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2014, the weighted average maturity (WAM) of investments in the Treasurer's Pool is .043 years for commercial paper (1.0% of the Pool), 1.424 years for U.S. government securities (55.8% of the Pool), 3.033 years for asset-backed securities (19.9% of the Pool), and 2.766 years for corporate bonds (23.3% of the Pool). As of June 30, 2013, the WAM of investments in the Pool is 0.037 years for commercial paper (1.0% of the Pool), 1.321 years for U.S. government securities (63.9% of the Pool), 3.371 years for asset-backed securities (16.0% of the Pool), and 3.100 years for corporate bonds (19.1% of the Pool).

(d) Foreign Currency Risk

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2014 or 2013.

Additional information on investments of the Pool may be obtained in the State's comprehensive annual financial report for the year ended June 30, 2014.

(e) Other Investments

GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, requires disclosure of credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk for any public entity's investments. As of June 30, 2014 and 2013, the University has invested $190,634 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established by state statute for government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST is a 2a7-like investment pool, and the University's investment is rated as AAAm by Standard and Poor's. COLOTRUST pooled investments are excluded from the custodial credit risk and interest rate risk disclosure requirements. COLOTRUST operates similarly to a money market fund and each share is equal in value to $1.00. At June 30, 2014 and 2013, the fair value of the University's investment remained at $190,634. At June 30, 2014 the University also invested $85,000 in TIAA/CREF Lifecycle funds.

(3) Capital Assets

The following tables, present changes in capital assets and accumulated depreciation for the years ended June 30, 2014 and 2013:

	Balance, June 30, 2013	Additions	CIP transfers	Retirements	Balance, June 30, 2014
Land	$ 146,863	858,322	—	—	1,005,185
Construction in progress	5,135,740	4,167,295	(1,900,503)	—	7,402,532
Depreciable capital assets:					
Equipment	17,571,960	2,859,679	803,218	(1,636,067)	19,598,790
Building	46,951,556	—	230,461	—	47,182,017
Leasehold improvements	26,411,567	2,182,300	866,824	(471,411)	28,989,280
Less accumulated depreciation:					
Equipment	(11,644,469)	(1,756,820)	—	1,456,050	(11,945,239)
Buildings	(2,972,439)	(1,823,530)	—	(3,257)	(4,799,226)
Leasehold improvements	(6,187,498)	(1,689,395)	—	21,032	(7,855,861)
Net depreciable capital assets	$ 70,130,677	(227,766)	1,900,503	(633,653)	71,169,761
Total capital assets, net	$ 75,413,280	4,797,851	—	(633,653)	79,577,478

	Balance, June 30, 2012	Additions	CIP transfers	Retirements	Balance, June 30, 2013
Land	$ —	146,863	—	—	146,863
Construction in progress	6,158,451	6,444,180	(7,466,891)	—	5,135,740
Depreciable capital assets:					
Equipment	16,639,090	2,003,252	117,075	(1,187,457)	17,571,960
Building	42,896,808	25,064	4,029,684	—	46,951,556
Leasehold improvements	19,956,350	3,646,974	3,320,132	(511,889)	26,411,567
Less accumulated depreciation:					
Equipment	(11,171,821)	(1,585,252)	—	1,112,604	(11,644,469)
Buildings	(1,251,862)	(1,720,577)	—	—	(2,972,439)
Leasehold improvements	(4,773,284)	(1,449,256)	—	35,042	(6,187,498)
Net depreciable capital assets	$ 62,295,281	920,205	7,466,891	(551,700)	70,130,677
Total capital assets, net	$ 68,453,732	7,511,248	—	(551,700)	75,413,280

(4) Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2014 is as follows:

		June 30, 2013	Additions	Deletions	June 30, 2014	Amounts due within one year
Bonds payable	$	62,639,624	76,496	(1,575,000)	61,141,120	1,600,000
Capital lease payable		7,520,070	—	(343,651)	7,176,419	361,503
Compensated absences		2,895,381	227,295	(62,428)	3,060,248	308,706
Total noncurrent liabilities	$	73,055,075	303,791	(1,981,079)	71,377,787	2,270,209

A summary of the changes in long-term liabilities for the year ended June 30, 2013 is as follows:

		June 30, 2012	Additions	Deletions	June 30, 2013	Amounts due within one year
Bonds payable	$	64,188,129	1,495	(1,550,000)	62,639,624	1,575,000
Capital lease payable		7,848,101	—	(328,031)	7,520,070	343,651
Compensated absences		2,701,126	280,174	(85,919)	2,895,381	307,845
Total noncurrent liabilities	$	74,737,356	281,669	(1,963,950)	73,055,075	2,226,496

(5) Lease Obligations

Operating Leases

The University leases building space, land, copiers, and small off-site storage units under operating lease agreements with AHEC and with private organizations. The University has two ground leases with AHEC totaling $2.00 for the ground where the HLC and the Student Success Building (SSB) are built. Total rental expense for the years ended June 30, 2014 and 2013 under all agreements was $2,200,431 and $1,822,978, respectively. As of June 30, 2014, minimum future rentals required by these agreements are as follows:

Fiscal year(s) ending:		
2015	$	2,101,325
2016		1,407,101
2017		1,117,002
2018		1,054,169
2019		1,036,497
2020 – 2024		4,242,456
2025 – 2029		2,132,070
Total	$	13,090,620

In addition to these operating leases, the University occupies other space on the Auraria Campus owned by AHEC. The use of this space is not formalized under an official lease agreement (with a lease term and future payment obligations) but is rather a component of the shared campus costs and is, therefore, reflected in note 14.

Effective November 1, 2013, based on the provisions of a Memorandum of Understanding entered into August 24, 2011 by MSU Denver, UCD, CCD, and AHEC, which amends and supplements the original leased property agreement, MSU Denver assumed responsibility for 50% of the costs of the land's debt service, while AHEC will continue to fund the other 50% of debt service costs. MSU Denver assumed UCD's 17% share, and CCD's 18% share of the obligation under the original lease property agreement in exchange for paying their respective shares of an estimated $3 million electrical infrastructure upgrade that was critical to the ongoing campus-wide building expansion defined in the Campus Master Plan.

Capital Leases

During fiscal year 2009, the University entered into a capital lease with AHEC in the amount of $8,986,165 to finance the construction and acquisition of leasehold improvements for the new Science building on the Auraria Campus. The lease requires annual principal payments and semiannual interest payments. In fiscal years 2014 and 2013, the principal payments totaled $343,651 and $328,031, respectively, and interest expense equaled $388,508 and $405,430 respectively.

The following is a schedule of future minimum capital lease payments as of June 30, 2014:

		Principal	Interest	Total
Fiscal year(s) ending June 30:				
2015	$	361,503	373,743	735,246
2016		379,355	356,170	735,525
2017		397,207	337,704	734,911
2018		417,291	317,342	734,633
2019		439,606	294,820	734,426
2020 – 2024		2,595,234	1,082,077	3,677,311
2025 - 2028		2,586,223	300,695	2,886,918
Total	$	7,176,419	3,062,551	10,238,970

(6) Bond Obligations

Total outstanding bonds are summarized below:

Issue	Date issued	Amount issued	June 30 2014	June 30 2013
2009 Taxable Institutional Enterprise Revenue Bonds	11/17/09	$ 55,190,000	51,255,000	52,585,000
2010 Taxable Institutional Enterprise Revenue Bonds	6/11/10	10,575,000	9,850,000	10,095,000
Less discount on 2010 Bonds, net of amortization			(38,880)	(40,376)
2014 Institutional Enterprise Revenue Bonds	6/13/2014	75,000	75,000	—
Total			$ 61,141,120	62,639,624

Principal and interest requirements on all outstanding bonds at June 30, 2014 are summarized in the table below; however, the 2014 bond interest is not shown below because it has a variable interest rate that is calculated as 65.001% of LIBOR, plus a tax free loan margin of 0.99% per annum.

Fiscal year	Principal	Interest	Total
2015	$ 1,600,000	3,480,886	5,080,886
2016	1,630,000	3,422,063	5,052,063
2017	1,665,000	3,355,275	5,020,275
2018	1,705,000	3,281,387	4,986,387
2019	1,750,000	3,201,616	4,951,616
2020 – 2024	9,510,000	14,602,591	24,112,591
2025 – 2029	11,030,000	11,702,900	22,732,900
2030 – 2034	12,995,000	8,046,140	21,041,140
2035 – 2039	15,365,000	3,659,940	19,024,940
2040 – 2041	3,930,000	153,450	4,083,450
	61,180,000	$ 54,906,250	116,086,250
Unamortized discount, net	(38,880)		
	$ 61,141,120		

(a) Series 2009

On November 17, 2009, the University issued $55,190,000 of Series 2009 Taxable Institutional Enterprise Revenue Bonds (Recovery Zone Economic Development Bonds) at par, bearing interest at 2.0% to 6.2%, for the purpose of financing the construction of the SSB. The SSB added approximately 145,000 square feet of space for classrooms and faculty offices, specifically for MSU Denver students and professors. It also provides students with a central location for student support services.

The bonds are due in semiannual installments beginning in fiscal year 2012 with annual principal payments ranging from $1,295,000 to $2,875,000 through December 1, 2039. The interest payments on the bonds are eligible to receive a 45% subsidy from the federal government; however, in fiscal year 2013 the federal government issued a sequestration order which reduced the amount of the subsidy. As of June 30, 2014, the University received $154,975 less in subsidy payments than what was expected before sequester. As of June 30, 2014 and 2013, the University has received $5,993,439 and $4,751,432, respectively, in subsidy payments since the bond's inception. These bonds are collateralized by future revenues the University has pledged. See note 7 for more information on pledged revenues.

(b) Series 2010

On June 11, 2010, the University issued $10,575,000 of Series 2010 Taxable Institutional Enterprise Revenue Bonds (Recovery Zone Economic Development Bonds), bearing interest at 1.8% to 6.0%, for the purpose of financing significant remodeling work that was done as University personnel moved to the SSB.

The bonds are due in semiannual installments beginning in fiscal year 2012 with annual principal payments ranging from $240,000 to $535,000 through December 1, 2040. The interest payments on the bonds are eligible to receive a 45% subsidy from the federal government; however, in fiscal year 2013 the federal government issued a sequestration order which reduced the amount of the subsidy. As of Jun 30, 2014 the University received $29,046 less in subsidy payments than what was expected before sequester. As of June 30, 2014 and 2013, the University has received $975,458 and $742,592, respectively, in subsidy payments since the bond's inception. These bonds are collateralized by future revenues the University has pledged. See note 7 for more information on pledged revenues.

The Series 2010 bonds are shown net of unamortized discount of $38,880.

(c) Series 2014

On June 13, 2014, the University issued Series 2014 Institutional Enterprise Revenue Bonds not to exceed $4,000,000, at a variable interest rate equal to 65.001% of LIBOR plus a tax free loan margin of .99% per annum. The purpose of these bonds is to provide funding for the completion of the new athletic fields, which are 12.5 acres that will have eight tennis courts, a soccer stadium, and baseball and softball diamonds. These bonds work like a line of credit, where the University can draw funds on an as needed basis. The outstanding principle amount is equal to the amount the University draws down. At the end of fiscal year 2014, the University drew $75 thousand to fund the bond issuance costs. Principal payments will become due beginning in fiscal year 2016, and will be determined based on the funds drawn to date. The maturity date of these bonds is September 1, 2024. These bonds are not subject to the bond subsidy payments from the federal government.

(7) Pledged Revenue

The University has pledged future revenues to repay $61,180,000 in outstanding revenue bonds. Pledged revenue includes 10% of resident and nonresident tuition, all revenues derived from the facilities construction fee, all revenues derived from indirect cost recoveries (overhead) payable to research contracts and grants performed within the University's facilities, all revenues derived from mandatory fees for the provision of student and faculty services at the University, all revenues, net of operation and maintenance expenses, for the provision of continuing education services at the University, interest income, and federal interest subsidy payments received in connection with the bonds.

Proceeds from the bonds provided financing for the construction of the SSB and various major remodeling projects. The total remaining principal and interest payments, net of the federal subsidy payments, are expected to be $91,378,437 (unaudited) payable through fiscal year 2041. This figure is assuming the federal government removes the reduction implemented with the fiscal year 2013 sequester. Interest payments, net of the interest subsidy, for the current year were $2,056,911. The total revenue pledged was $26,937,247 and $26,551,136 for June 30, 2014 and 2013, respectively.

The University has also agreed to make the required payments on the outstanding bonds on the HLC in the event the HLC@Metro, Inc. does not satisfy its bond payment obligations. The payments for this debt would also be covered by these pledged revenues. See note 16 for more information on the HLC@Metro, Inc.

The following table shows information for pledged revenues for fiscal years 2014 and 2013:

		2014	2013
Tuition	$	12,575,804	12,050,721
Student and faculty fee		4,934,715	4,662,858
Facility fee		6,734,354	6,943,641
Interest income		817,346	992,970
Intergovernmental revenue		1,597,343	1,525,746
Indirect cost recovery		277,685	375,201
	$	26,937,247	26,551,136

(8) Compensated Absences

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public University and Universities*, require that compensated absences be broken out into current and noncurrent liabilities. Employees may accrue annual and sick leave based on the length of service and, subject to certain limitations regarding the amount, will be paid upon termination. The estimated costs of current compensated absences for which employees are vested for the years ended June 30, 2014 and 2013 are $308,706 and $307,845, respectively.

The estimated costs of noncurrent compensated absences for which employees are vested for the years ended June 30, 2014 and 2013 are $2,751,542 and $2,587,536, respectively. Fiscal years 2014 and 2013 operating expenses include an increase of $164,867 in fiscal year 2014 and an increase of $194,255 in fiscal year 2013, for the estimated compensated absence liability.

(9) Pension Plan Obligations

On September 10, 1993, the Board of Trustees of the State Colleges in Colorado adopted an Optional Retirement Plan (ORP) for faculty and exempt administrative staff under the authority of Senate Bill 92-127. The implementation date was May 1, 1994. Eligible employees were offered the choice of remaining in Public Employees' Retirement Association (PERA) or participating in the ORP. New faculty and administrative staff members are required to enroll in the ORP unless they have one year or more service credit with PERA at the date of hire.

The ORP is a defined contribution pension plan with three investment managers, Fidelity Investments, TIAA-CREF, and AIG-VALIC, providing a range of investment accounts for participants. The University's required contribution to the ORP is 11.4% of covered payroll, and contribution by employees is 8% of covered payroll.

The University's contributions to the ORP for the fiscal years ended June 30, 2014, 2013, and 2012 were $4,869,191, $4,477,462, and $4,094,399 respectively. These contributions were equal to the required contributions for each year. All ORP contributions are immediately vested in the employee's account. Normal retirement for the ORP is age 65 with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and investment decisions made by participants for their individual accounts.

(a) PERA Plan Description

Most of the University's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the PERA Board of Trustees. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

Non-higher education employees hired by the State after January 1, 2006 are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the State Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan within 60 days, unless they had been a PERA member within the prior twelve months. In that case, they are required to remain in the PERA plan in which they participated previously.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members (except state troopers) vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5% times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15.0% increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2.0% or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2% or the actual increase in the national Consumer Price Index, limited to a 10% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103% and declines by one-quarter percentage point when the funded ratio drops below 90% after having exceeded 103%. The funded ratio increase does not apply for three years when a negative return on investment occurs.

Members who are disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

(b) Funding Policy

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8.0% (10.0% for state troopers) of their salary, as defined in C.R.S. 24-51-101(42), to an individual account in the plan. Effective July 1, 2012, the temporary contribution rate increase of 2.5% for members in the State and Judicial Divisions to replace the 2.5% reduction in employer contributions effective for Fiscal Years 2010-11 and 2011-12 expired.

From July 1, 2013, to December 31, 2013, the State contributed 16.55% (19.25% for state troopers and 17.36% for the Judicial Branch) of the employee's salary. From January 1, 2014, through June 30, 2014, the state contributed 17.45% (20.15% for state troopers and 17.36% for the Judicial Branch). During all of Fiscal Year 2013-14, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2013, the division of PERA in which the State participates has a funded ratio of 57.5% and a 60 year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 61.0%.

In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall.

The AED requires PERA employers to pay an additional 0.5% of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4% of salary through 2017, to a maximum of 5% (except for the Judicial Division whose AED contribution was frozen at the 2010 level).

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries, for calendar years 2008 through 2017, to a maximum of 5% (except for the Judicial Division whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

At a 103 percent funding ratio, both the AED and the SAED will be reduced by one-half percentage point, and for subsequent declines to below 90% funded both the AED and SAED will be increased by one half percentage point. For the Judicial Division, if the funding ratio reaches 90% and subsequently declines, the AED and SAED will be increased by one-half percentage point.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The University's contributions to PERA and/or the state defined contribution plan for the fiscal years ending June 30, 2014, 2013, and 2012 were $6,889,719, $6,418,491, and $5,125,382, respectively. These contributions met the contribution requirement for each year.

(c) Student Retirement Plan

Beginning in fiscal year 1993, in accordance with the provision of C.R.S. 24-54.6-101, and a provided in Section 403(b) of the IRC, the State of Colorado Department of Higher Education established the Colorado Student Employees Defined Contribution Plan. Student employees taking fewer than six hours each semester are required to participate. The plan requires a 7.5% contribution on the employee's part with no employer contribution. Total current year payroll covered by the plan for the University for the fiscal years ended June 30, 2014 and 2013 was $1,996,462 and $1,842,706, respectively. Employee contributions for the fiscal years ended June 30, 2014 and 2013 were 7.5% of the covered payroll in the amount of $149,738 and $138,206, respectively.

(d) Future Accounting Change

The GASB issued Statement No. 68 *Accounting and Financial Reporting for Pensions* (Statement No. 68), which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The University provides certain of its employees with pension benefits through the state's multiple employer cost-sharing Public Employees' Retirement Association (PERA) defined benefit program.

Statement No. 68 requires cost-sharing employers participating in the PERA program, such as the University, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The University has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact the University's future unrestricted net position. Statement No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of this impact. Information regarding PERA's current funding status can be found in the comprehensive annual financial report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

(10) Other Retirement Plans

(a) Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50% to 100% evenly over 5 years. Participants in the plan are required to contribute 8% (10% for state troopers) of their salary. The temporary contribution rate increase to 10.5% (12.5% for State Troopers) effective in Fiscal Years 2010-11 and 2011-12 expired on July 1, 2012. At December 31, 2013, the plan had 4,719 participants.

(b) Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2013, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8% PERA contribution) to a maximum of $17,500. The reduction for the 8% PERA contribution reflects the expiration of the temporary contribution rate increase to 10.5% effective in Fiscal Years 2010-11 and 2011-12. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $5,500 contribution in 2013, for total contributions of $23,000. Contributions and earnings are tax deferred. At December 31, 2013, the plan had 17,462 participants.

(11) Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan. The University extends these plans to its employees, and also offers a 403(b) plan.

(12) Postemployment Benefits and Life Insurance

(a) Health Care Plan

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its comprehensive annual financial report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 9(b). Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The University contributed $413,383, $406,637, and $411,645 as required by statute in Fiscal Years 2013-14, 2012-13, and 2011-12, respectively. In each year the amount contributed was 100% of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2013, there were 53,041 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2013, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.26 billion, a funded ratio of 18.8%, and a 30-year amortization period.

(b) Colorado Higher Education Insurance Benefits Alliance (CHEIBA)

University faculty and exempt administrative staff receive health insurance through the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for postemployment health coverage until the retiree is eligible for Medicare at age 65. As of June 30, 2014, there were 13 participants in postretirement coverage from the eight-member higher education institutions. For fiscal year 2014, the University has one retired faculty and administrative participants choosing CHEIBA. Retirees pay the entire premium, which is approximately 130% of the premiums charged to active employees.

CHEIBA financial statements are prepared under GAAP using the accrual basis of accounting following governmental accounting standards for a business-type activity. The financial statements can be obtained by contacting Gallagher Benefits Services, Inc.

There are no long-term contracts for contributions to the plan. Participating schools can withdraw their participation in the plan with at least one-year notice to the CHEIBA board.

(13) Commitments and Contingent Liabilities

The University entered into a non-exchange financial guarantee with the HLC@Metro Inc. This guarantee is a legal, valid, and binding obligation. As described in note 1b, the HLC@Metro Inc. is a discretely presented component unit of the University. The HLC@Metro Inc. was created as a special purpose corporation to manage the Hospitality Learning Center. This guarantee agreement dated October 1, 2010 with HLC@Metro, Inc., absolutely and unconditionally guarantees to Wells Fargo, HLC@Metro, Inc.'s trustee, the timely payment of all HLC@Metro, Inc.'s debt service payments on its Series 2010 bonds on a gross basis (without netting of any federal subsidy payments received or to be received). The guaranteed amounts are payable solely from available pledged revenues of the University, as discussed in note 7. This guarantee will remain in effect until there are no more outstanding payables on the HLC@Metro Inc.'s series 2010 bonds. Should the University have to step in and make any payments on behalf of the HLC@Metro Inc., the HLC@Metro Inc. is obligated to repay all the payments made on its behalf. As of June 30, 2014, the University has not had to pay any of these payments.

Amounts expended under the terms of certain grants and contracts are subjected to audit and possible adjustment by governmental agencies. In the opinion of management, any adjustments will not have a material or adverse effect on the accompanying financial statements.

The University, in the course of conducting business, is a party to various litigation and other claims. Although the final outcome of these legal actions cannot be determined at this time, management does not believe the ultimate resolution of these matters will have a significant adverse effect on the financial statements of the University.

The State, including the University, is self-insured in regard to its general and automobile liability exposures. The University also participates in a State commercial insurance policy covering loss or damage to University property. Liability of State higher education institutions is limited by the Colorado Governmental Immunity Act.

At June 30, 2014, the University had about $5 million in construction commitments related to the University's athletic complex project.

(14) Campus Shared Controlled Costs

Legislation enacted in 1974 established AHEC and included the University as one of the constituent institutions, along with the CCD and the UCD. Each institution operates independently as an educational institution responsible to its own governing board while sharing common operations. For the purpose of total financial disclosure, the University's portion of campus-shared costs for the Auraria Campus is as follows:

		Year ended June 30	
		2014	2013
Administration of Auraria Higher Education Center and operation and maintenance of plant	$	8,885,598	8,503,276
Controlled Maintenance		954,940	955,728
Library and Media Center		4,081,076	4,155,752
AHEC owned Electrical Duct Bank		1,994,315	987,941
Total	$	15,915,929	14,602,697

The University's existing and future commitments to AHEC are established within the Senate Bill 10-1301. The University's ability to fulfill existing and future commitments is contingent upon funds being appropriated for such purposes. For the year ending June 30, 2015, the University's portion of shared costs is estimated to be $14,691,088 (unaudited).

(15) Legislative Appropriations

The Colorado State Legislature establishes spending authority to the University in its annual Long Appropriations Bill (Long Bill). The Long Bill appropriated funds include an amount from the State's College Opportunity Fund. In prior years, the annual appropriations bill included certain cash revenues from the student share of tuition and fees.

For the years ended June 30, 2014 and 2013, appropriated expenses were within the authorized spending authority. For the years ended June 30, 2014 and 2013, the University had a total appropriation of $39,230,013 and $37,469,193, respectively. For years ended June 30, 2014 and 2013, the University's appropriated funds consisted of $29,074,090 and $30,072,480, respectively, received from students that qualified for stipends from the College Opportunity Fund and $10,155,923 and $8,657,019, respectively, as fee-for-service contract revenue. All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include tuition and fees, grants and contracts, gifts, indirect cost recoveries, auxiliary revenues and other revenue sources.

(16) Component Unit Disclosures

GASB Statement No. 14, as amended by GASB Statement No. 61, and GASB Statement No. 39 require the inclusion of the Foundation and HLC@Metro, Inc. as discretely presented component units based on the nature and significance of their relationships with the University.

The Foundation is a not-for-profit corporation formed to promote the welfare, development, growth, and well-being of the University. The Foundation is a separate legal entity, which is fully independent from the University, is not financially dependent upon the University, has a separately elected board of directors, and as such, has substantial autonomy and separate government entity characteristics. The financial statements of the Foundation are prepared on the accrual basis and follow the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*.

On August 17, 2010, the University's Board of Trustees approved the incorporation of the HLC@Metro, Inc., a not-for-profit, special-purpose corporation in order to create the HLC. The HLC@Metro, Inc. has a management agreement with Sage Hospitality to manage the hotel, and a franchise agreement with Marriott to market the hotel. The essence of these agreements is that the hotel is to provide services to the community-at-large, and not to the exclusive or even primary benefit of MSU Denver or MSU Denver's students, faculty, and staff. The financial statements of HLC@Metro, Inc. are prepared on the accrual basis and follow FASB ASC Topic 958.

The Foundation and HLC@Metro, Inc. use a different GAAP reporting model and, following the GASB Statement No. 39 recommendation, its financial information is not presented on the same page as the University but is reported on separate pages after the University's financial statements. The separate financial statements include the statements of financial position and the statements of activities. In addition, disclosures specific to the Foundation's and the HLC@Metro, Inc.'s financial statements are provided on separate pages after the University's disclosures.

(17) Related-Party Transactions

Transactions between the University and its discretely presented component units are considered to be related-party transactions. Amounts reported may differ from the component unit's notes to basic financial statements based on various timing differences, all of which have been substantially reconciled to the component unit's balances.

The University leased office space to the Foundation for $8,274 for each of the fiscal years ending June 30, 2014 and 2013. During the years ended June 30, 2014 and 2013, the Foundation provided $2,125,666 and $2,834,816 respectively, of funding to the University for various purposes, such as scholarships, departmental funding, and other programs.

The University provides employees on a reimbursement basis to the Foundation. For the years ended June 30, 2014 and 2013, these expenses were $186,469 and $212,703, respectively. In addition, the University donates development and certain personnel costs to the Foundation, which totaled $1,374,485, and $1,190,677 for the years ended June 30, 2014 and 2013, respectively.

At June 30, 2014 and 2013, the University had receivables of $361,358 and $341,293, respectively, due from the Foundation. As of June 30, 2014 and 2013, the University had payable balances of $204,592 and $5,245, respectively, due to the Foundation.

At June 30, 2014 and 2013, the University had a payable of $0 and $49,997, respectively to the HLC@Metro Inc. The payable due in fiscal year 2013 was for a multi-entity electrical infrastructure cost sharing agreement during the Hotel and Hospitality Learning Center construction. There were no receivables due from the HLC@Metro Inc., as of June 30, 2014 or 2013.

(18) Change in Accounting Principles

In fiscal year 2014 the University adopted GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities.* Statement No. 65 requires, among other things, that bond issuance costs be expensed when incurred as opposed to amortizing over the life of the bond. As per the statement this was applied retroactively and prior year's financial information has been restated.

Prior to the adoption of Statement No. 65, MSU Denver's fiscal year 2013 beginning net position was $73.1 million, with a change in net position of $4.7 million, and ending net position of $77.8 million. After applying the requirement of Statement No. 65 and writing down the remaining $706,155 of deferred bond issuance costs, the restated fiscal year 2013 beginning net position is $72.4 million, with a change in net position of $4.7 million, and an ending net position of $77.2 million. The table below summaries the re-statement.

		As Originally Reported	Write off of Deferred Bond Issuance Costs		As Restated
Net Position as of July 1, 2012	$	73,142,328	(706,155)		72,436,173
Change in Net Position	$	4,688,041	25,956		4,713,997
Net Position as of June 30, 2013	$	77,830,369		$	77,150,170

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Metropolitan State University of Denver Foundation (the Foundation) is a Colorado nonprofit organization established to promote the general welfare and development of Metropolitan State University of Denver (the University). Formerly known as Metropolitan State College of Denver Foundation, Inc., the Foundation changed its name on July 1, 2012.

965 Santa Fe, LLC (the LLC), a Colorado limited liability company whose sole member is the Foundation, owns and rents the Center for Visual Arts (the CVA) facility to the University.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and the LLC because the Foundation has both control and an economic interest in the LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the “Foundation”.

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to permanent endowment, or other long-term purposes of the Foundation are excluded from this definition.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At June 30, 2014 and 2013, the allowance was $135,000.

Property and Equipment

Property and equipment additions with useful lives exceeding one year are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from fifteen to thirty years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2014 and 2013.

Property and equipment also includes works of art which are capitalized at original cost, or fair value if donated, and are not depreciated because the Foundation intends to preserve these assets in perpetuity.

Assets Held and Liabilities under Split-Interest Agreements

Beneficial Interest in Charitable Trust Held by Others

The Foundation has been named as an irrevocable beneficiary of a charitable trust held and administered by an independent trustee. The trust was created independently by the donor and is administered by an outside agent designated by the donor. Therefore, the Foundation has neither possession nor control over the assets of the trust. At the date the Foundation received notice of the beneficial interest, a permanently restricted contribution was recorded in the statement of activities, and a beneficial interest in charitable trust held by others was recorded in the statement of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, the beneficial interest in the trust has been reported at fair value in the statement of financial position. At the end of the trust's term, the assets of the trust will be transferred to the permanent endowment for scholarships; earnings on the assets will be available for scholarships.

Charitable Gift Annuities

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discounts rate designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as an unrestricted contribution. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation's Board of Directors.

The Foundation reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Foundation. The restrictions stipulate that resources be maintained permanently but permit the Foundation to expend the income generated in accordance with the provisions of the agreements.

Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Professional Services and In-kind Contributions

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received (Note 9).

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Note 10 presents total expenses by function.

Income Taxes

The Foundation is organized as a Colorado nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(iv), and has been determined not to be a private foundation under Section 509(a)(1). The LLC is treated as a disregarded entity for tax purposes, and is incorporated into the tax return filed by the Foundation.

The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from individuals, corporations, and foundations supportive of the Foundation’s mission. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets. *Payable to HLC @ Metro* totaling $832,232, and *Accounts payable and other liabilities* totaling $4,566 have been reclassified from *Payable to University*.

Subsequent Events

The Foundation has evaluated subsequent events through September 27, 2014, the date the consolidated financial statements were available to be issued. No significant subsequent events which would require disclosure were noted.

Note 2 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset.

A significant portion of the Foundation's investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values. The fair value of the Foundation's beneficial interest in a charitable trust held by others is based on the fair value of the trust investments as reported by the trustee, which is considered to be a Level 3 measurement.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost, as identified below, at June 30, 2014:

		Fair Value Measurements at Report Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash and money market funds (at cost)	$ 148,058	$ -	$ -	$ -
Fixed income funds				
U.S. Government securities funds	1,765,826	1,765,826	-	-
Bond funds	842,370	842,370	-	-
Emerging market funds	4,621	4,621	-	-
High-yield bond funds	13,168	13,168	-	-
Equity funds				
U.S. common stocks	683,631	683,631	-	-
Preferred stocks	73,254	73,254	-	-
Real estate investment trusts	32,212	32,212	-	-
	$ 3,563,140	$ 3,415,082	$ -	$ -
Endowment Investments				
Cash and money market funds (at cost)	$ 702,007	$ -	$ -	$ -
Fixed income funds				
U.S. Government securities funds	128,338	128,338	-	-
Bond funds	1,465,245	1,465,245	-	-
Emerging market funds	86,866	86,866	-	-
High-yield bond funds	156,843	156,843	-	-
Equity Funds				
U.S. common stocks	1,928,444	1,928,444	-	-
Small to mid-cap equity funds	614,593	614,593	-	-
International equity funds	486,045	486,045	-	-
Emerging market funds	565,367	565,367	-	-
Futures and commodity funds	248,700	248,700	-	-
Preferred stocks	33,316	33,316	-	-
Real estate investment trusts	109,090	109,090	-	-
	$ 6,524,854	$ 5,822,847	$ -	$ -
Beneficial interest in charitable trust held by others	$ 111,645	$ -	$ -	$ 111,645

The following table presents assets measured at fair value on a recurring basis, except those measured at cost, as identified below, at June 30, 2013:

	Total	Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Cash and money market funds (at cost)	$ 38,384	$ -	$ -	$ -
Fixed income funds				
U.S. Government securities funds	1,781,086	1,781,086	-	-
Bond funds	562,313	562,313	-	-
Emerging market funds	94,200	94,200	-	-
High-yield bond funds	9,464	9,464	-	-
Inflation-adjusted funds	170,730	170,730	-	-
Equity funds				
U.S. common stocks	493,125	493,125	-	-
International equity funds	14,123	14,123	-	-
Futures and commodity funds	57,588	57,588	-	-
Real estate investment trusts	30,515	30,515	-	-
	$ 3,251,528	$ 3,213,144	$ -	$ -
Endowment Investments				
Cash and money market funds (at cost)	$ 29,359	$ -	$ -	$ -
Fixed income funds				
U.S. Government securities funds	75,525	75,525	-	-
Bond funds	1,187,500	1,187,500	-	-
Emerging market funds	119,835	119,835	-	-
High-yield bond funds	140,727	140,727	-	-
Inflation-adjusted funds	138,937	138,937	-	-
Equity funds				
U.S. common stocks	1,894,472	1,894,472	-	-
Small to mid-cap equity funds	554,176	554,176	-	-
International equity funds	256,581	256,581	-	-
Emerging market funds	472,807	472,807	-	-
Futures and commodity funds	235,231	235,231	-	-
Real estate investment trusts	109,113	109,113	-	-
	$ 5,214,263	$ 5,184,904	$ -	$ -
Beneficial interest in charitable trust held by others	$ 98,211	$ -	$ -	$ 98,211

Below is a reconciliation of the beginning and ending balances of the beneficial interest in charitable trust held by others measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2014 and 2013:

	2014	2013
Beginning Balance	$ 98,211	$ 89,383
Change in value of beneficial interest	13,434	8,828
Ending Balance	$ 111,645	$ 98,211
Unrealized gain (loss) included in change in value of split-interest agreements in the consolidated statements of activities relating to assets still held at June 30, 2014 and 2013	$ 13,434	$ 8,828

Note 3 - Net Investment Return

Net investment return consists of the following for the years ended June 30, 2014 and 2013:

	2014	2013
Investments		
Interest and dividend income	$ 79,476	$ 957
Net realized and unrealized gain (loss)	105,843	50,608
Less investment management and custodial fees	(23,910)	(22,255)
	161,409	29,310
Endowment investments		
Interest and dividend income	$ 203,899	$ 328,591
Net realized and unrealized gain (loss)	584,393	133,999
Less investment management and custodial fees	(135,547)	(97,536)
	652,745	365,054
	$ 814,154	$ 394,364

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2014 and 2013:

	2014	2013
Within one year	$ 794,174	$ 770,143
In one to five years	1,478,298	608,551
Over five years	37,396	37,396
	2,309,868	1,416,090
Less discount to net present value (0.17% - 3.30%)	(73,729)	(6,350)
Less allowance for uncollectable promises to give	(135,000)	(135,000)
	$ 2,101,139	$ 1,274,740

At June 30, 2014 and 2013, three donors accounted for 82% and 75% of total promises to give, respectively. Promises to give of $1,292,526 and $143,541 were restricted to endowment as of June 30, 2014 and 2013, respectively.

Note 5 - Property and Equipment

Property and equipment consists of the following at June 30, 2014 and 2013:

	2014	2013
Center for Visual Arts		
Land	$ 456,400	$ 456,400
Building	1,072,398	1,072,398
	1,528,798	1,528,798
Less accumulated depreciation	(174,176)	(138,734)
Nondepreciated artwork	263,950	263,950
	$ 1,618,572	$ 1,654,014

Note 6 - Leases

During the year ended June 30, 2010, the LLC purchased a commercial building at 965 Santa Fe Drive to house the operations of the CVA.

Effective March 1, 2010, the LLC and the University entered into a three-year non-cancelable lease which has since been renewed through June 30, 2016. During the year ended June 30, 2013, the Foundation agreed to waive the rental payments on 965 Santa Fe for the years ending June 30, 2015 and 2016, totaling $200,000, and recorded support to the University and a payable to the University at June 30, 2013. During the current fiscal year, the Foundation and the University modified the agreement, and the University will now pay the rent, previously waived, for the years ending June 30, 2015 and 2016 for a total of $200,000. In addition to the annual minimum rent, the University reimburses the LLC for actual expenses incurred for the maintenance and operation of the premises, which are estimated to be $35,000 per year.

Note 7 - Endowment

The Foundation's endowment (Endowment) is composed of 36 individual permanent endowment funds (Permanent Endowment) and 111 purpose-restricted quasi-endowment funds (Quasi-Endowment). The funds were established by donors primarily to provide scholarships to eligible students of the University, and support for academic departments, student activities, and other purposes of the University. Permanent Endowment funds are permanent charitable funds whose principal must be preserved in perpetuity as a condition imposed by the donor. Quasi-Endowment funds are purpose-restricted gifts whose principal is intended to be maintained in perpetuity, but which may be expended in accordance with the University's spending-rate policy with no requirement that any such expenditure be replenished. The Endowment includes only donor-restricted funds, as the Foundation's Board of Directors has not designated any of the Foundation's unrestricted net assets to function as endowment. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair values of original Permanent Endowment gifts, as of each gift date, absent explicit donor instructions to the contrary. At June 30, 2014 and 2013, there were no contrary donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts to the Permanent Endowment, (b) the original value of subsequent gifts to the Permanent Endowment, and (c) accumulations to the Permanent Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

As of June 30, 2014 and 2013, the Foundation had the following endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2014				
Purpose-restricted quasi-endowment	$ -	$ 4,764,923	$ -	$ 4,764,923
Donor-restricted permanent endowment	(4,019)	159,545	2,896,931	3,052,457
	$ (4,019)	$ 4,924,468	$ 2,896,931	$ 7,817,380
June 30, 2013				
Purpose-restricted quasi-endowment	$ -	$ 4,172,939	$ -	$ 4,172,939
Donor-restricted permanent endowment	(15,582)	44,746	1,155,701	1,184,865
	$ (15,582)	$ 4,217,685	$ 1,155,701	$ 5,357,804

At June 30, 2014 and 2013, certain Permanent Endowment funds had fair values less than the amount of the original gifts (the permanently restricted portion of the funds). Deficiencies of $4,019 and $15,582 have been reported in unrestricted net assets on those dates, respectively. The deficiencies resulted from unfavorable market fluctuations. The Foundation has suspended distributions from these funds until such time as the deficiencies are recovered via market returns; however, there is no legal obligation for the Foundation to fund the deficiencies.

Investment and Spending Policies

The Foundation has adopted investment and distribution policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment. Under this policy, as approved by the Board of Directors, endowment assets are invested in a manner intended to maintain or increase the dollar value of the portfolio after annual distribution expenses and fees in order to provide the benefit intended by donors. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Through December 31, 2013, the Foundation used a 4.5% endowment spending-rate to determine the amount to spend from the Endowment each year. Effective January 1, 2014, the Foundation adopted a banded inflation method to determine endowment distributions based on the Higher Education Price Index (HEPI), with the resulting rate subject to a minimum of 3% and a maximum of 5%. Barring specific requirements for each individual endowment, distributions from Permanent Endowments are limited to the excess of the fair values of the Permanent Endowments over the sum of the original and subsequent gift amounts. In establishing this policy, the Foundation considered the long-term expected return on the Endowment, and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

Changes in Endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Year ended June 30, 2014				
Endowment net assets, beginning of year	$ (15,582)	$ 4,217,685	$ 1,155,701	$ 5,357,804
Investment return (loss)				
Investment income, net of fees	-	68,352	-	68,352
Net realized and unrealized gain	-	584,393	-	584,393
Total investment return (loss)	-	652,745	-	652,745
Contributions	-	98,111	1,741,230	1,839,341
Recovery of deficiency in original gift value of permanently restricted funds below fair value	11,563	(11,563)	-	-
Distributions pursuant to endowment spending-rate formula	-	(32,510)	-	(32,510)
Endowment net assets, end of year	$ (4,019)	$ 4,924,468	$ 2,896,931	$ 7,817,380
Year ended June 30, 2013				
Endowment net assets, beginning of year	$ (37,554)	$ 3,654,345	$ 912,313	$ 4,529,104
Investment return (loss)				
Investment income, net of fees	-	231,055	-	231,055
Net realized and unrealized gain	-	133,999	-	133,999
Total investment return (loss)	-	365,054	-	365,054
Contributions	-	287,995	243,388	531,383
Recovery of deficiency in original gift value of permanently restricted funds below fair value	21,972	(21,972)	-	-
Distributions pursuant to endowment spending-rate formula	-	(67,737)	-	(67,737)
Endowment net assets, end of year	$ (15,582)	$ 4,217,685	$ 1,155,701	$ 5,357,804

Note 8 - Restricted Net Assets

Temporarily Restricted

Temporarily restricted net assets at June 30, 2014 and 2013, consist of:

	2014	2013
Restricted by donors for		
Scholarships	$ 1,017,092	$ 972,424
Academic, student and other activities	3,767,914	3,360,546
Capital projects	279,015	-
Purpose-restricted quasi-endowments		
Scholarships	4,419,336	3,868,249
Academic and other departments	345,587	304,689
Unspent appreciation of Endowment funds which must be appropriated for expenditure before use	159,545	44,747
	$ 9,988,489	$ 8,550,655

Net assets were released from restrictions or otherwise reclassified as follows during the years ended June 30, 2014 and 2013:

	2014	2013
Satisfaction of purpose restrictions		
Scholarships	$ 938,792	$ 1,291,752
Academic, student and other activities	1,290,712	1,533,202
HLC@Metro	535,951	549,813
	$ 2,765,455	$ 3,374,767

Permanently Restricted

Permanently restricted net assets consist of a beneficial interest in a charitable trust administered by an independent trustee, the proceeds of which will be added to the Foundation's Permanent Endowment for scholarships upon dissolution of the trust, and various endowment funds restricted by donors for investment in perpetuity. Earnings on endowment funds are available to the Foundation for the purposes specified by the donors.

Permanently restricted net asset balances, categorized by the nature of the restrictions on their earnings, are as follows at June 30, 2014 and 2013:

	2014	2013
Restricted by donors for		
Scholarships	$ 1,443,639	$ 1,135,312
Academic, student and other activities	1,564,937	118,600
	$ 3,008,576	$ 1,253,912

Note 9 - Donated Professional Services and In-kind Contributions

The Foundation received donated professional services and materials as follows during the years ended June 30, 2014 and 2013:

	2014	2013
Program services		
Materials	$ 71,950	$ 2,750
HLC@Metro materials and services	-	179,311
Fundraising and development		
Development office compensation - University	1,375,485	1,190,720
	$ 1,447,435	$ 1,372,781

Note 10 - Functionalized Expenses

Total expenses by function were as follows for the years ended June 30, 2014 and 2013:

	2014	2013
Program services expense	$ 2,593,025	$ 3,409,452
General and administrative costs (includes investment management fees of $159,457 and $119,791, respectively)	504,046	432,427
Donor development costs (includes cost of direct benefits to donors of $26,669 and $114,344, respectively)	1,401,154	1,305,064
Total functionalized expenses	$ 4,498,225	$ 5,146,943

Note 11 - Commitments and Contingencies

University Hospitality Learning Center (HLC@Metro)

The Foundation has an agreement with the University to use its best efforts to raise cash and in-kind contributions for HLC@Metro. The agreement is conditioned on the Foundation's ability to collect donor contributions restricted to HLC@Metro; as contributions are collected, the Foundation records a liability to HLC@Metro, and a corresponding contribution expense.

Note 12 - Related Party Transactions

The Foundation leases certain office space from the University with automatic one-year renewals at the beginning of each fiscal year. Annual rent expense was $8,274 for the years ended June 30, 2014 and 2013.

Funding provided by the Foundation directly to the University, which includes HLC@Metro, for scholarships, academic and other departments, and other activities, totaled $2,523,732 and $3,165,000 for the years ended June 30, 2014 and 2013, respectively. The Foundation owed the University $129,520 and $1,368,280 at June 30, 2014 and 2013, respectively. The Foundation paid the University $186,469 and $212,703 for salaries and benefits of certain University personnel provided to the Foundation during the years ended June 30, 2014 and 2013, respectively. In addition, the University provided development and other personnel to the Foundation at no cost. The Foundation recorded professional services donated by the University in the amount of $1,374,485 and $1,190,720 for the years ended June 30, 2014 and 2013, respectively. The corresponding expenses have been reflected in the accompanying statements of activities as donor development costs. Further, the University reimbursed the Foundation $32,006 and $27,781 for administrative expenses during the years ended June 30, 2014 and 2013, respectively.

The University leases space for the CVA from the LLC (Note 6). Amounts due from the University to the Foundation for expense reimbursements including rent expense were $204,592 and $5,245 at June 30, 2013 and 2014, respectively.

(1) Organization

On August 18, 2010, the Board of Trustees of the Metropolitan State University of Denver (MSU Denver or the University) voted unanimously to establish a special-purpose corporation (SPC) to own the proposed Hotel and Hospitality Learning Center and provide for its financing, construction, operation, and management. HLC @ Metro, Inc. (hereinafter referred to as HLC), a not-for-profit corporation, the income of which is excluded under Section 115 of the Internal Revenue Code (the Code), was established on August 19, 2010 to fulfill this purpose.

The building of the Hotel and Hospitality Learning Center was financed through issuance of $49,640,000 Taxable Revenue Build America Bonds (BABS) (Series 2010A bonds), $4,500,000 Tax-Exempt Revenue Bonds (Series 2010B bonds), and $745,000 Taxable Revenue Bonds (Series 2010C bonds) for a total of $54,885,000. The construction cost was estimated at $45 million and was completed slightly over this amount; with the additional bonds proceeds to be used for debt issuance costs and debt service reserve funds. These bonds were issued by the MSU Denver Roadrunner Recovery and Reinvestment Act Finance Authority (the RRRAFA), which is a political subdivision and a public corporation of the State of Colorado (the State) established to issue these bonds. On October 28, 2010, Series 2010A, B, and C bond proceeds were transferred from the RRRAFA to the HLC.

The Hotel and Hospitality Learning Center at MSU Denver offers the Denver community two resources including: a fully functioning flagged hotel, SpringHill Suites® by Marriott, and a learning laboratory for the University’s Hospitality, Tourism, and Events department (HTE).

Located in the heart of Denver, the hotel includes 150 hotel rooms and conference facilities. The adjacent hospitality learning center has more than 28,000 square feet of academic space, including classrooms, specialty learning labs, and faculty offices. The hotel is run by the professional hotel management firm, Sage Hospitality, and is providing hands-on training opportunities for students in the HTE program.

No taxpayer dollars were used on the approximately $45 million project; the groundbreaking was held on March 31, 2011 and the opening date was August 3, 2012.

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying financial statements include accounts of the HLC, which is a discretely presented component unit of the University. The University board of trustees gives the final approval in the appointment process of the HLC board of directors. As of June 30, 2014 and 2013, three of the six board members are University directors or officers. To meet the requirements of the HLC’s bylaws for up to a nine member Board, and in an effort to increase the number of external industry experts on the HLC Board, a nominating committee was created within the board of directors. At the fiscal year 2015 first quarter board meeting on October 22, 2014, three additional individuals with extensive industry experience were appointed to the board.

(2) Summary of Significant Accounting Policies (Continued)

(b) Basis of Accounting

The accompanying financial statements for the HLC have been prepared on the accrual basis of accounting.

(c) Cash and Cash Equivalents

The HLC considers all highly liquid investments, including deposits with the State Treasury, as cash and cash equivalents. At June 30, 2014 and 2013, cash and cash equivalents in banks consisted of the following:

	June 30	
	2014	2013
Cash in bank accounts with Trustee (Wells Fargo)	$ 5,712,379	$ 3,011,803
Cash and cash equivalents invested with State Treasury	1,101,054	1,685,933
Cash for hotel operations (Sage)	380,994	431,430
Total cash and cash equivalents	$ 7,194,427	$ 5,129,166

(d) Cash Invested with State Treasury and Related Unrealized Gains

HLC deposits part of its cash with the State Treasury. The Treasurer pools these deposits and invests them in securities approved by Section 24 75 601.1 of the Colorado Revised Statute (the Pool). Money deposited with the Treasurer is invested until the cash is needed. Earnings are allocated in proportion to the daily cash balance for all participants in the Pool. At June 30, 2014 and 2013, the HLC had cash on deposit with the State Treasurer of $1,096,240 and $1,685,800, respectively, which represented .015% of the total $7,455.0 million and .027% of the total $7,260.8 million, respectively, in deposits in the State Treasurer's Pool.

For financial reporting purposes, all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of the HLC's participation in the Pool, HLC reports as an increase or decrease in cash its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains (losses) included in income reflect only the change in fair value for the fiscal year.

For the HLC's deposits with the State Treasury, the net unrealized gain for fiscal year 2014 was $4,681 and the net unrealized loss in 2013 was $95,993. This net unrealized gain is included in cash and cash equivalents on the statement of financial position.

(2) Summary of Significant Accounting Policies (Continued)

(e) Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation, if acquired by gift. The HLC follows the accepted industry standard policy of capitalizing only those capital assets with an initial cost or fair value equal to or greater than $1,000 per item or $250 per item if each item is part of a bulk purchase of 10 or more items. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The useful lives of acquired assets range from 3 to 40 years; 20 to 40 years for buildings and improvements; and 3 to 10 years for furniture, computers, and equipment. All direct costs associated with the construction of the project were included in establishing the asset valuation. This includes legal fees, feasibility studies or any other general and administrative costs that were necessary for the completion of the project.

To the extent applicable, the HLC follows MSU Denver's accounting policies, including the policy of the "half-year" depreciation convention. The HLC recognized $1,506,447 and $751,506 in building, equipment, furniture, and software depreciation expense in fiscal year 2014 and 2013, respectively.

(f) Accounts Receivable

A summary of accounts receivable balances is as follows:

	June 30	
	2014	2013
BABS Subsidy	$ 329,371	$ 354,926
Due from the Foundation	14,005	978,459
Receivables of Hotel	131,659	168,853
Due from MSU Denver	-	49,997
State Treasury interest	909	1,465
Total accounts receivable	$ 475,944	$ 1,553,700

As of June 30, 2014 and 2013, the total balance included $14,005 and $978,459, respectively, due from the Metropolitan State University of Denver Foundation (the Foundation) and represents the amount that it has fundraised for the HLC. Additionally, interest receivable from the federal government for the Series 2010A bonds interest subsidy of $329,371 and $354,926 was included in the total balance as of both June 30, 2014 and 2013. The amount due from MSU Denver of $0 and $49,997 as of June 30, 2014 and 2013, respectively, was for a multi-entity electrical infrastructure cost-sharing agreement during the construction period.

As of June 30, 2014, $131,659 is due to the Hotel from external sources related to its operations. Of this balance, $43,300 is from a travel agency, and the remaining balance is from outstanding corporate and personal accounts. As of June 30, 2013, $168,853 was due to the Hotel from external sources related to its operations. Of this balance, $41,118 is from a travel agency, $18,275 is from the utility bill to MSU Denver for its portion of the building related to the Hospitality Learning Center, and the remaining balance is from outstanding corporate and personal accounts. The hotel does not have any receivable balances that are greater than 90 days past due.

(2) Summary of Significant Accounting Policies (Continued)

An allowance for uncollectible accounts is determined based on a specific review of outstanding balances; however, as of June 30, 2014 and 2013, there is no allowance for uncollectible accounts.

(g) Use of Land

As noted above, the University leased land under an operating lease agreement with AHEC totaling $1.00 for the ground where the HLC hotel is built. This land was, in turn, subleased by the University to HLC for a period of 50 years for $1 beginning on October 28, 2010. In accordance with generally accepted accounting principles for not-for-profit organizations, the use of the land below fair market was recorded as an asset at the inception of the lease. Each year, rent expense is recognized at estimated fair market value, reducing the value of the use of land asset. Rent expense for both fiscal years 2014 and 2013 was $110,311 for each year.

The following is a reconciliation of the beginning and ending balances of the Use of land asset:

	June 30	
	2014	**2013**
Use of land asset, beginning of year	$ 5,221,397	$ 5,331,708
Lease expense related to use of land asset	(110,311)	(110,311)
Use of land asset, end of year	$ 5,111,086	$ 5,221,397

(h) Accounts Payable

As of June 30, 2014, accounts payable of $185,455 includes $181,801 from Hotel operations due to numerous vendors with small balances, and $3,654 of deposits held in custody for payment to the Foundation.

As of June 30, 2013, accounts payable of $473,626 includes $239,536 payable to MSU Denver for academic equipment purchased on behalf of the HLC, $146,599 from Hotel operations due to numerous vendors with small balances, $85,706 payable to the primary project construction company, and $1,785 of deposits held in custody for payment to the Foundation.

(i) Bond Issuance Costs

Bond issuance costs are deferred and are being amortized on a straight-line basis over the life of the bonds. Total amortization expense of bond issuance costs for the years ended June 30, 2014 and June 30, 2013 was $172,381 and $172,380, respectively.

(j) Revenue Recognition

Revenue is recognized when it is earned. Contributions are reported when an unconditional promise to give is received.

(2) Summary of Significant Accounting Policies (Continued)

(k) Expenses

Expenses are recognized by the HLC in the period incurred. Expenses paid in advance but not yet incurred are deferred to the applicable period.

(l) Net Assets

The HLC, as a nonprofit organization, is required to classify its net assets in three categories: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are available for the general operations and have no donor imposed restriction on them. Temporarily restricted net assets are funds received that are subject to donor imposed restrictions that will be met either by certain actions, expenditures, or the passage of time. As these restrictions are met, net assets are reclassified from temporarily restricted to unrestricted net assets. Restrictions met in the same period in which the related contributions are received are recorded as unrestricted support.

The HLC has no permanently restricted net assets.

(m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and other changes in net assets during the reporting period. Actual results could differ significantly from those estimates.

(3) Fair Value Measurements

The HLC follows the method of fair value measurement described in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820-10, *Fair Value Measurement*. 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 HLC 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.

(3) Fair Value Measurements (Continued)

At June 30, 2014 and 2013, all of the HLC's deposits within the Treasurer's Pool are considered to be Level 3 investments.

Additional information on the State Treasurer's pooled cash and investments may be obtained in the State's comprehensive annual financial report for the year ended June 30, 2014.

(a) Fair Value of Financial Instruments

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

Cash and cash equivalents – Fair value for cash and cash equivalents, excluding funds held by the State Treasury, is estimated to be the same as the carrying (book) value because of its short maturity. Fair value of the cash equivalents held with the State Treasury is the market value based on quoted market prices. Restricted cash and cash equivalents are composed of balances maintained in escrow accounts as required by Series 2010 bonds loan and trust agreement.

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

Use of Land – Fair value is estimated based upon comparable lease prices for land properties near HLC in the Denver Metro area.

Accounts payable, retainage payable, and interest payable – Fair value is estimated to be the same as the carrying (book) value because of their short maturities.

Bonds payable – Fair value is determined by computing the present value of future payments discounted at the prevailing interest rate for comparable debt instruments at year-end. At June 30, 2014 and 2013, the fair value of bonds payable is $59,568,941 and $58,414,034, respectively.

The following table presents assets (liabilities) measured at fair value by classification within the fair value hierarchy as of June 30, 2014:

	Fair Value Measurements Using			
	Quoted Prices In Active Market for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents invested with State Treasury	$ -	$ -	$ 1,101,054	$ 1,101,054
Use of land	-	5,111,086	-	5,111,086
Total	$ -	$ 5,111,086	$ 1,101,054	$ 6,212,140

(3) Fair Value Measurements (Continued)

The following table presents assets (liabilities) measured at fair value by classification within the fair value hierarchy as of June 30, 2013:

	Fair Value Measurements Using			
	Quoted Prices In Active Market for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents invested with State Treasury	$ -	$ -	$ 1,685,933	$ 1,685,933
Use of land	-	5,221,397	-	5,221,397
Total	$ -	$ 5,221,397	$ 1,685,933	$ 6,907,330

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30, 2014 and 2013:

	Cash and Cash Equivalents State Treasury 2014	Cash and Cash Equivalents State Treasury 2013
Balance, beginning of year	$ 1,685,933	$ 9,922,728
Contributions made by HLC@Metro, Inc.	-	165,952
Withdrawals	(602,725)	(8,442,980)
Ordinary investment income	13,032	40,100
Unrealized gains (losses), net	4,814	133
Balance, end of year	$ 1,101,054	$ 1,685,933

(4) Bond Obligations

Total outstanding bonds are summarized below:

	Date of Issue	Amount Issued	June 30 2014	June 30 2013
2010 taxable revenue bonds (Build America Bonds)	10/28/2010	$ 49,640,000	$ 49,640,000	$ 49,640,000
2010 tax-exempt revenue bonds	10/28/2010	4,500,000	4,500,000	4,500,000
2010 taxable revenue bonds	10/28/2010	745,000	745,000	745,000
Discount on 2010 series bonds, net of amortization			(295,193)	(278,371)
			$ 54,589,807	$ 54,606,629

(4) Bond Obligations (Continued)

Principal and interest requirements for all Series 2010 bonds, which are due semiannually every March and September, are summarized as follows at June 30, 2014.

Fiscal Year(s)	Principal	Interest	Total
2015	$ 410,000	$ 3,219,375	$ 3,629,373
2016	710,000	3,202,148	3,912,148
2017	825,000	3,178,348	4,003,348
2018	1,075,000	3,138,390	4,213,390
2019	1,250,000	3,089,556	4,339,556
2020-2024	6,935,000	14,551,137	21,486,137
2025-2029	8,225,000	12,473,414	20,698,414
2030-2034	9,980,000	9,635,665	19,615,665
2035-2039	12,235,000	6,042,872	18,277,872
2040-2043	13,240,000	1,604,223	14,844,223
	$54,885,000	$60,135,126	$115,020,126

Series 2010 Bonds

The Roadrunner Recovery and Reinvestment Act Finance Authority (RRRAFA) issued Series 2010 bonds on October 28, 2010 for the purpose of constructing the Hotel and Hospitality Learning Center. The proceeds of the bonds and its obligations were transferred to the HLC in fiscal year 2011. MSU Denver has entered into a guarantee agreement dated October 1, 2010 with the HLC. Per this agreement, MSU Denver absolutely and unconditionally guarantees to Wells Fargo, the HLC's trustee, the timely payments of all debt service payments on the Series 2010 bonds on a gross basis (without netting of any federal subsidy payments received or to be received) while said bonds are outstanding in the event HLC does not make the required debt service payments. The guaranteed amounts are payable solely from available pledged revenues of MSU Denver. For the years ended June 30, 2014 and 2013, MSU Denver was not required to, and did not make, any debt service payments on behalf of the HLC.

(a) Series 2010A

On October 28, 2010, Series 2010A taxable revenue BABS were issued for $49,640,000, bearing interest rates from 4.04% to 6.45%. The principal and interest are due on a semiannual basis with a maturity date of September 1, 2042. These payments range from $1,039,426 to $4,743,189. The bonds are qualified to receive a 35% interest subsidy from the federal government, which was expected to be $24,742,234 over the life of the bonds. However, due to a government sequester, the subsidy was reduced by 8.7% in March 2013. The subsidy was subsequently increased by 1.5% to a total reduction of 7.2% in October 2013. The government sequester is anticipated to reduce the total subsidy received by $1,656,223 over the life of the bonds. A total of $3,756,537 and $2,848,281 had been earned as of June 30, 2014 and 2013, respectively. A receivable of $329,371 and $354,926 was recorded as of both June 30, 2014, and 2013.

(4) Bond Obligations (Continued)

(b) Series 2010B

On October 28, 2010, Series 2010B tax-exempt revenue bonds were issued for $4,500,000, bearing interest rates from 3% to 4%. The principal and interest are due on a semiannual basis with a maturity date of September 1, 2019. These payments range from $57,400 to $1,294,500 with the last payment being a total of $994,500.

(c) Series 2010C

On October 28, 2010, Series 2010C taxable revenue bonds were issued for $745,000, bearing interest rates from 1.978% to 2.328%. The principal and interest are due on a semiannual basis with a maturity date of September 1, 2015. These payments range from $5,435 to $417,954 with the last payment being a total of $338,899.

(5) Temporarily Restricted Net Assets

The Metropolitan State University of Denver Foundation receives contributions from various corporations, organizations and individuals on behalf of the HLC, which are temporarily restricted. At June 30, 2014 and 2013, temporarily restricted net assets are comprised of contributions related to future periods and contributions with a specific purpose and land held for use, as described in Note 1 (g) as follows:

	2014	2013
Land held for use	$ 5,111,086	$ 5,221,397
Time restrictions for debt service payments	14,005	978,459
Total	$ 5,125,091	$ 6,199,856

(6) Metropolitan State University of Denver Foundation Contributions

The Foundation exists for the purpose of soliciting and investing donations for MSU Denver. On September 21, 2010, the Foundation's board of directors adopted the Foundation Resolution providing a plan to use its best effort to raise approximately $12 million in donations, sufficient to retire a portion of the HLC 2010 bonds. However, due to the difficulty of raising the remaining portion of the agreed upon $12 million, the agreement was amended to include a more attainable fundraising goal of $3.5 million. For the year ended June 30, 2014 and 2013, the Foundation contributed a total of $537,014 and $2,295,557, respectively, to the HLC. All amounts contributed by the Foundation for the year ended June 30, 2014 were cash contributions to be used for the HLC's debt service requirements. Of the amount contributed by the Foundation for the year ended June 30, 2013, $1,406,367 were in- kind donations, and $889,190 were cash contributions to be used for the HLC's debt service requirements.

(7) Ground Lease

As of June 30, 2014 and 2013, the HLC has no lease obligations. Trustees of the University have leased the HLC land from the Auraria Higher Education Center for a period of fifty (50) years in the amount of one dollar ($1.00) for the term of the lease. This lease is specifically for the purpose of construction and operation of the Hotel and Hospitality Learning Center. See Note 2 (g) for more information on how the use of this land is recorded on the financial statements.

(8) Income Tax Status

The income of the HLC is derived from the exercise of essential government functions and, as such, is excluded from federal income tax under Section 115 of the Code, however, it would be subject to tax on any unrelated business income under Section 511(a)(2)(B). The HLC generated unrelated business taxable losses for the years ended June 30, 2014 and 2013. A net operating loss tax net asset was not recognized in the financial statements as utilization of the net operating loss carry forward is uncertain. In accordance with Generally Accepted Accounting Principles, a private entity is required to disclose any material uncertain tax positions that management believes does not meet a “more-likely-than–not” standard of being sustained under an income tax audit and to record a liability for any such taxes including penalty and interest. Management of the Organization has not identified any uncertain tax positions that require the recording of a liability mentioned above for further disclosure. The HLC is currently not under any U.S. federal or state income tax examinations by tax authorities.

(9) Subsequent Events

HLC has evaluated its subsequent events as of December 11, 2014, the date that the financial statements were available to be issued. No events were identified requiring disclosure.

(10) Restatement

The HLC has restated its net assets as of June 30, 2012, to properly account for a Net Asset classifications as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
July 1, 2012 Net Assets as previously reported	$ (3,429,665)	$ 354,926	$ -	$ (3,074,739)
Reclassification of Net Assets without Donor Imposed Restrictions	354,926	(354,926)	-	-
Adjustment for Use of land asset not previously recorded (see note 1g)	-	5,331,708	-	$ 5,331,708
July 1, 2012 Net Assets as restated	(3,074,739)	5,331,708	-	2,256,969
Change in net assets as originally presented	(2,766,716)	1,187,158	-	(1,579,558)
Reclassification of Net Assets without Donor Imposed Restrictions	208,699	(208,699)	-	-
Adjustment for lease expense related to use of land asset recorded as part of restatement	-	(110,311)	-	(110,311)
July 1, 2013 Net Assets as restated	$ (5,632,756)	$ 6,199,856	$ -	$ 567,100

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*

Members of the Legislative Audit Committee:

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 business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver (formerly, Metropolitan State College of Denver) (the University), an institution of higher education of the State of Colorado, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 11, 2014. Our report includes a reference to other auditors who audited the financial statements of the Metropolitan University of Denver Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the Metropolitan State University of Denver Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the Findings and Recommendations section of this report as Recommendation No. 9WE wa.

The University's Responses to Findings

The University's responses to the findings identified in our audit are described in the Findings and Recommendations section. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 results of that testing, and not to provide an opinion on the effectiveness of the University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Denver, Colorado
December 11, 2014

December 11, 2014

Members of the Legislative Audit Committee
Metropolitan State University of Denver
Denver, Colorado

Ladies and Gentlemen:

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Metropolitan State University of Denver (formerly, Metropolitan State College of Denver) (the University), an institution of higher education of the State of Colorado, as of and for the year ended June 30, 2014, and have issued our report thereon dated of December 11, 2014. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the Metropolitan State University of Denver Foundation, Inc. (the Foundation) discretely presented component unit and the Foundation's financial statements were not audited in accordance with *Government Auditing Standards*. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the University are described in Note 1 to the financial statements.

As described in Note 1, the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The primary impact of the adoption of GASB No. 65 is the expensing of bond issuance costs rather than capitalizing and including as a component of other assets. The impact of this standard is detailed in Note 18 of the financial statements.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Accounts and loans receivable are recorded net of estimated uncollectible amounts, approximating anticipated losses. Individual accounts are written off against the allowance when collection of the account appears doubtful.
- Capital assets are depreciated using the straight-line method and monthly convention over the estimated useful lives of the assets. Estimated useful lives range from 3 to 50 years.
- Compensated absences and related personnel expenses are recognized based on estimated balances due to employees upon termination or retirement. The limitations on such payments are defined by the rules associated with the personnel systems at the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service.

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

The following immaterial misstatement detected as a result of audit procedures was corrected by management:

- Accrued interest and interest expense on capital asset related debt was reduced by $292,371 to properly accrue one month of interest.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated December 11, 2014.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Audits of group financial statements

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance of the group.

We have provided a separate letter to you dated December 11, 2014, communicating internal control related matters relevant to the group audit and identified by us or by a component auditor during the audit.

Quality of component auditor's work

There were no instances in which our evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.

Limitations on the group audit

There were no restrictions on our access to information of components or other limitations on the group audit.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

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This communication is intended solely for the information and use of the State of Colorado Legislative Audit Committee, the Office of the State Auditor, the Board of Trustees and management of the University and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Denver, Colorado
December 11, 2014