KPMG

METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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Section 2-3-103 (2) states in part:

> All reports shall be open to public inspection except for that portion of any report containing recommendations, comments, and any narrative statements, which is **released only upon the approval of a majority vote of the committee** (emphasis supplied).

Section 2-3-103.7 (1) states in part:

> Any state employee **or other individual acting in an oversight role as a member of a committee, board, or commission** who willfully and knowingly discloses the contents of any report prepared by, or at the direction of, the Office of the State Auditor prior to **the release of such report by a majority vote** of the committee as provided in Section 2-3-103 (2) is guilty of a misdemeanor and, upon conviction thereof, shall be punished by a fine of not more than five hundred dollars (emphasis supplied).

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METROPOLITAN STATE COLLEGE OF DENVER

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METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

Report Summary

Year ended June 30, 2009

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Metropolitan State College of Denver (Metro or the College) for the year ended June 30, 2009. KPMG 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 April 2009 to October 2009.

The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of the College as of and for the year ended June 30, 2009. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate the College's compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Express an opinion on the statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance Programs of the College for the year ended June 30, 2009.
- Evaluate progress in implementing prior audit findings and recommendations.

The College'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, 2009 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Reports

We expressed an unqualified opinion on the College's basic financial statements as of and for the year ended June 30, 2009.

No audit adjustments were proposed and made to the basic financial statements. Five audit adjustments were not made to the basic financial statements with a net effect of $(2.0) million, which is approximately 5.5% of current year ending net assets. These passed differences are not considered material to the College's basic financial statements.

We issued a report on the College's internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards.* Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, in internal control, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control. We noted no instances involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Summary of Key Findings

Capitalization of Leasehold Improvements (Significant Deficiency in Internal Control)

Governmental Accounting Standards Board (GASB) Codification, Section 1400, *Reporting Capital Assets*, paragraph 102, states, "Capital assets should be recorded at historical cost." Paragraph 103 further states, "the term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period."

During our audit, we noted the College lacks policies or procedures to properly monitor and account for capital assets. In addition, the College lacks formal communication channels and formal documentation relating to transactions with the Auraria Higher Education Center (AHEC).

Strengthening Controls over the Preparation and Review of the Statement of Cash Flows (Significant Deficiency in Internal Control)

The statement of cash flows is an important financial statement that reflects the inflows and outflows of cash activity of the organization. In accordance with GASB requirements, governmental entities report cash flow activities under the direct method into the following four categories: operating, noncapital financing, capital and related financing, and investing. One key aspect of the statement of cash flows is demonstrating that the entity has sufficient cash flows from operations to pay its obligations as they become due.

Our fiscal year 2009 audit revealed that the College initially prepared an inaccurate and incomplete statement of cash flows.

Improve Accrual Policies and Procedures (Deficiency in Internal Control)

During our audit, we noted the College's existing policies and procedures for evaluating invoices for proper expense recognition are not sufficient to properly ascertain the applicable accounting period. Consequently, we identified approximately $20,000 in transactions that were paid in fiscal year 2010 that related to fiscal year 2009 but were not properly accrued. Further, we identified approximately $2,500 in transactions that were paid and expensed in fiscal year 2009 despite the service period extending into fiscal year 2010 (prepaid expenses).

(Continued)

Improve Accountability and Transparency with Stakeholders by Implementing Leading Practice Activities for Audit Committees (Deficiency in Internal Control)

In today's current environment, stakeholder expectations of higher education institutions, management officials, and board members regarding financial and internal control matters have increased significantly. Although the College is not required to have an audit committee, implementing leading practice audit committee activities may help the College improve its internal control environment, enhance stakeholder confidence in reporting of financial results, and increase transparency of the external and internal auditing functions. Without creating another committee of the Board of Trustees, these leading practice activities may be incorporated into the responsibilities of the Finance Sub-Committee.

Effective Use of Internal Audit Function (Deficiency in Internal Control)

We understand based on discussions with the Chair of the Finance Sub-Committee that the College eliminated its formal internal audit function this past year due primarily to cost reduction measures. We also understand that the College appreciates the important value that an internal audit function provides and that the College is planning to utilize accounting students to perform this role under the supervision of the Finance Department. While this internal audit strategy is not a leading practice, we understand why the College is taking this approach.

The foundational value of an internal audit function resides in its independence and objectivity. The College should assess the most appropriate department or office that the internal audit personnel should report to. The ideal department or office would provide support and oversight for the internal audit function together with appropriate supervision and mentoring. Some entities use the risk management or legal department for this purpose.

Recommendations and the College's Responses

Our recommendations and responses from the College can be found in the Recommendation Locator section of this report.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2008 included one recommendation. The disposition of this audit recommendation as of November 20, 2009 was as follows:

Implemented	1

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Recommendation Locator

Year ended June 30, 2009

Rec. no.	Page no.	Recommendation summary	Agency response	Implementation date
1	9	Enhance existing policies and procedures over capital assets by implementing: (a) formalized agreements and documentation relating to transactions between the College and AHEC; (b) routine physical inventories of capital assets; and (c) automation of monitoring and depreciating capital assets, and/or enhanced manual controls to ensure capital assets are properly capitalized, classified, and depreciated.	Agree	June 30, 2010
2	9	Strengthen its review process over the preparation of the statement of cash flows.	Agree	March 31, 2010
3	10	Enhance existing policies and procedures over expenditures to ensure transactions are recorded and properly accrued in the period in which the service or product was received.	Agree	Completed

(Continued)

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Recommendation Locator

Year ended June 30, 2009

Rec. no.	Page no.	Recommendation summary	Agency response	Implementation date
4	12	Consider the objectives and responsibilities of an audit committee and implement the leading practice activities that would benefit the College and its stakeholders.	Agree	June 30, 2010
5	13	Ensure the internal audit function provides meaningful value to the College and is best positioned for success.	Agree	Ongoing

Organization

Established in 1963 as Colorado's "College of Opportunity," Metropolitan State College of Denver (the College) is the third largest higher education institution in Colorado and one of the largest public four-year colleges 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 GED high school equivalency certificate, or the equivalent to gain admission.

Metro is governed by the Board of Trustees, an 11-member board consisting of nine members appointed by the Governor of Colorado with the consent of the Senate and a faculty and student representative.

Metro offers 54 major fields of study and 85 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, and bachelor of music. Academic programs range from the traditional, such as English, art, history, biology, and psychology, to business-related degrees in computer information systems, accounting and marketing, to professional-directed programs in nursing, healthcare management, criminal justice, pre-medicine, pre-law, and pre-veterinary science.

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

	Resident	Nonresident	Total
Fiscal year:			
2009	15,621	544	16,165
2008	15,135	502	15,637
2007	14,743	431	15,174

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

	Faculty	Staff	Total
Fiscal year:			
2009	843	330	1,173
2008	807	306	1,113
2007	767	286	1,053

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Findings and Recommendations

Year ended June 30, 2009

We have audited the basic financial statements of the Metropolitan State College of Denver (the College) as of and for the year ended June 30, 2009 and have issued our report thereon, dated November 20, 2009. The accompanying financial statements of the College as of and for the year ended June 30, 2008 were audited by other auditors whose report thereon dated November 14, 2008, expressed an unqualified opinion on those statements. In planning and performing our audit of the basic financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the College's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion of the College'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 November 20, 2009 on our consideration of the College's internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since November 20, 2009. We did not audit the financial statements of the discretely presented component unit discussed in note 1 to the basic 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider Recommendations No. 1 and 2 to be significant deficiencies in internal control.

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.

Although not considered to be significant deficiencies or material weaknesses, we also noted Recommendations No. 3 through No. 5 that we would like to bring to your attention.

Capitalization of Leasehold Improvements (Significant Deficiency in Internal Control)

Governmental Accounting Standards Board (GASB) Codification, Section 1400, *Reporting Capital Assets*, paragraph 102, states, "Capital assets should be recorded at historical cost." Paragraph 103 further states, "the term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period."

During our audit, we noted the College lacks policies or procedures to properly monitor and account for capital assets. In addition, the College lacks formal communication channels and formal documentation relating to transactions with the Auraria Higher Education Center (AHEC). Specifically, we identified the following conditions:

1. We selected an expense transaction totaling approximately $318,000 where the College inappropriately expensed leasehold improvements paid to AHEC. Based on discussions with management, the transaction was expensed because management incorrectly believed the costs were being capitalized by AHEC. As a result, capital assets within the College's stand alone financial statements and the State-wide financial statements are understated. Due to the exception identified, we requested management perform an extensive review of current and prior year expenditures representing potential capital improvements erroneously expensed. Management's review identified approximately $3.5 million of previously expensed capital items, resulting in an over statement of current year expenses of $1.1 million and an understatement of prior year net assets of $1.4 million.

   In addition, we selected an expense transaction totaling approximately $209,000 where the College inappropriately expensed costs associated with the expanded modular sites on the Auraria campus. Although the College reimbursed AHEC for its costs, the agreement established does not sufficiently outline lease terms, including the related rights and obligations of the College. As a result, the College recorded the entire disbursement as an expense during fiscal year 2009 rather than deferring the expense over the term of the lease.

2. We selected a sample of existing capital assets and performed physical observations to ensure existence. Of a sample of 46, two fully depreciated assets no longer physically existed or no longer were being utilized by the College. Although the exceptions did not result in a misstatement to net capital assets, the exceptions resulted in a known overstatement to gross capital assets and related accumulated depreciation within the capital asset note to the basic financial statements of approximately $1.1 million. The $1.1 million known error was projected to the population of capital assets, resulting in an additional most likely error of $635,000 within the College's note disclosure.

3. During our test work over capital asset additions and related depreciation expense, we identified approximately $82,000 in capital assets that were erroneously recorded as completed capital assets and depreciated in the prior year, despite the assets being under construction as of June 30, 2008. The exception resulted in a misclassification between completed capital assets and construction in progress and an overstatement of approximately $1,700 in depreciation expense. This exception was caused primarily by the College's largely manual process for recording, tracking, and depreciating capital assets.

(Continued)

4. During our audit, management identified historical artifacts and treasures previously donated to the College in the 1970's that were not recorded on the College's financial statements. Although the estimated current value of the collection is unknown, management believes this collection meets the accounting requirements that recommends, but does not require, capitalization in the financial statements.

Recommendation No. 1

The College should enhance existing policies and procedures over capital assets by implementing the following items: (a) formalized agreements and documentation relating to transactions between the College and AHEC, including enhanced policies regarding the capitalization of expenditures to AHEC; (b) routine physical inventories of capital assets, including related condition assessments; and (c) automation of monitoring and depreciating capital assets, and/or enhanced manual controls to ensure capital assets are properly identified, capitalized, classified, and depreciated.

The College's Response:

Agree. The College and AHEC will work to formalize a capitalization policy. Additionally, we will work to develop a physical inventory process as well as enhancing controls over capital assets. Implementation date: June 30, 2010.

Strengthening Controls over the Preparation and Review of the Statement of Cash Flows (Significant Deficiency in Internal Control)

The statement of cash flows is an important financial statement that reflects the inflows and outflows of cash activity of the organization. In accordance with *Governmental Accounting Standards Board* (GASB) requirements, governmental entities report cash flow activities under the direct method into the following four categories: operating, noncapital financing, capital and related financing and investing. One key aspect of the statement of cash flows is demonstrating that the entity has sufficient cash flows from operations to pay its obligations as they become due.

Our fiscal year 2009 audit revealed that the College initially prepared an inaccurate and incomplete statement of cash flows. The draft cash flow statement provided to us during the audit included the following errors:

- Inappropriate reconciling adjustments of net operating loss to net cash used in operating activities;
- Inaccurate classification of activity within assets and liabilities under the indirect operating activities reconciliation;
- Inaccurate classification of cash flow from operating activities under the direct method; and
- Lack of appropriate noncash disclosures.

These errors were substantially corrected by management prior to issuing the financial statements.

Recommendation No. 2

The College should strengthen its review process over the preparation of the statement of cash flows to ensure it is accurate and complete.

(Continued)

The College's Response:

Agree. The College agrees that it needs to work to improve its process to prepare and review the statement of cash flows. As such, key department staff will seek professional development opportunities to enhance our understanding of this statement. Implementation date: March 31, 2010.

Improve Accrual Policies and Procedures (Deficiency in Internal Control)

The College has existing policies and procedures in place to evaluate all expenditures to determine the proper coding, classification, and expense recognition. However, these policies and procedures do not appear sufficient to identify all material transactions covering multiple fiscal years, which would lead to inaccurate period expenses and related liabilities. During our test work over expenditures, we identified the following conditions:

1. Of our sample of 104 expense transactions, we identified one instance totaling approximately $2,500 where a portion of the expense related to services to be performed in fiscal year 2010, yet the costs were not deferred as a prepaid expense. The impact of the error was not extrapolated to expenses, as the same error occurred in fiscal year 2008. However, the projected impact on accounts payable and accrued expenses as of June 30, 2009 is an overstatement of approximately $6,900.

2. Of our sample of 22 disbursements occurring subsequent to June 30, 2009, we identified two instances totaling approximately $20,000 where the transaction related to services provided in fiscal year 2009, yet the costs were not accrued as of June 30, 2009. The impact of the error identified resulted in a projected understatement of expenses and accounts payable of approximately $120,000.

Recommendation No. 3

The College should enhance existing policies and procedures over expenditures and financial reporting to ensure transactions are recorded and properly accrued in the period in which the service or product was received.

The College's Response:

Agree. The College has improved its procedures over reviewing transactions to ensure they are properly accrued. We implemented better training for technicians that enter the information and additional review procedures for the area supervisor. Implementation date: completed.

Improve Accountability and Transparency with Stakeholders by Implementing Leading Practice Activities for Audit Committees (Deficiency in Internal Control)

In today's current environment, stakeholder expectations of higher education institutions, management officials, and board members regarding financial and internal control matters have increased significantly. Although the College is not required to have an audit committee, implementing leading practice audit committee activities may help the College improve its internal control environment, enhance stakeholder confidence in reporting of financial results, and increase transparency of the external and internal auditing functions. Without creating another committee of the Board of Trustees, these leading practice activities may be incorporated into the responsibilities of the Finance Sub-Committee.

(Continued)

The objectives of an audit committee are to assist the board with its fiduciary responsibilities, serve as a cornerstone in the protection of stakeholders and to be an integral part of the organization's internal control structure. This purpose translates into the following three main responsibilities of audit committees: 1) assess business risks and the control environment, 2) oversee the financial reporting process, and 3) evaluate the audit process. To accomplish these responsibilities, leading practice activities of audit committees, as recommended by the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), the Sarbanes-Oxley Act of 2002, surveys of audit committee members and organizations such as KPMG's Audit Committee Institute, include the following:

- Review the organization's annual financial statements and significant reports or other financial information submitted to any governmental body or the public
- Review management's process for ensuring that the financial statements are accurate, complete, and have appropriate and full disclosures
- Review audit reports from both the external and internal auditors, including audit findings and management's responses to the findings
- Monitor the implementation status of audit findings
- Evaluate the performance of the external and internal auditors
- Periodically consult with the independent auditors out of the presence of management about internal controls, the fullness and accuracy of the organization's financial statements, any significant difficulties encountered during the audit, any disagreements with management, and any other matters as considered necessary
- Review the integrity of the organization's financial reporting process, both internal and external
- Consider the appropriateness and quality of the organization's accounting principles applied in financial reporting, including new accounting standards implemented, significant judgments used by management with accounting estimates, and significant changes in accounting practices
- Establish regular and separate systems of reporting to the committee by management, the independent auditors, and the internal auditors
- Establish, review, and update periodically a code of ethical conduct, including conflicts of interest policy, and ensure that management has established a system to enforce the code
- Review management's monitoring of compliance with applicable laws, regulations, contracts, and grant agreements
- Review, with legal counsel, legal compliance matters and significant legal actions that may impact the financial statements
- Evaluate management's process for assessing the adequacy of internal control (including the control environment, risk assessment, control activities, information and communication, and monitoring activities)

(Continued)

- Consider establishing, communicating, and monitoring an ethics/fraud hotline or other mechanism for stakeholders to report suspicious activities

The above activities should be documented in a charter or formalized manner that should be reviewed and updated as conditions dictate.

Recommendation No. 4

The College should consider the objectives and responsibilities of an audit committee and implement the leading practice activities that would benefit the College and its stakeholders. Developing a road map of audit committee activities with short-term and long-term implementation goals will help the College increase accountability and transparency with its stakeholders.

The College's Response:

Agree. Key College leaders will work with the members of the finance subcommittee to continue to evaluate the objectives and responsibilities of that group. Implementation date: June 30, 2010.

Effective Use of Internal Audit Resources (Deficiency in Internal Control)

We understand, based on discussions with the chair of the finance subcommittee, that the College eliminated its formal internal audit function this past year due primarily to cost reduction measures. We also understand that the College appreciates the important value that an internal audit function provides and that the College is planning to utilize accounting students to help perform a portion of this role under the supervision of the Finance Department. Other internal audit projects may be outsourced as necessary. While this internal audit strategy may not be a leading practice, we understand why the College is taking this approach.

The foundational value of an internal audit function resides in its independence and objectivity. These qualities are upheld when internal audit reports to either the audit committee or the board itself. In light of the planned changes with internal audit, having the function report directly to the finance subcommittee or the board of trustees directly may not be appropriate since the student auditors are not experienced with such reporting and presentation responsibilities. Also, since the Finance Department will be subject to and involved in many of the audits itself, having the internal auditors report to the Finance Department is not ideal. Therefore, the College should assess the most appropriate department or office that the internal audit personnel should report to. The ideal department or office would provide support and oversight for the internal audit function together with appropriate supervision and mentoring. Some entities use the risk management or legal department for this purpose.

Since key personnel in the Finance Department have the requisite accounting skills and an understanding of the audit process, they can also provide guidance, training, and documentation assistance to the accounting students serving as auditors.

Leading practice activities of an effective internal audit function include the following:

- Understanding and focusing on strategic issues of the board
- Ensuring a clear link from business strategy to internal audit's focus

(Continued)

- Focus on internal controls (both IT and manual controls), business risks, compliance with laws and regulations, fraud prevention, effectiveness, and compliance with policies and procedures
- Rapidly responding to significant issues or organization crises
- Succinct and timely reports identifying trends/themes/future vulnerabilities
- Timely assessments of the control environment and management's control consciousness
- When appropriate, calculating savings from internal audit's findings
- Effective use of computer-assisted audit tools (e.g., data mining applications)
- Enterprise risk management assessment and monitoring

Recommendation No. 5

To ensure that the internal audit function provides meaningful value to the College and is best positioned for success, the College should:

a. Determine the best reporting model for its internal audit function to ensure independence;

b. Focus internal audit activities on high risk and important business issues that align with the strategic objectives of the board of trustees;

c. Appropriately mentor and provide adequate supervision of the internal auditors;

d. Implement procedures to ensure that the auditors stay focused on the objectives of their specific projects and remain on schedule;

e. Ensure that the internal auditors interact with management officials and staff in a professional and ethical manner; this includes setting an appropriate tone in internal audit communications and related reports so that the auditors develop appropriate working relationships with management; and

f. Develop and formalize an internal audit charter that highlights the attributes noted above such as goals and objectives of the internal audit function, its operating parameters, its reporting responsibilities, its code of conduct, and the value proposition that internal audit will be measured against, including meaningful performance guidelines and metrics (such as number of audits planned and completed, number and quality of recommendations, number and timeliness of recommendations implemented by management, cost savings, etc.).

The College's Response:

Agree. The College believes that the internal audit function is an important function and role for any organization. We will continue to work closely with finance subcommittee, accounting department, and external audit firms to ensure that the function provides meaningful value to the College. Implementation date: ongoing.

The following table presents the audit recommendation made for the year ended June 30, 2008 and its disposition as of November 20, 2009.

Recommendation	Disposition
Recommendation No. 1 The College should continue to monitor these receivable balances to ensure that adequate amounts are reserved for uncollectible accounts.	Implemented.

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Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Metropolitan State College of Denver (the College), a component unit of the State of Colorado, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. The accompanying financial statements of the College as of and for the year ended June 30, 2008 were audited by other auditors whose report thereon dated November 14, 2008, expressed an unqualified opinion on those statements. We also did not audit the financial statements of the discretely presented component unit discussed in note 1 to the basic financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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 of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2009, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 17 to 24 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 20, 2009

This section of Metropolitan State College of Denver's (Metro State, or the College) financial report presents management's discussion and analysis of the financial performance of Metro State during the years ended June 30, 2009 and 2008. This discussion focuses on current activities and known facts and provides an overview of Metro State'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) No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. This annual report consists of a series of financial statements: the statements of net assets; the statements of revenues, expenses, and changes in net assets; 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 College of Denver Foundation, Inc. (the Foundation) are included in Metro State's financial statements as required by GASB No. 39, *Determining Whether Certain Organizations Are Component Units*.

Financial Highlights

- Metro State's financial position, as a whole, improved during the years ended June 30, 2009 and 2008. The combined net assets increased $3.8 million and $2.3 million, respectively, over the previous year.
- In fiscal year 2009, the level of funding for Metro State's College Opportunity Fund (COF) stipends was initially set by the General Assembly at $92 per eligible credit hour; whereas, fiscal year 2008 funding was $89. However, due to poor economic conditions in fiscal year 2009, the State of Colorado (the State) was only able to fund the stipend at $68 per eligible credit hour. This revenue is recorded in the tuition and fees line under operating revenue.
- Metro State received $9.9 million in state fiscal stabilization funds revenue from the American Recovery and Reinvestment Act to help offset the reduction in state funding during fiscal year 2009.
- Metro State's June 30, 2009 current assets of $46.0 million were sufficient to cover current liabilities of approximately $20.7 million. The current ratio of 2.22 (current assets/current liabilities) reflects the liquidity of Metro State's assets and the availability of funds for current operations.
- Metro State's headcount had small changes in the Summer 2008 and Fall 2008 terms with a 1.2% decrease and a 1.4% increase, respectively, over the previous year's term. However, the Spring 2009 term had a 7.0% increase over the previous year's term.

Statements of Net Assets

The Statements of Net Assets reports on assets, liabilities, and net assets (net assets represent the excess of total assets over total liabilities) as of June 30, 2009 and 2008. Over time, increases or decreases in net assets are one indicator of Metro State's financial health when considered in conjunction with nonfinancial facts such as student enrollment.

Condensed Statements of Net Assets

		2009	2008	2007
			(In thousands)	
Assets:				
Current assets	$	45,960	39,130	38,038
Noncurrent assets		22,208	14,801	12,249
Total assets	$	68,168	53,931	50,287
Liabilities:				
Current liabilities	$	20,652	18,962	17,900
Noncurrent liabilities		10,877	2,153	1,894
Total liabilities	$	31,529	21,115	19,794
Net assets				
Invested in capital assets, net of related debt	$	6,864	6,600	4,191
Restricted for expendable purposes		9,247	9,122	9,016
Unrestricted		20,528	17,094	17,286
Total net assets	$	36,639	32,816	30,493

At June 30, 2009 and 2008, Metro State's total assets were $68.2 million and $53.9 million, respectively, which is an increase of $14.3 million and $3.6 million, respectively, when compared to the prior years. The largest asset category was cash and cash equivalents at $36.3 million and $30.1 million, respectively. The primary reasons for the relatively large increase in total assets in fiscal year 2009 were a $6.2 million increase in cash and cash equivalents and a $7.6 million increase in construction in progress. The increase in cash and cash equivalents resulted from cost saving initiatives implemented in anticipation of funding decreases. The increase in construction in progress represents the amount of Metro State's portion of the new science building that is still in progress as of June 30, 2009. The science building is a significant construction project on the Auraria Campus owned by the Auraria Higher Education Center (AHEC) and leased, in part, to Metro State. Metro State's share of the science building represents a capital lease between Metro State and AHEC. Once the building has been placed in service the construction in progress balance will be moved to leasehold improvements, net of amortization. The increases in current assets in 2008 were due to small increases in tuition and enrollment.

Metro State's financial position improved during fiscal year 2009 as evidenced by the $3.8 million increase in net assets for a total of $36.6 million as of June 30, 2009. Of this total, $6.9 million is invested in capital assets. Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets. In fiscal year 2009, $9.2 million of net assets was externally restricted for student loans and $20.5 million was unrestricted and available for any lawful purpose of Metro State.

(Continued)

Statements of Revenues, Expenses, and Changes in Net Assets

The Statements of Revenues, Expenses, and Changes in Net Assets present the results of operations during fiscal years 2009 and 2008. 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 Metro State. Nonoperating revenues and expenses are those other than operating and include but are not limited to State fiscal stabilization revenue, investment and interest income, and private grants and gifts.

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

		2009	2008	2007
			(In thousands)	
Operating revenues:				
Tuition and fees, net	$	72,610	78,784	73,537
Fee for service		7,015	3,757	4,164
Sales and services		3,335	3,147	3,073
Grants and contracts		37,091	31,852	29,880
Other operating revenues		4,863	3,699	3,482
Total operating revenues		124,914	121,239	114,136
Operating expenses		134,634	124,623	116,531
Operating loss		(9,720)	(3,384)	(2,395)
Nonoperating revenues:				
State fiscal stabilization funds revenue		9,935	—	—
Investment and interest income		1,611	2,015	1,907
Other nonoperating revenues		1,997	3,692	2,190
Net nonoperating revenues		13,543	5,707	4,097
Increase in net assets		3,823	2,323	1,702
Net assets at beginning of year		32,816	30,493	28,791
Net assets at end of year	$	36,639	32,816	30,493

Tuition and fees revenue, net, accounted for $72.6 million of $124.9 million in operating revenue in 2009. Tuition and fees, net decreased $6.2 million from the previous year due to a reduction in the College Opportunity Fund (COF) stipend funding. Whereas, fiscal year 2008 experienced a $5.2 million increase because of increases in student enrollment.

The tuition and fees revenue amount is net of scholarship allowances of $29.5 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. Scholarship discounts and allowances increased $4.8 million from the previous year due to an increase in tuition, as well as enrollment increases and an overall increase in scholarships and fellowships.

The $3.3 million increase in fee for service in fiscal year 2009 and the $0.4 million decrease in fiscal year 2008 are a result of changes to the fee for service contract the College has with the State of Colorado. Grants and contracts increased $5.2 million in fiscal year 2009 and $2.0 million in fiscal year 2008 due to continued increases in Pell and Colorado student grants. State fiscal stabilization funds revenue are federal funds from the American Recovery and Reinvestment Act (ARRA) given to the College in response to the State's reduction of fiscal year 2009 COF stipend funding. The College is scheduled to receive ARRA funding through fiscal year 2011.

Operating expenses totaled $134.6 million in 2009. Of this total, $64.8 million was for instruction, $9.7 million for academic support, $14.2 million for student services, $15.4 million for institutional support, $7.4 million for operation of plant, and $18.5 million for auxiliary enterprises. The remaining $4.6 million was for scholarships and other miscellaneous operating expenses.

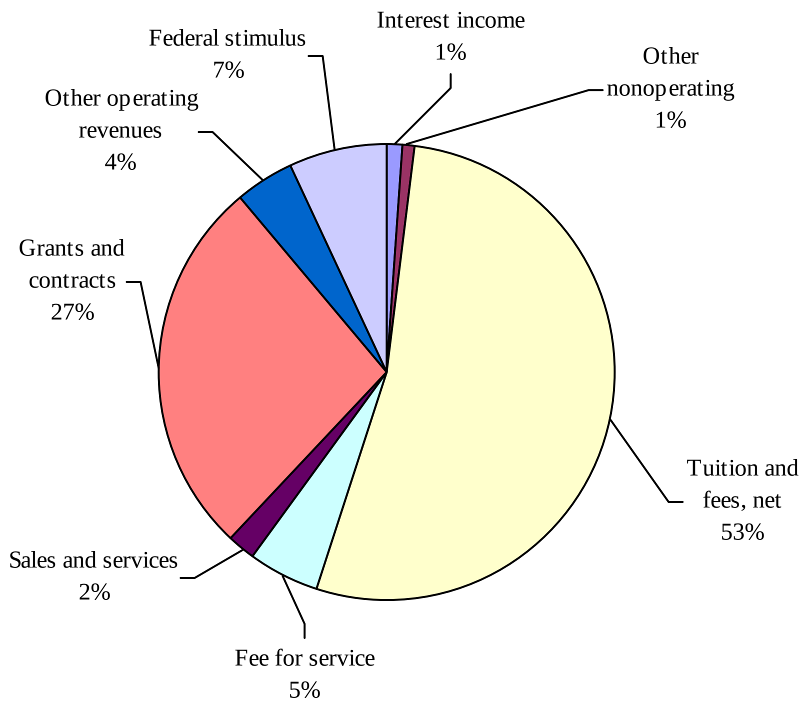
Overall operating expenses show an increase of $10 million over the prior year due to a combination of several factors, including:

- Salary and benefit expenses increased approximately $6.9 million resulting from a net increase of 36 faculty and 24 administrative and classified employees, as well as average salary increases of 4%.
- Bad debt expense increased approximately $1 million due to uncollectible accounts for students that had financial aid revoked for not submitting high school transcripts. Payments to AHEC for land, the science building, and the use of other facilities increased by $1.3 million. Scholarship expense increased $932 thousand primarily due to increases in Pell and Colorado Student Grants.

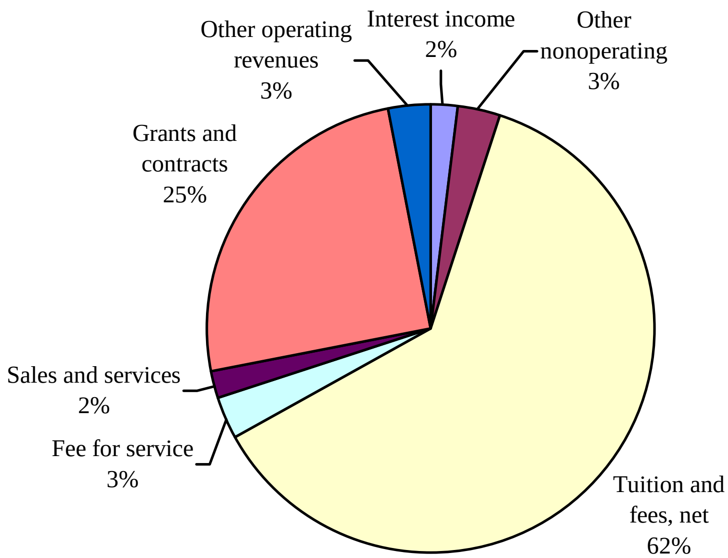
(Continued)

The following is a graphic illustration of total revenue (operating and nonoperating) by source for Metro State. Each major revenue component is displayed relative to its proportionate share of total revenue.

Revenue by Source – 2009



Revenue by Source – 2008



Statements of Cash Flows

The Statements of Cash Flows presents 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 Metro State's ability to generate cash flows and meet financial obligations as they mature.

Condensed Statements of Cash Flows

		2009	2008 (In thousands)	2007
Net cash provided by (used in) :				
Operating activities	$	(5,502)	(3,102)	(422)
Noncapital financing activities		12,017	2,511	2,167
Capital and related financing activities		(2,015)	(2,162)	(2,257)
Investing activities		1,723	2,109	2,014
Net increase (decrease) in cash		6,223	(644)	1,502
Cash and cash equivalents:				
Beginning of year		30,096	30,740	29,238
End of year	$	36,319	30,096	30,740

Metro State's overall liquidity increased by $6.2 million in fiscal year 2009; whereas, fiscal year 2008 experienced a decrease of $644 thousand in cash and cash equivalents. The major sources of cash inflows in fiscal year 2009 were $73.8 million from tuition and fees, and $37.2 million from federal and State grants and contracts. The primary outflows are $91.4 million for payments to or for employees and $37.9 million for payments to suppliers.

Economic Outlook and Metropolitan State College of Denver's Future

Metro State retained its enterprise status during fiscal year 2009 by receiving less than 10% in State funding. The College Opportunity Fund (COF) stipends were initially set by the General Assembly in fiscal year 2009 at $92 per semester hour, per resident undergraduate student. However, this stipend amount was ultimately reduced to $68 and is scheduled to remain at this rate through fiscal year 2010. This decrease in stipends resulted in an $11.4 million reduction of funding, which required the College to implement cost saving measures. This reduction, however, was offset by a $3.3 million increase in fee for service revenue as well as $9.9 million award of federal stimulus funds. Metro State is budgeted to receive $1.8 million less in fee for service revenue in fiscal year 2010 than it received in fiscal year 2009. While the federal stimulus money is pledged through fiscal year 2011, the College could not count on the economy recovering by that time and moved forward with cost containment initiatives, resulting in an increase in cash of $6.2 million in fiscal year 2009.

In May 2009, House Bill 1295 was signed, authorizing Metro State to offer Master's programs. The College has been working toward offering three such programs, which include a Master's in Professional Accountancy, a Master's of Arts in Teaching, and a Master's of Social Work. The College hopes to implement the accounting and teaching programs by the Fall 2010 term, while the social work program is tentatively scheduled to begin by the Fall 2011 term, pending approval by the appropriate accrediting boards.

(Continued)

In a continued effort to brand the College and create partnerships with the downtown Denver area, Metro State will begin offering the "Metro OneCard" during the Fall 2009 term. The Metro OneCard is a debit card that will be integrated into the student's identification card. It will allow the College to refund the student via a direct deposit rather than issuing checks. Because the Metro OneCard will have a Metro State logo, it will be a tool that will help merchants identify Metro State customers. Future partnerships with downtown area merchants look to be created wherein they offer discounts to Metro State students, which will help bring the College into the heart of downtown.

The science building addition and renovation are scheduled to be completed by the fall of 2010. The building will be owned by the AHEC, but its classroom and office space will be shared by the Community College of Denver (CCD), the University of Colorado at Denver (UCD), and Metro State. Metro State will be responsible for $9 million of the building's total $121 million cost, and will be repaid via lease payments through November, 2027. The 200,000 square foot building will allow Metro State to continue its growth while providing technologically-advanced student labs.

In fiscal year 2009, Metro State selected Project One to be the College's owner's representative on the Student Success Building (SSB), a newly constructed building estimated to be 150,000 square feet. The SSB will be owned by Metro State, making it the College's first brick and mortar building. The SSB will free up space that will be renovated into more classrooms. The SSB is scheduled to break ground in October, 2010. The building and related backfill projects are estimated to cost $62 million. A student bond fee was passed by the student body, which will support the related debt service payments.

Metro State has also made advancements with the public/private partnership that will create the Hotel and Hotel Learning Center (HLC). The Hotel and HLC will be a fully functioning hotel and conference center with a teaching and learning facility for the College's Hospitality, Tourism, and Events (HTE) students. The HLC will provide real-world training opportunities for students in the HTE department and will be a learning lab for both the hotel operator and HTE faculty. The total cost of the hotel and HLC is estimated at $40 million and is expected to be completed in July 2012. The selected developer, MA Mortenson Construction & Development Company, will be responsible for all the costs associated with the development of the hotel portion of the HLC. Metro State will be responsible for the portion of costs associated with the academic space of HLC, for which it has instituted a capital campaign.

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

METROPOLITAN STATE COLLEGE OF DENVER

Business-Type Activity

Statements of Net Assets

June 30, 2009 and 2008

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	36,319,946	30,096,372
Accounts receivable, student (net of allowance for doubtful accounts of $1,711,303 and $1,537,063, respectively)		5,468,105	6,053,093
Accounts receivable, other		2,860,212	1,776,405
Loans receivable		1,152,556	1,039,178
Prepaid expenses		158,938	165,543
Total current assets		45,959,757	39,130,591
Noncurrent assets:			
Investments		190,634	190,634
Loans receivable (net of allowance for doubtful accounts of $867,784 and $1,036,080, respectively)		7,878,105	8,009,619
Construction in progress		7,597,452	—
Equipment and buildings, net		6,541,680	6,600,358
Total noncurrent assets		22,207,871	14,800,611
Total assets	$	68,167,628	53,931,202
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	1,542,712	1,210,329
Accrued payroll		9,122,170	8,505,076
Deferred revenue		5,626,303	5,249,303
Compensated absences liability, current portion		218,966	221,188
Capital leases payable, current portion		281,169	—
Deposits held in custody and other current liabilities		3,860,262	3,776,115
Total current liabilities		20,651,582	18,962,011
Noncurrent liabilities:			
Compensated absences liability		2,421,948	2,152,930
Capital leases payable		8,455,068	—
Total noncurrent liabilities		10,877,016	2,152,930
Total liabilities	$	31,528,598	21,114,941
Net assets:			
Invested in capital assets, net of related debt	$	6,864,383	6,600,358
Restricted for expendable purposes		9,246,474	9,122,259
Unrestricted		20,528,173	17,093,644
Total net assets	$	36,639,030	32,816,261

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE
OF DENVER FOUNDATION, INC.

Discretely Presented Component Unit

Statements of Financial Position

June 30, 2009 and 2008

Assets		2009	2008
Cash and cash equivalents	$	4,352,225	4,134,510
Promises to give, net		238,535	348,593
Beneficial interest in charitable trusts administered by others		157,566	182,727
Investments restricted to endowments		3,213,447	3,865,704
Other assets		63,950	93,175
Total assets	$	8,025,723	8,624,709
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	267,710	293,162
Liabilities under charitable gift annuities		31,249	31,768
Total liabilities		298,959	324,930
Net assets:			
Unrestricted		841,546	925,260
Temporarily restricted		3,799,004	3,554,642
Permanently restricted		3,086,214	3,819,877
Total net assets		7,726,764	8,299,779
Total liabilities and net assets	$	8,025,723	8,624,709

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE OF DENVER

Business-Type Activity

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

		2009	2008
Operating revenues:			
Student tuition and fees, net of scholarship allowances of $29,455,466 and $24,662,170, respectively	$	72,610,167	78,784,310
Fee for service		7,014,514	3,756,773
Sales and services of educational departments		604,723	616,928
Sales and services of auxiliary enterprises		2,730,455	2,529,604
Federal grants and contracts		25,548,945	21,837,303
State grants and contracts		11,335,847	9,917,127
Local grants and contracts		115,000	13,735
Private grants and contracts		91,016	83,581
Operating interest income		112,089	94,363
Other operating revenues		4,751,240	3,604,633
Total operating revenues		124,913,996	121,238,357
Operating expenses:			
Instruction		64,813,255	60,918,353
Public service		334,003	216,125
Academic support		9,672,244	10,943,404
Student services		14,217,870	12,360,331
Institutional support		15,371,446	13,425,560
Operation and maintenance of plant		7,413,046	6,239,138
Scholarships and fellowships		2,201,203	1,269,136
Auxiliary enterprises		18,499,616	17,848,062
Depreciation		1,745,247	1,365,047
Other operating expenses		366,460	37,612
Total operating expenses		134,634,390	124,622,768
Operating loss		(9,720,394)	(3,384,411)
Nonoperating revenues (expenses):			
State fiscal stabilization funds revenue		9,934,844	—
Investment and interest income		1,611,309	2,015,088
Loss on disposal of fixed assets		(5,616)	(52,691)
Nonoperating gifts and donations		2,002,626	3,744,907
Net nonoperating revenues		13,543,163	5,707,304
Increase in net assets		3,822,769	2,322,893
Net assets, beginning of year		32,816,261	30,493,368
Net assets, end of year	$	36,639,030	32,816,261

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE
OF DENVER FOUNDATION, INC.

Discretely Presented Component Unit

Statement of Activities

Year ended June 30, 2009

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support, revenue, and gains:				
Contributions	$ 56,810	1,608,525	101,111	1,766,446
In-kind contributions	790,190	81,131	—	871,321
College program fees	1,006	351,271	1,024	353,301
Total support	848,006	2,040,927	102,135	2,991,068
Net investment gain (loss)	78,812	—	(626,317)	(547,505)
Change in value of beneficial interest in charitable trusts administered	—	—	(25,161)	(25,161)
Net assets released from restrictions	1,896,154	(1,896,154)	—	—
Other reclassifications of net assets	66,731	117,589	(184,320)	—
Total support, revenue, and gains	2,889,703	262,362	(733,663)	2,418,402
Expenses and losses:				
Support provided to the College	1,808,538	—	—	1,808,538
General and administrative costs	320,464	—	—	320,464
Donor development costs	790,190	—	—	790,190
Total expenses	2,919,192	—	—	2,919,192
Impairment of long-lived assets	54,225	—	—	54,225
Uncollectible pledge loss	—	18,000	—	18,000
Total expenses and losses	2,973,417	18,000	—	2,991,417
Change in net assets	(83,714)	244,362	(733,663)	(573,015)
Net assets, beginning of year	925,260	3,554,642	3,819,877	8,299,779
Net assets, end of year	$ 841,546	3,799,004	3,086,214	7,726,764

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE
OF DENVER FOUNDATION, INC.

Discretely Presented Component Unit

Statement of Activities

Year ended June 30, 2008

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support, revenue, and gains:				
Contributions	$ 44,723	1,607,533	246,695	1,898,951
In-kind contributions	604,700	1,832,787	—	2,437,487
College program fees	—	396,128	1,750	397,878
Total support	649,423	3,836,448	248,445	4,734,316
Net investment gain (loss)	162,036	—	(329,791)	(167,755)
Change in value of beneficial interest in charitable trusts administered	—	9,070	(12,962)	(3,892)
Net assets released from restrictions	3,782,663	(3,782,663)	—	—
Other reclassifications of net assets	69,050	136,056	(205,106)	—
Total support, revenue, and gains	4,663,172	198,911	(299,414)	4,562,669
Expenses and losses:				
Support provided to the College	3,881,394	—	—	3,881,394
General and administrative costs	348,060	—	—	348,060
Donor development costs	604,500	—	—	604,500
Total expenses	4,833,954	—	—	4,833,954
Uncollectible pledge loss	—	7,775	—	7,775
Contribution returned to donor	—	100,000	—	100,000
Total expenses and losses	4,833,954	107,775	—	4,941,729
Change in net assets	(170,782)	91,136	(299,414)	(379,060)
Net assets, beginning of year	1,096,042	3,463,506	4,119,291	8,678,839
Net assets, end of year	$ 925,260	3,554,642	3,819,877	8,299,779

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE OF DENVER

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Cash received:			
Tuition and fees	$	73,819,719	77,999,579
Student loans collected		942,700	1,143,466
Sales and services		3,375,031	2,974,513
Fee for service		7,014,514	3,756,773
Grants, contracts, and gifts		37,248,372	31,861,610
Other operating receipts		4,473,105	3,314,773
Cash payments:			
Scholarships disbursed		(2,201,203)	(1,589,293)
Student loans disbursed		(833,924)	(1,272,932)
Payments for employees		(91,428,644)	(84,827,319)
Payments to suppliers		(37,911,760)	(36,463,286)
Net cash used in operating activities		(5,502,090)	(3,102,116)
Cash flows from noncapital financing activities:			
State fiscal stabilization revenue		9,934,844	—
Gifts and donations		2,100,104	2,092,275
Agency (direct lending inflows)		87,003,782	61,170,728
Agency (direct lending outflows)		(87,304,994)	(60,874,045)
Other agency (inflows)		6,735,586	5,921,190
Other agency (outflows)		(6,452,167)	(5,798,812)
Net cash provided by noncapital financing activities		12,017,155	2,511,336
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(1,764,961)	(2,161,818)
Principal paid on capital lease arrangements		(249,928)	—
Net cash used in capital and related financing activities		(2,014,889)	(2,161,818)
Cash flows from investing activities:			
Investment and interest income		1,611,309	2,015,088
Interest income on loan funds		112,089	94,363
Net cash provided by investing activities		1,723,398	2,109,451
Net increase (decrease) in cash and cash equivalents		6,223,574	(643,147)
Cash and cash equivalents, beginning of year		30,096,372	30,739,519
Cash and cash equivalents, end of year	$	36,319,946	30,096,372

(Continued)

METROPOLITAN STATE COLLEGE OF DENVER

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(9,720,394)	(3,384,411)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation		1,745,247	1,365,047
Provision for bad debts		2,769,864	1,543,909
Interest income on loan funds		(112,089)	(94,363)
Decrease (increase) in assets:			
Receivables, student		(2,198,548)	(2,633,432)
Receivables, other		292,851	(326,390)
Loans receivable		184,629	(82,650)
Prepaids		6,605	(88,321)
Increase (decrease) in liabilities:			
Accounts payable		328,413	(150,421)
Accrued payroll		617,094	305,504
Deferred revenues		377,000	281,635
Other liabilities		207,238	161,777
Net cash used in operating activities	$	(5,502,090)	(3,102,116)
Noncash operating and capital activities:			
Retirement of capital assets	$	1,038,066	476,025
Donations of capital assets		—	1,657,688
Acquisitions under capital lease arrangements:			
Capital leases payable		8,986,165	—
Construction in progress		7,524,677	—
Accounts receivable, other		1,461,488	—
Write-off of uncollectible accounts receivable, student		2,763,920	1,545,189
Write-off of uncollectible loans receivable		185,508	162,942

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 College of Denver (the College) for the fiscal years ended June 30, 2009 and 2008. Effective July 1, 2002, Colorado Revised Statute (CRS) 23-54-102 established the board of trustees of Metropolitan State College of Denver to serve as the College's governing board. Nine of the eleven Trustees are members outside the College 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 College, 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 College 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 is the primary governmental reporting entity for State financial reporting purposes. The financial statements of the College and its discretely presented component unit are not intended to report the financial information of the State in conformity with U.S. generally accepted accounting principles. The accounting policies of the College conform to GAAP, as applicable to government units.

The College is an institution of higher education of the State of Colorado. Thus, for financial reporting purposes, the College is included as part of the State of Colorado's primary government.

In accordance with the Governmental Accounting Standards Board (GASB) No. 39, *Determining Whether Certain Organizations Are Component Units,* paragraph 47, the discrete presentation of the Metropolitan State College of Denver Foundation, Inc.'s (the Foundation) financial statements appears on separate pages from the financial statements of the College. The Foundation warrants inclusion as part of the financial reporting entity because of the nature and significance of its relationship with the College including its ongoing financial support of the College. Refer to note 12 for additional discussion.

(c) Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College'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 College applies all applicable GASB pronouncements, regardless of issue date, as well as the following pronouncements issued on or before November 30, 1989: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements.

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

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.

Capital Assets: Equipment, buildings, and construction in progress 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. Annual revisions of statements of values for insurance purposes are performed. The College follows the policy of capitalizing only those capital assets with an initial cost or fair value equal to or greater than $5,000.

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 3 to 5 years for capitalized computers and software, 12 to 25 years for musical and scientific equipment, 3 to 50 years for other equipment, and 12 years for modular buildings.

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 assets owed to the individual or organization for which the College is acting as custodian.

Deferred Revenue: Deferred revenue consists of amounts received from the provision of educational goods and services that have not yet been earned. The College 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 deferred revenue.

Capital Leases: Capital leases consist of lease-purchase contracts. Such contracts provide that any commitments beyond the current year are contingent upon funds being appropriated for such purposes.

Net Assets: Net assets are classified in the accompanying financial statements as follows:

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

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

- Operating revenues and expenses – 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 College.
- Nonoperating revenues and expenses – Nonoperating revenues and expenses do not meet the definition of operating revenues, and include federal stimulus money, gifts, and investment income.

Scholarship Allowance: Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College 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. College 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 expense.

Application of Restricted and Unrestricted Resources: The College'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 Assets is calculated based on an estimated average amount for the past three fiscal years.

(Continued)

Income Taxes: As a state institution of higher education, the income of the College is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of State law. However, the College is subject to federal income tax on any unrelated business taxable income. The College did not have any significant unrelated business taxable income in fiscal years 2009 or 2008.

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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Reclassifications: Certain 2008 amounts have been reclassified to conform to the 2009 financial statement presentation.

(2) Cash and Cash Equivalents and Investments

At June 30, 2009, cash on hand and in banks consisted of the following:

		2009	2008
Cash on hand	$	39,155	37,110
Cash in checking and depository accounts at bank		2,283,659	2,450,576
Certificate of deposit		21,942	—
Total cash on hand and in banks	$	2,344,756	2,487,686

As of June 30, 2009, $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 College's name.

The College deposits its cash with the Colorado State Treasurer (the Treasurer) as required by CRS. The Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, CRS. 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 average daily cash balance for all participants in the pool. At June 30, 2009 and 2008, the College had cash on deposit with the Treasurer of $33,975,190 and $27,608,686, respectively, which represented approximately 0.59% of the total of $5,742.1 million and 0.44% of the total of $6,304.1 million, respectively, in deposits in the State Treasurer's Pool (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 College's participation in the Pool, the College 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 College's deposits with the State Treasury, the net unrealized gain for fiscal year 2009 was $339,729 and the net unrealized gain for fiscal year 2008 was $312,251. These unrealized gains and losses are included in cash and cash equivalents on the statements of net assets.

GASB No. 40, *Deposit and Investment Risk Disclosures*, requires disclosure of credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk for any public entity's investments. The College 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 College's investment is rated as AAA by Standard and Poor's. COLOTRUST pooled investments are excluded from the 5% 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, 2009 and 2008, the fair value of the College's investment was $190,634.

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. State securities must be held by the Treasurer or by a third-party custodian evidenced by a safekeeping receipt. As of June 30, 2009 and 2008, none of the investments in the Treasurer's Pool is subject to custodial credit risk.

Credit Quality Risks

Credit quality risk is the risk that an 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. The State requires two ratings with the rating level set by the investment portfolio and investment type. Based on these parameters, as of June 30, 2009 and 2008, approximately 92.6% and 91.5%, respectively, of investments in the Treasurer's Pool are subject to credit quality risk reporting. Except for $46,976,250 and $14,782,450 in 2009 and 2008 respectively, of corporate bonds rated lower-medium, and $38,237,320 of corporate bonds rated as speculative, these investments are rated from upper-medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

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 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. The weighted average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in terms of years, weighted to reflect the dollar size of individual investments within an investment type. The overall portfolio weighted average maturity is derived by dollar-weighting the WAM for each investment type. The State has selected WAM as the primary method for reporting interest rate risk. As of June 30, 2009, the WAM of investments in the Treasurer's Pool is 0.08 years for commercial paper (1.8% of the Pool), 0.01 years for money market funds (7.1% of the Pool), 1.14 years for U.S. government securities (67.2% of the Pool), 1.55 years for asset-backed securities (16.7% of the Pool), and 2.01 years for corporate bonds (7.2% of the Pool). As of June 30, 2008, the WAM of investments in the Treasurer's Pool is 0.10 years for commercial paper (16.6% of the Pool), 0.10 years for money market funds (6.2% of the Pool), 0.97 years for U.S. government securities (50.8% of the Pool), 1.90 years for asset-backed securities (18.6% of the Pool), and 2.10 years for corporate bonds (7.8% of the Pool).

Foreign Currency Risk

The State does not allow foreign currency investments.

Additional information on investments of the Treasurer's Pool may be obtained in the state's comprehensive annual financial report for the year ended June 30, 2009.

(3) Capital Assets

The following tables present changes in capital assets and accumulated depreciation for the years ended June 30, 2009 and 2008.

		Balance, June 30, 2008	Additions	Retirements	Balance, June 30, 2009
Construction in progress	$	—	7,597,452	—	7,597,452
Depreciable capital assets:					
Equipment	$	14,168,320	1,417,951	(1,043,683)	14,542,588
Building		861,011	274,235	—	1,135,246
Less accumulated depreciation:					
Equipment		(8,408,796)	(1,649,655)	1,038,066	(9,020,385)
Buildings		(20,177)	(95,592)	—	(115,769)
Net depreciable capital assets	$	6,600,358	(53,061)	(5,617)	6,541,680

		Balance, June 30, 2007	Additions	Retirements	Balance, June 30, 2008
Equipment	$	11,726,116	2,965,697	(523,493)	14,168,320
Building		—	861,011	—	861,011
Less accumulated depreciation:					
Equipment		(7,534,728)	(1,344,870)	470,802	(8,408,796)
Buildings		—	(20,177)	—	(20,177)
Net depreciable capital assets	$	4,191,388	2,461,661	(52,691)	6,600,358

(4) Lease Obligations

Operating Leases – The College leases building space under operating lease agreements with the Auraria Higher Education Center (AHEC) and with private organizations. Total rental expense for the years ended June 30, 2009 and 2008 under these agreements was $1,186,442 and $845,716, respectively. As of June 30, 2009, minimum future rentals required by the above agreements are as follows:

Fiscal year ending:		
2010	$	1,638,880
2011		1,264,734
2012		1,090,151
2013		802,686
2014		628,626
2015 – 2019		1,798,908
2020 – 2024		1,796,971
2025 – 2029		1,378,588
Total	$	10,399,544

In addition to these operating leases, the College occupies other space on the Auraria Campus owned by the 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 10.

Capital Leases

During fiscal year 2009, the College 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 year 2009, the principal payments totaled $249,928 and interest expense equaled $304,426.

Of the original principal balance of $8,986,165 under the capital lease arrangement, $7,524,677 is recorded in construction in progress and the remaining $1,461,488 is recorded in accounts receivable, other as of June 30, 2009.

The following is a schedule of future minimum capital lease payments as of June 30, 2009:

Fiscal year ending June 30:		Principal	Interest	Total
2010	$	281,169	451,399	732,568
2011		296,790	436,820	733,610
2012		310,179	421,534	731,713
2013		328,031	405,430	733,461
2014		343,651	388,508	732,159
2015 – 2019		1,994,961	1,663,103	3,658,064
2020 – 2024		2,595,235	1,059,174	3,654,409
2025 – 2029		2,586,221	276,475	2,862,696
Total	$	8,736,237	5,102,443	13,838,680

(5) Compensated Absences

GASB No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges 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, 2009 and 2008 are $218,966 and $221,188, respectively.

The estimated costs of noncurrent compensated absences for which employees are vested for the years ended June 30, 2009 and 2008 are $2,421,948 and $2,152,929, respectively. Fiscal year 2009 operating expenses include an increase of $266,797 for the estimated compensated absence liability.

(6) 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 College's required contribution to the ORP is 11.4% of covered payroll, and contribution by employees is 8% of covered payroll.

The College's contributions to the ORP for the fiscal years ended June 30, 2009, 2008, and 2007 were $3,479,601, $3,204,354, and $2,755,747, 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

Approximately half of the College'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 the 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 board of trustees of PERA. 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 www.copera.org.

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 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.

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 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 5 years of service
- Hired on or after January 1, 2007 – 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

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 on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more

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% 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 based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5%, compounded annually
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3% or the actual increase in the national Consumer Price Index
- Hired on or after January 1, 2007 – the lesser of 3% 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% point of salaries contributed by employers for employees hired on or after January 1, 2007.)

Members 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% of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2008, to December 31, 2008, the state contributed 12.05% of the employee's salary. From January 1, 2009, through June 30, 2009, the state contributed 12.95%. During all of Fiscal Year 2008-09, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per CRS, an amortization period of 30 years is deemed actuarially sound. At December 31, 2008, the division of PERA in which the state participates was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, 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 beginning January 1, 2006, another 0.5% of salary in 2007, and subsequent year increases of 0.4% of salary until the additional payment reaches 3.0% in 2012.

In the 2006 legislative session, 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 paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one-half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries, and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100%.

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 College's contributions to PERA for the fiscal years ended June 30, 2009, 2008, and 2007 were $4,685,718, $4,348,477, and $4,025,185, 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 Section 24-54.6-101, CRS, and as provided in Section 403 (b) of the Internal Revenue Code, 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 College was $1,172,449. Employee contributions were 7.5% of covered payroll in the amount of $87,936.

(7) Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan and, beginning on July 1, 2009, will administer the 457 deferred compensation plan previously administered by the state. The College has established tax sheltered 403(b) plans, which cover substantially all employees with one or more years of continuous service. The College does not contribute to the 403(b) plan and as such, does not incur any expense with regards to the plan.

(8) Postretirement Healthcare and Life Insurance Benefits

(a) Healthcare Program

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 healthcare 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 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 fewer 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 6. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The College contributed $382,355, $382,366, and $376,669 as required by statute in fiscal years 2009, 2008, and 2007, 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 healthcare organizations and self-insured plans administered for PERA by third-party vendors. As of December 31, 2008, there were 45,888 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2008, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.11 billion, a funded ratio of 18.7%, and a 39-year amortization period.

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

College 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, 2009 there were 45 participants in postretirement coverage from the eight member higher education institutions. For fiscal year 2009, the College has six retired faculty and administrative participants choosing CHEIBA. Retirees pay the entire premium, which is approximately 125% 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.

(9) Contingent Liabilities

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

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

(10) Campus Shared Controlled Costs

Legislation enacted in 1974 established AHEC and included the College as one of the constituent institutions, along with the Community College of Denver (CCD) and the University of Colorado at Denver (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 College's portion of campus shared costs for the Auraria Campus is as follows:

		Year ended June 30	
		2009	**2008**
Administration of Auraria Higher Education Center and operation and maintenance of plant	$	8,209,700	7,672,617
Library and Media Center		3,787,417	3,570,771
Total	$	11,997,117	11,243,388

The College's existing and future commitments to AHEC are established within the Senate Bill 09-259. The College's ability to fulfill existing and future commitments are contingent upon funds being appropriated for such purposes. For the year ending June 30, 2010, the College's portion of shared costs are estimated to be $10,983,116.

(11) Legislative Appropriations

The accompanying financial statements contain revenues and expenses from both appropriated and nonappropriated funds.

Appropriated funds include the State of Colorado appropriation from the State of Colorado General Fund, as well as certain cash funds as established by the Colorado State Legislature in its annual appropriations bill. Cash funds include tuition, certain fees, and certain other revenue sources, which are recognized in various lines, as appropriate, in the accompanying financial statements. The College's appropriated revenues are limited to the amount established by the State of Colorado.

		Year ended June 30	
		2009	**2008**
Total appropriation	$	104,111,292	93,656,775
Actual appropriated revenues	$	104,097,050	93,351,477
Actual appropriated expenditures and transfers		104,097,050	93,351,477
Net increase in appropriated net assets	$	—	—

All other revenues and expenses reported by the College represent nonappropriated funds and are excluded from the annual appropriations bill. Nonappropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the years ended June 30, 2009 and 2008, appropriated expenses were within the authorized spending authority.

(12) Component Unit Disclosures

The Foundation is a not-for-profit corporation formed to promote the welfare, development, growth, and well-being of the College. The Foundation is a separate legal entity, which is fully independent from the College, is not financially dependent upon the College, 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 Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*.

Effective for the fiscal year ended June 30, 2004, GASB No. 39 requires the inclusion of the Foundation as a discretely presented component unit based on the nature and significance of its relationship with the College. The Foundation uses a different GAAP reporting model and, following the GASB No. 39 recommendation, its financial information is not presented on the same page as the College but is reported on separate pages after the College's financial statements. The Foundation's separate financial statements include Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; and Statements of Cash Flows. In addition, disclosures specific to the Foundation's financial statements are provided on separate pages after the College's disclosures.

(13) Related-Party Transactions

Transactions between the College and the Foundation are considered to be related-party transactions. Amounts reported may differ from the Foundation's notes to basic financial statements based on various timing differences, all of which have been substantially reconciled to the Foundation's balances. For fiscal year 2009, the College leased office space to the Foundation for $11,100. During the years ended June 30, 2009 and 2008, the Foundation provided $1,692,183 and $1,809,896, respectively, of funding to the College for various purposes, such as scholarships, departmental funding, and other programs. In addition to the amount that was paid to the College directly, there was $35,224 and $38,710 paid to multiple vendors through the Foundation directly on behalf of the College for the years ended June 30, 2009 and 2008, respectively.

The College provides employees on a reimbursement basis to the Foundation. For the years ended June 30, 2009 and 2008, these expenses were $230,131, and $223,468, respectively. In addition, the College donates development and certain personnel costs to the Foundation, which totaled $790,190 and $604,500 for the years ended June 30, 2009 and 2008, respectively.

At June 30, 2009 and 2008, the College had a receivable of $266,423 and $171,078 due from the Foundation.

(14) Subsequent Event

On November 17, 2009, the College priced its first ever bond issuance. The College issued $52.0 million in Series 2009 bonds using taxable Recovery Zone Economic Development Bonds with a principal balance of approximately $55.2 million. The College will be using the proceeds of this bond issuance to finance a student success building.

(Continued)

(1) Summary of Significant Accounting Policies

(a) Organization

The Metropolitan State College of Denver Foundation, Inc. (the Foundation) is a nonprofit corporation organized and operated to promote the general welfare and development of the Metropolitan State College of Denver (the College).

(b) Basis of Accounting

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

(c) Cash and Cash Equivalents

The Foundation considers all highly liquid investments, including certificates of deposit having insubstantial or no early withdrawal penalties, which are to be used for current operations to be cash and cash equivalents. All other highly liquid instruments, which are to be used for the long-term purposes of the Foundation, are classified as investments.

(d) Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates developed in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

In years subsequent to initial recording, management determines an allowance for uncollectible amounts based on historical experience and analysis of subsequent collections. At June 30, 2009 and 2008, the allowance was $10,000 and $0, respectively.

(e) Investments

Investments are recorded at fair value, with unrealized gains and losses included in the change in net assets. Net investment return consists of the Foundation’s interest and dividend income, realized and unrealized capital gains and losses on investments, less investment management and custodial fees.

(f) Impairment of Long-Lived Assets

The Foundation reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced, by a charge to the statement of activities, to its estimated fair value. During the years ended June 30, 2009 and 2008, respectively, the Foundation recorded an impairment loss of $54,225 and $0 relating to certain contributed art objects held for investment.

(Continued)

(g) Unrestricted Net Assets

Unrestricted net assets are available for use in general operations.

(h) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of amounts that are 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 endowment distributions from permanently restricted net assets.

Donor restricted support, including pledges, is recorded as an increase in temporarily or permanently restricted net assets, depending on the nature of their restriction. 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 statements of activities as net assets released from restrictions.

(i) Permanently Restricted Net Assets

Permanently restricted net assets consist of 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 agreement.

(j) Endowment

Composition of Endowment

The Foundation's endowment (Endowment) is composed of approximately 100 individual endowment funds established by donors primarily to provide scholarships to eligible students of the College, but also for certain other purposes of the College. 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.

Interpretation of Relevant Law

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 endowment gifts, as of each gift date, absent explicit donor instructions to the contrary. At June 30, 2009, 95% of the Foundation's endowment funds contained donor instructions directing the Foundation to make annual distributions from the funds in accordance with its distribution policy regardless of any difference between the original gift amounts and the current fair values of the endowments (Spending Endowments). The remaining 5% of endowment funds contained stipulations requiring the preservation of the fair values of the original gift amounts (Limited Endowments).

(Continued)

As a result of this interpretation, the Foundation classifies the Spending Endowments separately from the Limited Endowments. Permanently restricted net assets are comprised of two classifications of endowments. Spending Endowments consider as permanently restricted; (a) the original values of endowment gifts, (b) the original values of subsequent endowment gifts, and (c) the cumulative net earnings and losses of the endowments, net of distributions, administrative costs, and management fees. The Limited Endowments consider as permanently restricted; (a) the original values of endowment gifts, and (b) the original values of subsequent endowment gifts, with no additions or reductions for the cumulative net earnings and losses of the endowments, net of distributions, administrative costs, or management fees. The fair values of endowment net assets are classified as permanently restricted net assets until appropriated for distribution by the Foundation in the manner described above, which the Board of Directors of the Foundation considers to be 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 donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

Return Objectives and Risk Parameters

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 while seeking to preserve the original fair values of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, endowment assets are invested in a manner intended to produce results, measured over full market cycles, that equal or exceed the price and yield results of a blended portfolio composed of debt and equity investments while assuming a low-to-moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return that is 3% higher than the corresponding inflation rate reported in the Higher Education Price Index (HEPI). Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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.

Distribution Policy and Relation to Investment Objectives

The Foundation's policy is to generally distribute annually 3% to 5% of endowments. The distribution policy, expressed as a percentage of fair value of the endowments, was 4.5% during 2009 and 2008. The calculation is based on the lesser of the rolling three-year average value as determined each December 31st or the fair value of the principal plus undistributed net accumulated (loss) earnings, as defined. The distribution from the various endowment accounts is computed based on their proportionate fair values as of the preceding distribution date.

The Foundation confines the distributions from the Limited Endowments to the excess of the fair values of the endowments over the original and subsequent gifts to the endowments. In establishing this policy, the Foundation considered the long-term expected return on its Endowment. Accordingly, over the long term, the Foundation expects the current distribution policy to preserve the permanently restricted net assets of the Endowment. This is consistent with the Foundation's objective to preserve the original fair values of the endowment assets as well as to provide an opportunity for real growth through new gifts and undistributed investment return.

(k) Revenue Recognition

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

(l) Donated Services and Materials

The Foundation records donated professional services at the respective fair values of the services received. In addition, a number of volunteers donate time to the Foundation's program services, administration, and development activities. Although the value of these services is significant, the Foundation does not recognize the amount in its statements of activities because the particular jobs performed by these volunteers do not fall into the criteria established by the Financial Accounting Standards Board. Donated materials are recorded at fair value at the date of donation and, except for materials specified for the Foundation's use, are transferred to the College.

(m) Expenses

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

(n) Functional Allocation of Expenses

The costs of providing the various program and supporting activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the programs and supporting services benefited.

(o) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support, revenue, expenses, and distributions during the reporting period. Actual results could differ from those estimates and such differences could be material.

(p) Financial Instruments and Credit Risk

The Foundation has financial instruments which potentially subject it to concentrations of credit risk. The Foundation manages cash deposit concentration risk by placing its temporary cash and money market accounts with financial institutions believed by management to be credit-worthy. At times, a significant portion of the funds exceeds FDIC or other insurance limits.

Credit risk associated with promises to give is limited due to the large number and creditworthiness of donors comprising the Foundation's donor base, and based on historical collections experience.

The Foundation has significant investments in fixed income and equity mutual funds. Investments are made by investment managers engaged by the Foundation, and the investments are monitored by the Foundation's Board of Directors and management. Though the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

The Foundation is the beneficiary of certain charitable remainder trusts administered by third parties. Trustees of the trusts determine the investments of the trusts.

(q) Fair Value Measurements

The Foundation adopted the provisions of the FASB SFAS No. 157, *Fair Value Measurements*, and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, effective July 1, 2008.

SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 establishes a common definition of fair value to be applied with existing GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Foundation's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset developed based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- *Level 1* – Defined as observable inputs such as quoted prices in active markets for identical assets or liabilities. Level 1 financial instruments include dollar-denominated money market funds and exchange-traded fixed income and equity securities.
- *Level 2* – Defined as observable inputs other than Level 1 prices. These include quoted prices for similar assets or liabilities in an active market, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 financial instruments include certificates of deposits and cash value of life insurance.
- *Level 3* – Defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. The Foundation had no Level 3 financial instruments at June 30, 2009.

See note 4 to the financial statements for further information about the Foundation's financial assets and liabilities that are accounted for at fair value.

SFAS No. 159 permits entities to choose, at specified election dates, to measure financial assets and liabilities at fair value (the fair value option) and requires an entity to report in the statement of activities at each subsequent reporting date those unrealized gains and losses on items for which the fair value option has been elected. Upfront costs and fees related to items for which the fair value option has been elected are recognized in the statement of activities and are not deferred. Upon adoption of SFAS No. 159, the Foundation elected not to measure any eligible items at fair value.

(r) Election to Defer Application of FIN 48

Management has elected to defer the application of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), in accordance with FASB Staff Position (FSP) FIN 48-3. The Foundation will continue to follow SFAS 5, *Accounting for Contingencies*, until it adopts FIN 48.

(s) Reclassifications

Certain accounts in the 2008 financial statements have been reclassified to conform to the current year financial statement presentation.

(2) Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(iv) and has been classified as an organization other than a private foundation under Section 509(a)(1). Income from activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation had no unrelated business income for the years ended June 30, 2009 and 2008.

(3) Promises to Give, Net

Promises to give consisted of the following at:

	June 30	
	2009	**2008**
Restricted for:		
Scholarships, academic and other departments, and other activities	$ 241,936	339,911
Endowments	20,000	36,100
Discount to net present value	(13,401)	(27,418)
Allowance for uncollectible promises to give	(10,000)	—
	$ 238,535	348,593
Amounts receivable in:		
Less than one year	$ 109,388	108,585
One to five years	109,365	218,455
Over five years	19,782	21,553
	$ 238,535	348,593

(4) Conditional Promises to Give

The Foundation received a conditional promise to give in the amount of $425,000 toward the cost of purchasing a permanent site for the Center for Visual Art (note 10). The conditional promise will be recognized as a contribution in the statement of activities when the conditions of the grant have been satisfied, namely, acceptance by the seller of an offer to purchase the property or purchase of an alternate site.

The Foundation has been informed that it has been named beneficiary under certain wills. No amounts have been included in the financial statements relating to potential distributions under these wills because they may be revoked or amended during the makers' lifetimes, and because the amounts of such distributions were not determinable.

 (Continued)

(5) Fair Value Disclosures

Assets measured at fair value on a recurring basis have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157 as of:

	June 30, 2009			
Description	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Balance as of June 30, 2009**
Investments restricted to endowments:				
Money market funds [1]	$ 76,524	—	—	76,524
Fixed income funds [2]	1,443,101	—	—	1,443,101
Equity funds and equities [2]	1,682,321	—	—	1,682,321
Cash value of life insurance	—	11,501	—	11,501
	$ 3,201,946	11,501	—	3,213,447
Beneficial interest in charitable trusts administered by others [3]	$ —	157,566	—	157,566

(1) The fair values of cash and money market funds are equal to the sums of the account balances.

(2) The fair values of fixed income, equity, balanced, long/short and market neutral mutual funds represent the redemption values at the close of business on June 30, 2009.

(3) The fair values of beneficial interests in charitable trusts administered by others are estimated by management using present value techniques incorporating risk-adjusted interest rates developed in accordance with the provisions of SFAS No. 157.

(6) Investments Restricted to Endowments

Investments restricted to endowments, stated at their fair values, consisted of the following at:

	June 30	
	2009	**2008**
Money market mutual funds	$ 76,524	86,485
Fixed income mutual funds	1,443,101	1,425,763
Equity mutual funds and equities	1,682,321	2,341,955
Cash value of life insurance	11,501	11,501
	$ 3,213,447	3,865,704

(Continued)

Net investment loss is summarized as follows:

		Year ended June 30	
		2009	**2008**
Interest and dividend income	$	234,436	306,885
Net realized and unrealized loss		(762,740)	(453,752)
Less investment management fees		(19,201)	(20,888)
	$	(547,505)	(167,755)

(7) Note Receivable

On June 30, 2008, the Foundation received notification from the College Board of Trustees that the President fulfilled the terms of his employment agreement with the College; therefore the $200,000 note receivable due from the President to the Foundation would be forgiven. Accordingly, the loan was written off and recorded in the statement of activities as support provided to the College during the year ended June 30, 2008.

(8) Charitable Trusts Administered by Others

The Foundation is the beneficiary of several irrevocable charitable remainder trusts administered by financial institutions. The trust agreements provide for the payment of distributions to the grantor or another designated beneficiary over their respective lifetimes. At the end of the trust's term, the remaining assets will be available for restricted use or for the establishment of an endowment as specified by the donors. The estimated fair value of the Foundation's beneficial interest in these trusts is as follows at:

		June 30	
		2009	**2008**
Gross value of beneficial interests	$	212,877	270,044
Less unamortized discount		(55,311)	(87,317)
	$	157,566	182,727

No distributions were received during the years ended June 30, 2009 or 2008.

(9) Gift Annuities

The Foundation has entered into several charitable gift annuity contracts. These contracts require the Foundation to make fixed payments to the beneficiaries over their lifetimes. Under a charitable gift annuity contract, the assets received by the Foundation are immediately available for use by the Foundation and, as such, are not held in trust separately from other investments of the Foundation. The obligation to make periodic disbursements to the beneficiaries becomes a general obligation of the Foundation. On the date each charitable gift annuity was established, the Foundation recorded a contribution equal to the difference between the amount transferred from the donor and the present value of the future cash flows expected to be paid to the specified beneficiaries using risk-adjusted discount rates ranging from 7% – 8%.

(Continued)

(10) Leases

The Foundation leases space in Denver for the College's Center for Visual Art under a lease expiring in April 2011. The College sub-leases this space from the Foundation under the same terms as the Foundation's lease agreement. The lease provides for early termination either by providing 120-day notice or the closing of a purchase of the property by the Foundation, but not before March 2010 (see note 15 for subsequent event disclosure related to the Center for Visual Art).

Minimum future lease payments due under the lease at June 30, 2009, which equals the amount due to the Foundation from the College pursuant to the sub-lease, are as follows:

Year ending June 30:		
2010	$	92,328
2011		73,093
	$	165,421

(11) Donated Materials and Services

The Foundation received donations of materials and professional services comprised of the following during the years ended:

		June 30	
		2009	2008
Materials, including aerospace science educational software licenses valued at $1,540,687 in 2008*	$	81,131	1,832,987
Compensation – donor development		790,190	604,500
	$	871,321	2,437,487

* Fair value has been estimated based upon the regular sales price offered to educational institutions.

(12) Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following at:

		June 30	
		2009	2008
Scholarships	$	1,156,152	992,792
Academic and other departments		1,349,226	1,221,630
Student, alumni and other activities		1,214,636	1,261,230
Beneficial interest in charitable remainder trusts administered by others (note 7)		78,990	78,990
	$	3,799,004	3,554,642

Temporarily restricted net assets were released from restrictions as follows during the years ended:

	June 30 2009	June 30 2008
Scholarships	$ 855,439	771,699
Academic and other departments	637,889	2,386,944
Student, alumni and other activities	402,826	624,020
	$ 1,896,154	3,782,663

(13) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at:

	June 30 2009	June 30 2008
Original contributions plus accumulated (loss) earnings of $(734,186) and $76,796 at June 30, 2009 and 2008, respectively	$ 3,018,887	3,711,631
Less liabilities under permanently restricted annuity trust assets	(31,249)	(31,591)
Promises to give and beneficial interests in charitable remainder trusts administered by others (note 7)	98,576	139,837
	$ 3,086,214	3,819,877

In accordance with its distribution policy, the Foundation recorded the following net asset reclassifications during the years ended June 30, 2009 and 2008:

	June 30 2009 Unrestricted	Temporarily restricted	Permanently restricted
Investment net returns available for scholarships	$ —	117,589	(117,589)
2% administrative fee on endowment fund	67,074	—	(67,074)
Other	(343)	—	343
	$ 66,731	117,589	(184,320)

(Continued)

		June 30 2008	
	Unrestricted	Temporarily restricted	Permanently restricted
Investment net returns available for scholarships	$ —	136,056	(136,056)
2% administrative fee on endowment fund	69,177	—	(69,177)
Other	(127)	—	127
	$ 69,050	136,056	(205,106)

(14) Related Party Transactions

The Foundation leases office space from the College at an annual rate of $14.83 per square foot under an agreement that automatically renews for one-year terms at the beginning of each fiscal year. Rent expense under this lease approximated $11,000 annually for the years ended June 30, 2009 and 2008.

The College sub-leases space for the Center for Visual Art from the Foundation (note 10).

Funding provided by the Foundation directly to the College for scholarships, academic and other departments, and other activities totaled $1,692,183 and $1,809,896 for the years ended June 30, 2009 and 2008, respectively. In addition, the Foundation paid other costs on behalf of the College directly to vendors in the amounts of $35,224 and $38,710 during the years ended June 30, 2009 and 2008, respectively. The Foundation owed the College $262,492 and $171,078 at June 30, 2009 and 2008, respectively, for June funding.

The Foundation paid the College $230,131 and $223,468 for salaries and benefits of certain College personnel provided to the Foundation during the years ended June 30, 2009 and 2008, respectively.

In addition, the College provided development and other personnel to the Foundation at no cost. The Foundation recorded donated professional services in the amount of $790,190 and $604,500 for the years ended June 30, 2009 and 2008, respectively. The corresponding expenses have been reflected in the accompanying statements of activities as donor development costs.

In the normal course of the Foundation's operations, transactions arise with companies whose directors, officers and/or owners are also directors of the Foundation. During the years ended June 30, 2009 and 2008, $2,103 and $9,452, respectively, was paid to a placement agency owned by a director for contract employment services.

(15) Subsequent Events

As discussed in note 10, the Foundation leases space in downtown Denver for the College's Center for Visual Art. The original lease expired in April 2009 and contained a first option to purchase the building. On November 25, 2008 the Foundation paid an earnest money deposit of $25,000 to exercise the option to purchase the building, which is included in other assets at June 30, 2009. Negotiations continue between the Foundation and the seller.

(Continued)

The College intends to construct a Hotel Learning Center (HLC) which will provide an experiential learning environment for the students of the Hospitality Travel and Entertainment Department. The College and the Foundation are working together to finalize the details of financing and ownership for the HLC.

As required by SFAS No. 165, *Subsequent Events*, the Foundation has evaluated subsequent events through September 17, 2009, which is the date the financial statements were available to be issued.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Metropolitan State College of Denver (the College), a component unit of the State of Colorado, as of and for the year ended June 30, 2009 and have issued our report thereon, dated November 20, 2009. Our report was modified to include a reference to other auditors relating to the financial statements of the discretely presented component unit. 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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements of the College, in accordance with auditing standards generally accepted in the United States of America, we considered the College's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not prevented or detected by the entity's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider Recommendations No. 1 and 2 described in the schedule of findings and recommendations to be significant deficiencies in internal control.

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.

Compliance and Other Matters

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

The College's responses to the findings identified are described in the Findings and Recommendations section of this report. We did not audit the College's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, and the College's board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 20, 2009

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

November 20, 2009

Members of the Legislative Audit Committee:

We have audited the basic financial statements of Metropolitan State College of Denver (the College) as of and for the year ended June 30, 2009 and have issued our report thereon, dated November 20, 2009. Our report was modified to include a reference to other auditors relating to the financial statements of the discretely presented component unit. 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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audits.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the basic financial statements, which have been prepared by management with the oversight of the College's board of trustees, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to conduct our audit of the basic financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the basic financial statements are detected. Our audit does not relieve management of their responsibilities.

In addition, in planning and performing our audit of the basic financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the College's basic financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the College's report and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Significant Accounting Policies

The significant accounting policies used by the College are described in note 1 to the basic financial statements.

The Governmental Accounting Standards Board's *Implementation Guide*, issued in 2009 clarified that Pell grants should be recorded as nonoperating revenues since they are nonexchange revenues and entities generally have only administrative requirements for these funds. Historically, the College has recorded this Pell grant activity as operating revenue as have many similar institutions across the country. The Colorado State Controller's Office also recommended that public institutions in the state continue to reflect Pell grant activity as operating revenue. Since the *Implementation Guide* and industry practice are both at the same level in the U.S. generally accepted accounting principles hierarchy, the College has decided to continue reporting Pell grant activity as operating revenue in it 2009 financial statements. Pell grant revenue totaled $18.1 million in fiscal year 2009.

Management Judgments and Accounting Estimates

The preparation of the basic financial statements requires management of the College to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the period.

The significant accounting estimates included in the College's basic financial statements are the allowance for uncollectible receivables, the period to depreciate capital assets owned by the College, the period to amortize leasehold improvement costs, the fair value of donated historical artifacts and collections, and accrued compensated absences. We evaluated the key factors and assumptions in determining that these estimates are reasonable in relation to the basic financial statements taken as a whole.

Uncorrected and Corrected Misstatements

In connection with our audit of the College's basic financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the College's books and records as of and for the year ended June 30, 2009. We have reported such misstatements to management on a Summary of Unadjusted Differences and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. Page 65 includes a copy of the summary that has been provided to, and discussed with, management.

There were no material financial statement misstatements identified by us that were discussed with and corrected by the College.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the College's basic financial statements.

Management's Consultation with Other Accountants

To the best of our knowledge, management has neither consulted with nor obtained opinions, written or oral, from other independent accountants during the past year that are subject to the requirements of AU 625, *Reports on the Application of Accounting Principles*.

Members of the Legislative Audit Committee
November 20, 2009

Major Issues Discussed with the Audit Committee and Management prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the College's auditors. However, these discussions occur in the normal course of our professional relationship, and the result of these discussions was not a condition to our retention.

Material Written Communications

Management has been provided copies of the following material written communications between management and us:

1. Management representation letter
2. Management letter (findings and recommendations included in this report)

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit except for the delays in receiving the draft financial statements. During our audit, our draft reports to the Office of the State Auditor were delayed by the untimely receipt of draft financial statements from the College's management.

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all independence-related relationships between our firm and the College and provide confirmation that we are independent accountants with respect to the College.

We are not aware of any independence-related relationships between our firm and the College.

Confirmation of Audit Independence

We hereby confirm that, as of November 20, 2009, we are independent accountants with respect to the College under all relevant professional and regulatory standards.

* * * * * * *

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, and the College's management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

METROPOLITAN STATE COLLEGE OF DENVER

Summary of Unadjusted Audit Differences (in thousands)

Year ended June 30, 2009

		Adjustments on financial statement captions					
		Change in net assets unadjusted audit differences arising in			Statement of net assets		
Adj no.	Description	Current period	Prior period	Total	Net assets	Assets	Liabilities
1	Operating expense	$ 120	—	120	120	—	—
	Accounts payable	—	—	—	—	—	120
	To record the known and most likely understatement of period-end accruals.						
2	Leasehold improvements	—	—	—	—	3,436	—
	Amortization expense	598	—	598	598	—	—
	Operating expense	(1,095)	—	(1,095)	(1,095)	—	—
	Accumulated amortization	—	—	—	—	(1,513)	—
	Net assets	—	—	—	(1,426)	—	—
	To reclassify capital improvement expenditures from operating expense to leasehold improvements.						
3	Prepaid rent expense	—	—	—	—	(209)	—
	Operating expense	(209)	—	(209)	(209)	—	—
	To reclassify upfront rental payments from operating expense to prepaids.						
4	Student tuition and fees	2,572	—	2,572	2,572	—	—
	Bad debt expense	(2,572)	—	(2,572)	(2,572)	—	—
	To reclassify bad debts to offset operating revenue.						
5	Net assets	—	—	—	1,145	—	—
	Bad debt expense	(1,145)	—	(1,145)	(1,145)	—	—
	To record bad debt expense relating to FY08.						

Metropolitan State College of Denver (the College) is governed by the board of trustees and is a state-supported institution of higher education.

Our financial and compliance examination of the various state-funded student financial assistance programs at the College for the year ended June 30, 2009 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education (CCHE) Financial Aid Policy. The state student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2009.

The College's various state-funded student financial assistance programs include the following:

- Colorado Need-Based Grants awards:
  - Colorado Student Grants Program
  - Colorado Leveraging Educational Assistance Partnership (CLEAP) and Special Leveraging Educational Assistance Partnership (SLEAP)
- Academic Competitiveness Grant
- Colorado Merit Scholarships (or merit-based awards) – Colorado Undergraduate Merit Award Program
- Colorado Work-Study Program
- Governor's Opportunity Scholarships

The total state-funded student financial assistance expenditures made by the College were approximately $10.4 million during the year ended June 30, 2009.

The Director of Financial Aid at the College is responsible for administration of these programs. This responsibility includes application processing, eligibility determination, and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the College in federal and state student financial aid (SFA) programs. The controller's office is responsible for the programs' financial management, general ledger accounting, payments, and collections.

During the audit period ended June 30, 2009, the College obtained authorizations to award federal SFA funds as follows:

- Supplemental Educational Opportunity Grant of approximately $494,000
- College Work Study of approximately $767,000
- National Science and Mathematics Access to Retain Talent Grant of approximately $353,000
- Academic Competitiveness Grant of approximately $177,000

In addition to these programs, the College also received funding through the Pell Grant Program in the amount of approximately $18.1 million. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

Authorizations and expenditures for state-funded student financial aid funds are detailed by program in the accompanying schedule of appropriations, expenditures, transfers, and reversions for the year ended June 30, 2009.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance (SFSFA) Programs (the Statement) of Metropolitan State College of Denver (the College), a component unit of the State of Colorado, for the year ended June 30, 2009. The statement is the responsibility of the College's management. Our responsibility is to express an opinion on the statement based on our audit.

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

As described in note 1 to the statement of appropriations, expenditures, transfers, and revisions, the statement was prepared in conformity with the accounting practices set forth in the Colorado Department of Higher Education (CDHE) *Audit Guide*, and in conformity with the provisions of the Colorado Commission on Higher Education (CCHE) *Financial Aid Policy*, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers, and reversions of the SFSFA programs of the College for the year ended June 30, 2009, in accordance with the format set forth in the CDHE *Audit Guide* and in conformity with the provisions of the CCHE *Financial Aid Policy*, as described in note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2009 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the statement of appropriations, expenditures, transfers, and reversions of the SFSFA programs of the College. The accompanying SFSFA introduction is presented for purposes of additional analysis and is not a required part of the statement. The SFSFA introduction has not been subjected to the auditing procedures applied in the audit of the statement, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, and the College's board of trustees and management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 20, 2009

METROPOLITAN STATE COLLEGE OF DENVER

State-Funded Student Financial Assistance Programs

Statement of Appropriations, Expenditures, Transfers, and Reversions

Year ended June 30, 2009

		Total Colorado Financial Aid	Colorado Student Grants	CLEAP	Academic Competitiveness Grant	Colorado Undergraduate Merit Scholarships	Colorado Work-Study	Governor's Opportunity Scholarship
Appropriations:								
Original	$	10,341,532	7,569,212	287,696	205,461	122,901	1,936,357	219,905
Supplementals		68,380	55,000	—	(16,620)	—	30,000	—
Transfers		—	—	—	—	—	—	—
Total appropriations		10,409,912	7,624,212	287,696	188,841	122,901	1,966,357	219,905
Less expenditures		10,409,912	7,624,212	287,696	188,841	122,901	1,966,357	219,905
Reversions to state general fund	$	—	—	—	—	—	—	—

See accompanying notes to statement of appropriations, expenditures, transfers, and reversions.

(1) Basis of Presentation

Metropolitan State College of Denver (the College) is governed by the board of trustees. The College's operations primarily consist of classrooms and office space located on the Auraria Campus in downtown Denver, Colorado.

The accompanying statement of appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format set forth in the Colorado Department of Higher Education (CDHE) *Audit Guide*, and in conformity with the provisions of the Colorado Commission on Higher Education (CCHE) *Financial Aid Policy*. The purpose of the Statement is to present, in summary form, the State-Funded Student Financial Assistance (SFSFA) activities of the College for the year ended June 30, 2009.

The Statement is a summary of cash activity of the SFSFA programs, with the exception of the Perkins Loan Program and College Work-Study Programs, and does not present certain transactions that would be included in the Statement of the SFSFA programs if it was presented on the accrual basis of accounting, as prescribed by U.S. generally accepted accounting principles. Accordingly, the accompanying statement is not intended to present the financial position, changes in net assets, or cash flows of the SFSFA programs in conformity with U.S. generally accepted accounting principles. Because the Statement presents only a selected portion of the activities of the College, it is not intended to and does not present either the financial position or changes in financial position of the College in conformity with U.S. generally accepted accounting principles.

(2) Basis of Accounting

All state-funded student financial assistance is expensed on a cash basis, except for the Perkins Loan Program and the Colorado Work-Study Program. Perkins Student Loans are recorded as loans receivable when the funds are disbursed. Colorado Work-Study wages are recorded on the accrual basis whereby expenses are recognized when the services are performed.

The Colorado Leveraging Educational Assistance Partnership and Supplemental Leveraging Assistance Partnership consist of state funds and federal funds. The amounts shown in the Statement are the combined totals.

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