METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

June 30, 2010 and 2009

(With Independent Auditors’ Report Thereon)

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METROPOLITAN STATE COLLEGE OF DENVER

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Financial and Compliance Audit

Report Summary

Year ended June 30, 2010

Purpose and Scope

The Office of the State Auditor of the State of Colorado 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, 2010. 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 May 2010 to December 2010.

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, 2010. This includes a report on internal control over financial reporting and compliance and other matters based on the audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate progress in implementing prior audit findings and recommendations.

The 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, 2010 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, 2010.

One audit adjustment totaling $44,000 in operating expenses was proposed and made to the basic financial statements. Two audit adjustments were not made to the basic financial statements with a net effect of $2.0 million, which is approximately 12.3% of current year ending net assets. These passed audit 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 deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

(Continued)

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

Summary of Key Findings

Strengthening Controls over Student Account Holds (Significant Deficiency in Internal Control)

We noted the College's existing policies and procedures for removal of student account financial holds are not sufficient to ensure that holds are not inappropriately removed. We noted that the College's Banner student module has controls that place financial holds on student accounts with past-due amounts; however, current controls over the removal of these holds are insufficient as financial holds can be removed by any user with access rights to the student hold table within the Banner student module. In addition, the Banner student module does not log all user activity. Holds that are 'deleted' are logged; however, holds that are 'expired' are not logged. Therefore, all user activity is not logged resulting in the College being unable to consistently determine which individual removed the account hold.

In our sample of five individual student accounts receivable balances, we noted that one student balance had been outstanding since the spring 2010 semester and had not had any payment activity as of September 18, 2010. In addition, we noted that although this student had a financial hold placed on their records as a result of the past-due balance, this hold was manually removed without approval, and the student was able to register for classes in the fall 2010 semester.

Strengthening Controls over the Recording of Operating Expenses (Significant Deficiency in Internal Control)

We performed control and substantive testwork over fiscal year 2010 operating expenses incurred during the year. We selected samples of 48 transactions to test controls and the accuracy of the expense amounts recorded in the general ledger. We identified two errors in the proper coding and classification of the selected expense transactions resulting from a lack of detailed review.

One transaction for $42,971 was related to the proposed Hospitality Learning Center (HLC) project. Due to a draft agreement and understanding with the Metropolitan State College of Denver Foundation, Inc. (Foundation), the College paid for certain start-up and professional services costs related to the HLC that were to be reimbursed by the Foundation. However, the College expensed these costs and did not record a receivable from the Foundation. The second error was for a transaction in the amount of $1,105 related to intra-agency activity that was not coded properly to enable proper elimination in the June 30, 2010 trial balance. As a result of these two errors, operating expenses were overstated for the year ended June 30, 2010 by $44,076 and were extrapolated to a potential error of $1,293,614 through our statistical sampling methodology. Management subsequently recorded adjustments to correct the known errors.

Noncompliance with Procurement Card Guidelines (Deficiency in Internal Control)

We identified instances in which procurement card single purchase transaction limits were circumvented. We noted four transactions in total for two single purchases in our testing over operating expenses. The users of these procurement cards were both limited to $1,000 single purchase limits. These individuals transacted one single

(Continued)

purchase using two separate transactions in order to circumvent their credit limit. This $1,000 limit was enacted by the individuals' department and was below the $5,000 limit enacted by the College. We noted that each purchase appeared to be for a valid and reasonable purpose and was reviewed and approved by the appropriate supervisor.

Ensuring Compliance with NCAA Financial Regulations (Deficiency in Internal Control)

As a member of the NCAA Division II, the College competes in the Rocky Mountain Athletic Conference. Currently, the College sponsors 15 sports, providing nearly 200 student-athletes an opportunity to compete in NCAA Division II while earning their degree.

We performed certain procedures that were agreed to by management of the College to determine whether transactions recorded within the College's fiscal year 2010 Statement of Athletic Programs' Revenues and Expenses (Statement) were properly classified, adequately supported, and presented on the Statement in accordance with NCAA Bylaw 6.2.3.1.1., which requires that these agreed-upon procedures be performed at least once every three years by an independent accountant.

Management had difficulty preparing the Statement and related supporting detail schedules in accordance with NCAA Bylaw 6.2.3.1.1. in a timely manner due to a lack of documented policies and procedures to classify revenue and expense transactions. Although the initial draft of the Statement was provided in accordance with the deliverable timeline, the supporting detail schedules were provided over a period of time that was one day to two months after originally due. The delay was the result of the College's need to manually create the Statement and detail schedules. Upon review of the supporting detail schedules, it was determined that certain athletic program transactions were not properly presented and management was unable to provide supporting transactional detail for certain line items in the initial draft of the Statement. Upon evaluation by the College, adjustments were made and a revised draft Statement and revised detail schedules were prepared; however, it was determined through completion of our agreed-upon procedures that errors remained as certain revenues and expenses were incorrectly classified on the Statement.

Recommendations and the College's Responses

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

(Continued)

METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

Report Summary

Year ended June 30, 2010

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2009 included five recommendations. The disposition of these audit recommendations as of December 10, 2010 was as follows:

Implemented	5

METROPOLITAN STATE COLLEGE OF DENVER

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Recommendation Locator

Year ended June 30, 2010

Rec. no.	**Page no.**	**Recommendation summary**	**Agency response**	**Implementation date**
1	9	Implement controls within the Banner student module to restrict the removal of financial holds to approved individuals and generate and maintain a user log to document which individual performed and approved the removal of the student account hold.	Agree	Implemented
2	10	Strengthen review controls over operating expense transactions to ensure costs are properly expensed, deferred, or capitalized.	Agree	Implemented
3	12	Institute a required periodic review by departments to evaluate current procurement card limits for each employee to determine their adequacy with departmental business needs. If an employee needs to procure an item in excess of their procurement card limit, set below $5,000, for a valid business purpose, require the department manager to approve the expenditure and specifically document their acknowledgement that the card limit was exceeded and that it was acceptable to do so.	Agree	Implemented
4	14	Establish and maintain documented policies and procedures for preparing the Statement of Athletic Programs' Revenues and Expense in compliance with NCAA regulations. In addition, athletic program transactions should be properly coded in the accounting system to enable management to determine how the transactions should be reported by sport program and activity.	Agree	January 31, 2011

METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

Description of the Metropolitan State College of Denver

Year ended June 30, 2010

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 general equivalency diploma (GED) high school equivalency certificate, or the equivalent to gain admission.

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

The College offers 55 major fields of study and 89 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, premedicine, prelaw, and preveterinary science.

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

	Resident	Nonresident	Total
Fiscal year:			
2010	16,775	546	17,321
2009	15,621	544	16,165
2008	15,135	502	15,637

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

	Faculty	Staff	Total
Fiscal year:			
2010	872	324	1,196
2009	843	330	1,173
2008	807	306	1,113

METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

Findings and Recommendations

Year ended June 30, 2010

We have audited the basic financial statements of the Metropolitan State College of Denver (the College) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated December 10, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 December 10, 2010 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 grants. We have not considered internal control since December 10, 2010. 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 deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider Recommendations No. 1 and No. 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 and No. 4 that we would like to bring to your attention.

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

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Strengthening Controls over Student Accounts Holds

The College serves as an institution of higher education for students primarily residing within the metropolitan area of the City and County of Denver, Colorado. Students typically register for classes on a semester-by-semester basis and are not considered eligible for registration until their prior semester balance, if any, has been paid in full. The College's Banner student module currently generates an automatic financial hold on any student account with a past-due balance.

What was the purpose of the audit work?

The purpose of the audit work was to determine that the accounts receivable-student balance exists, is accurate, valued appropriately, and presented properly.

What audit work was performed and how were results measured?

We selected a sample of five individual student accounts receivable balances from the total outstanding accounts receivable-student transactional detail as of June 30, 2010 using a statistical sampling methodology. For each student balance selected, we performed the following:

1. Verified that a valid receivable existed by agreeing student tuition charges to registered classes.
2. Obtained supporting documentation for all payments made to the student account subsequent to June 30, 2010 to verify that the balance as of June 30, 2010 was reasonable and collectibility was reasonably assured.
3. If the student had not paid their balance subsequent to year-end, verified that the student account has been appropriately assessed for collectibility as part of the College's allowance for doubtful accounts as of June 30, 2010.

What problem did the audit work identify?

We noted that the College's Banner student module has controls that place financial holds on student accounts with past-due amounts; however, current controls over the removal of these holds are insufficient as they can be removed by any user with access rights to the student hold table within the Banner student module. In addition, the Banner student module does not log all user activity. Holds that are 'deleted' are logged; however, holds that are 'expired' are not logged; therefore, all user activity is not logged resulting in the College being unable to consistently determine which individual removed the account hold.

In our sample of five individual student accounts receivable balances, we noted that one student balance had been outstanding since the spring 2010 semester and had not had any payment activity as of September 18, 2010, our supporting documentation request date. In addition, we noted that although this student had received a financial hold on their records as a result of the past-due balance, this hold was manually removed without approval, and the student was able to register for classes in the fall 2010 semester.

(Continued)

Why does this problem matter?

Inadequate and undocumented controls over the removal of student account holds increase the risk that students with past-due amounts may register for the next semester's classes and continue to not pay their account balance, both current and past due. This situation represents a business risk to the College and may lead to accounts receivable and revenue being overstated.

Why did the problem occur?

No controls currently exist in the Banner student module over the removal of financial holds on student accounts and restrict this ability to only specific and authorized users. Additionally, the ability to log user activity is not currently available in order to determine which individual inappropriately removed this financial hold.

(Classification of Finding: Significant Deficiency)

Recommendation No. 1

The College should:

a) Implement controls within the Banner student module to restrict the removal of financial holds to approved individuals.

b) Generate and maintain a user log to document which individual performed and approved the removal of the student account hold.

The College's Response

a) Agree. Implementation date: December 1, 2010. The College's Administrative Computing Application Services unit will create a database trigger that specifically checks the user ID of the individual removing or expiring an accounts receivable hold and compare it to the list of approved user IDs, only allowing approved users to take such action.

b) Agree. Implementation date: December 1, 2010. The College's Division Administrative Computing Application Services unit will modify the existing log that captures when holds are deleted and add logic to also record when they are expired and by what user.

Strengthening Controls over Recording Operating Expenses

The College initiates, processes, and records thousands of expense transactions each year as part of its business activities. Inherent in recording expense transactions is determining whether the cost should be expensed, deferred, or capitalized.

What was the purpose of the audit work?

The purpose of our audit work was to determine whether operating expense transactions recorded by the College were reasonable, had a valid business purpose, were properly coded and classified, approved, and were accounted for properly in fiscal year 2010.

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What audit work was performed and how were results measured?

We performed control and substantive testwork over fiscal year 2010 operating expenses incurred during the year. We selected samples of 48 transactions, using a statistical sampling methodology, to test controls and the accuracy of the expense amounts recorded in the general ledger.

What problem did the audit work identify?

Due to the two errors explained below, we had to sample the operating expense population three separate times resulting in a total of 48 transactions tested to ensure we had enough audit evidence to conclude on the accuracy of expense transactions. We identified errors in our first two sample populations (as described below) that when projected across the population created sampling risk that we determined to be material.

In our first sample, we selected a transaction for $42,971 related to the proposed Hospitality Learning Center (HLC) project. Due to a draft agreement and understanding with the Metropolitan State College of Denver Foundation, Inc. (Foundation), the College paid for certain start-up and professional services costs related to the HLC that were to be reimbursed by the Foundation. However, the College expensed these costs and did not record a receivable from the Foundation. In our second sample, we selected a transaction for $1,105 related to intra-agency activity that was not coded properly to enable proper elimination in the June 30, 2010 trial balance. As a result of these two errors, operating expenses were overstated for the year ended June 30, 2010 by $44,076 and were extrapolated to a potential error of $1,293,614 through our statistical sampling methodology. Management subsequently recorded adjustments to correct the known errors. We did not identify any expense errors in our third sample, and therefore, we were able to conclude on the accuracy of expense transactions for the year.

Why does this problem matter?

Controls that are designed appropriately but not operating effectively to determine whether costs should be expensed, deferred, or capitalized may misstate the financial activity of the College.

Why did the problem occur?

The College did not appropriately consider the proper accounting treatment for costs incurred related to the HLC project and did not properly code intra-agency activity to enable proper elimination. These transactions were not properly identified through supervisory review.

(Classification of Finding: Significant Deficiency)

Recommendation No. 2

The College should strengthen its review controls over operating expenses transactions to ensure costs are properly expensed, deferred, or capitalized.

(Continued)

The College's Response

Agree. Implementation date: November 17, 2010. The College will work to strengthen its controls over the classification of expenditures. In this situation, each error occurred with journal entry reclassifications. To address this issue, we have changed the processes that are used to review internally generated transactions. We will continue to review these processes to ensure they are strengthened.

Noncompliance with Procurement Card Guidelines

The College currently participates in the State of Colorado's, hereafter referred to as the State, procurement card program. This program allows institutions the use of procurement credit cards for smaller purchases (below $5,000), eliminating the need for purchase orders in these limited situations. The College has adopted the State's policies and guidelines over the proper use of procurement cards; however, the College has allowed for individual departments to determine procurement card guidelines that establish purchase and control limits at a lower level if deemed necessary. Cardholders must take procurement card training, which includes discussion of purchase limits, prior to being issued a procurement card.

What was the purpose of the audit work?

The purpose of our audit work was to test compliance with the College's procurement card guidelines, which include lower purchasing limits established at the departmental level.

What audit work was performed and how were results measured?

We performed control and substantive testwork over fiscal year 2010 operating expenses, which include procurement card purchase transactions, by performing testing over the approval, management review, payment authorization, and two-way match of operating expenses incurred during the year. We selected a sample of 25 items, using a statistical sampling methodology, to test these controls and the accuracy of the expense amounts recorded in the general ledger. In addition to the 25 items selected for control testing above, four procurement card transactions were identified for possible split card transactions based on their characteristics within the procurement card population. For these four procurement card transactions selected, we performed the following:

1. Requested and obtained supporting documentation from the College including monthly procurement card audit checklist, statement of account, and related invoices/receipts.

2. Reviewed supporting documentation provided by the College, noting transaction date, invoice, etc., for reasonableness of purchase and nature of transactions.

3. Obtained documentation supporting the procurement cardholder's purchasing limit as set by their department.

4. Determined if documentation provided indicated that a split purchase transaction has occurred.

Our results were measured on whether the above documentation indicated the transactions were split across two purchases in order to circumvent single purchase limits on the individual's procurement card established by the applicable department.

(Continued)

What problem did the audit work identify?

We noted transactions that circumvented controls on procurement card purchases by spreading one purchase into two transactions in order to circumvent single purchase limits.

We noted four transactions in total for two single purchases in our testing over operating expenses. The users of these procurement cards were both limited to $1,000 single purchase limits with their procurement cards. These individuals transacted a single purchase using two separate transactions in order to circumvent their credit limit. This $1,000 limit was enacted by the individuals' department and was below the $5,000 limit enacted by Metro State. We noted that each purchase appeared to be for a valid and reasonable purpose and was reviewed and approved by the appropriate supervisor.

Why does this problem matter?

Controls that are designed appropriately but not operating effectively over procurement card limits may fail to prevent or detect unauthorized and/or inappropriate expenses.

Why did the problem occur?

While the College currently has institutionwide procurement card policies, individual departments within the institution have created lower threshold levels for their various employees. These lower limits are not actively enforced or have not been effectively increased to a level that provides appropriate purchasing authority for procurement cardholders. In both the department-specific and institutionwide purchase limit policies, it is not appropriate to make individual purchases above a cardholder's predetermined purchase limit without documented approval by the department manager that exceeding the card limit was acceptable.

(Classification of Finding: Deficiency)

Recommendation No. 3

The College should institute a required periodic review by departments to evaluate current procurement card limits over purchases for each employee to determine their adequacy with departmental business needs. If an employee needs to procure an item in excess of their procurement card limit, set below $5,000, for a valid business purpose, require the department manager to approve the expenditure and specifically document their acknowledgment that the card limit was exceeded and that it was acceptable to do so.

The College's Response

Agree. Implementation date: Completed. The College will communicate regularly with procurement cardholders and will communicate annually the need for departments to review their procurement card needs for employees, including the need for increasing procurement card limits to the College-allowed level of $5,000 per purchase per vendor per fiscal year. The College will add language requesting card approvers to acknowledge that purchases that exceed the procurement card limit was for a business need and was approved.

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Ensuring Compliance with NCAA Financial Regulations

The College is a member of the National Collegiate Athletic Association (NCAA) Division II and competes in the Rocky Mountain Athletic Conference. Currently, the College sponsors 15 sports, providing nearly 200 student-athletes an opportunity to compete in NCAA Division II while earning their degree.

What was the purpose of the procedures performed?

We performed an agreed-upon procedure to determine whether the College's fiscal year 2010 Statement of Athletic Programs' Revenues and Expenses (Statement) was in compliance with NCAA regulations.

What work was performed and how were results measured?

We performed certain procedures that were agreed to by management of the College to determine whether selected revenue and expense transactions were properly classified, adequately supported, and presented on the Statement in accordance with NCAA Bylaw 6.2.3.1.1., which requires that these agreed-upon procedures be performed at least once every three years by an independent accountant. The results of our procedures and the specific exceptions identified were reported to the management of the College and the Legislative Audit Committee.

What problem did the work identify?

Management had difficulty preparing the Statement and related supporting detail schedules in accordance with NCAA Bylaw 6.2.3.1.1. in a timely manner due to a lack of documented policies and procedures to accurately classify revenue and expense transactions. Although the initial draft of the Statement was provided in accordance with the deliverable timeline, the supporting detail schedules were provided over a period of time that was one day to two months after originally due. The delay was the result of the College's need to manually create the Statement and detail schedules. Upon review of the supporting detail schedules, it was determined that certain athletic program transactions were not properly presented and management was unable to provide supporting transactional detail for certain line items in the initial draft of the Statement. Upon evaluation of the College, adjustments were made and a revised draft Statement and revised detail schedules were prepared; however, it was determined through completion of our agreed-upon procedures that errors remained as certain revenues and expenses were incorrectly classified on the Statement.

Why does this problem matter?

Inadequate and undocumented policies and procedures for preparing the Statement in compliance with NCAA regulations lead to inefficient use of both Athletics Department and Finance Department resources and difficulties for management to comply with such regulations. Had the accounting system been utilized to properly classify the revenue and expense transactions the Statement could have been pulled automatically rather than manually generated. In addition, noncompliance with NCAA rules and regulations increases the risk of potential fines, sanctions, or other disciplinary actions.

(Continued)

Why did the problem occur?

Since the policies and procedures for preparing the Statement are not adequately documented, and the Statement is only required to be prepared every three years, management had difficulty complying with the NCAA requirements. Also, certain athletic program transactions were not properly coded in the accounting system to enable management to determine how the transactions should be reported by sport program. Finally, there was some turnover of athletic department personnel since the last Statement was prepared.

(Classification of Finding: Deficiency)

Recommendation No. 4

The College should establish and maintain documented policies and procedures for preparing the Statement in compliance with NCAA regulations. In addition, athletic program transactions should be properly coded in the accounting system to enable management to determine how the transactions should be reported by sport program and activity.

The College's Response

Agree. Implementation date: January 31, 2011. The College agrees that the accounting system should be used to prepare the Statement. As the Athletic program has grown and become more complex, we need to make this process more automated. Accounting Services and Athletic staff have created subsidiary ledger codes to track this information in the future. This will allow us to more quickly gather and analyze the information. Additionally, Accounting Services is creating written procedures to ensure that all athletic transactions are properly coded.

METROPOLITAN STATE COLLEGE OF DENVER

Financial and Compliance Audit

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2010

The following table presents the audit recommendations made for the year ended June 30, 2009 and their disposition as of December 10, 2010:

Recommendation	Disposition
Recommendation No. 1	
Enhance existing policies and procedures over capital assets by implementing: (a) formalized agreements and documentation related to transactions between the College and the Auraria Higher Education Center; (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.	Implemented
Recommendation No. 2	
Strengthen its review process over the preparation of the statements of cash flows.	Implemented
Recommendation No. 3	
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.	Implemented
Recommendation No. 4	
Consider the objectives and responsibilities of an audit committee and implement the leading practice activities that would benefit the College and its stakeholders.	Implemented
Recommendation No. 5	
Ensure the internal audit function provides meaningful value to the College and its best positioned for success.	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 years ended June 30, 2010 and 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 audits. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they related to the amounts included for the discretely presented component unit, are based on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audits and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Metropolitan State College of Denver as of June 30, 2010 and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2010 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 18 to 26 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

December 10, 2010

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, 2010 and 2009. 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) Statement 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 Statement 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, 2010 and 2009. The combined net assets increased $16.8 million and $3.8 million, respectively, over the previous year.
- In fiscal year 2010, the level of funding for Metro State's College Opportunity Fund (COF) stipends was set by the General Assembly at $68 per eligible credit hour; whereas, fiscal year 2009 funding was $92 per eligible credit hour. However, due to poor economic conditions in fiscal year 2010, the State of Colorado (the State) was only able to fund the stipend at $44 per eligible credit hour. This revenue is recorded in the tuition and fees line under operating revenue.
- The College received $25.2 million and $9.9 million in state fiscal stabilization funds revenue from the American Recovery and Reinvestment Act (ARRA) to help offset the reduction in state funding in fiscal years 2010 and 2009, respectively.
- Metro State's June 30, 2010 current assets of $61.7 million were sufficient to cover current liabilities of approximately $23.8 million. The current ratio of 2.59 (current assets/current liabilities) reflects the liquidity of Metro State's assets and the availability of funds for current operations.
- In fiscal year 2010, the College issued $65.8 million of Series 2009 and Series 2010 revenue bonds to finance the construction of the College's first brick and mortar building, the Student Success Building (SSB), as well as fund other major remodeling projects.
- Metro State's headcount had changes in the summer 2009, fall 2009, and spring 2010 terms with a 10.25%, 5.60%, and a 6.80% increase, respectively, over the previous year's terms.

Statements of Net Assets

The statements of net assets report on assets, liabilities, and net assets (net assets represent the excess of total assets over total liabilities) as of June 30, 2010 and 2009. 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 (in thousands)

		2010	2009	2008
Assets:				
Current assets	$	61,732	45,960	39,130
Noncurrent assets		91,885	22,208	14,801
Total assets	$	153,617	68,168	53,931
Liabilities:				
Current liabilities	$	23,838	20,652	18,962
Noncurrent liabilities		76,370	10,877	2,153
Total liabilities	$	100,208	31,529	21,115
Net assets				
Invested in capital assets, net of related debt	$	9,381	6,864	6,600
Restricted for expendable purposes		9,344	9,247	9,122
Unrestricted		34,684	20,528	17,094
Total net assets	$	53,409	36,639	32,816

At June 30, 2010 and 2009, Metro State's total assets were $153.6 million and $68.2 million, respectively, which is an increase of $85.4 million and $14.3 million, respectively, when compared to the prior years. A $63.8 million increase in restricted cash, a $15.2 million increase in unrestricted cash and cash equivalents, a $10.8 million increase in leasehold improvements, and a $5.7 million decrease in construction in progress are the primary reasons for the $85.4 million increase in total assets in fiscal year 2010. In fiscal year 2010, the College issued $65.8 million in bonds for the construction of the SSB and other major remodeling projects. As of June 30, 2010, $63.8 million of those bond proceeds were unspent and are the cause for the increase in restricted cash.

Unrestricted cash and cash equivalents increased $15.2 million in fiscal year 2010 primarily due to cost saving initiatives, setting aside funds for future capital projects, the timing of payments, and the increase in overall revenues to the College.

In fiscal year 2010, the new addition to the Science building was complete. A 200,000-square-foot building is owned by the Auraria Higher Education Center, which offers technologically advanced student labs to Metro State, the University of Colorado at Denver, and the Community College of Denver. The completion of this building increased leasehold improvements by $8.9 million.

Lastly, the $5.7 million reduction in construction in progress is primarily due to completion of the Science building and related recording of leasehold improvements.

(Continued)

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 both fiscal years 2010 and 2009 as evidenced by the increase in net assets of $16.8 million and $3.8 million, respectively. Of the total $53.4 million in net assets in fiscal year 2010, $9.4 million is invested in capital assets, $9.3 million is restricted for expendable purposes for student loans, and $34.7 million is unrestricted and available for any lawful purpose of Metro State. In fiscal year 2009, total net assets comprised $6.9 million in capital assets, $9.2 million was restricted for expendable purposes for student loans, and $20.5 million was unrestricted and available for any lawful purpose of Metro State.

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.

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 2010 and 2009. 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 investment and interest income, private grants and gifts, state fiscal stabilization funds, and Pell grants.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets (in thousands)

		2010	2009	2008
Operating revenues:				
Tuition and fees, net	$	66,149	72,610	78,784
Fee for service		1,667	7,015	3,757
Sales and services		4,401	3,335	3,147
Grants and contracts		18,101	18,940	17,121
Other operating revenues		5,369	4,863	3,699
Total operating revenues		95,687	106,763	106,508
Operating expenses		138,187	134,634	124,623
Operating loss		(42,500)	(27,871)	(18,115)
Nonoperating revenues:				
State fiscal stabilization funds revenue		25,182	9,935	—
Pell grants		29,870	18,151	14,730
Intergovernmental revenue		847	—	—
Investment and interest income		3,678	1,611	2,015
Interest expense on capital asset-related debt		(2,334)	—	—
Loss on disposal of capital assets		(21)	(6)	
Other nonoperating revenues		2,048	2,003	3,692
Net nonoperating revenues		59,270	31,694	20,437
Increase in net assets		16,770	3,823	2,322
Net assets at beginning of year		36,639	32,816	30,494
Net assets at end of year	$	53,409	36,639	32,816

Tuition and fees revenue, net, accounted for $66.1 million of $95.7 million in operating revenue in 2010. The tuition and fees revenue amount is net of scholarship allowances of $38.2 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. Tuition and fees revenue decreased $6.4 million from 2009 due to decreases in the COF stipend and increases in scholarship allowances offset by increases in enrollment. Scholarship discounts and allowances increased $8.8 million from 2009 due to an increase in tuition, as well as enrollment increases and an overall increase in scholarships and fellowships, which is discussed below.

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 $5.3 million decrease in fee for service revenue in fiscal year 2010 and $3.3 million increase in fiscal year 2009 are a result of changes to the fee for service contract the College has with the State.

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.

In fiscal year 2010, the State agreed to comply with the guidance provided in the 2008 Amendment of the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, implementation guide regarding nonoperating presentation of Pell grants. Therefore, in fiscal year 2010, Pell revenue was recorded as nonoperating revenue, and for comparative purposes, fiscal years 2009 and 2008 were reclassified as well. Pell grants increased $11.7 million in fiscal year 2010 while the increase was $3.4 million in fiscal year 2009. These increases are due to increased enrollment of Pell eligible students; however, an additional factor for the increase in fiscal year 2010 was that full-time students in the spring and fall semesters were eligible for aid in the summer, which increased their overall award.

State fiscal stabilization funds revenue increased $15.2 million in fiscal year 2010. These are federal funds from the ARRA given to the College in response to the State's reduction of fiscal year 2010 COF stipend funding and fee for service. The College is scheduled to receive state fiscal stabilization funds through fiscal year 2011.

State fiscal stabilization funds increased $9.9 million in 2009 as compared to 2008 in response to the State's reduction of fiscal year 2009 COF stipend funding.

In fiscal year 2010, the College issued Recovery Zone Economic Development Bonds (RZEDB), which are eligible to receive a 45% interest rate subsidy from the federal government. The College earned $0.85 million in interest subsidy revenue in fiscal year 2010.

Investment and interest income increased $2.1 million in fiscal year 2010 but decreased $0.4 million in fiscal year 2009. The increase in 2010 is primarily a result of an unrealized gain on funds with the Colorado State Treasurer (the Treasurer). This increase in unrealized gain is due to increase in amounts on deposit with the Treasurer, from the bond proceeds.

Interest expense on capital asset-related debt of $2.3 million is primarily interest expense on the RZEDB bonds issued in fiscal year 2010.

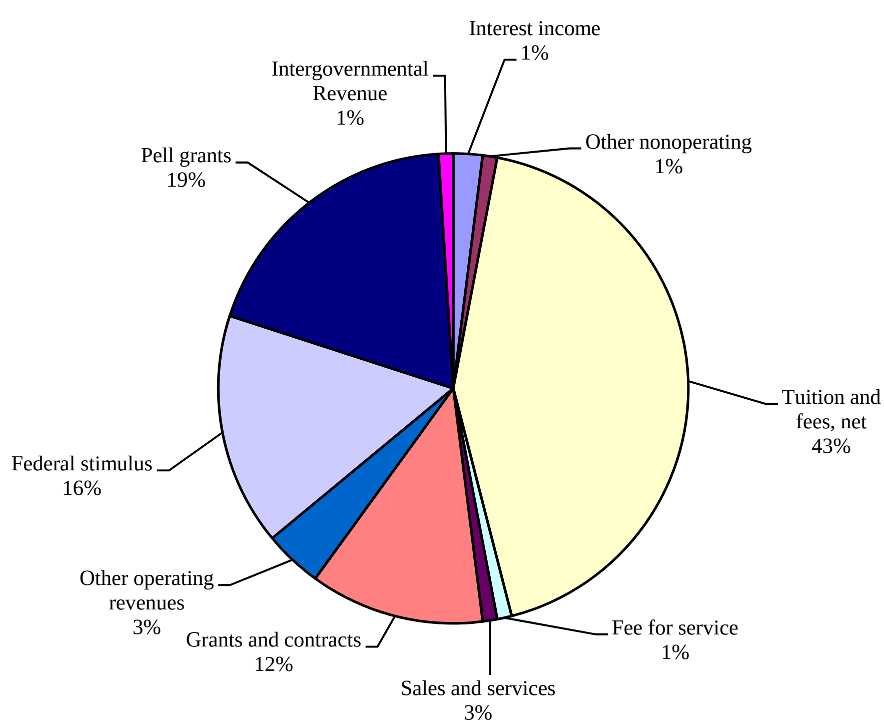
For the fiscal years ended June 30, 2010 and 2009, operating expenses totaled $138.2 million and $134.6 million, respectively. Of the $138.2 million total in fiscal year 2010, $66.3 million was for instruction, $9.7 million for academic support, $13.3 million for student services, $14.7 million for institutional support, $5.4 million for operation of plant, and $20.4 million for auxiliary enterprises. The remaining $8.4 million was for scholarships and other miscellaneous operating expenses. Of the $134.6 million total in fiscal year 2009, $64.8 million was for instruction, $9.7 million was for academic support, $14.2 million was for student services, $15.4 million was for institutional support, $7.4 million was for operation of plant, and $18.5 million was for auxiliary enterprises. The remaining $4.6 million was for scholarships and other miscellaneous operating expenses.

Overall operating expenses show an increase of $3.6 million over 2009 due to a combination of several factors, including:

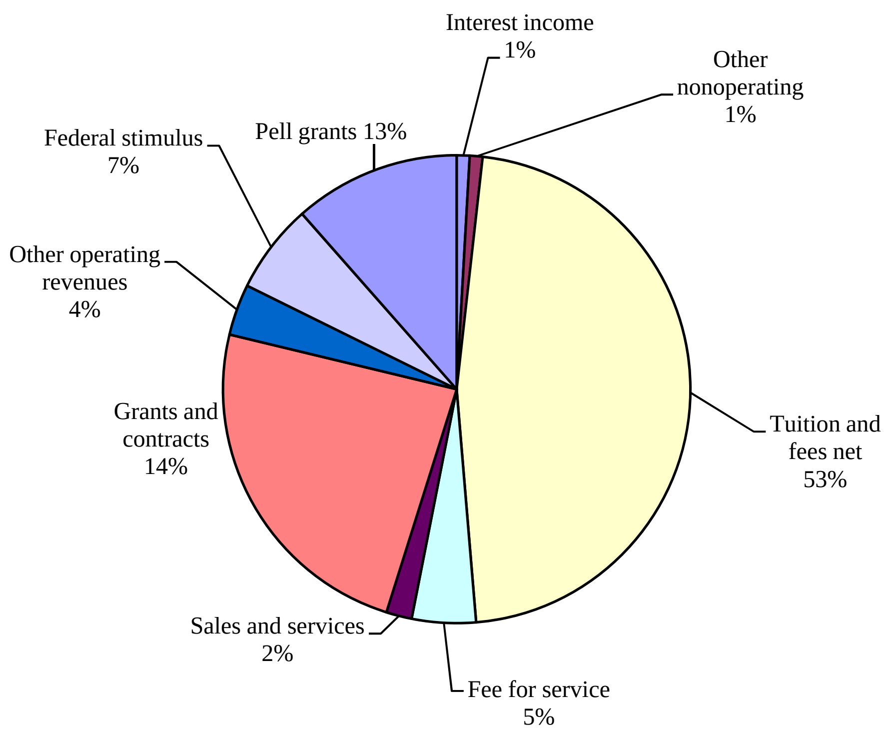
- Salary and benefit expenditures increased approximately $3.4 million in fiscal year 2010 resulting from a net increase of 29 faculty, offset by a reduction of 6 administrative/classified employees and an average increase in health insurance premiums of 12%.
- Scholarship expense increased in fiscal years 2010 and 2009 by $3.4 million and $2.2 million, respectively, primarily due to increase in Pell grants.

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 – 2010



Revenue by Source – 2009



Statements of Cash Flows

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

Condensed Statements of Cash Flows (in thousands)

		2010	2009	2008
Net cash provided by (used in):				
Operating activities	$	(39,744)	(23,653)	(17,832)
Noncapital financing activities		57,355	30,168	17,242
Capital and related financing activities		57,503	(2,015)	(2,162)
Investing activities		3,797	1,724	2,109
Net increase (decrease) in cash		78,911	6,224	(643)
Cash and cash equivalents:				
Beginning of year		36,320	30,096	30,739
End of year	$	115,231	36,320	30,096

Metro State's cash and cash equivalents increased by $78.9 million in fiscal year 2010; whereas, fiscal year 2009 had an increase of $6.2 million. The major sources of cash inflows in fiscal year 2010 were $64.4 million from tuition and fees, $18.1 million from grants and contracts, $25.2 million from federal stimulus, $29.9 million in Pell grants, and $65.7 million from bonds. The primary outflows are $94.9 million for payments to or for employees and $32.7 million for payments to suppliers.

Capital Assets

At June 30, 2010, the College had $18.9 million in property, plant, and equipment, net of accumulated depreciation of $11.6 million. Depreciation charges were $2.5 million for the current year compared to $1.7 million in 2009, and $1.4 million in 2008. Details of these assets are shown in the table below:

Capital Assets, Net of Depreciation at Year-End (in thousands)

		2010	2009	2008
Construction in progress	$	1,889	7,598	—
Equipment		4,906	5,522	5,759
Buildings		1,284	1,019	841
Leasehold improvements		10,838	—	—
Total	$	18,917	14,139	6,600

Debt

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

At June 30, 2010, the College had $74.2 million in outstanding debt compared to $8.7 million at June 30, 2009, and $0 at June 30, 2008. The table below summarizes these amounts by type of debt:

Outstanding Debt at Year-End (in thousands)

		2010	2009	2008
Series 2009	$	55,190	—	—
Series 2010		10,530	—	—
Capital lease		8,455	8,736	—
Total	$	74,175	8,736	—

Economic Outlook and Metropolitan State College of Denver's Future

Metro State retained its enterprise status during fiscal year 2010 by receiving less than 10% in state funding. The COF stipends were set by the General Assembly in fiscal year 2010 at $68 per eligible credit hour, per resident undergraduate student; however, this stipend amount was ultimately reduced to $44 per eligible credit hour. The decrease in stipends resulted in a $12.4 million reduction of funding, which required the College to continue their cost saving measures. This loss occurred in conjunction with a decrease of $5.3 million in fee for service revenue but was offset by an increase of $15.2 million of federal stimulus funds. Metro State is budgeted to receive $4.9 million more in fee for service revenue in fiscal year 2011 than it received in fiscal year 2010 for a total of $6.2 million, but federal stimulus funds are only budgeted to be $4.3 million in fiscal year 2011. The COF stipends are set at $62 per credit hour for fiscal year 2011, which is currently appropriated at $33.2 million.

Metro State received accreditation on its first three Masters programs: Masters of Art in Teaching, Masters of Social Work, and Masters of Professional Accountancy. The College has accepted and enrolled its first graduate students in the fall of 2010 in the Teaching and Accounting programs. Social Work is scheduled to begin admitting students for enrollment in the fall 2011 semester.

The Science building addition has been completed and renovations to the existing building are scheduled to be completed by December 2010. Metro State's remaining financial responsibility of $8.5 million will be repaid by November 2027 as lease payments are made to the Auraria Higher Education Center.

Metro State has also made advancements towards creating the Hospitality Learning Center (HLC). On August 17, 2010, the College's Board of Trustees approved the creation of the Metro State Roadrunner Recovery and Reinvestment Act Finance Authority, which will be responsible for issuing the bonds, which will fund the HLC. They also approved the incorporation of a special-purpose nonprofit corporation to be known as "HLC@Metro, Inc." The special-purpose corporation was the most advantageous way to structure Metro State's relationship with the HLC by obtaining the lowest possible cost of financing, reducing the College's potential exposure for the debt obligations associated with the projects, and maintaining the greatest level of control of the project. The HLC is intended to enhance the academic program abilities of the Hospitality, Tourism, and Events department.

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, P.O. Box 173362, Denver, CO 80217.

METROPOLITAN STATE COLLEGE OF DENVER

Business-Type Activity

Statements of Net Assets

June 30, 2010 and 2009

Assets		**2010**	**2009**
Current assets:			
Cash and cash equivalents	$	51,471,960	36,319,946
Accounts receivable, student (net of allowance for doubtful accounts of $1,703,422 and $1,711,303, respectively)		7,138,102	5,468,105
Accounts receivable, other		1,401,909	2,860,212
Loans receivable		941,594	1,152,556
Prepaid expenses		778,387	158,938
Total current assets		61,731,952	45,959,757
Noncurrent assets:			
Restricted cash		63,759,284	—
Investments		190,634	190,634
Loans receivable (net of allowance for doubtful accounts of $701,013 and $867,784, respectively)		8,263,166	7,878,105
Deferred debt issuance costs (net of amortization of $25,817 and $0, respectively)		754,802	—
Construction in progress		1,888,689	7,597,452
Depreciable capital assets, net:			
Equipment		4,905,740	5,522,203
Buildings		1,284,239	1,019,477
Leasehold improvements		10,838,589	—
Total depreciable capital assets, net		17,028,568	6,541,680
Total noncurrent assets		91,885,143	22,207,871
Total assets	$	153,617,095	68,167,628
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	3,102,661	1,542,712
Accrued payroll		9,901,847	9,122,170
Deferred revenue		6,675,418	5,626,303
Compensated absences liability, current portion		247,912	218,966
Capital leases payable, current portion		296,790	281,169
Deposits held in custody and other current liabilities		3,613,346	3,860,262
Total current liabilities		23,837,974	20,651,582
Noncurrent liabilities:			
Compensated absences liability		2,491,179	2,421,948
Bonds payable		65,720,138	—
Capital leases payable		8,158,279	8,455,068
Total noncurrent liabilities		76,369,596	10,877,016
Total liabilities	$	100,207,570	31,528,598
Net assets:			
Invested in capital assets, net of related debt	$	9,380,936	6,864,383
Restricted for expendable purposes		9,344,141	9,246,474
Unrestricted		34,684,448	20,528,173
Total net assets	$	53,409,525	36,639,030

See accompanying notes to basic financial statements.

**METROPOLITAN STATE COLLEGE
OF DENVER FOUNDATION, INC.**

Discretely Presented Component Unit

Consolidated Statements of Financial Position

June 30, 2010 and 2009

Assets		2010	2009
Cash and cash equivalents	$	3,510,354	4,352,225
Promises to give, net		183,593	238,535
Other receivable – College		97,338	—
Beneficial interest in charitable trusts administered by others		78,576	157,566
Investments restricted to endowments		3,648,242	3,213,447
Land and building, net		1,481,509	—
Other assets		38,950	63,950
Total assets	$	9,038,562	8,025,723
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	1,346	—
Accounts payable and other – College		286,101	267,710
Liabilities under charitable gift annuities		46,967	31,249
Total liabilities		334,414	298,959
Net assets:			
Unrestricted		869,732	841,546
Temporarily restricted		4,279,651	3,799,004
Permanently restricted		3,554,765	3,086,214
Total net assets		8,704,148	7,726,764
Total liabilities and net assets	$	9,038,562	8,025,723

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, 2010 and 2009

		2010	2009
Operating revenues:			
Student tuition and fees, net of scholarship allowances of $38,235,267 and $29,455,466, respectively	$	66,149,095	72,610,167
Fee for service		1,667,055	7,014,514
Sales and services of educational departments		1,255,141	604,723
Sales and services of auxiliary enterprises		3,145,684	2,730,455
Federal grants and contracts		7,006,040	7,397,975
State grants and contracts		10,966,665	11,335,847
Local grants and contracts		119,347	115,000
Private grants and contracts		8,566	91,016
Operating interest income		118,378	112,089
Other operating revenues		5,251,009	4,751,240
Total operating revenues		95,686,980	106,763,026
Operating expenses:			
Instruction		66,316,986	64,813,255
Public service		266,961	334,003
Academic support		9,687,612	9,672,244
Student services		13,315,210	14,217,870
Institutional support		14,714,941	15,371,446
Operation and maintenance of plant		5,347,053	7,413,046
Scholarships and fellowships		5,631,153	2,201,203
Auxiliary enterprises		20,350,782	18,499,616
Depreciation		2,523,165	1,745,247
Other operating expenses		32,963	366,460
Total operating expenses		138,186,826	134,634,390
Operating loss		(42,499,846)	(27,871,364)
Nonoperating revenues (expenses):			
State fiscal stabilization funds revenue		25,182,337	9,934,844
Pell grants		29,869,427	18,150,970
Intergovernmental revenue		847,386	—
Investment and interest income		3,678,334	1,611,309
Interest expense on capital asset-related debt		(2,333,991)	—
Loss on disposal of capital assets		(21,414)	(5,616)
Nonoperating gifts and donations		2,048,262	2,002,626
Net nonoperating revenues		59,270,341	31,694,133
Increase in net assets		16,770,495	3,822,769
Net assets, beginning of year		36,639,030	32,816,261
Net assets, end of year	$	53,409,525	36,639,030

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE
OF DENVER FOUNDATION, INC.

Discretely Presented Component Unit

Consolidated Statement of Activities

Year ended June 30, 2010

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support, revenue, and gains:				
Contributions	$ 68,164	1,925,740	226,680	2,220,584
In-kind contributions	964,831	162,084	—	1,126,915
College program fees	1,147	338,807	26,637	366,591
Total support	1,034,142	2,426,631	253,317	3,714,090
Net investment gain	54,294	286	406,223	460,803
Rent and other income – Center for Visual Arts (CVA)	46,814	—	—	46,814
Net assets released from restrictions	2,054,861	(2,054,861)	—	—
Other reclassifications of net assets	82,287	108,702	(190,989)	—
Total support, revenue, and gains	3,272,398	480,758	468,551	4,221,707
Expenses and losses:				
Support provided to the College	1,955,783	—	—	1,955,783
General and administrative costs	309,124	—	—	309,124
Donor development costs	915,815	—	—	915,815
Operating expenses for CVA	38,490	—	—	38,490
Total expenses	3,219,212	—	—	3,219,212
Loss on forfeited deposit	25,000	—	—	25,000
Uncollectible pledge loss	—	111	—	111
Total expenses and losses	3,244,212	111	—	3,244,323
Change in net assets	28,186	480,647	468,551	977,384
Net assets, beginning of year	841,546	3,799,004	3,086,214	7,726,764
Net assets, end of year	$ 869,732	4,279,651	3,554,765	8,704,148

See accompanying notes to basic financial statements.

METROPOLITAN STATE COLLEGE
OF DENVER FOUNDATION, INC.

Discretely Presented Component Unit

Consolidated 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
Loss on forfeited deposit	—	—	—	—
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

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received:		
Tuition and fees	$ 64,417,931	73,819,719
Student loans collected	909,113	942,700
Sales and services	4,426,915	3,375,031
Fee for service	1,667,055	7,014,514
Grants, contracts, and gifts	18,077,194	19,097,402
Other operating receipts	4,996,312	4,473,105
Cash payments:		
Scholarships disbursed	(5,631,153)	(2,201,203)
Student loans disbursed	(1,007,216)	(833,924)
Payments for employees	(94,873,915)	(91,428,645)
Payments to suppliers	(32,725,772)	(37,911,759)
Net cash used in operating activities	(39,743,536)	(23,653,060)
Cash flows from noncapital financing activities:		
State fiscal stabilization revenue	25,182,337	9,934,844
Gifts and donations	2,077,642	2,100,104
Pell grants	29,869,427	18,150,970
Agency (direct lending inflows)	98,253,319	87,003,782
Agency (direct lending outflows)	(98,818,135)	(87,304,994)
Other agency (inflows)	7,310,081	6,735,586
Other agency (outflows)	(6,519,056)	(6,452,167)
Net cash provided by noncapital financing activities	57,355,615	30,168,125
Cash flows from capital and related financing activities:		
Proceeds from bond sale	65,718,643	—
Interest subsidy	713,553	—
Insurance proceeds	14,763	—
Interest expense on capital asset-related debt	(2,789,889)	—
Acquisition and construction of capital assets	(5,873,394)	(1,764,961)
Principal paid on capital lease arrangements	(281,169)	(249,928)
Net cash provided by (used in) capital and related financing activities	57,502,507	(2,014,889)
Cash flows from investing activities:		
Investment and interest income	3,678,334	1,611,309
Interest income on loan funds	118,378	112,089
Net cash provided by investing activities	3,796,712	1,723,398
Net increase in cash and cash equivalents	78,911,298	6,223,574
Cash and cash equivalents, beginning of year	36,319,946	30,096,372
Cash and cash equivalents, end of year	$ 115,231,244	36,319,946

(Continued)

METROPOLITAN STATE COLLEGE OF DENVER

Business-Type Activity

Statements of Cash Flows

Years ended June 30, 2010 and 2009

		2010	2009
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(42,499,846)	(27,871,364)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation		2,523,165	1,745,247
Provision for bad debts		1,691,307	2,769,865
Interest income on loan funds		(118,378)	(112,089)
Expended for plant facilities		(36,446)	—
Decrease (increase) in assets:			
Receivables, student		(2,941,130)	(2,198,548)
Receivables, other		166,591	292,851
Loans receivable		(153,855)	184,629
Prepaids		(556,158)	6,605
Increase in liabilities:			
Accounts payable		251,016	328,413
Accrued payroll		1,052,869	617,094
Deferred revenues		779,677	377,000
Other liabilities		97,652	207,237
Net cash used in operating activities	$	(39,743,536)	(23,653,060)
Noncash operating and capital activities:			
Retirement of capital assets	$	1,583,658	1,043,683
Acquisitions under capital leases:			
Capital leases payable		—	8,986,165
Construction in progress		2,977,510	7,524,677
Accounts receivable, other		142,762	1,461,488
Write-off of uncollectible accounts receivable, student		1,714,923	2,763,920
Write-off of uncollectible loans receivable		151,037	185,508

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, 2010 and 2009. Effective July 1, 2002, Colorado Revised Statute (CRS) 23-54-102 established the Board of Trustees (Trustees) of the College 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 (the State) 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 (GAAP). 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. Thus, for financial reporting purposes, the College is included as part of the State's primary government.

In accordance with the Governmental Accounting Standards Board (GASB) Statement 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 15 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.

(Continued)

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, restricted cash, and certificates of deposit with financial institutions, pooled cash with the Colorado State Treasurer (the Treasurer), and all highly liquid investments with an original maturity of three months or less, except those deposits and investments representing endowments.

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

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

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

Capital Assets: Equipment, buildings, leasehold improvements, 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. 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. The College capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specific for the project. Total interest capitalized during the years ended June 30, 2010 and 2009 was $27,802 and $0, respectively.

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

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 3 to 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, and 3 to 20 years for leasehold improvements.

Deposits Held in Custody for Others: Deposits held for others include accounts payable to third parties (on behalf of others) and balances representing the net 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 a lease-purchase contract for the Science building on the Auraria Campus. A building owned by Auraria Higher Education Center (AHEC) is occupied by the College, the University of Colorado at Denver (UCD), and the Community College of Denver (CCD). The Science building has office space and technologically advanced student labs. Such contracts provide that any commitments beyond the current year are contingent upon funds being appropriated for such purposes.

Net 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* represents net resources derived from student tuition and fees, fee-for-service contracts, College Opportunity Fund (COF) stipends, Pell grants, state fiscal stabilization funds, 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, pell grants, gifts, investment income and interest expense.

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 expenses.

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.

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 (IRC) 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 year 2010 or 2009.

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 2009 amounts have been reclassified to conform to the 2010 financial statement presentation, including federal Pell grants in the amount of $18,150,970, which were reclassified from operating federal grants and contracts to nonoperating revenues for 2009.

(2) Cash and Cash Equivalents and Investments

At June 30, 2010, cash on hand and in banks consisted of the following:

		2010	2009
Cash on hand	$	43,656	39,155
Cash in checking and depository accounts at banks		2,965,214	2,283,659
Certificate of deposit		57,876	21,942
Total cash on hand and in banks	$	3,066,746	2,344,756

As of June 30, 2010, $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 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 daily cash balance for all participants in the pool. At June 30, 2010 and 2009, the College had $112,164,498 and $33,975,190, respectively, which represented approximately 1.9% of the total of $5,977.9 million and 0.6% of the total of $5,742.1 million, respectively, in deposits in the Treasurer's Pool

(Pool). The $112,164,498 on deposit as of June 30, 2010 includes $63,759,284 of restricted cash, which is the unspent proceeds of the Series 2009 and 2010 bonds (see note 6 for further information).

For financial reporting purposes, all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of the 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 gains for fiscal years 2010 and 2009 were $1,848,101 and $339,729, respectively. These unrealized gains and losses are included in cash and cash equivalents on the statements of net assets.

Custodial Credit Risk

Investments in the 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, 2010 and 2009, none of the investments in the Pool is subject to custodial credit risk.

Credit Quality Risk

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, 2010 and 2009, approximately 88.1% and 92.6%, respectively, of investments in the Pool are subject to credit quality risk reporting. Except for $25,573,200 and $46,976,250 in 2010 and 2009, respectively, of corporate bonds rated lower medium, and $14,533,750 and $38,237,320 in 2010 and 2009, respectively, of corporate bonds rated as speculative, and $14,218,750 and $0 in 2010 and 2009, respectively, of corporate bonds rated as very 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. As of June 30, 2010, the weighted average maturity (WAM) of investments in the Pool is 0.04 years for commercial paper (3.7% of the Pool), 0.01 years for money market funds (3.2% of the Pool), 1.3 years for U.S. government securities (73.8% of the Pool), 1.36 years for asset-backed securities (12.6% of the Pool), and 2.05 years for corporate bonds (6.7% of the Pool). As of June 30, 2009, the WAM of investments in the 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).

Foreign Currency Risk

The State does not allow foreign currency investments.

Additional information on investments of the Pool may be obtained in the State's comprehensive annual financial report for the year ended June 30, 2010.

Other Investments

GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, requires disclosure of credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk for any public entity's investments. 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, 2010 and 2009, the fair value of the College's investment was $190,634.

(3) Capital Assets

The following tables present changes in capital assets and accumulated depreciation for the years ended June 30, 2010 and 2009:

	Balance, June 30, 2009	Additions	CIP transfers	Retirements	Balance, June 30, 2010
Construction in progress	$ 7,597,452	2,458,267	(8,167,030)	—	1,888,689
Depreciable capital assets:					
Equipment	$ 14,542,588	1,111,485	—	(1,583,658)	14,070,415
Building	1,135,246	375,065	—	—	1,510,311
Leasehold improvements	—	4,906,087	8,167,030	—	13,073,117
Less accumulated depreciation:					
Equipment	(9,020,385)	(1,691,770)	—	1,547,480	(9,164,675)
Buildings	(115,769)	(110,303)	—	—	(226,072)
Leasehold improvements	—	(2,234,528)	—	—	(2,234,528)
Net depreciable capital assets	$ 6,541,680	2,356,036	8,167,030	(36,178)	17,028,568

	Balance, June 30, 2008	Additions	CIP transfers	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

(4) Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	June 30, 2009	Additions	Deletions	June 30, 2010	Amounts due within one year
Bonds payable	$ —	65,720,138	—	65,720,138	—
Capital lease payable	8,736,237	—	(281,168)	8,455,069	296,790
Compensated absences	2,640,914	98,177	—	2,739,091	247,912
Total noncurrent liabilities	$ 11,377,151	65,818,315	(281,168)	76,914,298	544,702

A summary of the changes in long-term liabilities for the year ended June 30, 2009 is as follows:

		June 30, 2008	Additions	Deletions	June 30, 2009	Amounts due within one year
Bonds payable	$	—	—	—	—	—
Capital lease payable		—	8,986,165	(249,928)	8,736,237	281,169
Compensated absences		2,374,118	266,796	—	2,640,914	218,966
Total noncurrent liabilities	$	2,374,118	9,252,961	(249,928)	11,377,151	500,135

(5) Lease Obligations

Operating Leases

The College leases building space under operating lease agreements with the AHEC and with private organizations. Total rental expense for the years ended June 30, 2010 and 2009 under these agreements was $2,030,477 and $1,186,442, respectively. As of June 30, 2010, minimum future rentals required by these agreements are as follows:

Fiscal year(s) ending:		
2011	$	1,373,322
2012		1,140,694
2013		715,364
2014		628,999
2015		359,380
2016 – 2020		1,798,693
2021 – 2025		1,797,659
2026 – 2030		1,018,751
Thereafter		29
Total	$	8,832,891

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 13.

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 years 2010 and 2009, the principal payments totaled $281,169 and $249,928, respectively, and interest expense equaled $453,742 and $304,426, respectively.

Of the original principal balance of $8,986,165 under the capital lease arrangement, $8,862,701 is accounted for in leasehold improvements, while $123,464 is still under construction and is recorded in construction in progress and accounts receivable, other as of June 30, 2010.

The following is a schedule of future minimum capital lease payments as of June 30, 2010:

	Principal	Interest	Total
Fiscal year(s) ending June 30:			
2011	$ 296,790	439,293	736,083
2012	310,179	424,119	734,298
2013	328,031	408,164	736,195
2014	343,651	391,372	735,023
2015	361,503	373,743	735,246
2016 – 2020	2,099,842	1,575,941	3,675,783
2021 – 2025	2,735,819	940,795	3,676,614
2026 – 2030	1,979,254	172,070	2,151,324
Total	$ 8,455,069	4,725,497	13,180,566

(6) Bond Obligations

Total outstanding bonds are summarized below:

Issue	Date issued	Amount issued	June 30 2010	June 30 2009
2009 Taxable Institutional Enterprise Revenue Bonds	11/17/09	$ 55,190,000	55,190,000	—
2010 Taxable Institutional Enterprise Revenue Bonds	6/11/10	10,575,000	10,575,000	—
Less discount on 2010 Bonds, net of amortization			(44,862)	—
Total			$ 65,720,138	—

(Continued)

Principal and interest requirements on all outstanding bonds are summarized as follows at June 30, 2010:

	Principal	Interest	Total
2011	$ —	3,595,824	3,595,824
2012	1,535,000	3,607,955	5,142,955
2013	1,550,000	3,574,139	5,124,139
2014	1,575,000	3,531,784	5,106,784
2015	1,600,000	3,480,886	5,080,886
2016 – 2020	8,520,000	16,376,268	24,896,268
2021 – 2025	9,740,000	14,086,579	23,826,579
2026 – 2030	11,385,000	11,027,719	22,412,719
2031 – 2035	13,435,000	7,228,229	20,663,229
2036 – 2040	15,890,000	2,690,520	18,580,520
2041	535,000	16,048	551,048
	65,765,000	$ 69,215,951	134,980,951
Unamortized discount, net	(44,862)		
	$ 65,720,138		

(a) Series 2009

On November 17, 2009, the College issued $55,190,000 of Series 2009 Taxable Institutional Enterprise Revenue Bonds (Recovery Zone Economic Development Bonds), bearing interest at 2.0% to 6.2%, for the purpose of financing the construction of the Student Success Building (SSB). The SSB is estimated to add 145,000 square feet of space for classrooms and faculty offices, specifically for Metro State students and professors. It will also provide students with a central location for student support services.

The bonds are due in semiannual installments with annual principal payments ranging from $1,295,000 to $2,875,000 through December 1, 2039. The interest payments on the bonds are eligible to receive a 45% subsidy from the federal government, which is expected to be $26,828,095 (unaudited) over the life of the bonds, of which $713,553 has been received as of June 30, 2010. These bonds are collateralized by future revenues Metro State has pledged. See note 7 for more information on pledged revenues.

The Series 2009 bonds were issued at par and have unamortized issuance costs of $599,110.

(b) Series 2010

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

The bonds are due in semiannual installments with annual principal payments ranging from $240,000 to $535,000 through December 1, 2040. The interest payments on the bonds are eligible to receive a 45% subsidy from the federal government, which is expected to be $5,032,636 (unaudited) over the life of the bonds. These bonds are collateralized by future revenues Metro State has pledged. See note 7 for more information on pledged revenues.

The Series 2010 bonds are shown net of unamortized discount of $44,862 and have unamortized issuance costs of $155,692.

(7) Pledged Revenue

The College has pledged future revenues, net of operation and maintenance expenses, to repay $65,765,000 in revenue bonds issued in fiscal year 2010. Pledged revenue includes 10% of resident and nonresident tuition, all revenues derived from the facilities construction fee, all revenues derived from indirect cost recoveries (overhead) payable to research contracts and grants performed within the College's facilities, all revenues derived from mandatory fees for the provision of student and faculty services at the College, all revenues, net of operation and maintenance expenses, for the provision of continuing education services at the College, interest income, and federal interest subsidy payments received in connection with the bonds.

Proceeds from the bonds provide financing for the construction of the SSB and various major remodeling projects. The total remaining principal and interest payments, net of the federal subsidy payments, are expected to be $103,833,733 payable through fiscal year 2041. Interest payments, net of the interest subsidy, for the current year were $872,120. The total revenue pledged for the current year was $19,362,132.

The following table shows information for the gross pledged revenue for 2010:

Tuition	$	8,452,175
Student and faculty fee		5,367,584
Facility fee		2,567,870
Interest income		1,795,545
Intergovernmental revenue		847,386
Indirect cost recovery		331,572
	$	19,362,132

(8) Compensated Absences

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public 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, 2010 and 2009 are $247,912 and $218,966, respectively.

The estimated costs of noncurrent compensated absences for which employees are vested for the years ended June 30, 2010 and 2009 are $2,491,179 and $2,421,948, respectively. Fiscal year 2010 operating expenses include an increase of $98,177 for the estimated compensated absence liability.

(9) Pension Plan Obligations

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

The ORP is a defined contribution pension plan with three investment managers, Fidelity Investments, TIAA-CREF, and AIG-VALIC, providing a range of investment accounts for participants. The 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, 2010, 2009, and 2008 were $3,653,250, $3,479,601, and $3,204,354, respectively. These contributions were equal to the required contributions for each year. All ORP contributions are immediately vested in the employee's account. Normal retirement for the ORP is age 65 with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and investment decisions made by participants for their individual accounts.

(a) PERA Plan Description

Most of the 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 case of death or disability. The plan is a cost sharing multiple employer plan administered by the 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, CO 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://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, excluding community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case, they may elect either PERA or their institution's optional plan.

PERA members electing the PERA defined contribution plan are allowed an irrevocable election between the second and fifth year of membership 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 rules in effect for those hired on or after January 1, 2007, as discussed below. The employer contribution to the defined contribution plan is the same amount as the contribution 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.

Most 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, the HAS is calculated based on original hire date as follows:

- Hired before January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to a 15% increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 15% increase.
- Hired on or after January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to an 8% increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 8% increase.

Prior to January 1, 2010, retiree benefits were 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 for Urban Wage Earners and Clerical Workers (CPI).

- Hired on or after January 1, 2007 – the lesser of 3% or the actual increase in the CPI, limited to a 10% reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

In the 2010 legislative session, the General Assembly set the current increase as the lesser of 2% or the average of the monthly CPI amounts for calendar year 2009. The 2009 CPI was negative resulting in a calendar year 2010 increase of 0%. The 2010 legislation moved the payment date of all increases to July. New rules governing the annual increase amount will be in effect beginning January 1, 2011.

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

(b) Funding Policy

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

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, 2009 to December 31, 2009, the State contributed 12.95% of the employee's salary. From January 1, 2010 through June 30, 2010, the State contributed 13.85%. During all of fiscal year 2010, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2009, the division of PERA in which the State participates was underfunded with an amortization period of 43 years.

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.

In the 2010 legislative session, the General Assembly extended both the AED and SAED. The AED will continue to increase at a rate of 0.4% of salary from calendar years 2013 through 2017. The SAED will continue to increase by one-half percentage point from calendar years 2014 through 2017. If the funding ratio reaches 103%, both the AED and the SAED will be reduced by one-half percentage point. Neither the AED nor the SAED may exceed 5%.

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 and/or the State-defined contribution plan for the fiscal years ended June 30, 2010, 2009, and 2008 were $4,859,119, $4,685,718, and $4,348,477, 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 IRC, the State of Colorado Department of Higher Education established the Colorado Student Employees Defined Contribution Plan. Student employees taking fewer than six hours each semester are required to participate. The plan requires a 7.5% contribution on the employee's part with no employer contribution. Total current year payroll covered by the plan for the College for fiscal years ended June 30, 2010 and 2009 was $1,394,554 and $1,172,449, respectively. Employee contributions for fiscal years ended June 30, 2010 and 2009 were 7.5% of covered payroll in the amount of $104,592 and $87,936, respectively.

(10) Other Retirement Plans

(a) Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established on January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. On July 1, 2009, administration of the State's defined contribution plan was transferred to PERA and participants of the State's plan became participants of the PERA defined contribution plan. Existing state plan members at the time of the transfer became participants in the PERA defined contribution plan and retained their vesting schedule for employer contributions, while employer contributions for new members will vest from 50% to 100% evenly over five years. Participants in the plan are required to contribute 8% of their salary. At December 31, 2009, the plan had 3,039 participants.

(b) Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan, which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions were transferred to PERA, and all costs of administration and funding are borne by the plan participants. In calendar year 2009, participants were allowed to make contributions of up to 100% of their annual gross salary (reduced by their 8% PERA contribution) to a maximum of $16,500. Participants who are age 50 and older may contribute an additional $5,500 for total contributions of $22,000 in 2009. At December 31, 2009, the plan had 18,007 participants.

PERA also offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. Certain agencies and institutions of the State offer 403(b) or 401(a) plans.

(11) Postretirement Healthcare and Life Insurance Benefits

(a) Healthcare Program

The PERA Health Care Program (the 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, CO 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

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

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in note 9b. 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 $369,873, $382,355, and $382,366 as required by statute in fiscal years 2010, 2009, and 2008, 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. In addition, two of PERA's insurance carriers offered high deductible healthcare plans in 2009. As of December 31, 2009, there were 46,985 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2009, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.50 billion, a funded ratio of 14.8%, and a 53-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, 2010, there were 29 participants in postretirement coverage from the eight-member higher education institutions. For fiscal year 2010, the College has six retired faculty and administrative participants choosing CHEIBA. Retirees pay the entire premium, which is approximately 130% of the premiums charged to active employees.

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

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

(12) 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 cannot be determined at this time, management does not believe the ultimate resolution of these matters will have a significant adverse effect on the financial statements of the College.

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

In fiscal year 2010, the College and the Foundation agreed that the College would pay up to $100,000 on behalf of the Foundation for costs associated with the HLC. (See note 17 for more information about the HLC.) According to the agreement, the College will be reimbursed for those expenses from bond proceeds that were issued in October 2010.

(13) Campus Shared Controlled Costs

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

		Year ended June 30	
		2010	2009
Administration of Auraria Higher Education Center and operation and maintenance of plant	$	7,576,507	8,209,700
Library and Media Center		3,594,386	3,787,417
Total	$	11,170,893	11,997,117

The College's existing and future commitments to AHEC are established within the Senate Bill 10-1301. The College's ability to fulfill existing and future commitments is contingent upon funds being appropriated for such purposes. For the year ending June 30, 2011, the College's portion of shared costs is estimated to be $11,362,000.

(14) Legislative Appropriations

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

Appropriated funds include the State 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.

		Year ended June 30	
		2010	2009
Total appropriation	$	120,966,915	104,111,292
Actual appropriated revenues	$	119,601,597	104,097,050
Actual appropriated expenditures and transfers		119,601,597	104,097,050
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, 2010 and 2009, appropriated expenses were within the authorized spending authority.

(Continued)

(15) 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 Statement 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 Statement 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.

(16) 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 years ended June 30, 2010 and 2009, the College leased office space to the Foundation for $8,794 and $11,100, respectively. During the years ended June 30, 2010 and 2009, the Foundation provided $1,993,287 and $1,692,183, 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 $0 and $35,224 paid to multiple vendors through the Foundation directly on behalf of the College, for the years ended June 30, 2010 and 2009, respectively.

The College provides employees on a reimbursement basis to the Foundation. For the years ended June 30, 2010 and 2009, these expenses were $201,355 and $230,131, respectively. In addition, the College donates development and certain personnel costs to the Foundation, which totaled $915,815 and $790,190 for the years ended June 30, 2010 and 2009, respectively.

At June 30, 2010 and 2009, the College had receivables of $286,101 and $266,423, respectively, due from the Foundation. As of June 30, 2010 and 2009, the College had payable balances of $97,338 and $0, respectively, due to the Foundation.

(17) Subsequent Events

On August 17, 2010, the College's Board of Trustees approved the incorporation of a special purpose corporation to be known as "HLC@Metro, Inc." (the Corporation). This entity is being created exclusively on behalf of, and for the benefit of, the College. All moneys realized by the Corporation shall be used exclusively for the acquisition, construction, and maintenance of a hotel, the hospitality learning center, conference center, and parking structure, including payment of such related obligations. The HLC is intended to enhance the academic program abilities of the College.

On September 1, 2010, the College's Board of Trustees formed a finance authority for the purpose of issuing bonds that will be necessary to defray the costs of the HLC project, fund a debt service reserve fund, fund capitalized interest, and pay the costs of issuance. The Metropolitan State College of Denver Roadrunner Recovery and Reinvestment Finance Authority (Finance Authority) issued approximately $54.5 million in bonds on October 28, 2010. Both the HLC@Metro, Inc. and the Finance Authority will be component units of the College. The College has guaranteed the bond issuance.

(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).

On October 30, 2009, the Foundation established 965 Santa Fe, LLC (the LLC), a Colorado limited liability company, whose sole member is the Foundation. The Foundation contributed $1,475,000 to the LLC, which was established for the purpose of purchasing and renting the Center for Visual Arts (CVA) facility to the College.

(b) Reporting Entity and Principles of Consolidation

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

(c) FASB Accounting Standards Codification

As of July 1, 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the ASC) became the sole source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The ASC superseded and replaced all the then-existing non-SEC accounting and reporting standards.

(d) Basis of Accounting

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

(e) 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.

(f) 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 discount rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

(Continued)

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, 2010 and 2009, the allowance was $10,000 and $10,000, respectively.

(g) Investments

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

(h) Land and Building

Land and building are recorded at cost, or if donated, such assets are capitalized at the estimated fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 15 to 30 years. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation is removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

(i) 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 year ended June 30, 2009, the Foundation recorded an impairment loss of $54,225 relating to certain contributed art objects held for investment. Management determined no further impairment exists at June 30, 2010.

(j) Unrestricted Net Assets

Unrestricted net assets are available for use in general operations.

(k) 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.

(Continued)

(l) ***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.

(m) ***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 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, 2010, 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).

As a result of this interpretation, the Foundation classifies the Spending Endowments separately from the Limited Endowments. Permanently restricted net assets comprise 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

(Continued)

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 3% to 5% of endowments annually. The distribution policy, expressed as a percentage of fair value of the endowments, was 4.5% during 2010 and 2009. The calculation is based on the lesser of the rolling three-year average value as determined each December 31 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.

(n) Revenue Recognition

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

(o) 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 ASC. 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.

(p) 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.

(q) 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.

(r) 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 consolidated 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.

(s) Financial Instruments and 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 creditworthy. At times, a significant portion of the funds exceeds Federal Deposit Insurance Corporation 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's 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.

(Continued)

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

(t) Fair Value Measurements

The Foundation follows the method of fair value measurement described in the *Fair Value Measurements and Disclosures* topic of the ASC to determine the fair values of all assets and liabilities required to be measured at fair value. Fair value is based on a 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. A hierarchy prioritizes the observable and unobservable inputs used to measure fair value into three broad levels, as described below:

- *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 cash value of life insurance.
- *Level 3* – Defined as unobservable inputs for which little or no market data exists, utilizing valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Foundation had no Level 3 financial instruments.

See note 5 to the consolidated financial statements for further information about the Foundation's financial assets and liabilities that are accounted for at fair value.

(u) Accounting for Uncertain Tax Positions

Effective July 1, 2009, the Foundation adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 interpreted FASB Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*, and replaced SFAS No. 5, *Accounting for Contingencies*, with respect to the accounting for all tax positions taken (or expected to be taken) on any income tax return. On July 1, 2009, the provisions of FIN 48 were incorporated into the *Income Taxes* topic of the ASC. Those provisions apply to all open tax periods in all tax jurisdictions in which the Foundation is required to file an income tax return. The Foundation determined that no cumulative effect adjustment was necessary upon adoption of FIN 48, and that no uncertain tax positions have been taken (or are expected to be taken) that could have a material effect on its income tax liabilities. The Foundation believes that it has conducted its operations in accordance with, and has properly maintained, its tax-exempt status. The Foundation's tax returns for 2007, 2008, and 2009 are subject to examination by the Internal Revenue Service.

(v) Reclassifications

Certain accounts in the 2009 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, 2010 and 2009.

(3) Promises to Give, Net

Promises to give consisted of the following at:

		June 30	
		2010	**2009**
Restricted for:			
Scholarships, academic and other departments, and other activities	$	176,548	241,936
Endowments		21,250	20,000
Discount to net present value		(4,205)	(13,401)
Allowance for uncollectible promises to give		(10,000)	(10,000)
	$	183,593	238,535
Amounts receivable in:			
Less than one year	$	114,878	109,388
One to five years		48,662	109,365
Over five years		20,053	19,782
	$	183,593	238,535

(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 CVA (note 10). During the year ended June 30, 2010, the condition was satisfied upon the LLC's purchase of a building for the CVA and the contribution is reflected in the consolidated statement of activities for the year ended June 30, 2010.

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 into hierarchy based on the observable and unobservable inputs used to measure fair value as of:

	June 30, 2010			
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, 2010**
Investments restricted to endowments:				
Money market funds [1]	$ 17,722	—	—	17,722
Fixed income funds [2]				
Bond fund	1,249,418	—	—	1,249,418
High-yield bond fund	367,046	—	—	367,046
Equity funds and equities [2]				
International equity funds	411,022	—	—	411,022
Real estate equity fund	166,176	—	—	166,176
Index equity fund	1,199,077	—	—	1,199,077
Small cap equity fund	226,280	—	—	226,280
Cash value of life insurance	—	11,501	—	11,501
	$ 3,636,741	11,501	—	3,648,242
Beneficial interest in charitable trusts administered by others [3]	$ —	78,576	—	78,576

Description		June 30, 2009 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]					
Bond fund		1,136,801	—	—	1,136,801
High-yield bond fund		306,300	—	—	306,300
Equity funds and equities [2]					
International equity funds		339,428	—	—	339,428
Real estate equity fund		108,215	—	—	108,215
Index equity fund		1,048,439	—	—	1,048,439
Small cap equity fund		186,239	—	—	186,239
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 and equity funds represent the redemption values at the close of business on June 30, 2010 and 2009, respectively.

(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 *Fair Value* topic of the ASC. See note 7.

(6) Investments Restricted to Endowments

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

	June 30	
	2010	**2009**
Money market mutual funds	$ 17,722	76,524
Fixed income mutual funds	1,616,464	1,443,101
Equity mutual funds and equities	2,002,555	1,682,321
Cash value of life insurance	11,501	11,501
	$ 3,648,242	3,213,447

Net investment gain (loss) is summarized as follows for the years ended:

	June 30	
	2010	**2009**
Interest and dividend income	$ 141,228	234,436
Net realized and unrealized gain (loss)	341,551	(762,740)
Less investment management fees	(21,976)	(19,201)
	$ 460,803	(547,505)

(7) 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	
	2010	**2009**
Gross value of beneficial interests	$ 140,907	212,877
Less unamortized discount	(62,331)	(55,311)
	$ 78,576	157,566

During the year ended June 30, 2010, the Foundation received a distribution of $90,962 upon termination of a trust.

(Continued)

(8) Land and Building

Land and building, each of which was acquired by the LLC during fiscal year 2010, comprise the following at:

		June 30, 2010
Land	$	456,400
Building and related costs		1,049,900
		1,506,300
Less unamortized discount		(24,791)
	$	1,481,509

Depreciation expense totaled $24,791 for the year ended June 30, 2010.

(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%.

(10) Leases

The Foundation formerly leased space in Denver for the CVA. The College formerly sublet this space from the Foundation under the same terms as the Foundation's lease agreement. During the year ended June 30, 2010, the LLC purchased a commercial building at 965 Santa Fe Drive to house the CVA. Effective March 1, 2010, the LLC and the College entered into a three-year noncancelable lease expiring February 28, 2013. The lease contains an option to extend for an additional three-year term.

Minimum future lease payments due to the LLC under the lease are as follows:

Year ending June 30:		
2011	$	100,000
2012		100,000
2013		66,667
	$	266,667

(11) Donated Materials and Services

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

	June 30	
	2010	**2009**
Materials	$ 89,714	81,131
Advertising	72,460	—
Professional services	48,926	—
Development office compensation – College	915,815	790,190
	$ 1,126,915	871,321

(12) Temporarily Restricted Net Assets

Temporarily restricted net assets comprise the following at:

	June 30	
	2010	**2009**
Scholarships	$ 1,169,576	1,156,152
Academic and other departments	1,887,303	1,349,226
Student, alumni, and other activities	1,222,772	1,214,636
Beneficial interests in charitable trusts administered by other (note 7)	—	78,990
	$ 4,279,651	3,799,004

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

	June 30	
	2010	**2009**
Scholarships	$ 936,629	855,439
Academic and other departments	619,089	637,889
Student, alumni, and other activities	499,143	402,826
	$ 2,054,861	1,896,154

(13) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at:

	June 30	
	2010	2009
Original contributions plus accumulated earnings (loss) of $483,019 and $(734,186) at June 30, 2010 and 2009, respectively	$ 3,501,906	3,018,887
Less liabilities under permanently restricted annuity trust assets	(46,967)	(31,249)
Promises to give and beneficial interests in charitable remainder trusts administered by others (note 7)	99,826	98,576
	$ 3,554,765	3,086,214

In accordance with its distribution policy, the Foundation recorded the following net asset reclassifications during the years ended June 30, 2010 and 2009:

	June 30, 2010		
	Unrestricted	Temporarily restricted	Permanently restricted
Investment net returns available for scholarships	$ —	108,702	(108,702)
2% administrative fee on endowment fund	66,568	—	(66,568)
Other	15,719	—	(15,719)
	$ 82,287	108,702	(190,989)

	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)

(14) Related-Party Transactions

The Foundation leases office space from the College with automatic one-year renewal at the beginning of each fiscal year. Rent expense under the lease agreement approximated $8,800 and $11,000 for the years ended June 30, 2010 and 2009, respectively.

Funding provided by the Foundation directly to the College for scholarships, academic and other departments, and other activities totaled $1,988,339 and $1,692,183 for the years ended June 30, 2010 and 2009, respectively. In addition, the Foundation owed the College $252,335 and $262,492 at June 30, 2010 and 2009, respectively, for June funding.

The Foundation paid the College $197,900 and $230,131 for salaries and benefits of certain College personnel provided to the Foundation during the years ended June 30, 2010 and 2009, 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 $915,815 and $790,190 for the years ended June 30, 2010 and 2009, 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. There were no such transactions during fiscal year 2010. During the year ended June 30, 2009, $2,103 was paid to a placement agency owned by a director for contract employment services.

The College leases space for the CVA from the LLC (note 10). Amounts due to the College for overpayment of renovations costs are $33,766 at June 30, 2010. Amounts due from the College for expense reimbursements equal $97,338 at June 30, 2010.

(15) Subsequent Events

The Foundation has evaluated subsequent events through September 9, 2010, which is the date the financial statements were available to be issued.

KPMG LLP
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Denver, CO 80202-3499

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 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, 2010, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 10, 2010. Our report was modified to include a reference to 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. The financial statements of the discretely presented component unit were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described in the Findings and Recommendations section of this report as Recommendations No. 1 and No. 2. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

We noted certain matters that we reported to management of the College in the Findings and Recommendations section of this report.

The College's responses to the findings identified in our audit 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

December 10, 2010

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202-3499

December 10, 2010

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the business-type activities and discretely presented component unit of the Metropolitan State College of Denver (the College), a component unit of the State of Colorado, as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated December 10, 2010. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's basic financial statements. 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 perform 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 and the Board of Trustees 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 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 on the effectiveness of the College's internal control. However, during the course of our audit, we identified certain deficiencies in internal control that we consider to be significant deficiencies. Our required communications to you in writing, under professional standards, of all significant deficiencies in internal control identified during our audit were provided in the Findings and Recommendations section of this report.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Board of Trustees in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

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.

Accounting Practices and Alternative Treatments

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 (GASB) *Implementation Guide*, issued in 2008, 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. The State Controller's Office issued guidance for fiscal year 2010 to higher education institutions indicating that Pell grants should be reported as nonoperating revenue. Previously, state institutions of higher education reported Pell grants as operating revenue based on their historical accounting policy and definition of operating revenue and the prevalent practice across the county, and the fact that GASB's *Implementation Guide* and industry practice are both level D in the U.S. generally accepted accounting principles hierarchy. In fiscal year 2010, the College reclassified Pell revenue for fiscal year 2009 from operating to nonoperating revenue. In addition, the College reclassified the amounts on the cash flow statement from operating receipts to receipts from noncapital financing activities.

Unusual Transactions

We noted no unusual transactions entered into by the College, which were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance.

Qualitative Aspects of Accounting Practices

We have discussed with the Board of Trustees and management our judgments about the quality, not just the acceptability, of the College's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the College's accounting policies and their application, and the understandability and completeness of the College's basic financial statements, which include related disclosures.

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 reporting period. Accounting estimates are an integral part of the basic financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

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, 2010. We have reported such misstatements to management on a Summary of Unadjusted Audit 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 74 includes a copy of the summary that has been provided to, and discussed with, management.

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 not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2010.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management prior to Retention

We generally discuss a variety of matters with the Board of Trustees and management prior to retention as the College's auditors. During 2010, we presented management with our formal audit plan and we discussed the reporting of and reclassification of Pell grant activity as nonoperating revenue. 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. Internal control deficiencies letter (findings and recommendations included in the accompanying 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 Athletics Department Statement of Revenues and Expenses (Statement) and supporting detail schedules prepared in accordance with National Collegiate Athletic Association regulations. During our audit, our draft reports to the Office of the State Auditor were delayed by the untimely receipt of the draft Statement and supporting detail schedules 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 relationships between our firm and the College and persons in a financial reporting oversight role at 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 December 10, 2010, we are independent accountants with respect to the College under all relevant professional and regulatory standards.

* * * * * * *

This letter to the Legislative Audit Committee is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the College's Board of Trustees, 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, 2010

			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	$	146	—	146	146	—	—
	Accounts payable		—	—	—	—	—	146
	To record the known and most likely understatement of period-end accruals							
2	Operating expense	$	1,922	—	1,922	1,922	—	—
	Net assets		—	—	—	(1,922)	—	—
	To record leasehold improvements in the proper period							

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Report Control Number 2086-10