

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT**

Years Ended June 30, 2018 and 2017

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**METROPOLITAN STATE UNIVERSITY OF DENVER
REPORT SUMMARY
YEARS ENDED JUNE 30, 2018 AND 2017**

Purpose and Scope

The Office of the State Auditor of the State of Colorado engaged CliftonLarsonAllen LLP (CLA) to conduct a financial and compliance audit of the Metropolitan State University of Denver (formerly, the Metropolitan State College of Denver) (the University) for the year ended June 30, 2018. CLA 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 June 2018 to October 2018.

The purpose and scope of our audit were to:

- Express an opinion on the financial statements of the University as of and for the years ended June 30, 2018 and 2017. This includes a report on internal control over financial reporting and compliance and other matters based on the audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.

The University's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in the June 30, 2018 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Reports

We expressed an unmodified opinion on the University's financial statements as of and for the years ended June 30, 2018 and 2017.

One audit difference, as seen on page 96, was deemed not material by management. As such, management passed on making an adjustment.

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

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

Summary of Findings

Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate "classified or limited use" report. This is due to the potential damage that could be caused by the misuse of that information. We consider the specific technical details of this finding to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of this summarized finding have been provided to Metro State University of Denver. The University has 3 finding that are considered sensitive in nature, as noted below:

**METROPOLITAN STATE UNIVERSITY OF DENVER
REPORT SUMMARY
YEARS ENDED JUNE 30, 2018 AND 2017**

Information Technology General Controls – Change Management

We found weaknesses in the internal controls over change management. The causes for these weaknesses included the University does not have a formalized change management policy and personnel turnover impacted the change management process.

Information Technology General Controls – Computer Operations

We requested certain computer operations related documentation for operations performed during the fiscal year and found weaknesses in such documentation and computer operations. The causes for such weaknesses included University staffing turnover in key IT roles and staff did not prioritize the computer operation weaknesses given other IT priorities.

Information Technology General Controls – Access Management

We reviewed the University's policy related to access management. We identified problems with the University's account management procedures. University staff reported that the key element of management oversight to enforce the account management procedures was not consistently applied.

Recommendations and the University's Responses

A summary of the recommendations for the above findings is included in the Recommendation Locator on page 3. The Recommendation Locator also shows the University's responses to the audit recommendations. A discussion of the audit comments and recommendations is contained in the findings and recommendations section of our report.

Significant Audit Adjustments

None were noted.

Summary of Progress in Implementing Prior Year Audit Recommendations

There were no findings and recommendations for the year ended June 30, 2017.

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
RECOMMENDATION LOCATOR
YEARS ENDED JUNE 30, 2018 AND 2017**

Recommendation No.	Page No.	Recommendation Summary	University Response	Implementation Date
1	5	The University should improve change management information technology controls	Agree	June 30, 2019
2	6	The University should improve information technology general controls over disaster recovery plan.	Agree	May 1, 2020
3	7	The University should improve access management controls.	Agree	May 1, 2019

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
DESCRIPTION OF THE METROPOLITAN STATE UNIVERSITY OF DENVER (UNAUDITED)
YEARS ENDED JUNE 30, 2018 AND 2017**

Organization

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

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

The University offers 87 major fields of study and 97 minors, 33 certificates, and 32 licensure programs through its College of Business; School of Education; School of Hospitality, Events, and Tourism; College of Letters, Arts and Sciences; and College of Professional Studies. Degrees include Bachelor of Science, Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Music, Bachelor of Music Education, and five Masters. Academic bachelor programs range from the traditional, such as English, art, history, biology, and psychology, to business related degrees in computer information systems, accounting and marketing, and professional directed programs in nursing, healthcare management, criminal justice, premedicine, prelaw, and preveterinary science. Master programs include art in teaching, social work, professional accountancy, health administration, and business administration.

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

Fiscal Year	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
2018	14,733	519	15,252
2017	14,771	528	15,299
2016	14,892	529	15,421

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

Fiscal Year	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
2018	853	517	1,370
2017	843	502	1,345
2016	839	487	1,325

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
AUDITORS' FINDINGS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2018 AND 2017**

Information Technology General Controls – *Change Management*

Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report. This is due to the potential damage that could be caused by the misuse of that information. We consider the specific technical details of this finding to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding have been provided to Metro State University of Denver and/or the Governor’s Office of Information Technology (OIT), where appropriate, in a separate, confidential memorandum.

What was the purpose of our audit work and what work was performed?

The purpose of our audit work was to determine whether the University had sufficient internal controls in place related to change management.

We reviewed the University’s policies related to change management and selected a sample of changes throughout the fiscal year.

How were the results of the audit work measured?

We measured the results of the audit work against ISACA's Control Objectives for Information and related Technology (COBIT) 5.0 framework.

Additionally, we measured the results of the audit work against MSU change management procedures.

What problem did the audit work identify?

We found weaknesses in the internal controls over change management.

Why did this problem occur?

We found the following causes for the issues with change management:

- The University does not have a formalized change management policy.
- Personnel turnover impacted the change management process.

Why does this problem matter?

The lack of improper change management controls in place increases the risk that unauthorized program changes could be made. This exposes the University to potential application errors, security issues, embezzlement, or manipulation of data within the Banner application and data used for reporting financial statements of the University.

Recommendation No. 1

- a) The University should develop policies to strengthen its internal control over change management.
- b) The University should communicate policies and procedures to all applicable employees to ensure processes are followed in the event of staff turnover.

Classification: Significant deficiency

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED JUNE 30, 2017 AND 2016**

Management's Response:

Agree. We will develop the recommended policies and create new procedures adhering to these policies. In addition, these policies and procedures will be communicated to all applicable employees to ensure these are followed in the event of staff turnover. These procedures will be implemented by June 30, 2019.

Information Technology General Controls – Computer Operations

Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report. This is due to the potential damage that could be caused by the misuse of that information. We consider the specific technical details of this finding to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding have been provided to Metro State University of Denver and/or the Governor's Office of Information Technology (OIT), where appropriate, in a separate, confidential memorandum.

What was the purpose of our audit work and what work was performed?

The purpose of the audit work was to determine whether the design and operating effectiveness of general information technology controls relating to certain computer operations were effective. As part of the audit work, we requested certain computer operations related documentation for operations performed during the fiscal year.

How were the results of the audit work measured?

We measured the results of the audit work against ISACA's Control Objectives for Information and related Technology (COBIT) 5.0 framework.

What problem did the audit work identify?

We found weaknesses in certain internal controls over computer operations.

Why did this problem occur?

According to University staff, the following causes for the problems found were:

- University staffing turnover in key IT roles.
- University staff did not prioritize the computer operations weakness given other IT priorities.

Why does this problem matter?

Computer operation controls are key to ensure information technology is processed accurately and completely.

Recommendation No. 2

The University should improve internal controls over computer operations by ensuring it has the necessary staff to:

- a) Prioritize the mitigation of the specific problem noted in the confidential finding part A.
- b) Mitigate the specific problem noted in the confidential finding part B.

Classification: Significant deficiency

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED JUNE 30, 2017 AND 2016**

Management's Response:

Agree, implementation by June 30, 2019 and May 1, 2020 respectively.

Information Technology General Controls – Access Management

Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate "classified or limited use" report. This is due to the potential damage that could be caused by the misuse of that information. We consider the specific technical details of this finding to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding have been provided to Metro State University of Denver and/or the Governor's Office of Information Technology (OIT), where appropriate, in a separate, confidential memorandum.

What was the purpose of our audit work and what work was performed?

The purpose of the audit work was to determine the operating effectiveness of general information technology controls relating to account management. We reviewed the University's policy related to account management.

How were the results of the audit work measured?

We measured the results of the audit work against MSU's account management policy.

What problem did the audit work identify?

We identified problems with the University's account management procedures.

Why did this problem occur?

University staff reported that the key element of management oversight to enforce the account management policy was not consistently applied.

Why does this problem matter?

Without strong account management controls in place there is an increased risk to that data reliability of information within the Banner application, which could impact the financial reporting process.

Recommendation No. 3

The University should ensure that appropriate management oversight is in place to enforce consistent application of the account management policy to mitigate the specific information security problem noted in the confidential finding.

Classification: Significant Deficiency

Management's Response:

Agree. Management's response has been communicated in the detailed confidential finding and implementation of this recommendation will be by May 1, 2019.

**METROPOLITAN STATE UNIVERSITY OF DENVER
FINANCIAL AND COMPLIANCE AUDIT
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2018 AND 2017**

There were no prior year recommendations and dispositions.



CliftonLarsonAllen

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver (the University), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements, and related notes to the financial statements shown herein, of the Metropolitan State University of Denver Foundation, Inc. (the Foundation), a discretely presented component unit, discussed in note 1 to the financial statements, which represents 34% and 31% of total assets, 44% and 39% of total revenues, and 105% and 104% of net position of the aggregate discretely presented component units as of and for the years ended June 30, 2018 and 2017, respectively. Those financial statements, and related notes to the financial statements, were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the 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 from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audits and the report of the 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 aggregate discretely presented component units of Metropolitan State University of Denver as of June 30, 2018 and 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the University, an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Colorado that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Implementation of GASB Statement No. 75

During fiscal year ended June 30, 2018, the University adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. As a result of the implementation of these standards, the University reported a restatement for the change in accounting principle (see Note 19). As of July 1, 2017, the System's net position was restated to reflect the impact of this adoption. Fiscal year 2017 was not restated for this change in accounting principle due to the fact that information was not available to the University to restate net position as of July 1, 2016. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12-23 the schedule of University's Proportionate Share of PERA Pension Liability and the schedule of University's Contributions to PERA Pension on page 88, and the schedule of University's Proportionate Share of PERA OPEB Liability and the schedule of the University's Contributions to PERA OPEB on page 89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

The description of the Metropolitan State University of Denver on page 4 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Denver, Colorado
December 13, 2018

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

This section of Metropolitan State University of Denver's (MSU Denver, or the University) financial report presents management's discussion and analysis of the financial performance of MSU Denver during the years ended June 30, 2018 and 2017. This discussion focuses on current activities and known facts and provides an overview of MSU Denver's financial activities in comparison with the prior year. It should, therefore, be read in conjunction with the accompanying comparative financial statements and notes.

Understanding the Comparative Financial Report

The financial statements adhere to Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. In fiscal year 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires the University to record a liability equal to its proportionate share of the unfunded liability associated with PERA Care. PERA Care is a health benefits program for retirees managed by the Public Employees Retirement Association (PERA).

This annual report consists of a series of financial statements in compliance with the standards noted above: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. The statements are prepared under the accrual basis of accounting. Hence, revenues and assets are recognized when services are provided, and expenses and liabilities are recognized when others provide the goods or services, without regard to the actual date of collection or payment.

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

Financial Highlights

MSU Denver's financial position, as a whole, decreased approximately \$69.6 million during the year ended June 30, 2018. However, \$62.7M of the reported decrease is caused by changes in the Public Employee's Retirement Association's (PERA) unfunded pension liability as well the unfunded liability related to other post-employment benefits (OPEB) for PERA Care. There was also a one-time accounting entry to re-class the federal capital contribution (FCC) portion of the University's Perkins loans contributing to a portion of the overall decrease. As required by GASB Statement No. 68 (GASB 68) and GASB Statement No. 75 (GASB 75) the University is obligated to report its portion of the unfunded liability of its pension plans and other post-employment benefits. Furthermore, when the Perkins program ended in fiscal year 2018 the University was no longer allowed to issue new loans, the existing FCC portion had to be moved from Restricted for Expendable Purposes Net Position to a liability. If the results of GASB 68, 75 and the one-time Perkins accounting entry were removed a better reflection of MSU Denver's operations would result and the University's net position would show an increase of \$458 thousand. In fiscal year 2017 the combined net position decreased \$38.6 million over the previous year including GASB 68, and if GASB 68 was excluded there was a \$5.6 million increase. The effects on the University's Net position from GASB 68, 75 and Perkins are shown in the table below:

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

	Fiscal Year 2018	Fiscal Year 2017
Net Position (GAAP)	\$ (156,817,808)	\$ (87,233,132)
Add Back: GASB 68- Pension	248,824,061	192,708,560
Add Back: GASB 75- OPEB	6,587,578	-
<hr/> Net Position excluding Pension and OPEB	<hr/> 98,593,831	<hr/> 105,475,428
Add Back: Perkins Reclass	7,339,440	-
<hr/> Net Position excluding Pension and OPEB and Perkins Reclass	<hr/> 105,933,271	<hr/> 105,475,428

- In fiscal year 2018, the level of funding for MSU Denver's College Opportunity Fund (COF) stipends was set by the General Assembly at \$77 per eligible credit hour, which is \$2.00 higher than the fiscal year 2017 rate of \$75 per eligible credit hour.
- MSU Denver's June 30, 2018 current assets of \$81.3 million were sufficient to cover current liabilities of \$23.5 million. The current ratio of 3.47 (current assets/current liabilities) reflects the liquidity of MSU Denver's assets and the availability of funds for current operations. As of June 30, 2017 MSU Denver had \$95.7 million in current assets and \$41.3 million in current liabilities, resulting in a current ratio of 2.32.
- The University had outstanding bonds payable of \$86.0 million and \$88.8 million in fiscal year 2018 and 2017 respectively.
- MSU Denver's headcount had decreases in its undergraduate students of 2.5%, 1.4%, and 1.1% in the summer 2017, fall 2017, and spring 2018 terms, respectively, over the previous year's terms. Graduate level headcount experienced increases of 20.1%, 19.0%, and 16.9% in the summer 2017, fall 2017 terms and spring 2018 terms, respectively, over the previous year's term.

Statements of Net Position

The statements of net position report on assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position as of June 30, 2018 and 2017. Over time, increases or decreases in net position are one indicator of MSU Denver's financial health when considered in conjunction with non-financial facts such as student enrollment.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

Condensed Statements of Net Position

	June 30		
	2018	2017	2016
		(In thousands)*	
Assets:			
Current assets	\$ 81,338	95,717	93,634
Noncurrent assets	140,175	146,151	138,737
Total assets	<u>\$ 221,513</u>	<u>241,868</u>	<u>232,371</u>
Deferred Outflows	<u>60,451</u>	<u>85,700</u>	<u>18,278</u>
Total Assets and Deferred Outflows	<u><u>281,964</u></u>	<u><u>327,568</u></u>	<u><u>250,649</u></u>
Liabilities:			
Current liabilities	\$ 23,474	41,048	34,234
Noncurrent liabilities	401,998	369,481	258,457
Total liabilities	<u>\$ 425,472</u>	<u>410,529</u>	<u>292,691</u>
Deferred Inflows	<u>13,309</u>	<u>4,272</u>	<u>6,579</u>
Total Liabilities and Deferred Inflows	<u><u>438,781</u></u>	<u><u>414,801</u></u>	<u><u>299,270</u></u>
Net position:			
Net Investment in Capital Assets	\$ 40,026	36,374	32,174
Restricted for expendable purposes	1,229	9,450	9,482
Unrestricted	<u>(198,072)</u>	<u>(133,057)</u>	<u>(90,277)</u>
Total net position	<u><u>\$ (156,817)</u></u>	<u><u>(87,233)</u></u>	<u><u>(48,621)</u></u>

* Amounts could differ slightly from the Statement of Net Position due to rounding.

At June 30, 2018 and 2017, MSU Denver's total assets and deferred outflows were \$282.0 million and \$327.6 million, respectively, which is a decrease of \$45.6 million and \$76.9 million, respectively, when compared to the prior years.

At June 30, 2018 and 2017, MSU Denver's total liabilities and deferred inflows were \$438.8 million and \$414.8 million, respectively, which is an increase of \$24.0 million and \$115.5 million, respectively, when compared to the prior years.

A \$14.6 million decrease in cash, a \$10.7 million decrease in restricted cash, a \$25.2 million reduction in deferred outflows and a \$5.3 million increase in capital assets were the primary reasons for the \$45.6 million decrease in total assets and deferred outflows in fiscal year 2018, which is discussed in greater detail below.

Cash and cash equivalents decreased \$14.6 million; \$11.5 million of this decrease was a result of a timing difference in the June 30th payroll. Beginning in fiscal year 2018 higher education institutions were notified by the Office of the State Controller within the Department of Personnel and Administration that they were officially exempted from Senate Bill 03-197 which previously required all state employees' June 30th payroll to be paid on the first business day of July. The June 30th payroll is now paid on the last business day of June. There was also a \$4.8 million reduction in cash for work that was done on the fourth floor of the Aerospace Engineering and Sciences (AES) building. Restricted cash decreased \$10.7 million due to payments made for work done on the first through third floors of the AES building. Construction in progress decreased \$43.2 million primarily due to the completion of the \$49 million AES building. Deferred outflows decreased \$25.2 million because of changes in assumptions used to calculate the PERA pension liability.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

The \$24.0 million increase in total liabilities and deferred inflows is the result of many off-setting factors. There was a \$21.8 million increase in the net pension liability, as well as a \$6.7 million increase in the net OPEB liability as a result of implementing GASB 75. Additionally, there was a \$9.0 million increase in the deferred inflows related to the pension and OPEB entries. Furthermore, a \$7.7 million liability was recorded as a result of the Perkins loan program termination. In fiscal year 2018 all higher education institutions were no longer allowed to issue new Perkins loans and any federal capital contributions (FCC) that were previously received and recorded as Restricted for Expendable Purposes Net Position had to be reclassified as a liability. As cash is collected on the existing loans the FCC portion will be remitted back to the Federal government and the liability will be reduced. These increases total \$45.4 million and are off-set with the following reductions. There was a \$7.5 million reduction in accounts payable, \$6.1 million of which was related to AES payments, while the remaining difference is due to timing differences in payments to AHEC. There was a \$9.0 million decrease in accrued payroll and a \$1.8 million decrease in deposits held in custody for others which is primarily due to the change in the June pay date discussed above.

In fiscal year 2017 an \$18.0 million decrease in restricted cash, a \$30.7 million increase in construction in progress, and a \$67.4 million increase in deferred outflows were the primary reasons for the \$76.9 million increase in total assets and deferred outflows, which is discussed in greater detail below.

Restricted cash decreased \$18.0 million due to payments made for work done on the Aerospace Engineering and Sciences (AES) building. Construction in progress increased \$30.7 million primarily due to construction on the AES building which was funded with bonds as well as state capital construction funds. Deferred outflows increased \$67.4 million primarily because of a change in assumptions used to calculate the PERA pension liability. When certain conditions exist PERA is required to blend their assumed investment rate with the municipal bond index rate to get the discount rate. This was true in fiscal year 2017, which resulted in a discount rate of 5.26%; however, in fiscal year 2016 they were able to simply use their assumed investment rate of 7.5%.

The change in assumptions noted above, as well as PERA retirees living longer and a reduced long term return expectation all contributed to the \$113.9 million increase in the net pension liability. An additional \$6.1 million increase of the total \$115.5 million increase in liabilities and deferred inflows is primarily due to payables for the AES construction project. There was an offsetting \$2.8 million decrease in bonds payable due to timely principal payments of the outstanding bonds.

Of the total (\$156.8) million in net position in fiscal year 2018, \$40.0 million is net investment in capital assets, \$1.2 million is restricted for expendable purposes for student loans, and (\$198.1) million is unrestricted. Of the total (\$87.2) million in net position in fiscal year 2017, \$36.4 million is net investment in capital assets, \$9.4 million is restricted for expendable purposes for student loans, and (\$133.1) million is unrestricted.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present the results of operations during fiscal years 2018 and 2017. Activities are reported as either operating or nonoperating. Operating revenues and expenses generally result from providing services for instruction, public service, student services, and academic and institutional support to/from an individual or entity separate from MSU Denver. Nonoperating revenues and expenses are those other than operating and include but are not limited to investment and interest income, private grants and gifts, rental income, and Pell grants.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

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

	<u>2018</u>	<u>June 30</u> <u>2017</u>	<u>2016</u>
		(In thousands)*	
Operating revenues:			
Tuition and fees, net	\$ 111,182	\$ 105,613	\$ 96,646
Fee for service	19,660	20,565	19,046
Sales and services	5,934	5,440	3,654
Grants and contracts	27,166	26,923	26,844
Other operating revenues	4,504	4,639	5,706
Total operating revenues	<u>168,446</u>	<u>163,180</u>	<u>151,896</u>
Operating expenses	<u>261,385</u>	<u>242,356</u>	<u>190,524</u>
Operating loss	<u>(92,939)</u>	<u>(79,176)</u>	<u>(38,628)</u>
Nonoperating revenues:			
Pell grants	31,272	27,278	28,106
Intergovernmental revenue	1,377	1,403	1,434
Investment and interest income	764	591	1,300
Interest expense on capital asset-related debt	(4,600)	(4,459)	(4,148)
Debt Issuance Cost	—	—	(262)
Loss on disposal of capital assets	(1,244)	(163)	(48)
Nonoperating gifts and donations	3,543	3,487	3,067
Other non operating revenue	585	247	181
Perkins loan termination	(8,272)	—	—
Net nonoperating revenues	<u>23,425</u>	<u>28,384</u>	<u>29,630</u>
(Loss)/Income before other revenues	<u>(69,514)</u>	<u>(50,792)</u>	<u>(8,998)</u>
Other revenues			
Capital Contributions- State	—	6,002	11,975
Capital Student Fee, net	6,436	6,178	5,926
(Decrease)/Increase in net position	<u>(63,078)</u>	<u>(38,612)</u>	<u>8,903</u>
Net position at beginning of year	(87,233)	(48,621)	(57,524)
Restatement	(6,506)	—	—
Net position at beginning of year as restated	<u>(93,739)</u>	<u>(48,621)</u>	<u>(57,524)</u>
Net position at end of year	<u>\$ (156,817)</u>	<u>\$ (87,233)</u>	<u>\$ (48,621)</u>

* Amount could differ slightly from Statements of Revenues, Expenses, and Changes in Net Position due to rounding.

Tuition and fees revenue, net, accounted for \$111.2 million of the \$168.4 million in operating revenue in fiscal year 2018. The tuition and fees revenue amount is net of scholarship allowances of \$52.8 million and bad debt of \$1.6 million. Scholarship allowances are defined as the difference between the stated charge of tuition and fees and the amount that is paid by students or third parties making payment on behalf of students.

Net tuition and fee revenue increased \$5.6 million, or 5.3%, from fiscal year 2017. There was a 6.5% increase in tuition rates in fiscal year 2018, but enrollment continued to see decreases. Scholarship discounts and allowances increased \$4.1 million from fiscal year 2017 due to increases in Pell.

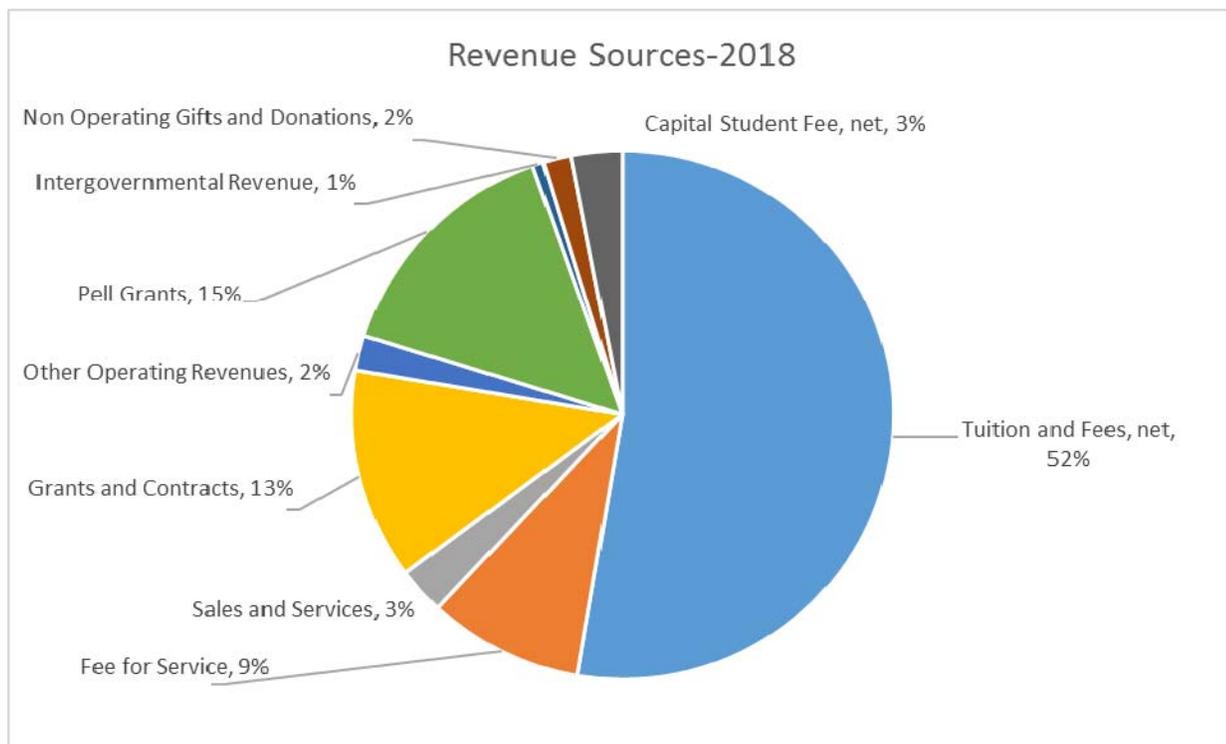
**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

Tuition and fees revenue, net, accounted for \$105.6 million of the \$163.2 million in operating revenue in fiscal year 2017. The tuition and fees revenue amount is net of scholarship allowances of \$49.8 million and bad debt of \$2.6 million. Scholarship allowances are defined as the difference between the stated charge of tuition and fees and the amount that is paid by students or third parties making payment on behalf of students.

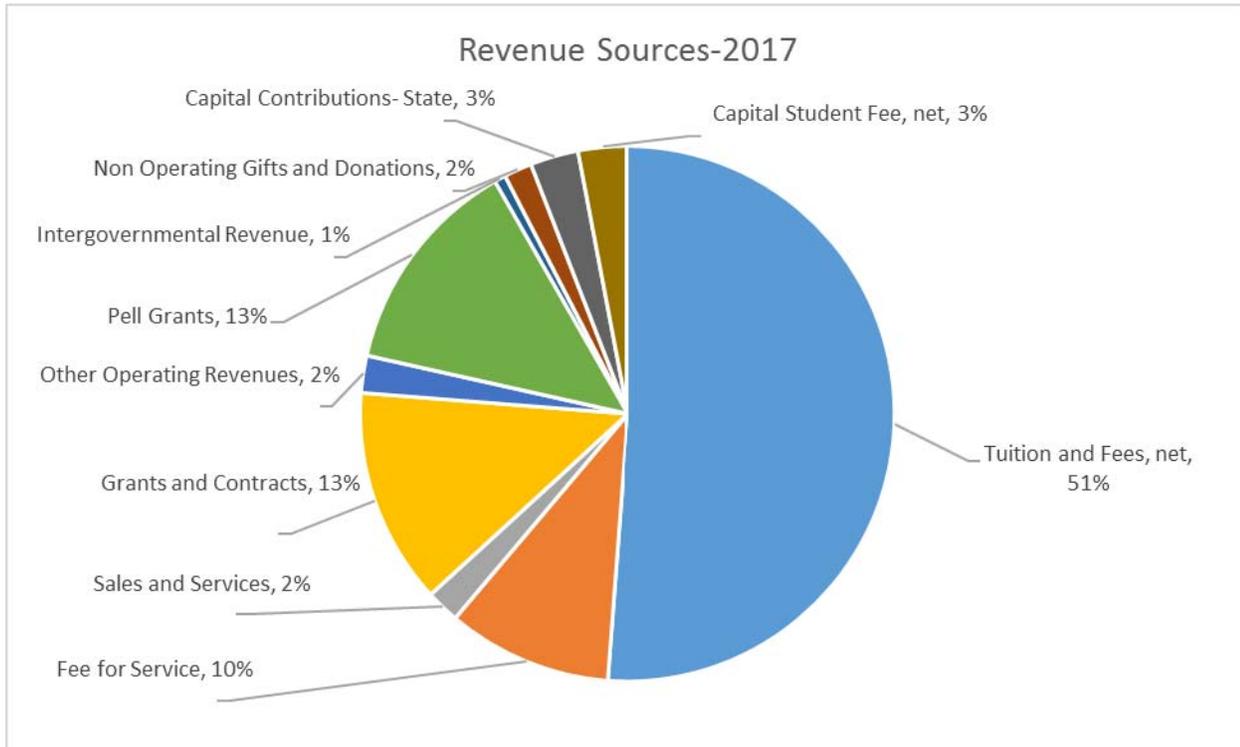
Net tuition and fee revenue increased \$9.0 million, or 9%, from fiscal year 2016. There was a 9% increase in tuition rates in fiscal year 2017, but enrollment continued to see decreases, as noted in the financial highlights section above. Scholarship discounts and allowances decreased \$1.1 million or 2.1% from fiscal year 2016 due to the decrease in enrollment and a slight reduction of Colorado Student Grants.

Fee for Service revenue increased \$1.5 million from fiscal year 2016. The University had lower than expected enrollment in fiscal year 2017 so, as is customary, unearned College Opportunity Fund stipends were allowed to be converted to fee for service revenue.

The following are graphic illustrations of total revenue (operating and nonoperating) by source for MSU Denver for fiscal years 2018 and 2017, respectively. Each major revenue component is displayed relative to its proportionate share of total revenue.



**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**



There was a \$19.0 million increase in operating expenses over fiscal year 2017. \$12.0 million of this increase was a result of increases due to GASB 68 and GASB 75 discussed above. There was another \$5.4 million increase in salary and benefits expenses in fiscal year 2018. This increase resulted from a 1% increase for faculty and administrators, a 2.5% increase for classified staff as well as increases in the “College and University Professionals Association” (CUPA) average used to determine minimum pay. Another \$1.1 million increase of the overall \$19.0 million increase was due to an increase in depreciation primarily due to the completion of the AES building. Lastly, there was a \$1.2 million increase in payments related to the “Detroit Institute of Music Education” (DIME) Denver and DIME Detroit Music programs. These payments included operational expenses paid to DIME, space renovations, and rental payments.

There was a \$51.8 million increase in operating expenses over fiscal year 2016. \$39.9 million of that increase was due to GASB 68. There was also a \$7.4 million increase in salary and benefits expenses in fiscal year 2017. This increase resulted from a 2% increase for faculty and administrators, a one-time stipend of \$1,600 for classified staff as well as increases in the CUPA average used to determine minimum pay. The University also increased the employer percentage of the health care contribution from 65% to 70% in January 2017. Another \$3.2 million increase of the overall \$51.8 million increase was due to increases in non-capital equipment and major remodeling primarily from the AES building and improvements made to the first floor of the Student Success Building. Lastly, there was a \$2.2 million increase in materials and supplies, such as implementing a new phone system, and increases in subscriptions, advertising, legal, and contracted services.

The tables below show the University’s operating expenses both with and without the effects of GASB 68 and 75.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

Total Operating Expenses (including the effects of GASB 68 and 75):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Instruction	\$ 115,087,555	\$ 106,107,031	\$ 81,370,983
Research	24,110	34,651	20,025
Public Service	2,476,432	1,761,680	1,346,198
Academic Support	32,919,013	30,371,353	22,732,151
Student Services	27,311,974	25,129,557	18,618,256
Institutional Support	32,115,079	29,514,570	22,804,245
Operation of Plant	13,808,027	15,234,399	12,214,269
Scholarships and Fellowships, Net	3,001,068	3,188,771	2,873,049
Auxiliary Enterprise Expenditures	26,378,690	23,868,164	21,362,994
Depreciation	8,263,306	7,145,994	7,181,222
Total Operating Expenses	<u>\$ 261,385,254</u>	<u>\$ 242,356,170</u>	<u>\$ 190,523,392</u>

Operating Expenses excluding the effects of GASB 68 and 75:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Instruction	\$ 82,885,967	\$ 80,682,606	\$ 78,748,486
Research	22,600	34,651	20,025
Public Service	2,128,954	1,513,282	1,327,631
Academic Support	24,537,450	23,825,280	22,218,086
Student Services	18,916,021	18,455,041	17,965,043
Institutional Support	25,530,001	24,484,194	22,347,808
Operation of Plant	13,524,601	14,985,380	12,188,425
Scholarships and Fellowships , net	3,001,068	3,188,771	2,873,049
Auxiliary Enterprise Expenditures	26,378,690	23,868,164	21,358,395
Depreciation	8,263,306	7,145,994	7,181,222
Total Operating Expenses	<u>\$ 205,188,658</u>	<u>\$ 198,183,363</u>	<u>\$ 186,228,170</u>

Statements of Cash Flows

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

Condensed Statements of Cash Flows

	<u>June 30</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(In thousands)		
Net cash provided by (used in):			
Operating activities	\$ (36,183)	(24,721)	(20,815)
Noncapital financing activities	30,909	30,969	31,879
Capital and related financing activities	(20,762)	(21,949)	24,094
Investing activities	760	461	1,218
Net (decrease)/increase in cash	(25,276)	(15,240)	36,376
Cash and cash equivalents:			
Beginning of year	89,930	105,170	68,794
End of year	<u>\$ 64,654</u>	<u>89,930</u>	<u>105,170</u>

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

MSU Denver's cash and cash equivalents decreased by \$25.3 million in fiscal year 2018 when compared to fiscal year 2017. This decrease is primarily due to a timing difference in the June 30th payroll, and payments related to the AES building. In fiscal year 2018 higher education institutions were exempt from delaying their June 30th payroll to July and were allowed to pay their employees on the last business day of June. Furthermore, the AES building was completed and placed into service. Fiscal year 2017 experienced a \$15.2 million decrease in cash and cash equivalents when compared to fiscal year 2016. Increases from tuition were offset by decreases caused by the acquisition of capital assets.

The major sources of unrestricted cash inflows in fiscal year 2018 and 2017 were \$111.8 million and \$104.0 million, respectively from tuition and fees, \$19.7 and \$20.6 million, respectively, from fee for service revenue, \$27.2 million and \$27.0 million, respectively, from grants and contracts, and \$31.2 million and \$27.3 million, respectively, in Pell grants. The primary outflows are \$145.3 million and \$131.3 million, respectively, for payments to or for employees, \$58.0 million and \$53.4 million, respectively, for payments to suppliers and \$20.8 million and \$28.0 million, respectively, for the acquisition of capital assets.

Capital Assets

At June 30, 2018, the University had \$130.8 million in property, plant, and equipment, net of accumulated depreciation of \$48.0 million. Depreciation charges were \$8.3 million for the current year compared to \$7.1 million in fiscal year 2017 and \$7.2 million in fiscal year 2016.

The net \$43.2 million decrease in construction in progress is primarily due to the completion of the Aerospace and Engineering Sciences Building.

Details of these assets are shown in the table below:

Capital Assets, Net of Depreciation at Year-End

	June 30		
	2018	2017	2016
		(In thousands)	
Construction in progress	\$ 2,032	45,244	14,525
Land	1,005	1,005	1,005
Equipment	5,992	6,872	7,474
Buildings	88,652	42,739	44,898
Leasehold/land improvements	33,096	29,608	32,109
Total	\$ 130,777	125,468	100,011

Debt

In November 2009, MSU Denver issued \$55.2 million of Series 2009 Taxable Institutional Enterprise Revenue Bonds to finance the construction of the University's first brick and mortar building, the Student Success Building (SSB). The SSB added approximately 145,000 square feet of space for classrooms and faculty offices, specifically for MSU Denver students and professors. It also provides students with a central location for student support services. In June 2010, the University issued \$10.6 million in Series 2010 Taxable Institutional Enterprise Revenue Bonds for various major remodeling projects as personnel moved to the SSB (see note 6 for more information on these obligations). These bonds will be paid off using proceeds from a student bond fee approved by the University's students.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

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

Series 2009 Bond Interest Payments and Corresponding Subsidy Receipts

June 30	Interest Payment	Original Interest Subsidy	Original % of Subsidy Payments	Modified Interest Subsidy	Modified % of Subsidy Payments	Difference
2010	1,585,672	713,553	45%	713,553	45%	(0)
2011	3,052,632	1,373,684	45%	1,373,684	45%	(0)
2012	3,039,941	1,367,973	45%	1,367,973	45%	(0)
2013	3,010,744	1,354,835	45%	1,296,222	43%	(58,612)
2014	2,974,155	1,338,370	45%	1,242,007	42%	(96,363)
2015	2,930,379	1,318,671	45%	1,222,408	42%	(96,263)
2016	2,879,805	1,295,912	45%	1,207,790	42%	(88,122)
2017	2,822,365	1,270,064	45%	1,182,430	42%	(87,634)
2018	2,758,975	1,241,539	45%	1,159,597	42%	(81,942)
Total Reduction in Series 2009 Bond Subsidy Payments						(508,936)

Series 2010 Bond Interest Payments and Corresponding Subsidy Receipts

June 30	Interest Payment	Original Interest Subsidy	Original Subsidy % of Interest Payment	Modified Interest Subsidy	Modified % of Subsidy Payments	Difference
2011	543,193	244,437	45%	244,437	45%	(0)
2012	568,015	255,607	45%	255,607	45%	(0)
2013	563,395	253,528	45%	242,549	43%	(10,979)
2014	557,629	250,933	45%	232,866	42%	(18,067)
2015	550,508	247,729	45%	229,644	42%	(18,085)
2016	542,258	244,016	45%	227,423	42%	(16,593)
2017	532,910	239,810	45%	223,263	42%	(16,547)
2018	522,413	235,086	45%	219,570	42%	(15,516)
Total Reduction in Series 2010 Bond Subsidy Payments						(95,787)

In June 2014, the University issued Series 2014 Institutional Enterprise Revenue Bonds not to exceed \$4.0 million to help fund the construction of the Regency Athletic Complex (RAC). These bonds worked like a line of credit, where the University drew funds on an as needed basis. As of June 30, 2015, the University drew the full \$4 million. These bonds are paid with available cash funds and fundraising efforts by the University's Foundation.

On January 27, 2016, the University issued \$27.5 million of Series 2016 Institutional Enterprise Revenue Bonds, bearing interest at 2.0% to 5.0%, for the purpose of financing a portion of the construction of the new Aerospace and Engineering Science building (AES). This new facility will house mechanical, electrical and civil engineering technologies; industrial design; and computer science to support an integrated curriculum, and promote collaborative research. The building was placed into service in fiscal year 2018. These bonds are paid with the student bond fee discussed above.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

At June 30, 2018, the University had \$91.7 million in outstanding debt compared to \$94.8 million at June 30, 2017 and \$97.9 million at June 30, 2016. The table below summarizes these amounts by type of debt:

		Outstanding Debt at Year-End		
		<u>2018</u>	<u>June 30 2017</u> (In thousands)	<u>2016</u>
Series 2009	\$	45,685	47,125	48,530
Series 2010		8,802	9,059	9,314
Series 2014		2,638	3,013	3,378
Series 2016		28,878	29,552	30,236
Capital lease		5,656	6,038	6,436
Total	\$	<u>91,659</u>	<u>94,787</u>	<u>97,894</u>

Economic Outlook and Metropolitan State University of Denver's Future

Janine Davidson, Ph.D., completed her first year as Metropolitan State University of Denver's president and from Sept. 4-7, 2017, the MSU Denver community celebrated her Inauguration. The celebration included nine events over four days, ranging from panel discussions on hot topics in higher education to a ribbon-cutting for the University's beer labs. The week culminated in an Investiture ceremony, in which Davidson was officially installed as president.

President Davidson's vision of becoming the model urban university for opportunity, diversity, excellence and transformation, which she laid out in September 2017, is already beginning to be realized. With the passage of Senate Bill 18-262, the University received \$1.5M, which is being directed entirely toward student-specific programs, such as career services, student engagement and wellness, and support services, among others, with the singular goal of realizing student success. Davidson is also committed to inclusive leadership and introduced six issue-oriented councils comprised of members from across the University that provide recommendations on top priorities and emerging issues.

Another initiative the University has been focused on is becoming a Hispanic Serving Institution (HSI). MSU Denver reached the first benchmark, which requires 25 percent of the students to self-identify as Hispanic, in the fall, 2017.

However, due to the delay in how the Integrated Postsecondary Education Data System data is recognized by the U.S. Department of Education, the fall 2017 numbers will not be accepted for eligibility of HSI federal designation until December of 2019. Although, via a second level review process, it is still possible for the University to achieve the HSI designation with a waiver by spring, 2019.

At this time, the University currently enrolls 28.4 percent Hispanic students and is considered an Emerging HSI. Therefore, our efforts consist of identifying and implementing best practices to prepare us to better serve our large Hispanic/Latinx enrollment and scaling these efforts to positively impact all students so that they persist to graduation.

**METROPOLITAN STATE UNIVERSITY OF DENVER
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

The University has begun a review of its aging infrastructure and is discerning how to address deferred maintenance, renovations and opportunities available for program growth. The first project MSU Denver intends to address is a complete renovation of the 8,000 square foot locker room in the PE/Events Center building. This renovation is necessary to meet the campus' goals of bringing the space up to current institutional standards, by providing gender-inclusive locker rooms, complying with ADA standards, improving security and providing additional team locker room spaces to support competitions. Moreover, the renovation will allow additions to the men's and women's restrooms, which are currently limited and do not meet overall code requirements. A new project on the horizon is the Classroom to Career Hub initiative, which will increase the scale of the University's workforce-partnership programs and deliver hands-on learning experiences for students, while also cultivating a local talent pipeline for state industry. An additional forthcoming project is the Health Institute, a project that is intended to diversify and fill the gaps in the health workforce.

MSU Denver retained its Taxpayer's Bill of Rights (TABOR) enterprise status during fiscal year 2018 by receiving less than 10% in state funding. The College Opportunity Fund (COF) stipend was set by the General Assembly for fiscal year 2018 at \$77 per eligible credit hour for resident undergraduate students. The stipend was increased to \$85 per eligible credit hour for fiscal year 2019, which is currently appropriated at \$34.1 million, per the long bill. MSU Denver received \$19.7 million in fee-for-service revenue in fiscal year 2018, and is budgeted to receive \$22.3 million in fiscal year 2019.

In fiscal year 2018, MSU Denver raised tuition by 6.5% for undergraduate residents. The University will raise undergraduate tuition 3% in fiscal year 2019, but will still remain the most accessible institution, measured by tuition costs, of Higher Education in Colorado.

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

**METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017**

Assets	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 63,334,280	77,892,636
Accounts receivable – student (net of allowance for doubtful accounts of \$2,780,864 and \$3,064,358, respectively)	13,010,515	12,005,084
Accounts receivable – other	1,955,917	3,099,274
Loans receivable	1,121,817	946,794
Prepaid expense	1,871,988	1,733,573
Investments	43,053	40,005
Total current assets	<u>81,337,570</u>	<u>95,717,366</u>
Noncurrent assets:		
Restricted cash	1,319,601	12,037,681
Investments	565,056	550,682
Prepaid expense	153,710	202,251
Loans receivable (net of allowance for doubtful accounts \$566,864 and \$613,325, respectively)	7,359,984	7,892,429
Land	1,005,185	1,005,185
Construction in progress	2,031,846	45,243,767
Depreciable assets, net:		
Equipment	5,992,203	6,871,611
Buildings	88,651,608	42,739,476
Leasehold and land improvements	33,096,246	29,608,457
Total depreciable capital assets, net	<u>127,740,057</u>	<u>79,219,544</u>
Total noncurrent assets	<u>140,175,439</u>	<u>146,151,539</u>
Total assets	<u>221,513,009</u>	<u>241,868,905</u>
Deferred Outflows		
Deferred pension outflow	60,193,347	85,699,484
Deferred OPEB outflow	257,308	-
Total deferred outflows	<u>60,450,655</u>	<u>85,699,484</u>
Total assets and deferred outflows	<u>\$ 281,963,664</u>	<u>\$ 327,568,389</u>

See accompanying notes to basic financial statements.

**METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017**

Liabilities	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable	\$ 4,679,685	\$ 12,185,982
Accrued interest payable	412,458	423,653
Accrued payroll	4,073,810	13,298,411
Unearned revenue	8,415,176	7,823,211
Compensated absences	436,438	370,734
Bonds payable	2,675,000	2,605,000
Capital leases	457,023	417,291
Deposits held in custody and other current liabilities	2,324,102	4,153,346
Total current liabilities	<u>23,473,692</u>	<u>41,277,628</u>
Noncurrent liabilities:		
Net pension liability	295,891,215	274,136,264
Net OPEB liability	6,661,518	0
Compensated absences	3,205,065	3,349,605
Bonds payable	83,327,162	86,145,181
Capital leases	5,199,397	5,621,063
Other non-current liabilities	7,713,862	0
Total noncurrent liabilities	<u>401,998,219</u>	<u>369,252,113</u>
Total liabilities	<u>425,471,911</u>	<u>410,529,741</u>
Deferred Inflows		
Deferred pension inflow	13,126,192	4,271,780
Deferred OPEB inflow	183,367	0
Total deferred inflows	<u>13,309,559</u>	<u>4,271,780</u>
Total liabilities and deferred inflows	<u>438,781,470</u>	<u>414,801,521</u>
Net position		
Net Investment in Capital Assets	40,025,646	36,373,811
Restricted for expendable purposes	1,229,000	9,449,980
Unrestricted	(198,072,454)	(133,056,923)
Total net position	<u>(156,817,808)</u>	<u>(87,233,132)</u>

See accompanying notes to basic financial statements.

**METROPOLITAN STATE UNIVERSITY OF DENVER
AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017**

ASSETS	2018			2017		
	Metropolitan State University of Denver Foundation, Inc.	HLC @ Metro Inc.	Total	Metropolitan State University of Denver Foundation, Inc.	HLC @ Metro Inc.	Total
	Cash and Cash Equivalents	\$ 996,186	\$ 136,506	\$ 1,132,692	\$ 766,013	\$ 164,257
Restricted Cash and Cash Equivalents	121,928	9,019,964	9,141,892	-	8,571,542	8,571,542
Promises to Give, Net	1,874,527	-	1,874,527	1,109,616	-	1,109,616
Accounts Receivable, Net	10,081	626,705	636,786	9,798	552,253	562,051
Use of Land	-	4,669,842	4,669,842	-	4,780,153	4,780,153
Beneficial Interest in Charitable Trusts Held by Others	151,946	-	151,946	118,403	-	118,403
Investments	9,193,719	-	9,193,719	7,807,942	-	7,807,942
Endowment						
Promises to Give, Net	2,382,674	-	2,382,674	2,507,454	-	2,507,454
Investments	10,877,053	-	10,877,053	9,453,414	-	9,453,414
Land and Building, Net	1,441,002	36,880,377	38,321,379	1,476,402	37,949,374	39,425,776
Furniture and Equipment, Net	-	479,098	479,098	-	467,794	467,794
Other Assets	38,975	162,870	201,845	38,741	166,034	204,775
Total Assets	\$ 27,088,091	\$ 51,975,362	\$ 79,063,453	\$ 23,287,783	\$ 52,651,407	\$ 75,939,190
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts Payable	\$ 137,367	\$ 190,991	\$ 328,358	\$ 67,752	\$ 254,338	\$ 322,090
Accounts Payable and Other	617,215	-	617,215	507,623	-	507,623
Interest Payable	-	1,043,741	1,043,741	-	1,058,074	1,058,074
Bonds Payable, Net	-	50,705,695	50,705,695	-	51,735,243	51,735,243
Bonds Sweep Liability	-	662,406	662,406	-	-	-
Liabilities Under						
Charitable Gift Annuities	-	-	-	-	-	-
Other Current Liabilities	-	544,675	544,675	-	474,861	474,861
Total Liabilities	754,582	53,147,508	53,902,090	575,375	53,522,516	54,097,891
Net Assets:						
Unrestricted	5,094,379	(5,896,006)	(801,627)	5,017,445	(5,722,977)	(705,532)
Temporarily Restricted	13,992,375	4,723,860	18,716,235	11,213,398	4,851,868	16,065,266
Permanently Restricted	7,246,755	-	7,246,755	6,481,565	-	6,481,565
Total Net Assets	26,333,509	(1,172,146)	25,161,363	22,712,408	(871,109)	21,841,299
Total Liabilities and Net Assets	\$ 27,088,091	\$ 51,975,362	\$ 79,063,453	\$ 23,287,783	\$ 52,651,407	\$ 75,939,190

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$52,848,387 and \$48,782,683, and bad debt expense of \$1,600,442 and \$2,510,272, respectively	\$ 111,181,871	105,613,111
Fee for service	19,659,856	20,565,316
Sales and services of educational departments	176,339	122,480
Sales and services of auxiliary enterprises	5,757,626	5,317,669
Federal grants and contracts	6,893,040	6,906,013
State grants and contracts	20,086,214	19,770,931
Local grants and contracts	141,151	135,217
Private grants and contracts	45,807	110,962
Operating interest income	209,639	214,303
Other operating revenues	4,294,140	4,424,194
Total operating revenues	<u>168,445,683</u>	<u>163,180,196</u>
Operating expenses:		
Instruction	115,087,555	106,107,030
Research	24,110	34,651
Public service	2,476,432	1,761,680
Academic support	32,919,013	30,371,353
Student services	27,311,974	25,129,557
Institutional support	32,115,079	29,514,570
Operation of plant	13,808,027	15,234,399
Scholarships and fellowships	3,001,068	3,188,771
Auxiliary enterprise expenditures	26,378,690	23,868,164
Depreciation	8,263,306	7,145,994
Total operating expenses	<u>261,385,254</u>	<u>242,356,169</u>
Operating loss	<u>(92,939,571)</u>	<u>(79,175,973)</u>
Nonoperating revenues (expenses):		
Pell grants	31,272,113	27,278,049
Intergovernmental revenue	1,376,853	1,403,084
Investment and interest income	764,040	591,019
Interest expense on capital asset related debt	(4,599,796)	(4,458,624)
Loss on disposal of fixed assets	(1,243,500)	(162,968)
Nonoperating gifts and donations	3,543,020	3,487,700
Perkins Loan Termination	(8,271,929)	-
Other nonoperating	584,935	246,648
Net nonoperating revenue	<u>23,425,736</u>	<u>28,384,908</u>
Loss before other revenues	<u>(69,513,835)</u>	<u>(50,791,065)</u>
Other revenues		
Capital contributions from the state	-	6,001,709
Capital student fees, net of scholarship allowances of \$3,004,064 and \$2,851,052, and bad debt expense of \$191,979, and \$184,300, respectively	6,435,641	6,177,667
Total other revenues	<u>6,435,641</u>	<u>12,179,376</u>
Decrease in net position	<u>(63,078,194)</u>	<u>(38,611,689)</u>
Net position at beginning of year	(87,233,132)	(48,621,443)
Restatement	(6,506,482)	-
Net position at beginning of year, as restated	<u>(93,739,614)</u>	<u>(48,621,443)</u>
Net position at end of year	<u>\$ (156,817,808)</u>	<u>(87,233,132)</u>

See accompanying notes to basic financial statements.

**METROPOLITAN STATE UNIVERSITY OF DENVER
AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018			2017		
	Metropolitan State University of Denver Foundation, Inc.	HLC @ Metro Inc.	Total	Metropolitan State University of Denver Foundation, Inc.	HLC @ Metro Inc.	Total
Change in Unrestricted Net Assets:						
Support, Revenue, and Gains:						
Contributions	\$ 64,700	\$ -	\$ 64,700	\$ 58,248	\$ -	\$ 58,248
In-kind Contributions	1,582,791	-	1,582,791	1,523,913	-	1,523,913
Endowment Management Fees	182,380	-	182,380	138,874	-	138,874
Total Support	<u>1,829,871</u>	<u>-</u>	<u>1,829,871</u>	<u>1,721,035</u>	<u>-</u>	<u>1,721,035</u>
Gross Special Events Revenue	-	-	-	68,905	-	68,905
Less Cost of Direct						
Benefits to Donors	(59,963)	-	-	(180,292)	-	(180,292)
Net Special Events Revenue	<u>(59,963)</u>	<u>-</u>	<u>-</u>	<u>(111,387)</u>	<u>-</u>	<u>(111,387)</u>
Net Investment Gain	430,638	58,232	488,870	358,153	10,547	368,700
Federal Interest Subsidy	-	993,970	993,970	-	991,486	991,486
Rooms Revenue	-	8,204,969	8,204,969	-	7,941,253	7,941,253
Food and Beverage Revenue	-	1,143,264	1,143,264	-	1,202,749	1,202,749
Parking, Telephone and						
Other Revenue	-	904,223	904,223	-	809,819	809,819
Rent - Center for Visual Arts (CVA)	605,058	-	605,058	592,255	-	592,255
Excess Revenue Transfer	-	-	-	-	(2,024,999)	(2,024,999)
Net Assets Released						
from Restrictions	<u>2,650,720</u>	<u>185,474</u>	<u>2,836,194</u>	<u>3,265,073</u>	<u>114,889</u>	<u>3,379,962</u>
Total Support, Revenue, and Gains	5,456,324	11,490,132	16,946,456	5,825,129	9,045,744	14,870,873
Expenses and Losses:						
Support Provided to the University	3,176,966	-	3,176,966	3,107,250	-	3,107,250
University Hospitality Learning						
Center Materials and Services	-	5,934,864	5,934,864	-	5,550,638	5,550,638
General and Administrative Costs	562,897	670,989	1,233,886	509,367	687,040	1,196,407
Depreciation Expenses	-	1,207,613	1,207,613	-	1,179,679	1,179,679
Donor Development Costs	1,582,791	3,448	1,586,239	1,523,913	4,578	1,528,491
Interest and Amortization	-	3,183,841	3,183,841	-	3,223,799	3,223,799
Unrealized Loss on Bond Swap	-	662,406	662,406	-	-	-
Operating Expenses for CVA	56,736	-	56,736	63,577	-	63,577
Total Expenses and Losses	<u>5,379,390</u>	<u>11,663,161</u>	<u>17,042,551</u>	<u>5,204,107</u>	<u>10,645,734</u>	<u>15,849,841</u>
Distributions from HLC@Metro	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>
CHANGES IN UNRESTRICTED NET ASSETS	<u>76,934</u>	<u>(173,029)</u>	<u>(96,095)</u>	<u>2,621,022</u>	<u>(1,599,990)</u>	<u>1,021,032</u>

See accompanying notes to basic financial statements.

**METROPOLITAN STATE UNIVERSITY OF DENVER
AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF ACTIVITIES (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018			2017		
	Metropolitan State University of Denver Foundation, Inc.	HLC @ Metro Inc.	Total	Metropolitan State University of Denver Foundation, Inc.	HLC @ Metro Inc.	Total
	Change in Temporarily Restricted Net Assets:					
Support, Revenue, and Gains:						
Contributions	4,930,862	57,466	4,988,328	3,805,106	76,293	3,881,399
In-Kind Contributions	141,414	-	141,414	-	-	-
Special Events Revenue, Net	56,720	-	56,720	73,123	-	73,123
Total Support	<u>5,128,996</u>	<u>57,466</u>	<u>5,186,462</u>	<u>3,878,229</u>	<u>76,293</u>	<u>3,954,522</u>
Net Investment Gain (Loss)	597,339	-	597,339	726,652	-	726,652
Change in Donor Restriction	(61,944)	-	(61,944)	(145,746)	-	(145,746)
Net Assets Released from Restrictions	<u>(2,885,414)</u>	<u>(185,474)</u>	<u>(3,070,888)</u>	<u>(3,275,831)</u>	<u>(114,889)</u>	<u>(3,390,720)</u>
Total Support, Revenue, and Gains	<u>2,778,977</u>	<u>(128,008)</u>	<u>2,650,969</u>	<u>1,183,304</u>	<u>(38,596)</u>	<u>1,144,708</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>2,778,977</u>	<u>(128,008)</u>	<u>2,650,969</u>	<u>1,183,304</u>	<u>(38,596)</u>	<u>1,144,708</u>
Change in Permanently Restricted Net Assets:						
Support, Revenue, and Gains:						
Contributions	442,909	-	442,909	2,693,893	-	2,693,893
Special Events Revenue, Net	-	-	-	232,261	-	232,261
Total Support	<u>442,909</u>	<u>-</u>	<u>442,909</u>	<u>2,926,154</u>	<u>-</u>	<u>2,926,154</u>
Change in Value of Beneficial Interest in Charitable Trust Held by Others	33,543	-	33,543	5,833	-	5,833
Change in Donor Restriction	61,944	-	61,944	145,746	-	145,746
Net Assets Released from Restrictions	<u>234,694</u>	<u>-</u>	<u>234,694</u>	<u>10,758</u>	<u>-</u>	<u>10,758</u>
Total Support, Revenue, and Gains	<u>773,090</u>	<u>-</u>	<u>773,090</u>	<u>3,088,491</u>	<u>-</u>	<u>3,088,491</u>
Loss on Uncollectable Promise to Give	<u>(7,900)</u>	<u>-</u>	<u>(7,900)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	<u>765,190</u>	<u>-</u>	<u>765,190</u>	<u>3,088,491</u>	<u>-</u>	<u>3,088,491</u>
CHANGE IN NET ASSETS	<u>3,621,101</u>	<u>(301,037)</u>	<u>3,320,064</u>	<u>6,892,817</u>	<u>(1,638,586)</u>	<u>5,254,231</u>
Net Assets (Deficit) - Beginning of Year	<u>22,712,408</u>	<u>(871,109)</u>	<u>21,841,299</u>	<u>15,819,591</u>	<u>767,477</u>	<u>16,587,068</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 26,333,509</u>	<u>\$ (1,172,146)</u>	<u>\$ 25,161,363</u>	<u>\$ 22,712,408</u>	<u>\$ (871,109)</u>	<u>\$ 21,841,299</u>

See accompanying notes to basic financial statements.

**METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF CASH FLOWS
JUNE 30, 2018 AND 2017**

	2018	2017
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 111,827,591	103,953,115
Fee for service	19,659,856	20,565,316
Sales and services	5,871,573	4,906,072
Grants and contracts	27,187,870	26,960,211
Student loans collected	1,538,876	2,041,315
Other operating receipts	5,284,475	6,590,845
Cash payments:		
Payments to or for employees	(145,320,941)	(131,327,933)
Payments to suppliers	(58,001,333)	(53,333,786)
Scholarships disbursed	(3,001,068)	(3,188,771)
Student loans disbursed	(1,229,801)	(1,887,568)
Net cash used in operating activities	(36,182,902)	(24,721,184)
Cash flows from noncapital financing activities:		
Nonoperating gifts and donations	3,319,402	3,085,929
Nonoperating Revenues/(Expenses)	(549,976)	-
Pell grants	31,234,359	27,272,867
Agency (direct lending inflows)	71,559,094	79,182,142
Agency (direct lending outflows)	(71,668,252)	(78,725,173)
Other agency (inflows)	11,208,065	9,895,882
Other agency (outflows)	(14,193,978)	(9,742,266)
Net cash provided by noncapital financing activities	30,908,714	30,969,381
Cash flows from capital and related financing activities:		
Interest subsidy	1,379,167	1,405,693
Insurance Proceeds	10,475	-
Interest on capital asset related debt	(4,754,009)	(4,468,731)
Principal paid on bonds	(2,605,000)	(2,707,072)
Principal paid on capital leases	(434,201)	(397,207)
State capital contributions	-	6,001,709
Proceeds for capital student fee	6,390,441	6,177,667
Acquisition of capital assets	(20,749,487)	(27,961,865)
Net cash used in capital and related financing activities	(20,762,614)	(21,949,806)
Cash flows from investing activity:		
Investment earnings	764,039	591,019
Collection of loans	13,750	1,250
Purchase of investments	(17,423)	(130,810)
Net cash provided by investing activities	760,366	461,459
Net decrease in cash	(25,276,436)	(15,240,150)
Beginning cash balance	89,930,317	105,170,467
Ending cash balance	\$ 64,653,881	89,930,317

See accompanying notes to basic financial statements.

**METROPOLITAN STATE UNIVERSITY OF DENVER
BUSINESS-TYPE ACTIVITY
STATEMENTS OF CASH FLOWS (CONTINUED)
JUNE 30, 2018 AND 2017**

	2018	2017
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (92,939,571)	(79,175,973)
Adjustment to reconcile:		
Depreciation expense	8,263,306	7,145,994
Provision for bad debt	2,189,152	3,642,010
Nonoperating revenue	584,335	246,649
Decrease (increase) in assets:		
Accounts receivable – student	(2,926,997)	(5,143,417)
Loans receivable	240,038	(61,681)
Prepaid expense	(66,839)	776,958
Accounts receivable – other	1,249,148	1,561,125
Increase in deferred outflows:		
Deferred pension outflow	25,248,831	(67,421,354)
Increase (decrease) in liabilities/deferred inflows:		
Net pension liability	28,416,469	113,901,963
Deferred pension inflow	2,531,297	(2,307,805)
Accounts payable	(625,758)	1,862,572
Accrued interest payable	–	–
Unearned revenue	596,949	107,400
Accrued payroll	(8,850,178)	109,714
Other liabilities	(93,084)	34,661
Net cash used in operating activities	\$ (36,182,902)	(24,721,184)
Noncash transactions		
Retirement of capital assets	\$ 1,623,873	162,968
Donation of capital assets	125,930	505,154
Write-off of uncollectible accounts receivable	2,371,511	3,758,135
Write-off of uncollectible loans receivable	150,087	218,495

See accompanying notes to basic financial statements.

METROPOLITAN STATE UNIVERSITY OF DENVER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(1) Summary of Significant Accounting Policies

a) Governance

The accompanying financial statements reflect the financial activities of Metropolitan State University of Denver (the University or MSU Denver) for the fiscal years ended June 30, 2018 and 2017. Effective July 1, 2002, Colorado Revised Statute (C.R.S.) 23-54-102 established the Board of Trustees (Trustees) of the University to serve as the University's governing board. Nine of the eleven Trustees are members outside the University who are appointed by the Governor with the consent of the Senate. The remaining two members consist of a student, elected by the student body, and a faculty member, elected by tenure and tenure track faculty. Both of these members are non-voting members. The Trustees have full authority and responsibility for the control and governance of the University, including such areas as role and mission, academic programs, curriculum, admissions, finance, personnel policies, etc. To exercise their authority appropriately, the Trustees regularly establish policies designed to enable the University to perform its statutory functions in a rational and systematic manner. To assist them in meeting their responsibilities, the Trustees delegate to the President the authority to interpret and administer their policies in all areas of operations.

b) Reporting Entity

The State of Colorado (the State) is the primary governmental reporting entity for State financial reporting purposes. For financial reporting purposes, the University is included as part of the State's primary government. The financial statements of the University, which is an institution of higher education of the State of Colorado, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Colorado that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted (GAAP) in the United States of America. Financial results for the State of Colorado are presented in separate state-wide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State is available in these state wide financial statements. The accounting policies of the University conform to GAAP, as applicable to government units.

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

METROPOLITAN STATE UNIVERSITY OF DENVER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, paragraph 47, the discrete presentation of the Metropolitan State University of Denver Foundation, Inc.'s (the Foundation) and the HLC@Metro, Inc.'s financial statements appear on separate pages from the financial statements of the University. The Foundation and the HLC@Metro, Inc. warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationships with the University. Please refer to note 17 for additional discussion.

c) *Basis of Accounting*

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

The University applies all applicable GASB pronouncements.

d) *Accounting Policies/Definitions*

Auraria Higher Education Center (AHEC): AHEC is a separate legal entity created by the State of Colorado under Article 70 of Title 23 of the Colorado Revised Statutes (CRS). AHEC plans, manages and operates the physical plant, facilities, buildings, and grounds of the Auraria campus on which MSU Denver, the University of Colorado at Denver (UCD), and the Community College of Denver (CCD) all reside.

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, or those investments intended to be held longer than three months regardless of the original maturity date.

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

Accounts Receivable: Accounts receivable result primarily from tuition, fees, 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.

Classifications of investments as current or noncurrent is based on the maturity of the asset. Current investments are those that are set to mature in a year or less and noncurrent are those with a maturity of greater than a year. Non-current investments represent those items that are intended to be held longer than twelve months regardless of original maturity date.

METROPOLITAN STATE UNIVERSITY OF DENVER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Capital Assets: Equipment, buildings, construction in progress, and leasehold and land improvements are stated at their cost at the date of acquisition or acquisition cost value at the date of donation. A physical inventory of all capital assets is taken annually with appropriate adjustments made to the financial records. During fiscal year 2018, the University updated its policy of capitalizing assets with an initial cost or fair value equal to or greater than \$5,000 to a new threshold of \$10,000 for assets purchased with non-grant funds. For capital assets purchased with grant funds, a threshold of \$5,000 is still utilized. The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specific to the project. Total interest capitalized during the years ended June 30, 2018 and 2017 was \$-0- and \$226,000, 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.

Deferred Outflows of Resources: Consumption of net position that applies to future periods; therefore, expenses/expenditures are not recognized until that time. PERA contributions the University makes subsequent to PERA's measurement date results in a deferred outflow of resources, as does the net difference between projected and actual experience, changes of assumptions or other inputs, and the net difference between projected and actual investment earnings by PERA.

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 3 to 10 years for capitalized computers, 3 years for software, 2 to 50 years for other equipment, 12 years for modular buildings, 27 years for buildings, 2 to 45 years for leasehold/land improvements.

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

Unearned Revenue: Unearned revenue consists of amounts received from the provision of educational goods and services that have not yet been earned. The University prorates the summer session revenues on the basis of an estimate that half are earned in the current year. Any grant funds received in excess of grant expenditures are also recorded as unearned revenues.

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

Deferred Inflows of Resources: Acquisition of net assets by the University applicable to a future reporting period. Amortization of the University's change in proportionate share of PERA's unfunded pension and other post-employment benefit (OPEB) liabilities results in a

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deferred inflow of resources as does the changes of assumptions or other inputs of the pension and OPEB plans.

Net Position: Net position is classified in the accompanying financial statements as follows:

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

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

- *Operating revenues and expenses* generally result from providing goods and services for instruction, public service, or related support services to an individual or entity separate from the University.
- *Nonoperating revenues and expenses* do not meet the definition of operating revenues, and include federal bond interest subsidies, Pell grants, gifts, investment income, rental income, and interest expense.
- *Other revenues* consist of capital contributions from the State for the construction of the Aerospace and Engineering Sciences (AES) Building, as well as the capital student fee paid by students for capital improvements.

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

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

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

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Income Taxes: As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code (IRC) and a similar provision of State law. However, the University is subject to federal income tax on any unrelated business taxable income. The University did not have any significant unrelated business taxable income in fiscal year 2018 or 2017.

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

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

(2) Cash and Cash Equivalents and Investments

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

		2018	
		Bank Balance	Carrying Amount
Cash on hand	\$	—	45,560
Cash in checking and depository accounts at banks		2,775,729	755,441
Total cash on hand and in banks	\$	2,775,729	801,001

		2017	
		Bank Balance	Carrying Amount
Cash on hand	\$	—	31,696
Cash in checking and depository accounts at banks		1,378,688	2,971,426
Total cash on hand and in banks	\$	1,378,688	3,003,122

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. GASB Statement No. 72, *Fair Value Measurement and Application*, requires investments to be recorded at fair value.

The University categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. This statement generally requires investments to be measured at fair value; however, investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, etc. This standard establishes a hierarchy of inputs for valuation techniques used to measure fair value. That hierarchy has three levels.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

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Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be recovered. To manage custodial credit risk, deposits with financial institutions are made in accordance with University and State policy, including the Public Deposit Protection Act (PDPA). PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal depository insurance. Deposits collateralized under the PDPA are considered to be collateralized with securities held by the pledging institution in the University's name. As of June 30, 2018, \$250,000 of the cash in checking and depository accounts was covered by federal depository insurance and the remainder by collateral held by the financial institution's agent in the University's name, as required by the PDPA.

The University deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2018 and 2017, the University had cash on deposit with the State Treasurer of \$63,852,879 and \$86,927,195, respectively, which represented approximately .85 percent of the total \$7,635.8 million and 1.3 percent of the total \$6,770.2 million of investments in the State Treasurer's Pool (Pool). The \$63,852,880 and \$86,927,195 on deposit as of June 30, 2018 and 2017, respectively, includes \$1,319,601 and \$12,037,681 of restricted cash as of June 30, 2018 and 2017, respectively, which is the unspent proceeds of the Series 2016 bonds (see note 6 for further information).

On the basis of the University's participation in the Pool, the University reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

For the University's deposits with the State Treasury, the University had net unrealized losses of \$731,405 and \$721,875 in fiscal year 2018 and 2017, respectively. These net unrealized gains and losses are included in cash and cash equivalents on the statements of net position.

Additional information on investments of the Pool may be obtained in the State's comprehensive annual financial report for the year ended June 30, 2018.

a) Other Investments

- 1) As of June 30, 2018 and 2017, the University has invested \$190,634 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established by state statute for government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST is a 2a7-like investment pool, and the University's investment is rated as AAAM by Standard and Poor's. COLOTRUST pooled investments are excluded from the custodial credit risk and interest rate risk disclosure requirements, and is exempt from the fair value requirements of GASB 72. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. At June 30, 2018 and 2017, the fair value of the University's investment remained at \$190,634. COLOTRUST records its investments at fair value and the University records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

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- 2) The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of June 30, 2018, and 2017, the University has reoccurring fair value measurements of \$417,475 and \$400,053, respectively, invested in TIAA/CREF Lifecycle Mutual funds, known as 415(m) funds. This investment is valued using quoted market prices (Level 1 inputs).

All mutual funds are subject to market risk, including possible loss of principal. The Lifecycle funds target allocation is 52.5% equity, 45% fixed income, and 2.5% real estate funds; however, the fund may deviate from these target allocations by 10% depending on current market conditions. As of June 30, 2018 the allocation was a 49%, 46%, 5% mix, respectively. As of June 30, 2017 the equity to fixed income allocation was 54%, 44%, and 2%, respectively. The specific allocations as of June 30, 2018 and 2017 are reflected in the table below:

Current Asset Allocation		
	06/30/18	06/30/17
US Equity	34.80%	37.38%
Fixed Income	34.84%	34.94%
International Equity	15.41%	16.46%
Inflation-Protected Assets	5.17%	4.96%
Short-Term Fixed Income	5.67%	4.12%
Direct Real Estate	3.86%	2.06%
Short-Term Investments, Other Assets & Liabilities, Net	0.25%	0.08%
	100.00%	100.00%

(a) Custodial Credit Risk

100% of the investments are held by the custodian brokerage firm in the name of the University. However, a mutual fund is not covered by depository insurance.

(b) Credit Quality Risk

The Morningstar Rating is a quantitative assessment of a fund's past performance for both return and risk, as measured from one to five stars. It uses focused comparison groups to better measure fund manager skill. Morningstar rating has ranked this fund five out of five stars for the Retirement, Premier and Institutional categories. This investment is not rated by a different rating agency other than Morningstar.

(c) Foreign Currency Risk

The TIAA/CREF Lifecycle Mutual fund has 15.4% in international equities. It may also invest up to 20% of its bond assets in fixed income securities of foreign issuers, including emerging markets.

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(3) Capital Assets

The following tables, present changes in capital assets and accumulated depreciation for the years ended June 30, 2018 and 2017:

	Balance, June 30, 2017	Additions	CIP transfers	Retirements	Balance, June 30, 2018
Land	\$ 1,005,185	—	—	—	1,005,185
Construction in progress	45,243,767	9,967,898	(52,729,948)	(449,871)	2,031,846
Depreciable capital assets:					
Equipment	21,853,747	1,030,494	988,986	(3,678,072)	20,195,155
Building	53,832,734	—	48,977,348	—	102,810,082
Leasehold improvements	45,796,765	4,197,379	2,763,614	—	52,757,758
Less accumulated depreciation:					
Equipment	(14,982,136)	(1,724,886)	—	2,504,070	(14,202,952)
Buildings	(11,093,258)	(3,065,216)	—	—	(14,158,474)
Leasehold improvements	(16,188,308)	(3,473,204)	—	—	(19,661,512)
Net depreciable capital assets	\$ 79,219,544	(3,035,433)	52,729,948	(1,174,002)	127,740,057
Total capital assets, net	\$ 125,468,496	6,932,465	—	(1,623,873)	130,777,088

	Balance, June 30, 2016	Additions	CIP transfers	Retirements	Balance, June 30, 2017
Land	\$ 1,005,185	—	—	—	1,005,185
Construction in progress	14,525,258	31,202,440	(439,523)	(44,408)	45,243,767
Depreciable capital assets:					
Equipment	21,717,290	1,254,905	229,124	(1,347,572)	21,853,747
Building	53,832,734	—	—	—	53,832,734
Leasehold improvements	45,368,218	309,601	210,399	(91,453)	45,796,765
Less accumulated depreciation:					
Equipment	(14,243,705)	(1,967,443)	—	1,229,012	(14,982,136)
Buildings	(8,935,030)	(2,158,228)	—	—	(11,093,258)
Leasehold improvements	(13,259,438)	(3,020,322)	—	91,452	(16,188,308)
Net depreciable capital assets	\$ 84,480,069	(5,581,487)	439,523	(118,561)	79,219,544
Total capital assets, net	\$ 100,010,512	25,620,953	—	(162,969)	125,468,496

(4) Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	June 30, 2017	Additions	Deletions	June 30, 2018	Amounts due within one year
Bonds payable	\$ 88,750,181	—	(2,748,019)	86,002,162	2,675,000
Capital lease payable	6,038,354	52,267	(434,201)	5,656,420	457,023
Compensated absences	3,720,339	126,010	(204,846)	3,641,503	436,438
Total noncurrent liabilities	\$ 98,508,874	178,277	(3,387,066)	95,300,085	3,568,461

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A summary of the changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>	<u>Amounts due within one year</u>
Bonds payable	\$ 91,457,253	—	(2,707,072)	88,750,181	2,605,000
Capital lease payable	6,435,561	—	(397,207)	6,038,354	417,291
Compensated absences	3,608,989	120,868	(9,518)	3,720,339	370,734
Total noncurrent liabilities	<u>\$ 101,501,803</u>	<u>120,868</u>	<u>(3,113,797)</u>	<u>98,508,874</u>	<u>3,393,025</u>

(5) Lease Obligations

Operating Leases

The University leases building space, land, copiers, computers, and small off-site storage units under operating lease agreements with AHEC and with private organizations. The University has three ground leases with AHEC totaling \$3.00 for the ground where the HLC, the Student Success Building (SSB) and the Aerospace Building (AES) were built. Total rental payments for the years ended June 30, 2018 and 2017 under all agreements was \$3,137,618, and \$2,642,324, respectively. As of June 30, 2018, minimum future rentals required by these agreements are as follows:

Fiscal year(s) ending:	
2019	\$ 2,571,032
2020	2,317,364
2021	1,397,182
2022	1,122,576
2023	8,278
2024 – 2028	<u>3,810,966</u>
Total	<u>\$ 11,227,398</u>

In addition to these operating leases, the University occupies other space on the Auraria Campus owned by AHEC. The use of this space is not formalized under an official lease agreement (with a lease term and future payment obligations) but is rather a component of the shared campus costs and is, therefore, reflected in note 15.

Capital Leases

During fiscal year 2009, the University entered into a capital lease with AHEC in the amount of \$8,986,165 to finance the construction and acquisition of leasehold improvements for the new Science building on the Auraria Campus. The lease requires annual principal payments and semiannual interest payments. In fiscal years 2018 and 2017, the principal payments totaled \$417,291 and \$397,207, respectively, and interest payments equaled \$317,342 and \$337,704 respectively. In fiscal year 2018, the University entered into a capital lease for a digital computer storage unit. The lease requires annual principal payments with imputed interest payments. In fiscal year 2018 the principal payment totaled \$16,910 and the interest payment totaled \$1,568

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The following is a schedule of future minimum capital lease payments as of June 30, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year(s) ending June 30:			
2019	\$ 457,023	291,851	748,874
2020	484,323	266,169	750,492
2021	490,930	239,897	730,827
2022	517,708	213,186	730,894
2023	544,486	185,069	729,555
2024 - 2028	<u>3,161,950</u>	<u>431,866</u>	<u>3,593,816</u>
Total	<u>\$ 5,656,420</u>	<u>1,628,038</u>	<u>7,284,458</u>

(6) Bond Obligations

Total outstanding bonds are summarized below:

<u>Issue</u>	<u>Date issued</u>	<u>Amount issued</u>	<u>June 30</u>	
			<u>2018</u>	<u>2017</u>
2009 Taxable Institutional Enterprise Revenue Bonds	11/17/09	\$ 55,190,000	\$ 45,685,000	47,125,000
2010 Taxable Institutional Enterprise Revenue Bonds	6/11/10	10,575,000	8,835,000	9,095,000
Less discount on 2010 Bonds, net of amortization			(32,899)	(34,394)
2014 Institutional Enterprise Revenue Bonds	6/13/2014	4,000,000	2,637,540	3,012,540
2016 Institutional Enterprise Revenue Bonds	1/27/2016	27,450,000	26,395,000	26,925,000
Plus premium on 2016 Bonds, net of amortization			2,482,521	2,627,035
Total			<u>\$ 86,002,162</u>	<u>88,750,181</u>

Principal and interest requirements on all outstanding bonds at June 30, 2018 are summarized in the table below. All debt has a fixed interest rate except the Series 2014, which has a variable interest rate that is calculated as 65.001% of LIBOR, plus a tax free loan margin of 0.99% per annum. For purposes of this table the rate used to calculate future interest owed on the Series 2014 was the rate that was in effect as of June 30, 2018.

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,675,000	4,344,974	7,019,974
2020	2,750,000	4,233,672	6,983,672
2021	2,820,000	4,116,192	6,936,192
2022	2,905,000	3,990,727	6,895,727
2023	2,985,000	3,858,338	6,843,338
2024 – 2028	14,722,540	17,052,758	31,775,298
2029 – 2033	16,830,000	12,686,398	29,516,398
2034 – 2038	19,990,000	7,571,860	27,561,860
2039 – 2043	13,410,000	2,360,461	15,770,461
2044 – 2046	4,465,000	342,125	4,807,125
	<u>83,552,540</u>	<u>\$ 60,557,505</u>	<u>144,110,045</u>
Unamortized discount, net	(32,899)		
Unamortized premium, net	2,482,521		
	<u>\$ 86,002,162</u>		

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a) Series 2009

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

The bonds are due in semiannual installments beginning in fiscal year 2012 with annual principal payments ranging from \$1,295,000 to \$2,875,000 through December 1, 2039. The interest payments on the bonds are eligible to receive a 45% subsidy from the federal government; however, in fiscal year 2013 the federal government issued a sequestration order which reduced the amount of the subsidy. As of June 30, 2018, the University received \$508,935 less in subsidy payments than what was expected before sequester. As of June 30, 2018 and 2017, the University has received \$10,765,665 and \$9,606,068, respectively, in subsidy payments since the bond's inception. These bonds are collateralized by future revenues the University has pledged. See note 7 for more information on pledged revenues.

b) Series 2010

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

The bonds are due in semiannual installments beginning in fiscal year 2012 with annual principal payments ranging from \$240,000 to \$535,000 through December 1, 2040. The interest payments on the bonds are eligible to receive a 45% subsidy from the federal government; however, in fiscal year 2013 the federal government issued a sequestration order which reduced the amount of the subsidy. As of June 30, 2018 the University received \$95,786 less in subsidy payments than what was expected before sequester. As of June 30, 2018 and 2017, the University has received \$1,875,358 and \$1,655,788, respectively, in subsidy payments since the bond's inception. These bonds are collateralized by future revenues the University has pledged. See note 7, for more information on pledged revenues.

The Series 2010 bonds are shown net of unamortized discount of \$32,899.

c) Series 2014

On June 13, 2014, the University issued Series 2014 Institutional Enterprise Revenue Bonds not to exceed \$4,000,000, at a variable interest rate equal to 65.001% of LIBOR plus a tax free loan margin of .99% per annum. The purpose of these bonds was to provide funding for the completion of the new athletic fields, which are 12.5 acres that will have eight tennis courts, a soccer stadium, and baseball and softball diamonds. These bonds worked like a line of credit, where the University drew funds on an as needed basis. The outstanding principal amount is equal to the amount the University drew down. At the end of fiscal year 2017, the University drew the full \$4 million. Principal payments became due beginning in fiscal year 2016. The maturity date of these bonds is September 1, 2024. These bonds are not subject to the bond subsidy payments from the federal government.

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d) Series 2016

On January 27, 2016, the University issued \$27,450,000 of Series 2016 Institutional Enterprise Revenue Bonds, bearing interest at 2.0% to 5.0%, for the purpose of financing a portion of the construction of a new Aerospace and Engineering Science building (AES). This new facility houses mechanical, electrical and civil engineering technologies; industrial design; and computer science to support an integrated curriculum, and promote collaborative research. This building was completed in the fall of 2017.

The bonds are due in semiannual installments beginning in fiscal year 2017 with annual principal payments ranging from \$525,000 to \$1,560,000 through December 1, 2045. These bonds are not subject to the bond subsidy payments from the federal government. These bonds are collateralized by future revenues the University has pledged. See note 7 for more information on pledged revenues.

The Series 2016 bonds are shown net of unamortized premium of \$2,482,521.

(7) Pledged Revenue

The University has pledged future revenues to repay \$83,552,540 in outstanding revenue bonds. Pledged revenue includes 10% of resident and nonresident tuition, all revenues derived from the facilities construction fee, all revenues derived from indirect cost recoveries (overhead) payable to research contracts and grants performed within the University's facilities, all revenues derived from mandatory fees for the provision of student and faculty services at the University, all revenues, net of operation and maintenance expenses, for the provision of continuing education services at the University, interest income, and federal interest subsidy payments received in connection with the bonds.

Proceeds from the bonds provided financing for the construction of the SSB, the RAC, the AES and various major remodeling projects. The total remaining principal and interest payments, (excluding the federal subsidy payments) are expected to be \$144,110,045 payable through fiscal year 2046. The total revenue pledged was \$32,600,012 and \$30,698,161 for June 30, 2018 and 2017, respectively.

The University has also agreed to make the required payments on the outstanding bonds on the HLC in the event the HLC@Metro, Inc. does not satisfy its bond payment obligations. The payments for this debt would also be covered by these pledged revenues. See note 17 for more information on the HLC@Metro, Inc.

The following table shows information for pledged revenues for fiscal years 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Tuition	\$ 15,296,838	14,384,757
Mandatory Fees	7,798,022	7,458,786
Facility fee	6,719,248	6,450,502
Unrestricted Net Income	718,728	545,402
Net Continuing Education	168,163	—
Federal Subsidy	1,376,854	1,403,084
Indirect cost recovery	522,159	455,630
	<u>\$ 32,600,012</u>	<u>30,698,161</u>

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(8) Other Liabilities

The Federal Perkins Loan Program Extension Act of 2015 expired and no additional legislation was passed to continue the extension. Therefore, beginning October 1, 2017, all colleges and universities were no longer allowed to award or disburse any new Perkins loans. As of June 30, 2018 Metropolitan State University of Denver has not liquidated/assigned the outstanding Perkins loans to the Department of Education (DoE) and will continue to service them. However, any excess liquid capital that has been received was allocated between the Federal Capital Contribution (FCC) and the Institutional Capital Contribution (ICC) and the FCC portion has been recorded as an "Other Noncurrent Liability". These funds are scheduled to be returned to the DoE after their review and approval of the 2018 Fiscal Operations Report and Application to Participate (FISAP).

When the University initially adopted the Perkins Loan program it was accounted for as grant revenue and the balance was recorded as Restricted for Expendable Net Position. This treatment was deemed acceptable by GASB Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions. However, now that the DoE will require the University to return the FCC, we are required to reclassify the Restricted for Expendable Net Position to a liability. Therefore, the FCC portion of the University's Perkins loans that is not already recorded as a current liability is presented as an "Other Non-Current Liability".

(9) Compensated Absences

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public University and Universities*, require that compensated absences be broken out into current and noncurrent liabilities. Employees may accrue annual and sick leave based on the length of service and, subject to certain limitations regarding the amount, will be paid upon termination. The estimated costs of current compensated absences for which employees are vested for the years ended June 30, 2018 and 2017 are \$436,438 and \$370,734, respectively.

The estimated costs of noncurrent compensated absences for which employees are vested for the years ended June 30, 2018 and 2017 are \$3,205,065 and \$3,349,605, respectively. Fiscal years 2018 and 2017 operating expenses include a decrease of \$78,836 in fiscal year 2018 and an increase of \$111,350 in fiscal year 2017, for the estimated compensated absence liability.

(10) Defined Contribution Pension Plan

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) (described in note 11) or participating in the ORP. New faculty and administrative staff members are required to enroll in the ORP unless they have one year or more service credit with PERA at the date of hire.

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

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The University's contributions to the ORP for the fiscal year ended June 30, 2018, and 2017 were \$6,730,772 and \$6,517,532, respectively. These contributions were equal to the required contributions. 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.

(11) Defined Benefit Pension Plan

i) Summary of Significant Accounting Policies

Metropolitan State University of Denver participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years. Governmental accounting standards require the net pension liability and related amounts of the SDTF for financial reporting purposes be measured using the plan provisions in effect as of the SDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled Changes between the measurement date of the net pension liability and June 30, 2018.

ii) General Information about the Pension Plan

Plan description. Eligible employees of the University are provided with pensions through the State Division Trust Fund (SDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided as of December 31, 2017. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA benefit structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.

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- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. State Troopers whose disability is caused by an on-the-job injury are immediately eligible to apply for disability benefits and do not have to meet the five years of service credit requirement. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contribution provisions as of June 30, 2018. Eligible employees and MSU Denver are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. Eligible employees, with the exception of State Troopers, are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements for all employees, except State Troopers, are summarized in the table below:

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	Fiscal Year 2017		Fiscal Year 2018	
	CY16	CY17		CY18
	7-1-16 to 12-31-16	1-1-17 to 6- 30-17	7-1-17 to 12-31-17	1-1-18 to 6- 30-18
Employer Contribution Rate ¹	10.15%	10.15%	10.15%	10.15%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f) ¹	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF	9.13%	9.13%	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 ¹	4.60%	5.00%	5.00%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411 ¹	4.50%	5.00%	5.00%	5.00%
Total Employer Contribution Rate to the SDTF ¹	18.23%	19.13%	19.13%	19.13%

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the University is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the University were \$8,353,678 and \$8,111,165 for the years ended June 30, 2018 and 2017 respectively.

iii) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018 and 2017, MSU Denver reported a liability of \$295,891,215 and \$274,136,264, respectively for its proportionate share of the net pension liability. The net pension liability for the SDTF as of June 30, 2018 and 2017 was measured as of December 31, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2017 and 2016. MSU Denver's proportion of the net pension liability was based on MSU Denver's contributions to the SDTF for the calendar year 2017 and 2016 relative to the total contributions of participating employers to the SDTF.

At December 31, 2017 and 2016, MSU Denver's proportion was 1.48 percent and 1.49 percent, respectively, which was a decrease of 1 basis point.

For the year ended June 30, 2018, and 2017, MSU Denver recognized pension expense of \$64,469,179 and \$52,283,969, respectively. At June 30, 2018 and 2017, MSU Denver reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	June 30 2018		June 30, 2017	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 4,613,634	-	\$ 2,724,941	-
Changes of assumptions or other inputs	51,377,998	-	69,742,034	843,805
Net difference between projected and actual earnings on pension plan investments	-	11,144,310	9,087,833	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	1,981,882	-	3,427,975
Contributions subsequent to the measurement date	4,201,715	-	4,144,676	-
Total	\$60,193,347	\$13,126,192	\$85,699,484	\$ 4,271,780

The \$4,201,715 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 28,472,606
2020	19,964,987
2021	(2,786,077)
2022	(2,786,076)

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.17 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
Post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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A discount rate of 4.72 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the SDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Discount rate. The discount rate used to measure the total pension liability was 4.72 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

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- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the SDTF's fiduciary net position was projected to be depleted in 2038 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2038 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2038 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.72 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.54 percent higher compared to the current measurement date.

Sensitivity of MSU Denver's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability as of June 30, 2017 and 2016, calculated using the discount rate of 5.26 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

As of June 30, 2018	1% Decrease (3.72%)	Current Discount Rate (4.72%)	1% Increase (5.72%)
Proportionate share of the net pension liability	\$368,109,918	\$295,891,215	\$236,604,084

As of June 30, 2017	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	\$339,534,728	\$274,136,264	\$220,406,387

Pension plan fiduciary net position. Detailed information about the SDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

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iv) Payables to the pension plan

MSU Denver had a \$10,172 and \$718,992 payable to the SDTF as of June 30, 2018 and 2017, respectively, which was comprised entirely of the June contributions legally required to be made to the plan.

v) Changes between the measurement date of the net pension liability and June 30, 2018

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: Concerning Modifications to the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.
- Expands eligibility to participate in the PERA DC Plan to new members hired on or after January 1, 2019, who are classified college and university employees in the State Division. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the SDTF will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

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At June 30, 2018, the University reported a liability of \$295,891,215 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.72%. For comparative purposes, the following schedule presents an estimate of what the University's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	\$ 140,309,573

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$132,039,526 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

(12) Other Retirement Plans

i) 401(k) Defined Contribution Plan

Plan Description - Employees of MSU Denver that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy - The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions.

ii) Deferred Compensation Plan

a) The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2017, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$18,000. Catch-up deferrals, up to the greater of \$6,000 (actual dollars) for participants who had attained age 50 before the close of the plan year or the limits of the special section 457 plan catch-up, were allowed in 2017, subject to the limitations of IRC § 414(v) and § 457(b).

Contributions and earnings are tax deferred. At December 31, 2017, the plan had 18,211 accounts.

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For the years ending June 30, 2018 and 2017, the University's contributions to the Deferred Compensation plan were \$475,874 and \$388,336, respectively.

- b) On July 1, 2013, the University also established a TIAA/CREF Lifecycle Excess Benefit 415(m) plan. The assets of this plan are owned and controlled by the University and are subject to the claims of the University's creditors; however, given that they are held in trust for the exclusive benefit of the participants and their beneficiaries, the employees have a vested interest. The excess benefits in this plan are not available to employees until termination, retirement, death or unforeseeable emergency. See note 2 for details of this plans' assets. As of June 30, 2018 the 415(m) plan had two participants.

(13) Defined Benefit Other Post-Employment Benefits (OPEB)

i) Health Care Trust Fund

Summary of Significant Accounting Policies

OPEB. *Metropolitan State University of Denver* participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the OPEB Plan

Plan description. Eligible employees of the University are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided. The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

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C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

PERA Benefit Structure

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$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 basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

Contributions. Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the University is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from Metropolitan State University of Denver were \$426,763 and \$426,779 for the years ended June 30, 2018 and 2017, respectively.

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OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the University reported a liability of \$6,661,518, for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The University's proportion of the net OPEB liability was based on the University's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the University's proportion was .51 percent, which was a decrease of .6 basis points from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018 the University recognized OPEB expense of \$507,858. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30 2018	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 31,503	-
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on pension plan investments	-	111,446
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	71,921
Contributions subsequent to the measurement date	225,805	-
Total	\$ 257,308	\$ 183,367

\$225,805 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:		
2019	\$	(35,802)
2020		(35,802)
2021		(35,802)
2022		(35,802)
2023		(7,941)
Thereafter		(715)

Actuarial assumptions. The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

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Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

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Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.

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- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA’s actuary, as needed.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA’s Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates. The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	\$ 6,478,234	\$ 6,661,518	\$ 6,882,271

Discount rate. The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.

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- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 7,489,640	\$ 6,661,518	\$ 5,954,692

OPEB plan fiduciary net position. Detailed information about the HCTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Payables to the pension plan

MSU Denver had a \$105 and \$7,409 payable to the HCTF as of June 30, 2018 and 2017, respectively, which was comprised entirely of the June contributions legally required to be made to the plan.

ii) Colorado Higher Education Insurance Benefits Alliance (CHEIBA)

University faculty and exempt administrative staff receive health insurance through the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool.

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.

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iii) Student Retirement Plan

Beginning in fiscal year 1993, in accordance with the provision of C.R.S. 24-54.6-101, 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 University for the fiscal years ended June 30, 2018 and 2017 was \$2,290,528 and \$2,239,101, respectively. Employee contributions for the fiscal years ended June 30, 2018 and 2017 were 7.5% of the covered payroll in the amount of \$171,794 and \$167,901, respectively.

(14) Commitments and Contingent Liabilities

The University entered into a non-exchange financial guarantee with the HLC@Metro Inc. This guarantee is a legal, valid, and binding obligation. As described in note 1b, the HLC@Metro Inc. is a discretely presented component unit of the University. The HLC@Metro Inc. was created as a special purpose corporation to manage the Hospitality Learning Center. This guarantee agreement dated October 1, 2010 with HLC@Metro, Inc., absolutely and unconditionally guarantees to Wells Fargo, HLC@Metro, Inc.'s trustee, the timely payment of all HLC@Metro, Inc.'s debt service payments on its Series 2010 bonds on a gross basis (without netting of any federal subsidy payments received or to be received). The guaranteed amounts are payable solely from available pledged revenues of the University, as discussed in note 7. This guarantee will remain in effect until there are no more outstanding payables on the HLC@Metro Inc.'s series 2010 bonds. Should the University have to step in and make any payments on behalf of the HLC@Metro Inc., the HLC@Metro Inc. is obligated to repay all the payments made on its behalf. As of June 30, 2018, the University has not had to pay any of these payments.

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

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

The State, including the University, is self-insured in regard to its general and automobile liability exposures. The University also participates in a State commercial insurance policy covering loss or damage to University property. Liability of State higher education institutions is limited by the Colorado Governmental Immunity Act. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years, nor have there been any significant reductions in insurance coverage from the prior year.

(15) Campus Shared Controlled Costs

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

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	Year ended June 30	
	2017	2017
Administration of Auraria Higher Education Center and operation and maintenance of plant	\$ 10,141,336	9,944,134
Controlled Maintenance	912,143	834,846
Library and Media Center	4,485,760	4,410,340
Total	\$ 15,539,239	15,189,320

The University's existing and future commitments to AHEC are established within the Senate Bill 10-1301. The University's ability to fulfill existing and future commitments is contingent upon funds being appropriated for such purposes. For the year ending June 30, 2019, the University's portion of shared costs is estimated to be \$16,112,352 (unaudited).

(16) Legislative Appropriations

The Colorado State Legislature establishes spending authority to the University in its annual Long Appropriations Bill (Long Bill). The Long Bill appropriated funds include re-appropriated funds from the State's College Opportunity Fund as well as cash funds from the student's share of tuition.

For the years ended June 30, 2018 and 2017, appropriated expenses were within the authorized spending authority. For the years ended June 30, 2018 and 2017, the University had a total appropriation of \$51,626,603 and \$51,415,001, respectively. For years ended June 30, 2018 and 2017, the University's appropriated funds consisted of \$31,966,747 and \$30,849,685, respectively, received from students that qualified for stipends from the College Opportunity Fund and \$19,659,856 and \$20,565,316, respectively, as fee-for-service contract revenue. As of June 30, 2018 and 2017 the University's total appropriation of cash funds for the student's share of tuition was \$111,744,494 and \$107,230,227, respectively. All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include student fees, grants and contracts, gifts, indirect cost recoveries, auxiliary revenues and other revenue sources.

(17) Component Unit Disclosures

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

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

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

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

(18) Related-Party Transactions

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

The University leased office space to the Foundation for \$8,274 for each of the fiscal years ending June 30, 2018 and 2017. During the years ended June 30, 2018 and 2017, the Foundation provided \$3,242,330 and \$2,821,689, respectively, of funding to the University for various purposes, such as scholarships, departmental funding, and other programs.

The University provides employees on a reimbursement basis to the Foundation. For the years ended June 30, 2018 and 2017, these expenses were \$339,554 and \$348,420, respectively. In addition, the University donates development and certain personnel costs to the Foundation, which totaled \$1,582,791 and \$1,523,913 for the years ended June 30, 2018 and 2017, respectively.

At June 30, 2018 and 2017, the University had receivables of \$441,268 and \$437,206, respectively, due from the Foundation. As of June 30, 2018 and 2017, the University had no outstanding payables due to the Foundation.

At June 30, 2018 and 2017, the University had no payables due to the HLC@Metro Inc. As of June 30, 2018 and 2017 there were no receivables due from the HLC@Metro Inc.

(19) Change in Accounting Principles

In fiscal year 2018 the University adopted GASB Statement No. 75 *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. Statement No. 75 requires the University to record a liability equal to its proportionate share of the net other post-employment benefits (OPEB) liability of PERACare. There was not enough information to restate prior year amounts, therefore, the University presented a restatement of the beginning Net Position.

Prior to the adoption of Statement No. 75, MSU Denver's fiscal year 2018 beginning net position was (\$87.2) million. After applying the requirements of Statement No. 75 and recording the net OPEB liability as of June 30, 2017, the restated fiscal year 2018 beginning net position is (\$93.7) million, with a change in net position of (\$6.5) million. The table below summarizes the restatement

	Before Restatement	FY17 Net OPEB Liability	FY17 Deferred Outflow*	As Restated
Net Position as of July 1, 2018	(\$87,233,132)	(6,729,984)	223,502	(93,739,614)

* Contributions after the measurement date

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Note 1 – Principal Activity and Significant Accounting Policies

Organization

Metropolitan State University of Denver Foundation (the Foundation) is a Colorado nonprofit organization established to promote the general welfare and development of Metropolitan State University of Denver (the University).

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

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

Adoption of FASB Accounting Standards Update 2015-07

As of July 1, 2017, for all periods presented, the Foundation adopted the provisions of FASB Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which are effective for fiscal years beginning after December 15, 2016. ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net assets value practical expedient in Accounting Standards Codification 820.

Cash and Cash Equivalents

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

Cash Held for Others

The Foundation serves as a repository of funds raised through the *Colorado Rockies Foundation 50/50 Raffle* on behalf of Metropolitan State University of Denver Alumni Association, a separate Colorado nonprofit organization.

Promises to Give

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

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Property and Equipment

Property and equipment additions over \$5,000 with useful lives exceeding one year are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, at present solely the building at 965 Santa Fe, of thirty years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2018 and 2017.

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

Beneficial Interest in Charitable Trust Held by Others

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

Investments

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

Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for particular uses (Note 8).

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

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

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

Revenue Recognition

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

Donated Professional Services, In-kind Contributions, and Services Received from the University

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

Functional Allocation of Expenses

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

Income Taxes

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

The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Foundation files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

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Management believes that the Foundation has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Foundation's Forms 990, 990-T and other income tax filings required by state, local, or non-U.S. tax authorities are no longer subject to tax examination for years before 2014.

Estimates

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

Financial Instruments and Credit Risk

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

Subsequent Events

The Foundation has evaluated subsequent events through September 25, 2018, the date the consolidated financial statements were available to be issued.

Note 2 – Fair Value Measurements and Disclosures

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

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

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

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

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

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

A significant portion of the Foundation's investment assets are classified within Level 1 because they are comprised of open-end mutual funds and investment trusts with readily determinable fair values based on daily redemption values.

The fair value of the Foundation's beneficial interest in a charitable trust held by others is determined by the Foundation using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets, and is based on the fair values of the trust investments as reported by the trustee. The investment in private equity is reported at fair value, as determined by the Foundation, utilizing the most current information provided by the investee. These are considered to be Level 3 measurements.

The Foundation uses net asset value (NAV) per share, or its equivalent, such as member units, as a practical expedient to estimate the fair value of a limited liability company, which does not have a readily determinable fair value. The investment, which is valued using NAV per share as practical expedient is not classified in the fair value hierarchy.

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The following table presents assets measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient, as identified below, at June 30, 2018:

	Fair Value Measurements at Report Date Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Investments					
Cash and money market funds (at cost)	\$ 2,415,647	\$ 2,415,647	\$ -	\$ -	\$ -
Fixed income mutual funds					
U.S. Government securities	1,524,323	1,524,323	-	-	-
Bond	953,540	953,540	-	-	-
High-yield bond	288,081	288,081	-	-	-
Equity and other mutual funds					
U.S. common stocks	1,543,466	1,543,466	-	-	-
Small to mid-cap equity	931,127	931,127	-	-	-
International equity	544,606	544,606	-	-	-
Emerging market	271,445	271,445	-	-	-
Futures and commodity	540,807	540,807	-	-	-
Preferred stocks	3,208	3,208	-	-	-
Real estate investment trusts	97,973	97,973	-	-	-
Private equity	79,496	-	-	79,496	-
	<u>\$ 9,193,719</u>	<u>\$ 9,114,223</u>	<u>\$ -</u>	<u>\$ 79,496</u>	<u>\$ -</u>
Endowment Investments					
Cash and money market funds (at cost)	\$ 429,919	\$ 429,919	\$ -	\$ -	\$ -
Fixed income mutual funds					
U.S. Government securities	194,265	194,265	-	-	-
Bond	1,866,804	1,866,804	-	-	-
High-yield bond	582,515	582,515	-	-	-
Equity and other mutual funds					
U.S. common stocks	3,114,542	3,114,542	-	-	-
Small to mid-cap equity	1,811,085	1,811,085	-	-	-
International equity	1,084,243	1,084,243	-	-	-
Emerging market	554,187	554,187	-	-	-
Futures and commodity	779,093	779,093	-	-	-
Preferred stocks	7,484	7,484	-	-	-
Real estate investment trusts	193,743	193,743	-	-	-
Limited partnership	259,173	-	-	-	259,173
	<u>\$ 10,877,053</u>	<u>\$ 10,617,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 259,173</u>
Beneficial interest in					
Charitable trust held by others	\$ 151,946	\$ -	\$ -	\$ 151,946	\$ -

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The following table presents assets measured at fair value on a recurring basis, except those measured at cost, as identified below, at June 30, 2017:

	Fair Value Measurements at Report Date Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Investments					
Cash and money market funds (at cost)	\$ 694,515	\$ -	\$ -	\$ -	\$ -
Fixed income mutual funds					
U.S. Government securities	1,555,176	1,555,176	-	-	-
Bond	1,061,402	1,061,402	-	-	-
High-yield bond	314,503	314,503	-	-	-
Equity mutual funds					
U.S. common stocks	1,563,594	1,563,594	-	-	-
Small to mid-cap equity	931,036	931,036	-	-	-
International equity	599,330	599,330	-	-	-
Emerging market	307,799	307,799	-	-	-
Futures and commodity	568,212	568,212	-	-	-
Preferred stocks	18,046	18,046	-	-	-
Real estate investment trusts	107,386	107,386	-	-	-
Private equity	86,943	-	-	86,943	-
	<u>\$ 7,807,942</u>	<u>\$ 7,026,484</u>	<u>\$ -</u>	<u>\$ 86,943</u>	<u>\$ -</u>
Endowment Investments					
Cash and money market funds (at cost)	\$ 598,879	\$ -	\$ -	\$ -	\$ -
Fixed income mutual funds					
U.S. Government securities	115,932	115,932	-	-	-
Bond	1,628,057	1,628,057	-	-	-
High-yield bond	520,519	520,519	-	-	-
Equity and other mutual funds					
U.S. common stocks	2,653,610	2,653,610	-	-	-
Small to mid-cap equity	1,323,481	1,323,481	-	-	-
International equity	944,490	944,490	-	-	-
Emerging market	489,181	489,181	-	-	-
Futures and commodity	703,905	703,905	-	-	-
Preferred stocks	29,099	29,099	-	-	-
Real estate investment trusts	167,737	167,737	-	-	-
Limited partnership	278,524	-	-	-	278,524
	<u>\$ 9,453,414</u>	<u>\$ 8,576,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 278,524</u>
Beneficial interest in charitable trust held by others	<u>\$ 118,403</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,403</u>	<u>\$ -</u>

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Below is a reconciliation of the beginning and ending balances of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2018 and 2017:

	<u>Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)</u>	
	<u>Beneficial interest in charitable trust</u>	<u>Private equity</u>
<u>Year ended June 30, 2018</u>		
Balance, beginning of year	\$ 118,403	\$ 86,943
Net realized and unrealized gain (loss)	33,543	(7,447)
Balance, end of year	<u>\$ 151,946</u>	<u>\$ 79,496</u>
Unrealized gain (loss) included in net investment return and change in beneficial interest in the statement of activities relating to assets still held at June 30, 2018	<u>\$ 33,543</u>	<u>\$ (7,447)</u>
<u>Year ended June 30, 2017</u>		
Balance, beginning of year	\$ 112,570	\$ 100,000
Net realized and unrealized gain (loss)	5,833	(13,057)
Balance, end of year	<u>\$ 118,403</u>	<u>\$ 86,943</u>
Unrealized gain (loss) included in net investment return and change in beneficial interest in the statement of activities relating to assets still held at June 30, 2017	<u>\$ 5,833</u>	<u>\$ (13,057)</u>

The Foundation has an investment in a limited liability company that calculates NAV per share, with a fair value of \$259,173 and \$278,524 at June 30, 2018 and 2017, respectively. Redemptions are permitted monthly and quarterly with a 90-day redemption notice. The Foundation has no unfunded commitments as of June 30, 2018. The investment's objective is to provide exposure to European and U.S. sub-investment grade corporate debt while seeking to achieve total returns with modest volatility and focusing on capital preservation and risk mitigation.

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Note 3 – Net Investment Return

Net investment return consists of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investments		
Interest and dividend income	\$ 125,342	\$ 108,621
Net realized and unrealized gain	339,999	274,206
Less investment management and custodial fees	<u>(33,863)</u>	<u>(26,286)</u>
	431,478	356,541
Endowment investments		
Interest and dividend income	214,984	160,914
Net realized and unrealized gain	606,041	740,637
Less investment management and custodial fees	<u>(224,526)</u>	<u>(173,287)</u>
	596,499	728,264
	<u>\$ 1,027,977</u>	<u>\$ 1,084,805</u>

Note 4 – Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Within one year	\$ 1,552,105	\$ 1,118,186
In one to five years	2,983,327	2,804,086
In more than five years	<u>6,384</u>	<u>6,384</u>
	4,541,816	3,928,656
Less discount to net present value (3.5% - 5.00%)	(228,615)	(272,586)
Less allowance for uncollectable promises to give	<u>(56,000)</u>	<u>(39,000)</u>
	<u>\$ 4,257,201</u>	<u>\$ 3,617,070</u>

Promises to give appear as follows in the consolidated statement of financial position:

	<u>2018</u>	<u>2017</u>
Promises to give, net	\$ 1,874,527	\$ 1,109,616
Endowment promises to give, net	<u>2,382,674</u>	<u>2,507,454</u>
	<u>\$ 4,257,201</u>	<u>\$ 3,617,070</u>

At June 30, 2018 and 2017, four and three donors accounted for 65% and 71% of total promises to give, respectively.

During the year ended June 30, 2017, the Foundation received an intention to give totaling \$2,000,000 for the Endowed Scholarship and Capital Improvement Funds. The donors retain the right to extend the time frame of payments and intend to fulfill the gift from the remainder of their estate, the future value of which is not determinable; therefore, the intention to give has not been recognized.

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Note 5 – Property and Equipment

Property and equipment consists of the following at June 30, 2018 and 2017:

	2018	2017
Center for Visual Arts		
Land	\$ 456,400	\$ 456,400
Building	1,023,472	1,023,472
	1,479,872	1,479,872
Less accumulated depreciation	(300,820)	(265,420)
	1,179,052	1,214,452
Nondepreciated artwork	261,950	261,950
	\$ 1,441,002	\$ 1,476,402

Note 6 – Leases

During the year ended June 30, 2010, the LLC purchased a commercial building at 965 Santa Fe Drive to house the operations of the CVA. Effective March 1, 2010, the LLC and the University entered into a three-year non-cancellable lease which has since been renewed through June 30, 2021. Under the agreement the University paid annual rent for the years ended June 30, 2018 and 2017 in the amount of \$100,000. In addition to the annual minimum rent, the University reimburses the LLC for actual expenses incurred for the maintenance and operation of the premises, which approximate \$35,000 per year.

Note 7 – Endowment

The Foundation's endowment (Endowment) is composed of 55 individual permanent endowment funds (Permanent Endowment) and 123 purpose-restricted quasi-endowment funds (Quasi-Endowment). The funds were established by donors primarily to provide scholarships to eligible students of the University, and to support academic departments, student activities, and other purposes of the University. Permanent Endowment funds are permanent charitable funds whose principal must be preserved in perpetuity as a condition imposed by the donor. Quasi-Endowment funds are purpose-restricted board-designated gifts whose principal is intended to be maintained in perpetuity, but which may be expended in accordance with the University's spending-rate policy, with no requirement that any such expenditure be replenished. The Foundation's Board of Directors has not designated any of the Foundation's unrestricted net assets to function as endowment. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair values of original Permanent Endowment gifts, as of each gift date, absent explicit donor instructions to the contrary. At June 30, 2018 and 2017, there were no contrary donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts to the Permanent Endowment, (b) the original value of subsequent gifts to the Permanent Endowment, and (c) accumulations to the Permanent Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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

As of June 30, 2018 and 2017, the Foundation had the following endowment net asset composition by type of fund:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2018</u>				
Purpose-restricted quasi-endowment	\$ -	\$ 5,802,310	\$ -	\$ 5,802,310
Donor-restricted permanent endowment	(1,742)	364,350	7,094,809	7,457,417
	<u>\$ (1,742)</u>	<u>\$ 6,166,660</u>	<u>\$ 7,094,809</u>	<u>\$ 13,259,727</u>
<u>June 30, 2017</u>				
Purpose-restricted quasi-endowment	\$ -	\$ 5,367,885	\$ -	\$ 5,367,885
Donor-restricted permanent endowment	(902)	230,723	6,363,162	6,592,983
	<u>\$ (902)</u>	<u>\$ 5,598,608</u>	<u>\$ 6,363,162</u>	<u>\$ 11,960,868</u>

At June 30, 2018 and 2017, certain Permanent Endowment funds had fair values less than the amount of the original gifts (the permanently restricted portion of the funds). Deficiencies of \$1,742 and \$902 have been reported in unrestricted net assets on those dates, respectively. The deficiencies resulted from unfavorable market fluctuations. The Foundation has suspended distributions from these funds until such time as the deficiencies are recovered via market returns; however, there is no legal obligation for the Foundation to fund the deficiencies.

Investment and Spending Policies

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

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

Changes in Endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Year ended June 30, 2018</u>				
Endowment net assets, beginning of year	\$ (902)	\$ 5,598,608	\$ 6,363,162	\$ 11,960,868
Net investment return				
Investment loss, net of fees	-	(9,542)	-	(9,542)
Net realized and unrealized gain (loss)	(840)	606,881	-	606,041
Total net investment return	<u>(840)</u>	<u>597,339</u>	<u>-</u>	<u>596,499</u>
Contributions	-	239,420	442,909	682,329
Matching pursuant to donor agreements	-	133,787	234,694	368,481
Distributions pursuant to endowment spending-rate formula	-	(370,470)	-	(370,470)
Loss on uncollectable promise to give	-	-	(7,900)	(7,900)
Change in donor intent	-	(32,024)	61,944	29,920
Endowment net assets, end of year	<u>\$ (1,742)</u>	<u>\$ 6,166,660</u>	<u>\$ 7,094,809</u>	<u>\$ 13,259,727</u>
<u>Year ended June 30, 2017</u>				
Endowment net assets, beginning of year	\$ (21,993)	\$ 4,827,229	\$ 3,280,504	\$ 8,085,740
Net investment return				
Investment loss, net of fees	-	(12,373)	-	(12,373)
Net realized and unrealized gain	21,091	719,546	-	740,637
Total net investment return	<u>21,091</u>	<u>707,173</u>	<u>-</u>	<u>728,264</u>
Contributions	-	269,269	2,926,154	3,195,423
Matching pursuant to donor agreements	-	14,050	10,758	24,808
Distributions pursuant to endowment spending-rate formula	-	(257,992)	-	(257,992)
Change in donor intent	-	38,879	145,746	184,625
Endowment net assets, end of year	<u>\$ (902)</u>	<u>\$ 5,598,608</u>	<u>\$ 6,363,162</u>	<u>\$ 11,960,868</u>

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Note 8 – Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017, consist of:

	<u>2018</u>	<u>2017</u>
Restricted by donors for		
Scholarships	\$ 2,770,045	\$ 2,456,257
Academic, student and other activities	4,626,816	3,023,342
University capital projects	428,854	135,191
Purpose-restricted quasi-endowments		
Scholarships	5,428,034	5,016,251
Academic and other departments	374,276	351,634
Unspent appreciation of Endowment funds which must be appropriated for expenditure before use	364,350	230,723
	<u>\$ 13,992,375</u>	<u>\$ 11,213,398</u>

Net assets were released from (added to) restrictions as follows during the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restrictions		
Scholarships	\$ 1,657,472	\$ 1,344,918
Academic, student and other activities	1,499,879	1,815,709
University capital projects	182,994	213,254
Extension of donor restrictions under challenge match		
Scholarships (temporarily restricted)	(454,931)	(98,050)
Scholarships (permanently restricted)	(234,694)	(10,758)
	<u>\$ 2,650,720</u>	<u>\$ 3,265,073</u>

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

Permanently restricted net asset balances, categorized by the nature of the restrictions on their earnings, are as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Restricted by donors for		
Scholarships	\$ 3,664,812	\$ 4,346,903
Academic, student and other activities	3,581,943	2,134,662
	<u>\$ 7,246,755</u>	<u>\$ 6,481,565</u>

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Board-designated net assets at June 30, 2018 and 2017 consist of:

	<u>2018</u>	<u>2017</u>
University program	\$ 1,000,000	\$ 1,000,000
Matching	201,567	891,192
	<u>\$ 1,201,567</u>	<u>\$ 1,891,192</u>

HLC@Metro transferred excess revenues of \$2,000,000 to the Foundation during the year ended June 30, 2017 (Note 11). The Board of Directors designated \$1,000,000 as reserve funding for the establishment of a new School within the University. The remaining \$1,000,000 was designated for scholarships and applied to creating matching opportunities for gifts from new or lapsed donors, or stimulating increased levels of support from current donors. During the years ended June 30, 2018 and 2017, \$689,625 and \$108,808, respectively, of the funds were undesignated and used to satisfy the extension of donor restrictions under the challenge match program.

Note 9 – Donated Professional Services and In-kind Contributions

The Foundation received donated professional services and materials as follows during the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program services		
Materials	\$ 33,513	\$ 27,196
Equipment	125,930	-
Donor development		
Development office compensation - University	1,582,791	1,523,913
	<u>\$ 1,742,234</u>	<u>\$ 1,551,109</u>

Note 10 – Functionalized Expenses

Total expenses by function were as follows for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program services expense	\$ 3,233,702	\$ 3,170,827
General and administrative costs (includes investment management fees of \$258,389 and \$199,573, respectively)	821,286	708,940
Donor development costs	1,582,791	1,523,913
Cost of direct benefits to donors	59,963	180,292
Total functionalized expenses	<u>\$ 5,697,742</u>	<u>\$ 5,583,972</u>

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Note 11 – Commitments and Contingencies

The Foundation has agreements with the University to use its best efforts to raise cash and in-kind contributions for University Hospitality Center (HLC@Metro), and for recently completed construction and improvement of the University’s athletic fields. The agreements are conditioned on the Foundation’s ability to collect donor contributions restricted to the respective projects; as contributions are collected, the Foundation records a liability to HLC@Metro or the University, as appropriate, and a corresponding contribution expense.

The agreements also require HLC@Metro to transfer excess revenues, after paying expenses and funding certain reserves, to the Foundation. The Foundation may use the funds distributed from HLC@Metro’s excess revenues to further the general academic objectives and priorities of the University so long as at least 50% of such funds are used for scholarships.

Note 12 – Related Party Transactions

Transactions with the University consist of the following during the years ended June 30, 2018 and 2017:

	2018	2017
Funding provided to the University	\$ 3,176,966	\$ 3,107,250
Payable to the University	495,287	507,623
Cash held for the Alumni Association	121,928	-
Payments for salaries and benefits to the University	339,554	348,420
Payments for rent to the University	8,274	8,274
Professional services donated by the University	1,582,791	1,523,913
Support provided by University for Summer Soiree	-	56,345
HLC@Metro distribution	-	2,000,000
Due from University	10,081	9,798
Reimbursement for CVA operating expenses	20,706	27,547
Reimbursement for CVA rent expense	100,000	100,000

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2016

NOTE 1 ORGANIZATION

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

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The accompanying financial statements include accounts of the HLC, which is a discretely presented component unit of the University. The University board of trustees gives the final approval in the appointment process of the HLC board of directors. As of June 30, 2018, two of the nine members are a University director or officer.

(b) Basis of Accounting

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

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Cash and Cash Equivalents

The HLC considers all highly liquid investments, including deposits with the State Treasury, as cash and cash equivalents. At June 30, 2018 and 2017, cash and cash equivalents in banks consisted of the following:

	2018	2017
Cash in Bank Accounts with Trustee (Wells Fargo)	\$ 7,932,784	\$ 7,473,222
Cash and Cash Equivalents Invested with State Treasury	1,087,180	1,098,320
Cash for Hotel Operations (Sage)	136,506	164,257
Total Cash and Cash Equivalents	\$ 9,156,470	\$ 8,735,799

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

HLC deposits part of its cash with the State Treasury. The Treasurer pools these deposits and invests them in securities approved by Section 24 75 601.1 of the Colorado Revised Statute (the Pool). Money deposited with the Treasurer is invested until the cash is needed. Earnings are allocated in proportion to the daily cash balance for all participants in the Pool. At June 30, 2018 and 2017, the HLC had cash on deposit with the State Treasurer of \$1,087,180 and \$1,098,320, respectively, which represented .014% of the total \$7,729 million and .016% of the total \$6,770 million, respectively, in deposits in the State Treasurer's Pool. At June 30, 2018 and 2017, the HLC had earned interest receivable of \$3,483 and \$2,390 in relation to the cash on deposit balance with the State Treasurer. These amounts are expected to be received by the custodian in the month following year end.

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

For the HLC's deposits with the State Treasury, the net unrealized loss for fiscal year 2018 and 2017 was \$12,780 and \$7,709, respectively. This net unrealized loss is included in cash and cash equivalents on the statement of financial position.

(e) Capital Assets

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

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

To the extent applicable, the HLC follows MSU Denver's accounting policies, including the policy of the "half-year" depreciation convention. The HLC recognized \$1,207,613 and \$1,179,679 in building, equipment, furniture, and software depreciation expense in fiscal years 2018 and 2017, respectively.

(f) Accounts Receivable

A summary of accounts receivable balances is as follows:

	<u>2018</u>	<u>2017</u>
BABS Subsidy	\$ 331,501	\$ 330,791
Due from the Foundation	54,018	71,715
Receivables of Hotel	241,186	149,747
Total Accounts Receivable	<u>\$ 626,705</u>	<u>\$ 552,253</u>

As of June 30, 2018, \$241,186 is due to the Hotel from external sources related to its operations. Of this balance, \$63,285 is from a travel agency, and the remaining balance is from outstanding corporate and personal accounts. As of June 30, 2017, \$149,747 is due to the Hotel from external sources related to its operations. Of this balance, \$87,082 is from a travel agency, and the remaining balance is from outstanding corporate and personal accounts. The hotel does not have any receivable balances that are greater than 90 days past due.

An allowance for uncollectible accounts is determined based on a specific review of outstanding balances. As of June 30, 2018 and 2017 the allowance for doubtful accounts was \$-0-.

(g) Use of Land

As noted in note 7, the University leased land under an operating lease agreement with AHEC totaling \$1.00 for the ground where the HLC hotel is built. This land was, in turn, subleased by the University to HLC for a period of 50 years for \$1.00 beginning on October 28, 2010. In accordance with generally accepted accounting principles for not-for-profit organizations, the use of the land below fair market was recorded as an asset at the inception of the lease. Each year, rent expense is recognized at estimated fair market value, reducing the value of the use of land asset. Rent expense for fiscal years 2018 and 2017 was \$110,311 for each year.

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

	<u>2018</u>	<u>2017</u>
Use of Land Asset - Beginning of Year	\$ 4,780,153	\$ 4,890,464
Lease Expense Related to Use of Land Asset	(110,311)	(110,311)
Use of Land Asset - End of Year	<u>\$ 4,669,842</u>	<u>\$ 4,780,153</u>

(h) Accounts Payable

As of June 30, 2018 and 2017, accounts payable primarily consists of amounts due to numerous vendors with small balances from Hotel operations.

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Bond Issuance Costs

Bond issuance costs are deferred and are being amortized on a straight-line basis over the life of the bonds. Total amortization expense of bond issuance costs for the years ended June 30, 2018 and 2017 were \$62,273 and \$62,273. Bond issuance costs are presented as a direct reduction of Bonds Payable.

(j) Revenue Recognition

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

(k) Expenses

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

(l) Net Assets

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

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

The HLC has no permanently restricted net assets.

(m) Use of Estimates

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

NOTE 3 FAIR VALUE MEASUREMENTS

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

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the HLC has the ability to access at the measurement date.

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2016

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 – Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At June 30, 2018 and 2017, all of the HLC's deposits within the Treasurer's Pool are a part of an internal investment pool and are considered to be cash and cash equivalents.

Additional information on the State Treasurer's pooled cash and investments may be obtained in the State's comprehensive annual financial report for the year ended June 30, 2018.

NOTE 4 BOND OBLIGATIONS

Total outstanding bonds at June 30 are summarized below:

	<u>Date of Issue</u>	<u>Amount Issued</u>	<u>2018</u>	<u>2017</u>
2010(A) Taxable Revenue Bonds				
(Build America Bonds)	10/28/2010	\$ 49,640,000	\$ 49,640,000	\$ 49,640,000
2010(B) Tax-Exempt Revenue Bonds	10/28/2010	4,500,000	2,225,000	3,300,000
Premium and Discount on 2010				
Series Bonds, Net of Amortization			(362,481)	(345,659)
Bond Issuance Costs,				
Net of Amortization			(796,824)	(859,098)
			<u>\$ 50,705,695</u>	<u>\$ 51,735,243</u>

Principal and interest requirements for all Series 2010 bonds, which are due semiannually every March and September, are summarized as follows at June 30, 2018.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	1,250,000	3,089,556	4,339,556
2020	1,300,000	3,037,787	4,337,787
2021	1,350,000	2,980,860	4,330,860
2022	1,385,000	2,919,990	4,304,990
2023	1,425,000	2,845,763	4,270,763
2024-2028	7,930,000	12,950,946	20,880,946
2029-2033	9,590,000	10,260,695	19,850,695
2034-2038	11,745,000	6,824,582	18,569,582
2039-2043	15,890,000	2,846,690	18,736,690
	<u>\$ 51,865,000</u>	<u>\$ 47,756,869</u>	<u>\$ 99,621,869</u>

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2016

NOTE 4 BOND OBLIGATIONS (CONTINUED)

Series 2010 Bonds

The RRAFA issued Series 2010 bonds on October 28, 2010 for the purpose of constructing the Hotel and Hospitality Learning Center. The proceeds of the bonds and its obligations were transferred to the HLC in fiscal year 2011. MSU Denver has entered into a guarantee agreement dated October 1, 2010 with the HLC. Per this agreement, MSU Denver absolutely and unconditionally guarantees to Wells Fargo, the HLC's trustee, the timely payments of all debt service payments on the Series 2010 bonds on a gross basis (without netting of any federal subsidy payments received or to be received) while said bonds are outstanding in the event HLC does not make the required debt service payments. The guaranteed amounts are payable solely from available pledged revenues of MSU Denver. For the years ended June 30, 2018 and 2017, MSU Denver was not required to, and did not make, any debt service payments on behalf of the HLC.

a) *Series 2010A*

On October 28, 2010, Series 2010A taxable revenue BABS were issued for \$49,640,000, bearing interest rates from 4.04% to 6.45%. The principal and interest are due on a semiannual basis with a maturity date of September 1, 2042. These payments range from \$1,039,426 to \$4,743,189. The bonds are qualified to receive a 35% interest subsidy from the federal government, which was expected to be \$24,742,234 over the life of the bonds. However, due to a government sequestrations, the subsidy was reduced by 6.9% and 6.6% as of June 30, 2018 and 2017. As of June 30, 2018 the government sequestration is anticipated to reduce the total subsidy received by \$1,479,711 over the life of the bonds. A total of \$7,391,689 and \$6,397,719 had been earned as of June 30, 2018 and 2017, respectively. A receivable of \$331,501 and \$330,791 was recorded as of June 30, 2018 and 2017, respectively.

b) *Series 2010B*

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

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

The Metropolitan State University of Denver Foundation receives contributions from various corporations, organizations and individuals on behalf of the HLC, which are temporarily restricted. At June 30, 2018 and 2017, temporarily restricted net assets are comprised of contributions related to future periods, contributions with a specific purpose, and land held for use, as described in Note 1 (I) as follows:

	2018	2017
Land Held for Use	4,669,842	4,780,153
Time Restrictions for Debt Service Payments	54,018	71,715
Total	\$ 4,723,860	\$ 4,851,868

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2016

NOTE 6 METROPOLITAN STATE UNIVERSITY OF DENVER FOUNDATION CONTRIBUTIONS

The Foundation exists for the purpose of soliciting and investing donations for MSU Denver. On September 21, 2010, the Foundation's board of directors adopted the Foundation Resolution providing a plan to use its best effort to raise approximately \$12 million in donations, sufficient to retire a portion of the HLC 2010 bonds. However, due to the difficulty of raising the remaining portion of the agreed upon \$12 million, the agreement was amended to include a more attainable fundraising goal of \$3.5 million. For the years ended June 30, 2018 and 2017, the Foundation contributed a total of \$57,466 and \$76,293, respectively, to the HLC. All amounts contributed by the Foundation for the years ended June 30, 2018 and 2017 were cash contributions to be used for the HLC's debt service requirements. The memorandum of understanding (MOU) between the HLC and Foundation calls for the HLC to distribute excess revenue, as defined by the official statement of the 2010 series bonds, derived from the operation of HLC to the Foundation. As of June 30, 2018 and 2017 HLC disbursed a total of \$-0- and \$2,000,000, respectively, of excess revenue to the Foundation.

NOTE 7 GROUND LEASE

As of June 30, 2018 and 2017, the HLC has no lease obligations. Trustees of the University have leased the HLC land from the Auraria Higher Education Center for a period of fifty (50) years in the amount of one dollar (\$1.00) for the term of the lease. This lease is specifically for the purpose of construction and operation of the Hotel and Hospitality Learning Center. See Note 2 (g) for more information on how the use of this land is recorded on the financial statements.

NOTE 8 INCOME TAX STATUS

The income of the HLC is derived from the exercise of essential government functions and, as such, is excluded from federal income tax under Section 115 of the Code; however, it would be subject to tax on any unrelated business income under Section 511(a)(2)(B). HLC believes that there was no unrelated business income for the years ended June 30, 2018 and 2017.

In accordance with Generally Accepted Accounting Principles, a private entity is required to disclose any material uncertain tax positions that management believes does not meet a "more-likely-than-not" standard of being sustained under an income tax audit and to record a liability for any such taxes including penalty and interest. Management of the HLC has not identified any uncertain tax positions that require the recording of a liability mentioned above for further disclosure. The HLC is currently not under any U.S. federal or state income tax examinations by tax authorities.

HLC@METRO, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2016

NOTE 9 DERIVATIVE FINANCIAL INSTRUMENT

On April 4, 2018 HLC entered into a forward starting interest rate swap to economically hedge the cash outflows on its planned issuance of variable rate debt in the future. HLC entered into an interest rate swap with a total notional amount of \$48,660,000, which amortizes each month beginning on October 1, 2020. Under the terms of the swap, HLC pays monthly fixed payments at a rate of 2.41 percent and receives a variable rate of 80 percent of one-month LIBOR. The effective date of the swap is September 1, 2020 and the termination date is July 1, 2042.

The interest rate swap agreement is recorded at fair value as a bond swap liability on the statements of financial position, which totaled a liability of \$662,406 and \$-0- as of June 30, 2018 and 2017, respectively. HLC is using this interest rate swap to mitigate its exposure to interest rate fluctuations associated with its variable rate debt. HLC does not use this agreement for speculative or trading purposes.

The change in fair value of the swap is recorded as unrealized loss on bond swap in the statements of activities and totaled \$662,406 and \$-0- for the years ended June 30, 2018 and 2017, respectively.

NOTE 10 COMMITMENTS

HLC has entered into several agreements ranging from architects, project managers, and purchasing agents to complete a 7-year brand-required refresh of the hotel to begin in fiscal year 2019. The total budget of the refresh is \$3.195 million and will be paid out of cash reserves.

NOTE 11 SUBSEQUENT EVENTS

HLC has evaluated its subsequent events as of December 13, 2018, the date that the financial statements were available to be issued. No events were identified requiring additional disclosure.

**METROPOLITAN STATE UNIVERSITY OF DENVER
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017 AND 2016**

As required by GASB 68 and GASB 75, the schedules below contains 10 years of changes in pension liability and net OPEB liability, respectively; however, historical information prior to implementing GASB 68 and GASB 75 is neither required nor available.

Net Pension Liability Schedules:

Ten Year Schedule						
Pension Plan's Fiscal Year Ending December 31,						
	2017	2016	2015	2014	2013	2012
Employer % of collective net pension liability	1.4781270908%	1.4924559492%	1.5215440022%	1.5816063970%	1.6167918453%	N/A
Employer share of collective net pension liability	295,891,215	274,136,264	160,234,301	148,774,027	144,023,349	N/A
Employer's covered-employee payroll	44,952,251	43,902,245	43,884,297	44,178,569	43,104,113	N/A
Employer's share of the collective net pension liability as a % of employer's covered-employee payroll	658.23%	624.42%	365.13%	336.76%	334.13%	N/A
Pension plan's fiduciary net position as a % of total pension liability	43.20%	42.59%	56.11%	59.84%	61.08%	N/A

Ten Year Schedule										
MSU Denver's Fiscal Year Ending June 30,										
	2018		2017		2016		2015		2014	
	Jan-June	July-Dec								
	2018	2017	2017	2016	2016	2015	2015	2014	2014	2013
Required employer base contribution	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Portion of Required employer base contribution apportioned to the Health Care Trust Fund	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%
Net required employer base contribution apportioned to the SDTF	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
Required employer Amortization Equalization Disbursement contribution	5.00%	5.00%	5.00%	4.60%	4.60%	4.20%	4.20%	3.80%	3.80%	3.40%
Required employer Supplemental Amortization Equalization Disbursement contribution	5.00%	5.00%	5.00%	4.50%	4.50%	4.00%	4.00%	3.50%	3.50%	3.00%
Total Required PERA contribution to the SDTF	19.13%	19.13%	19.13%	18.23%	18.23%	17.33%	17.33%	16.43%	16.43%	15.53%

Ten Year Schedule						
	2018		2017		2016	
	July 1, 2017		July 1, 2016		July 1, 2015	
	June 30, 2018		June 30, 2017		June 30, 2016	
Contributions recognized by PERA (not including HCTF)	\$	8,353,678	\$	8,111,165	\$	7,443,386
Difference between required contributions and those recognized by PERA	\$	-	\$	-	\$	-
Employer's covered-employee payroll	\$	45,201,242	\$	44,800,352	\$	43,503,821
Percent of contributions recognized by pension plan of employers covered payroll		18%		18%		17%
						16%
						N/A

**METROPOLITAN STATE UNIVERSITY OF DENVER
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017 AND 2016**

OPEB Schedules:

Other Post Employment Benefit Plan's Fiscal Year Ending December 31,		
	2017	2016
Employer % of collective net pension liability	0.5125821473%	0.5190749732%
Employer share of collective net OPEB liability	6,661,518	6,729,984
Employer's covered-employee payroll	44,952,251	43,902,245
Employer's share of the collective net OPEB liability as a % of employer's covered-employee payroll	14.82%	15.33%
Pension plan's fiduciary net position as a % of total OPEB liability	17.53%	16.72%

Ten Year Schedule		
	2018	2017
	July 1, 2017	July 1, 2016
	June 30, 2018	June 30, 2017
OPEB contributions recognized by PERA (not including HCTF)	\$ 426,763	\$ 426,779
Difference between required OPEB contributions and those recognized by PERA	\$ -	\$ -
Employer's covered-employee payroll	\$ 45,201,242	\$ 44,800,352
Percent of contributions recognized by OPEB plan of employers covered payroll	1%	1%



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

Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Metropolitan State University of Denver (the University), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 13, 2018. Our report includes a reference to other auditors who audited the financial statements of the Metropolitan University of Denver Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the Metropolitan State University of Denver Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in a separate communication as Recommendations No.'s 1, 2 and 3 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Metro State's Response to Findings

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Denver, Colorado
December 13, 2018



CliftonLarsonAllen

December 13, 2018

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

Ladies and Gentlemen:

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Metropolitan State University of Denver (the University), an institution of higher education of the State of Colorado, as of and for the year ended June 30, 2018, and have issued our report thereon dated of December 13, 2018. Our report includes reference to other auditors. Other auditors audited the financial statements of the Metropolitan State University of Denver Foundation, Inc. (the Foundation), a discretely presented component unit, and the Foundation's financial statements were not audited in accordance with *Government Auditing Standards*. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

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

As described in Note 19, the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which is effective for financial statement periods beginning after June 15, 2017. The adoption this Statement resulted in a cumulative effect entry as of the beginning of Fiscal Year 2018 of (\$6,506,482), which increased the OPEB liability and decreased unrestricted net position.

During the fiscal year, the University changed capitalization thresholds from \$5,000 to \$10,000. As a result of the change, the University removed all assets with historical cost of less than \$10,000 in the current year.

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

Accounting estimates

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

- Accounts and loans receivable are recorded net of estimated uncollectible amounts, approximating anticipated losses. Individual accounts are written off against the allowance when collection of the account appears doubtful.
- Capital assets are depreciated using the straight-line method and monthly convention over the estimated useful lives of the assets. Estimated useful lives range from 3 to 50 years.
- Compensated absences and related personnel expenses are recognized based on estimated balances due to employees upon termination or retirement. The limitations on such payments are defined by the rules associated with the personnel systems at the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service.
- Summer tuition revenue and fees are recognized based on an estimate that fifty percent of summer courses occur during the fiscal year and the other fifty percent deferred for the courses that occur in the subsequent fiscal year.
- Management's estimate of the net pension liability related to its participation in the PERA pension plan is based on actuarial assumptions and other inputs as described in Note 11 to the financial statements.
- Management's estimate of the net OPEB liability related to its participation in the PERA Health Care Trust Fund plan is based on actuarial assumptions and other inputs as described in Note 13 to the financial statements.
- Congress did not renew the Perkins Loan Program after September 30, 2017. As a result, no loan disbursements to students were permitted after June 30, 2018. The lack of renewal also means that the federal portion of the revolving loan program must be repaid to the Department of Education (ED) as by students repay loans to the school. As such, the Perkins Program Loan Liability is based upon the percentage of the federal capital contribution (reported annually on the FISAP) applied to the Perkins Loans Fund asset balance. This is the University's best estimate of the amount of funds that will be repaid to the ED as loans are collected from student.
- We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

We evaluated the key factors and assumptions used to develop the the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

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

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

Difficulties encountered in performing the audit

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

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined that the effect of the uncorrected misstatement is immaterial to the financial statements taken as a whole.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

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

Management representations

We have requested certain representations from management that are included in the management representation letter dated December 13, 2018.

Management consultations with other independent accountants

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

Significant issues discussed with management prior to engagement

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

Audits of group financial statements

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

Quality of component auditor's work

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

Limitations on the group audit

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

Other information in documents containing audited financial statements

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Denver, Colorado
December 13, 2018

**METROPOLITAN STATE UNIVERSITY OF DENVER
SUMMARY OF UNCORRECTED MISSTATEMENT
Year Ended June 30, 2018**

UNCORRECTED MISSTATEMENT

<u>Adj. No.</u>	<u>Financial Statement Caption/Description</u>	<u>Amount</u>
1	Beginning Net Position	\$ 1,433,918
	Depreciation Expense	\$ (160,704)
	Gain/Loss on Disposal of Assets	\$ (1,273,214)
	<p>To properly reflect the University's change in policy. The University changed its accounting policy regarding its threshold change for capitalizing assets from \$5,000 to \$10,000.</p>	

Amounts are shown as debits and (credits) to note the adjustment made or the effect on the account balance for the uncorrected misstatement