

**UNIVERSITY OF COLORADO FOUNDATION**

Consolidated Financial Statements

June 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

## **Independent Auditors' Report**

The Board of Directors  
University of Colorado Foundation:

We have audited the accompanying consolidated balance sheet of the University of Colorado Foundation (the Foundation) as of June 30, 2002, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Colorado Foundation as of June 30, 2002, and the results of their activities and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2001, from which the summarized information was derived. Such financial statements have been audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated September 7, 2001.

**KPMG LLP**

September 19, 2002

**UNIVERSITY OF COLORADO FOUNDATION**

Consolidated Balance Sheets

June 30, 2002 and 2001

<b>Assets</b>	<b>2002</b>	<b>2001</b>
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Cash and cash equivalents	\$ 3,608,720	4,079,782
Accounts receivable, net	364,755	487,710
Accrued interest and dividends receivable	79,974	74,915
Contributions receivable, net	81,501,329	86,436,844
Contributions receivable from charitable remainder trusts	7,110,452	11,016,434
Investments	502,208,166	524,936,786
Investments held by trustee	61,115,153	—
Assets held for transfer to the University	7,335,500	6,148,705
Property and equipment, net	8,078,552	6,471,742
Construction-in-progress	6,416,994	—
Other assets	1,635,764	148,225
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Total assets	\$ 679,455,359	639,801,143
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<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,978,226	2,027,039
Deposits held for others	680,728	391,949
Funds held in trust for others	2,092,638	2,391,191
Liabilities under split-interest agreements	31,194,789	34,431,278
University custodial funds	56,112,834	59,484,381
Deferred revenue	2,122,487	2,401,034
Capital lease liability	6,828,327	7,015,578
Bonds payable, net	69,252,055	—
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Total liabilities	170,262,084	108,142,450
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Commitments and contingencies (notes 7, 8, 11, and 12)		
Unrestricted net assets	19,168,810	28,512,009
Temporarily restricted net assets	324,596,147	345,866,217
Permanently restricted net assets	165,428,318	157,280,467
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Total net assets	509,193,275	531,658,693
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Total liabilities and net assets	\$ 679,455,359	639,801,143
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See accompanying notes to consolidated financial statements.

**UNIVERSITY OF COLORADO FOUNDATION**

Consolidated Statements of Activities

Years ended June 30, 2002 and 2001 (summarized)

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Permanently restricted net assets</u>	<u>Total net assets</u>	<u>Year ended June 30, 2001 (summarized)</u>
Support and revenue:					
Contributions	\$ 1,337,645	68,462,980	11,491,417	81,292,042	131,277,959
Net investment loss	(1,001,695)	(21,816,195)	(20,474)	(22,838,364)	(1,743,212)
University support	8,886,382	—	—	8,886,382	8,255,031
Change in value of split-interest agreements	(235,668)	(524,178)	(1,755,475)	(2,515,321)	(5,609,794)
Boulder Alumni Association revenue	3,254,848	—	—	3,254,848	3,280,827
Other revenue	446,750	902,252	—	1,349,002	1,183,426
Net assets released from restrictions	67,180,710	(67,180,710)	—	—	—
Total support and revenue	<u>79,868,972</u>	<u>(20,155,851)</u>	<u>9,715,468</u>	<u>69,428,589</u>	<u>136,644,237</u>
Expenses and distributions:					
Program services:					
Gifts and income distributed and applied	67,195,539	—	—	67,195,539	69,408,464
Boulder Alumni Association	3,157,054	—	—	3,157,054	3,046,653
Total program services	<u>70,352,593</u>	<u>—</u>	<u>—</u>	<u>70,352,593</u>	<u>72,455,117</u>
Supporting services:					
Administrative	5,821,573	—	—	5,821,573	5,260,919
Development	12,938,500	—	—	12,938,500	13,195,731
Total supporting services	<u>18,760,073</u>	<u>—</u>	<u>—</u>	<u>18,760,073</u>	<u>18,456,650</u>
Total expenses and distributions	<u>89,112,666</u>	<u>—</u>	<u>—</u>	<u>89,112,666</u>	<u>90,911,767</u>
Other changes in net assets	(99,505)	(1,114,219)	(1,567,617)	(2,781,341)	6,938,563
Total change in net assets	<u>(9,343,199)</u>	<u>(21,270,070)</u>	<u>8,147,851</u>	<u>(22,465,418)</u>	<u>52,671,033</u>
Net assets, beginning of year	<u>28,512,009</u>	<u>345,866,217</u>	<u>157,280,467</u>	<u>531,658,693</u>	<u>478,987,660</u>
Net assets, end of year	\$ <u>19,168,810</u>	<u>324,596,147</u>	<u>165,428,318</u>	<u>509,193,275</u>	<u>531,658,693</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF COLORADO FOUNDATION**

Consolidated Statements of Cash Flows

Years ended June 30, 2002 and 2001

	<b>2002</b>	<b>2001</b>
Cash flows from operating activities:		
Change in net assets	\$ (22,465,418)	52,671,033
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	707,655	822,725
Equipment received for transfer to the University	—	(4,800,000)
Other changes in operating assets and liabilities:		
Accounts receivable, net	122,955	95,062
Accrued interest and dividends receivable	(5,059)	15,761
Contributions receivable, net	8,841,497	(37,721,960)
Other assets	(47,306)	(20,846)
Accounts payable and accrued liabilities	(48,813)	824,040
Deposits held for others	288,779	38,189
Funds held in trust for others	(298,553)	(6,217,608)
Liabilities under split-interest agreements	(3,236,489)	2,815,213
University custodial funds	(3,371,547)	(3,460,690)
Deferred revenue	(278,547)	(311,707)
Interest and dividends restricted for investment	(7,133,282)	(5,362,219)
Net realized and unrealized losses on investments	27,805,269	13,800,245
Permanently restricted contributions	(11,491,417)	(19,303,864)
Net cash used in operating activities	(10,610,276)	(6,116,626)
Cash flows from investing activities:		
Net purchases of investments	(5,076,649)	(32,154,833)
Payments for construction-in-progress	(6,416,994)	—
Payments for construction of assets held for transfer to the University	(1,186,795)	(1,348,705)
Purchases of property and equipment	(2,314,465)	(315,195)
Net cash used in investing activities	(14,994,903)	(33,818,733)
Cash flows from financing activities:		
Permanently restricted contributions	11,491,417	19,303,864
Interest and dividends restricted for investment	7,133,282	5,362,219
Proceeds from bond issuance	69,252,055	—
Payment of deferred bond issue costs	(1,440,233)	—
Change in investments held by trustee	(61,115,153)	—
Payments on capital lease liability	(187,251)	(142,077)
Net cash provided by financing activities	25,134,117	24,524,006
Net decrease in cash and cash equivalents	(471,062)	(15,411,353)
Cash and cash equivalents, beginning of year	4,079,782	19,491,135
Cash and cash equivalents, end of year	\$ 3,608,720	4,079,782
Supplemental disclosure of noncash activities:		
Gift-in-kind contributions	\$ 8,006,001	10,017,040

See accompanying notes to consolidated financial statements.

# UNIVERSITY OF COLORADO FOUNDATION

## Notes to Consolidated Financial Statements

June 30, 2002 and 2001

### (1) Nature of the Organization

The University of Colorado Foundation (the Foundation) was created in 1967 and is authorized by the Board of Regents of the University of Colorado (the Regents) to solicit, receive, hold, invest, and transfer funds for the benefit of the University of Colorado (the University) and the University of Colorado Hospital Authority (the Hospital). The Foundation receives revenue from the University pursuant to an Agreement for Development Services between the Regents and the Foundation that is renewed annually. The current agreement expires June 30, 2003.

In June 2002, the Foundation established Bear Creek I, LLC (Bear Creek), a Colorado limited liability company whose sole member is the Foundation. Bear Creek was established for the purpose of developing and financing the construction of a student housing facility and related facilities on land located at the University's Williams Village property in Boulder, Colorado (see note 7).

### (2) Summary of Significant Accounting Policies

#### (a) *Principles of Consolidation and Basis of Presentation*

The accompanying consolidated financial statements reflect the consolidated results of the Foundation, Bear Creek, CU Foundation Holdings, Inc., and the CU Foundation Charitable Gift Fund. All significant intercompany transactions and accounts have been eliminated.

The net assets, support and revenue, program services, and supporting services in the accompanying consolidated financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

**Unrestricted Net Assets** – Net assets that are generally not subject to donor-imposed restrictions.

**Temporarily Restricted Net Assets** – Net assets subject to donor-imposed restrictions that may or will be met either with actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

**Permanently Restricted Net Assets** – Net assets subject to donor-imposed restrictions that are maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for specific or generally purposes.

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2001, from which the summarized information was derived. Such financial statements have been audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated September 7, 2001.

## UNIVERSITY OF COLORADO FOUNDATION

### Notes to Consolidated Financial Statements

June 30, 2002 and 2001

**(b) 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 at the date of the financial statements and the reported amounts of support, revenue, expenses, and distributions during the reported period. Actual results could differ from those estimates.

**(c) Tax Exempt Status**

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

**(d) Cash Flow Information**

For purposes of the consolidated statements of cash flows, cash and cash equivalents include money market accounts and investments purchased with original maturities of less than three months. Also, for the purposes of the statements of cash flows, gifts-in-kind include contributions of personal and other property which are distributed to the University. Gifts of stock and real estate are generally sold upon receipt and are included in operating cash flows.

**(e) Contributions**

Contributions are recognized when the donor makes an unconditional promise to give to the Foundation, the University, or its affiliates. Contributions received on behalf of the University or its affiliated entities are recorded as contributions in the consolidated statements of activities. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are released from restriction and are reclassified to unrestricted net assets.

The Foundation uses the allowance method to determine the uncollectible portion of unconditional contributions receivable. The allowance is based on management's analysis of the historical collectibility of contributions pledged to the Foundation. These promises to give are recorded at the net present value of the expected future cash flows using a risk-free interest rate.

During fiscal years 2001 and 2000, the Foundation recorded contributions receivable from a single donor totaling \$55 million that is expected to be received over a five-year period. To date, the Foundation has collected \$16 million of this pledge. The remaining balance of \$39 million comprises approximately 40% of contributions receivable at June 30, 2002.

The Foundation also has a contribution receivable from another donor that comprises approximately 6% of contributions receivable at June 30, 2002.

During fiscal year 2001, a donor made a pledge to contribute \$250 million in support of a center for cognitive disabilities at the University. The Foundation has recorded gift revenue of \$10 million in fiscal year 2001 from payments received from the donor in connection with this pledge. However, additional contributions will be made to a separate not-for-profit organization established by the

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2002 and 2001

donors (the Coleman Colorado Foundation). No amounts were received by the Foundation in fiscal year 2002. Accordingly, the Foundation has not recognized any contributions receivable in connection with this pledge.

**(f) Donated Property**

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless restricted by the donor. Donated property is recorded at fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at the time.

**(g) Investments**

Investments are comprised of marketable securities, interest in private equity partnerships, real estate, and other miscellaneous items. All investments are stated at fair value based upon quoted market prices, professional appraisals, and other readily determinable information. Unrealized gains and losses are included in the change in net assets. Restricted gains and investment income are generally reported as increases to temporarily restricted investment income and upon expiration of the restrictions are reclassified to unrestricted investment income.

**(h) Investments Held by Trustee**

Investments held by trustee represents funds received in connection with a bond issuance by Bear Creek as discussed in note 7.

**(i) Assets Held for Transfer to the University**

Assets held for transfer to the University represents costs incurred to develop a visualization center on the Boulder campus. A donor contributed equipment as well as cash for the development and ongoing operations of this center. The Foundation intends to transfer this asset to the University in fiscal 2003.

**(j) Property and Equipment**

All property and equipment are stated at cost, or fair value if donated, and depreciated over the following estimated useful lives using the straight-line method.

	<u>Estimated useful lives</u>
Furniture, fixtures, equipment, and other	3-7 years
Building and leasehold improvements	5-30 years
Building	15-30 years

Expenditures for maintenance, repairs, and minor replacements are charged to operations, and expenditures for major replacements and betterments in excess of \$5,000 are capitalized.

## UNIVERSITY OF COLORADO FOUNDATION

### Notes to Consolidated Financial Statements

June 30, 2002 and 2001

**(k) Construction in Progress**

Construction in progress represents costs incurred in connection with construction of a student housing residence for the Boulder Campus of the University of Colorado (see note 7).

**(l) Other Assets**

Other assets consist primarily of deferred bond issuance costs. The Foundation has capitalized approximately \$1.4 million of direct costs incurred in connection with the issuance of the Student Housing Revenue Bonds (see note 7). These costs are being amortized as additional interest expense over the term of the bonds.

**(m) Split-Interest Agreements**

The Foundation has beneficial interests in various split-interest agreements which include gift annuities, charitable remainder annuity trusts and unitrusts, and a pooled income fund. The Foundation typically serves as trustee, although certain trusts are administered by outside trustees. For trusts administered by the Foundation, specified earnings are typically paid to a named beneficiary. After termination of the trusts, the assets revert to the Foundation to create an endowment to support University activities or to be temporarily restricted for other purposes at the University. Assets received under such agreements are typically marketable equity and fixed income securities, are recorded at their market value and are included in investments in the accompanying consolidated balance sheets. The estimated net present value of the obligation to named beneficiaries is recorded as a liability under split-interest agreements. A risk-free rate, 5.8% and 6% at June 30, 2002 and 2001, respectively, obtained using U.S. Treasury bonds at the date of the gift, was used in conjunction with actuarially determined life expectancies to calculate present values. The excess of the fair value of assets received in excess of the obligation is recognized as contribution revenue at the date of the gift. Changes in the value of the investments are combined with the changes in the estimated liability and are recorded in the consolidated statements of activities.

In cases where a split-interest agreement is administered by an outside trustee, the Foundation records the estimated fair value of future cash flows from the trust as a contribution receivable from charitable remainder trusts at the point at which the Foundation becomes aware of its interest in the trust.

Under certain circumstances, the Foundation accepts and manages trust funds for which the Foundation or University has beneficial interest but is not the sole beneficiary of the trust. Funds received for which the Foundation or the University is not the ultimate beneficiary are included in funds held in trust for others in the accompanying consolidated balance sheets and are not included in contributions revenue to the Foundation.

**(n) University Custodial Funds**

University custodial funds consists of funds held by the Foundation for endowments legally owned by the University. These amounts are reflected as liabilities in the accompanying consolidated balance sheets.

## UNIVERSITY OF COLORADO FOUNDATION

### Notes to Consolidated Financial Statements

June 30, 2002 and 2001

(o) ***Deferred Revenue***

Deferred revenue consists primarily of unearned royalties associated with an agreement between a financial institution and the Boulder Alumni Association which runs through April 2005. Royalties from this agreement are recognized ratably over the term of the agreement.

The Foundation also defers alumni membership dues, which are recognized as revenue ratably over the term of the related membership period.

(p) ***Fair Value of Financial Instruments***

Cash, receivables, accounts payable, accrued liabilities, and deferred revenue, as reflected in the consolidated financial statements, approximate fair value due to the short-term nature of those instruments. Contributions receivable and the liabilities associated with split-interest agreements are recorded at the net estimated present value, which approximates the fair value for those instruments. University custodial funds are recorded at fair value. The fair value of the Foundation's investments is estimated based on quoted market prices or other third party information for those investments, and are disclosed in note 4.

(q) ***Functional Allocation of Expenses***

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

(r) ***Boulder Alumni Association***

Boulder Alumni Association revenue consists primarily of alumni membership dues, royalties from an agreement with a financial institution, financial support from the University, and fees charged for events.

(s) ***Other Changes in Net Assets***

Other changes in net assets include the recognition of additions or reductions to net assets not previously recorded. These changes have been excluded from support and revenue and expenses and distributions as they do not relate to fiscal year 2002 activities.

(t) ***Reclassifications***

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

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Notes to Consolidated Financial Statements

June 30, 2002 and 2001

**(3) Contributions Receivable**

Contributions receivable, net of allowance for uncollectible pledges and unamortized discount, are summarized as follows as of June 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Unconditional promises to give	\$ 99,407,976	105,372,431
Less allowance for uncollectible contributions receivable	(11,707,247)	(9,962,243)
Less unamortized discount	(6,199,400)	(8,973,344)
Net contributions receivable	\$ <u>81,501,329</u>	<u>86,436,844</u>

Discount rates ranged from 1.73% to 5.58% for outstanding contributions receivable.

Scheduled payments of contributions receivable are as follows at June 30, 2002:

Amounts due in:		
Less than one year	\$	27,185,067
One to five years		45,139,043
More than five years		9,177,219
Total	\$	<u>81,501,329</u>

**(4) Investments**

The Foundation's investment portfolio consists of investments allocated as equities, fixed income, and alternative investments. The liquidity of each asset class ranges from less than one month to greater than one year. The alternative investments accumulated unrealized gain is \$394,142 at June 30, 2002.

The following details each major category of investments and the related fair value as of June 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Equities:		
Domestic	\$ 200,052,652	225,046,639
International	70,235,773	71,205,609
Fixed income	89,423,963	107,037,831
Alternative:		
Real estate	25,788,652	23,906,142
Private equity	27,111,702	23,854,714
Hedge funds	21,438,080	20,991,155
Absolute return fund	42,502,840	20,359,707
Venture capital	8,830,379	17,591,882
Oil and gas	9,991,363	9,451,484
Other	6,832,762	5,491,623
Total investments	\$ <u>502,208,166</u>	<u>524,936,786</u>

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2002 and 2001

As of June 30, 2002, the Foundation was obligated to fund an additional \$77.1 million in future alternative investment commitments.

Net investment loss for the year ended June 30, 2002 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net realized losses	\$ (95,002)	(1,363,801)	(1,704)	(1,460,507)
Net change in unrealized losses	(2,188,477)	(26,397,464)	(42,300)	(28,628,241)
Interest, dividends, and other income	1,580,350	7,108,064	25,218	8,713,632
Investment management and custodial fees	<u>(298,566)</u>	<u>(1,162,994)</u>	<u>(1,688)</u>	<u>(1,463,248)</u>
	<u>\$ (1,001,695)</u>	<u>(21,816,195)</u>	<u>(20,474)</u>	<u>(22,838,364)</u>

Net investment loss for the year ended June 30, 2001 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net realized gains (losses)	\$ (1,587,525)	9,171,521	20,833	7,604,829
Net change in unrealized gains (losses)	7,647,120	(22,940,060)	(52,539)	(15,345,479)
Interest, dividends, and other income	1,774,027	5,352,687	9,533	7,136,247
Investment management and custodial fees	<u>(51,566)</u>	<u>(1,085,573)</u>	<u>(1,670)</u>	<u>(1,138,809)</u>
	<u>\$ 7,782,056</u>	<u>(9,501,425)</u>	<u>(23,843)</u>	<u>(1,743,212)</u>

**(5) Split-Interest Agreements**

Assets held under split-interest agreements are included in investments and consisted of the following as of June 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Beneficial interests in perpetual trusts held by others	\$ 5,001,268	6,598,333
Charitable unitrusts and other life income	38,954,163	45,656,468
Charitable annuity trusts	5,969,066	4,684,012
Charitable gift annuities	556,354	689,784
Pooled income funds	<u>460,897</u>	<u>453,520</u>
Total trust funds held by the Foundation	<u>45,940,480</u>	<u>51,483,784</u>
Assets held under split interest agreements	<u>\$ 50,941,748</u>	<u>58,082,117</u>

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Notes to Consolidated Financial Statements

June 30, 2002 and 2001

For the years ended June 30, 2002 and 2001, approximately \$2,692,000 and \$868,000 was included in temporarily and permanently restricted contributions revenue relating to new split-interest agreements.

**(6) Property and Equipment**

Property and equipment consisted of the following as of June 30, 2002 and 2001:

	<b>2002</b>	<b>2001</b>
Land, building, and improvements	\$ 6,450,952	6,329,487
Furniture and fixtures	1,144,776	1,009,457
Equipment and other	3,207,561	1,372,349
	10,803,289	8,711,293
Less accumulated depreciation	(2,724,737)	(2,239,551)
Net property and equipment	\$ 8,078,552	6,471,742

**(7) Student Housing Revenue Bonds**

In June 2002, the Colorado Educational and Cultural Facilities Authority (the Authority) issued \$69,090,000 of Series 2002 Student Housing Revenue Bonds (the Bonds). The Authority then loaned the proceeds of the Bonds to Bear Creek. The proceeds of the Bonds are to be used (i) to finance the costs of the construction, equipping and furnishing of a student housing facility and related facilities on land located at the University's Williams Village property in Boulder, Colorado and leased, or, in the case of certain property, licensed to Bear Creek pursuant to the terms of a Ground Lease dated as of June 1, 2002, (ii) to finance the construction and equipping of a portion of a community center, (iii) to fund interest during the construction period, and (iv) to pay costs of issuance. The Bonds were issued at a premium of \$162,055, which will be amortized as additional interest expense over the term of the Bonds.

The Bonds are special limited obligations of the Authority and are payable solely from 1) revenue payable under the Loan Agreement dated as of June 1, 2002 (the Loan Agreement), between the Authority and Bear Creek, including certain Net Pledged Revenues, as defined, as evidenced by a separate promissory note dated the date of issuance of the Bonds, 2) funds held by the trustee of the Bonds pursuant to the loan agreement, and 3) in certain events, moneys derived under a Commitment of Support entered into by and between the Foundation and the Authority and assigned to the trustee of the Bonds. The Foundation entered into a Commitment of Support with the Authority pursuant to which the Foundation agrees that as long as any of the Bonds are outstanding, it will contribute such amount as may be necessary to make up any deficiency in the Bond Fund on the business day preceding any date on which a payment is due on the Bonds. The Loan Agreement and other agreements contain certain financial and nonfinancial covenants, the most restrictive of which involves the generation of revenue in each fiscal year that the student housing facility is in operation in an amount at least equal to 120% of the actual annual debt service.

The Bonds are 30-year serial bonds maturing on July 1, 2032, and are subject to optional, mandatory, and extraordinary redemption prior to stated maturity. Payment of the principal of and interest on the Bonds when due are insured by a financial guaranty insurance policy. The Bonds bear interest at rates ranging from 2.50% to 5.375%. Interest is due semiannually on each January 1 and July 1, commencing January 1,

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Notes to Consolidated Financial Statements

June 30, 2002 and 2001

2003. Principal is due annually on each July 1, commencing July 1, 2005. At June 30, 2002, \$69,090,000 was outstanding on the 2002 Bonds, excluding the unamortized premium of \$162,055.

As part of the issuance of the Bonds, the Foundation incurred debt issuance costs of approximately \$1,440,000, which are being amortized over the term of the Bonds. These amounts are included in other assets in the accompanying consolidated balance sheet.

The following represents the mandatory principal redemptions on the Bonds as of June 30, 2002:

	<u>Principal repayments</u>
Year ending June 30:	
2005	\$ 1,200,000
2006	1,000,000
2007	1,200,000
Thereafter	<u>65,690,000</u>
	69,090,000
Plus premium on bonds payable	<u>162,055</u>
Net bonds payable	\$ <u><u>69,252,055</u></u>

Funds from the issuance of the Bonds that have not been expended are included in investments held by trustee. These funds are reflected at fair value and are invested in overnight repurchase agreements with a bank. Investments held by trustee are as follows at June 30, 2002:

Construction Fund	\$ 53,015,665
Bond Fund	6,399,488
Community Center Fund	<u>1,700,000</u>
	\$ <u><u>61,115,153</u></u>

Bear Creek has entered into an agreement with the developer to construct the Williams Village housing facility. The agreement contains a maximum commitment of approximately \$59,800,000. Bear Creek expects that the facility will be partially completed in August 2003 and fully completed in August 2004. As of June 30, 2002, the Foundation has incurred approximately \$6,417,000 of costs in connection with the construction of this project. These amounts are included in construction-in-progress in the accompanying consolidated balance sheets.

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2002 and 2001

**(8) Lease Obligations**

**(a) Capital Lease**

Effective October 1, 1999, the Foundation entered into an agreement to lease the building in which it operates at Walnut Street in Boulder, Colorado. Under terms of the lease, payments of \$54,750 are to be paid monthly through September 2014 subject to an annual CPI adjustment. Interest on the capital lease liability is imputed at 7.5% annually. The Foundation is also responsible for its share of the total costs incurred for operation, maintenance, and repair of the common areas as the sole tenant. In addition, the lessor has promised to make a nonreciprocal transfer of the building to the Foundation on or before September 2014 and, accordingly, as of June 30, 2002 and 2001, the Foundation has recognized a contribution receivable equal to the fair value of this promise to give less the premium paid (the excess of the present value of the future minimum lease payments over the estimated fair value of the building at the inception of the lease) under this lease agreement.

Future payments and interest are due under the capital lease as follows:

Total minimum lease payments required	\$	10,797,246
Less amount representing interest		(3,968,919)
Present value of minimum lease payments	\$	6,828,327
Year ending June 30:		
2003	\$	721,100
2004		746,338
2005		772,460
2006		799,496
2007		827,479
Thereafter		6,930,373
	\$	10,797,246

The net book value of property and equipment under the capital lease totaled \$4,695,833, net of \$1,054,167 of accumulated depreciation as of June 30, 2002.

**(b) Operating Leases**

The Foundation leases office space and equipment under rental agreements. Total rent expense for fiscal year 2002 and 2001 under these agreements was \$107,965 and \$71,172, respectively. Future minimum operating lease obligations for each of the next three years is as follows at June 30, 2002:

Year ending June 30:		
2003	\$	81,556
2004		50,303
2005		7,782
	\$	139,641

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2002 and 2001

**(9) Net Assets**

Restrictions placed upon net assets as of June 30, 2002 are as follows:

	<u>University</u>	<u>Hospital</u>	<u>Total</u>
Temporarily restricted:			
Academic	\$ 16,379,502	—	16,379,502
Faculty and staff compensation	5,338,685	—	5,338,685
Financial aid	60,601,665	26,018	60,627,683
Land, buildings, and equipment	31,990,533	42,337,366	74,327,899
Library	3,395,124	—	3,395,124
Professorship chairs	49,534,200	—	49,534,200
Research	33,346,487	297,146	33,643,633
Special programs	14,832,487	52,131	14,884,618
Other academic purposes	64,523,728	1,941,075	66,464,803
	<u>\$ 279,942,411</u>	<u>44,653,736</u>	<u>324,596,147</u>
Permanently restricted:			
Academic	\$ 3,976,082	—	3,976,082
Faculty and staff compensation	5,307,917	—	5,307,917
Financial aid	56,727,444	29,793	56,757,237
Land, buildings, and equipment	24,632	—	24,632
Library	5,401,905	—	5,401,905
Professorship chairs	46,391,479	—	46,391,479
Research	14,549,683	—	14,549,683
Special programs	10,982,456	—	10,982,456
Other academic purposes	22,011,927	25,000	22,036,927
	<u>\$ 165,373,525</u>	<u>54,793</u>	<u>165,428,318</u>

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2002 and 2001

Restrictions placed upon net assets as of June 30, 2001 are as follows:

	<u>University</u>	<u>Hospital</u>	<u>Total</u>
Temporarily restricted:			
Academic	\$ 8,792,980	—	8,792,980
Faculty and staff compensation	7,289,113	—	7,289,113
Financial aid	69,771,263	8,947	69,780,210
Land, buildings, and equipment	31,634,690	48,679,471	80,314,161
Library	4,360,591	—	4,360,591
Professorship chairs	64,967,584	—	64,967,584
Research	34,146,077	141,081	34,287,158
Special programs	18,186,888	42,935	18,229,823
Other academic purposes	57,447,208	397,389	57,844,597
	<u>\$ 296,596,394</u>	<u>49,269,823</u>	<u>345,866,217</u>
Permanently restricted:			
Academic	\$ 2,810,494	—	2,810,494
Faculty and staff compensation	6,223,718	—	6,223,718
Financial aid	52,353,148	24,793	52,377,941
Land, buildings, and equipment	148,909	—	148,909
Library	6,525,719	—	6,525,719
Professorship chairs	46,492,443	—	46,492,443
Research	12,797,107	—	12,797,107
Special programs	12,653,805	—	12,653,805
Other academic purposes	17,250,331	—	17,250,331
	<u>\$ 157,255,674</u>	<u>24,793</u>	<u>157,280,467</u>

**(10) Gifts and Income Distributed and Applied**

Gifts and income distributed and applied for the year ended June 30, 2002 were as follows:

	<u>University</u>	<u>Hospital</u>	<u>Total</u>
Academic	\$ 2,940,868	—	2,940,868
Faculty and staff compensation	1,421,951	—	1,421,951
Financial aid	11,321,553	827	11,322,380
Land, buildings, and equipment	12,708,344	12,023,718	24,732,062
Library	203,133	—	203,133
Professorship chairs	3,703,167	—	3,703,167
Research	6,510,673	475	6,511,148
Special programs	3,273,314	6,229	3,279,543
Other academic purposes	13,004,086	77,201	13,081,287
	<u>\$ 55,087,089</u>	<u>12,108,450</u>	<u>67,195,539</u>

## UNIVERSITY OF COLORADO FOUNDATION

### Notes to Consolidated Financial Statements

June 30, 2002 and 2001

Gifts and income distributed and applied for the year ended June 30, 2001 were as follows:

	<b>University</b>	<b>Hospital</b>	<b>Total</b>
Academic	\$ 3,393,411	—	3,393,411
Faculty and staff compensation	1,470,207	—	1,470,207
Financial aid	8,992,175	1,500	8,993,675
Land, buildings, and equipment	18,288,576	10,725,713	29,014,289
Library	537,186	—	537,186
Professorship chairs	3,205,467	—	3,205,467
Research	4,705,675	—	4,705,675
Special programs	2,476,522	9,201	2,485,723
Other academic purposes	15,442,207	160,624	15,602,831
	\$ 58,511,426	10,897,038	69,408,464

#### (11) Employee Benefit Plan

The Foundation has established an employee benefit plan which is governed by Section 403(b) of the Internal Revenue Code. The Foundation matches employee contributions at a rate of 5% to 9%. For the fiscal years ended June 30, 2002 and 2001, the Foundation's matching contributions were \$811,592 and \$764,723, respectively.

#### (12) Subsequent Events

Subsequent to year end, the Foundation formed a wholly owned subsidiary, Cragwood 3955, LLC (Cragwood). In August 2002, Cragwood entered into an agreement to purchase an office building in Colorado Springs, Colorado at a purchase price of \$7.4 million. To facilitate the purchase of the building, the Foundation established a \$10 million line of credit with a bank and borrowed funds of approximately \$6.4 million. The remainder of the purchase price was funded by a gift from a donor.

In conjunction with the purchase of the property, Cragwood entered into a lease agreement with the Colorado Springs Campus of the University of Colorado. According to the terms of the lease agreement, Cragwood agreed to lease the office building to the University for a ten-year period beginning January 2003 in exchange for annual lease payments of \$550,000. The annual lease payments are subject to adjustment in conjunction with the Foundation's arrangement of a permanent financing arrangement for the building. The University has the right to purchase the building at any time from Cragwood in exchange for the payoff of any amounts outstanding on any financing arrangement, along with other costs outstanding related to the Cragwood transaction.