



**UNIVERSITY OF COLORADO FOUNDATION**

Consolidated Financial Statements

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)



Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

## 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, 2003, 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. The prior year summarized comparative information has been derived from the Foundation's 2002 consolidated financial statements, and, in our report dated September 19, 2002, we expressed an unqualified opinion on those consolidated financial statements.

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, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

September 12, 2003



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**UNIVERSITY OF COLORADO FOUNDATION**

Consolidated Balance Sheets

June 30, 2003 and 2002

<b>Assets</b>	<b>2003</b>	<b>2002</b>
Cash and cash equivalents	\$ 9,066,297	3,608,720
Accounts receivable, net	503,085	364,755
Accrued interest and dividends receivable	131,269	79,974
Contributions receivable, net	71,640,361	81,501,329
Contributions receivable from charitable remainder trusts	8,152,594	7,110,452
Investments	516,223,720	502,208,166
Investments held by trustee	22,832,645	61,115,153
Assets held for transfer to the University	—	7,335,500
Property and equipment, net	16,269,292	8,078,552
Construction-in-progress	46,116,776	6,416,994
Other assets	1,732,948	1,635,764
	<hr/>	<hr/>
Total assets	\$ 692,668,987	679,455,359
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<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,822,834	1,978,226
Deposits held for others	587,464	680,728
Line of credit	7,265,103	—
Funds held in trust for others	1,316,475	2,092,638
Liabilities under split-interest agreements	34,417,935	31,194,789
Custodial funds	56,749,056	56,112,834
Deferred revenue	1,923,000	2,122,487
Capital lease liability	6,580,174	6,828,327
Bonds payable, net	69,246,652	69,252,055
	<hr/>	<hr/>
Total liabilities	181,908,693	170,262,084
	<hr/> <hr/>	<hr/> <hr/>
Commitments and contingencies (notes 7, 8, 9, and 12)		
Unrestricted net assets	15,146,203	19,168,810
Temporarily restricted net assets	323,727,091	324,596,147
Permanently restricted net assets	171,887,000	165,428,318
	<hr/>	<hr/>
Total net assets	510,760,294	509,193,275
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Total liabilities and net assets	\$ 692,668,987	679,455,359
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See accompanying notes to consolidated financial statements.

**UNIVERSITY OF COLORADO FOUNDATION**

Consolidated Statements of Activities

Years ended June 30, 2003 and 2002 (summarized)

	<b>2003</b>				<b>2002</b>
	<b>Unrestricted net assets</b>	<b>Temporarily restricted net assets</b>	<b>Permanently restricted net assets</b>	<b>Total net assets</b>	<b>(summarized)</b>
Support and revenue:					
Contributions	\$ 112,449	67,898,412	7,296,461	75,307,322	81,292,042
Net investment gain (loss)	9,548,248	6,456,090	110,376	16,114,714	(22,838,364)
University support	8,307,642	—	—	8,307,642	8,886,382
Change in value of split-interest agreements	56,590	(481,687)	(1,696,649)	(2,121,746)	(2,515,321)
Boulder Alumni Association revenue	3,541,247	—	—	3,541,247	3,254,848
Other revenue	488,233	617,187	—	1,105,420	1,349,002
Net change in endowments below					
Historical Gift Value (HGV)	(3,701,148)	3,701,148	—	—	—
Change in donor stipulations and other	(292,195)	(408,431)	748,494	47,868	(2,781,341)
Net assets released from purpose restrictions	78,651,775	(78,651,775)	—	—	—
<b>Total support and revenue</b>	<b>96,712,841</b>	<b>(869,056)</b>	<b>6,458,682</b>	<b>102,302,467</b>	<b>66,647,248</b>
Expenses and distributions:					
Program services:					
Gifts and income distributed and applied	76,362,933	—	—	76,362,933	67,195,539
Pledges distributed to					
CU Real Estate Foundation	756,392	—	—	756,392	—
Student housing	163,070	—	—	163,070	—
Boulder Alumni Association	3,202,805	—	—	3,202,805	3,157,054
<b>Total program services</b>	<b>80,485,200</b>	<b>—</b>	<b>—</b>	<b>80,485,200</b>	<b>70,352,593</b>
Supporting services:					
Restructuring	983,504	—	—	983,504	—
Administrative	5,816,165	—	—	5,816,165	5,821,573
Development	13,450,579	—	—	13,450,579	12,938,500
<b>Total supporting services</b>	<b>20,250,248</b>	<b>—</b>	<b>—</b>	<b>20,250,248</b>	<b>18,760,073</b>
<b>Total expenses and distributions</b>	<b>100,735,448</b>	<b>—</b>	<b>—</b>	<b>100,735,448</b>	<b>89,112,666</b>
<b>Total change in net assets</b>	<b>(4,022,607)</b>	<b>(869,056)</b>	<b>6,458,682</b>	<b>1,567,019</b>	<b>(22,465,418)</b>
Net assets, beginning of year	19,168,810	324,596,147	165,428,318	509,193,275	531,658,693
Net assets, end of year	\$ <u>15,146,203</u>	<u>323,727,091</u>	<u>171,887,000</u>	<u>510,760,294</u>	<u>509,193,275</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF COLORADO FOUNDATION**

Consolidated Statements of Cash Flows

Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,567,019	(22,465,418)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	1,213,322	707,655
Equipment transferred to the University	7,335,500	—
Other changes in operating assets and liabilities:		
Accounts receivable, net	(138,330)	122,955
Accrued interest and dividends receivable	(51,295)	(5,059)
Contributions receivable, net (including contributions from charitable remainder trusts)	8,818,826	8,841,497
Other assets	(97,184)	(47,306)
Accounts payable and accrued liabilities	1,844,608	(48,813)
Deposits held for others	(93,264)	288,779
Funds held in trust for others	(776,163)	(298,553)
Liabilities under split-interest agreements	3,223,146	(3,236,489)
Custodial funds	636,222	(3,371,547)
Deferred revenue	(199,487)	(278,547)
Interest and dividends restricted for investment	(7,144,236)	(7,133,282)
Net realized and unrealized (gains) losses on investments	(9,066,703)	27,805,269
Permanently restricted contributions	(7,296,462)	(11,491,417)
Net cash used in operating activities	<u>(224,481)</u>	<u>(10,610,276)</u>
Cash flows from investing activities:		
Net purchases of investments	(4,948,851)	(5,076,649)
Payments for construction-in-progress	(39,705,185)	(6,416,994)
Payments for construction of assets held for transfer to the University	—	(1,186,795)
Purchases of property and equipment	(9,404,062)	(2,314,465)
Net cash used in investing activities	<u>(54,058,098)</u>	<u>(14,994,903)</u>
Cash flows from financing activities:		
Permanently restricted contributions	7,296,462	11,491,417
Interest and dividends restricted for investment	7,144,236	7,133,282
Proceeds from line of credit	7,265,103	—
Proceeds from bond issuance	—	69,252,055
Payment of deferred bond issue costs	—	(1,440,233)
Change in investments held by trustee	38,282,508	(61,115,153)
Payments on capital lease liability	(248,153)	(187,251)
Net cash provided by financing activities	<u>59,740,156</u>	<u>25,134,117</u>
Net increase (decrease) in cash and cash equivalents	5,457,577	(471,062)
Cash and cash equivalents, beginning of year	<u>3,608,720</u>	<u>4,079,782</u>
Cash and cash equivalents, end of year	\$ <u><u>9,066,297</u></u>	\$ <u><u>3,608,720</u></u>
Cash paid for interest	\$ 2,291,701	—
Supplemental disclosure of noncash activities:		
Gift-in-kind contributions	\$ 9,214,014	8,006,001

See accompanying notes to consolidated financial statements.

# UNIVERSITY OF COLORADO FOUNDATION

## Notes to Consolidated Financial Statements

June 30, 2003 and 2002

### (1) Nature of the Organization

The University of Colorado Foundation (the Foundation) was incorporated 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 Alumni Association of the University of Colorado at Boulder (Boulder Alumni Association) is a division of the Foundation. The Boulder Alumni Association connects alumni, students, friends, and all members of the University community to each other and to the University through activities and programs that stimulate interest, loyalty, and support for the University.

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 financing and developing 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, Cragwood 3955, LLC (Cragwood), CUFA, Inc., CU Foundation Holdings, Inc., and the CU Foundation Charitable Gift Fund. Collectively, these consolidated entities are herein after referred to as "the Foundation" unless otherwise noted. The consolidated financial statements also include the results of the Boulder Alumni Association, a division of the Foundation. 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 general 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

## UNIVERSITY OF COLORADO FOUNDATION

### Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Foundation's consolidated financial statements for the year ended June 30, 2002, from which the summarized information was derived.

**(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 reporting 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. Certain of the Foundation's subsidiaries, including Bear Creek and Cragwood, are single-member limited liability companies, which are disregarded entities for federal income tax purposes. In addition, CUFA, Inc. is a Subchapter S Corporation for which the Foundation is the sole shareholder. No significant tax liability is generated by CUFA, Inc.

**(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 consolidated 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 previous fiscal years, 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 \$26 million of this pledge. The remaining balance of \$29 million comprises approximately 33% of contributions receivable at June 30, 2003.

The Foundation also has a contribution receivable from another donor that comprises approximately 7% of contributions receivable at June 30, 2003.

# UNIVERSITY OF COLORADO FOUNDATION

## Notes to Consolidated Financial Statements

June 30, 2003 and 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 donors (the Coleman Colorado Foundation). No amounts were received by the Foundation in fiscal year 2003. 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 that 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 consolidated statements of activities. 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 represent 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 transferred these assets to the University in fiscal 2003.

# UNIVERSITY OF COLORADO FOUNDATION

## Notes to Consolidated Financial Statements

June 30, 2003 and 2002

**(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.

**(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. During fiscal 2002, the Foundation 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, 3.7% and 5.8% at June 30, 2003 and 2002, 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.

## UNIVERSITY OF COLORADO FOUNDATION

### Notes to Consolidated Financial Statements

June 30, 2003 and 2002

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) *Custodial Funds***

Custodial funds consists of funds held by the Foundation for endowments legally owned by other entities. These amounts are reflected as liabilities in the accompanying consolidated balance sheets. The University has endowments held by the Foundation totaling \$55,068,549 and \$56,112,834 at June 30, 2003 and 2002, respectively.

**(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 is 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) *Net Changes to Endowments Less Than Historical Gift Value (HGV)***

In the absence of donor stipulations or law to the contrary, Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, states that depreciation in the value of investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent there is net appreciation on related funds with donor-

## UNIVERSITY OF COLORADO FOUNDATION

### Notes to Consolidated Financial Statements

June 30, 2003 and 2002

imposed temporary restrictions. Any remaining depreciation in excess of amounts classified as temporarily restricted shall reduce unrestricted net assets. The cumulative depreciation on the investments of donor-restricted endowment funds was \$3,701,148 at June 30, 2003. The depreciation of these investments during the year ended June 30, 2003, in the amount of \$3,701,148, is shown separately on the consolidated statement of activities.

**(t) Pledges Distributed to the University of Colorado Real Estate Foundation**

In 1996, the University of Colorado Real Estate Council (the Council) was created as a division of the Foundation to provide resources for the development of a real estate curriculum at the University as well as to advise the Foundation in real estate holdings, research park development, potential investments, and real estate gifts to the University. In August 2002, the University of Colorado Real Estate Foundation (R.E. Foundation), a tax-exempt organization described in Section a 501(c)(3) of the Internal Revenue Code, was incorporated to support the University, and more specifically, to receive, hold, invest, and administer real and personal property, borrow money, and to make expenditures to or for the University. With the incorporation of this new entity, the board of directors of the Council approved the dissolution of the Council's status as a division of the Foundation and authorized the transfer of the Council's ongoing activities, operations, and applicable funds and other assets to the R.E. Foundation. During 2003, \$756,392 of pledges was distributed to the R.E. Foundation and is shown separately in the consolidated statement of activities.

**(u) Restructuring Expenses**

In June 2003, the Foundation completed a restructuring and downsizing of its operations. The resulting costs associated with this restructuring include severance payments as well as costs for outplacement services. This expense is shown separately in the consolidated statement of activities.

**(v) Development Expenses**

Development expenses include fund-raising costs and other activities involved in soliciting contributions from individuals, corporations, foundations, and others.

**(3) Contributions Receivable**

Contributions receivable, net of allowance for uncollectible pledges and unamortized discount, are summarized as follows as of June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Unconditional promises to give	\$ 88,819,012	99,407,976
Less allowance for uncollectible contributions receivable	(11,989,280)	(11,707,247)
Less unamortized discount	<u>(5,189,371)</u>	<u>(6,199,400)</u>
Net contributions receivable	<u>\$ 71,640,361</u>	<u>81,501,329</u>

Discount rates ranged from 0.89% to 5.58% for outstanding contributions receivable.

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Scheduled payments of contributions receivable are as follows at June 30, 2003:

Amounts due in:	
Less than one year	\$ 14,011,631
One to five years	49,620,638
More than five years	<u>8,008,092</u>
Total	\$ <u>71,640,361</u>

**(4) Investments**

The Foundation's investment portfolio consists of investments classified 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 \$4,438,527 at June 30, 2003.

The following details each major category of investments and the related fair value as of June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Equities:		
Domestic	\$ 206,977,596	200,052,652
International	72,469,199	70,235,773
Fixed income	72,026,408	89,423,963
Alternative:		
Real estate	21,276,087	25,788,652
Private equity	46,931,390	27,111,702
Hedge funds	22,629,218	21,438,080
Absolute return fund	46,919,446	42,502,840
Venture capital	6,238,540	8,830,379
Oil and gas	13,948,723	9,991,363
Other	<u>6,807,113</u>	<u>6,832,762</u>
Total investments	\$ <u>516,223,720</u>	<u>502,208,166</u>

As of June 30, 2003, the Foundation was obligated to fund an additional \$61.05 million in future alternative investment commitments.

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Net investment gain for the year ended June 30, 2003 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net realized losses	\$ (5,120,246)	(707,482)	(58,823)	(5,886,551)
Net change in unrealized gains	13,571,126	1,222,743	159,385	14,953,254
Interest, dividends, and other income	1,374,679	7,132,181	12,055	8,518,915
Investment management and custodial fees	<u>(277,311)</u>	<u>(1,191,352)</u>	<u>(2,241)</u>	<u>(1,470,904)</u>
	<u>\$ 9,548,248</u>	<u>6,456,090</u>	<u>110,376</u>	<u>16,114,714</u>

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>

**(5) Split-Interest Agreements**

Assets held under split-interest agreements are included in investments and consisted of the following as of June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Beneficial interests in perpetual trusts held by others	\$ 6,687,046	5,001,268
Charitable unitrusts and other life income	37,509,286	38,954,163
Charitable annuity trusts	5,756,036	5,969,066
Charitable gift annuities	559,966	556,354
Pooled income funds	<u>480,102</u>	<u>460,897</u>
Total trust funds held by the Foundation	<u>44,305,390</u>	<u>45,940,480</u>
Assets held under split-interest agreements	<u>\$ 50,992,436</u>	<u>50,941,748</u>

For the years ended June 30, 2003 and 2002, approximately \$180,000 and \$2,692,000, respectively, was included in temporarily and permanently restricted contributions revenue relating to new split-interest agreements.

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

**(6) Property and Equipment**

Property and equipment consisted of the following as of June 30, 2003 and 2002:

	<b>2003</b>	<b>2002</b>
Land, building, and improvements	\$ 15,035,032	6,450,952
Furniture and fixtures	1,144,776	1,144,776
Equipment and other	3,773,202	3,207,561
	19,953,010	10,803,289
Less accumulated depreciation	(3,683,718)	(2,724,737)
Net property and equipment	\$ 16,269,292	8,078,552

Land, building, and improvements increased in 2003 with the purchase of and improvements to an office building in Colorado Springs, Colorado. Total costs related to this project were \$8.2 million. See notes 8 and 13.

**(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 being 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, monies 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 the stated maturity. Payment of the principal and interest on the Bonds when due is 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, 2003.

## UNIVERSITY OF COLORADO FOUNDATION

### Notes to Consolidated Financial Statements

June 30, 2003 and 2002

Principal is due annually on each July 1, commencing July 1, 2005. At June 30, 2003, \$69,090,000 was outstanding on the 2002 Bonds, excluding the unamortized premium of \$156,652.

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 sheets.

The following represents the mandatory principal redemptions on the Bonds as of June 30, 2003:

	<b>Principal repayments</b>
Year ending June 30:	
2006	\$ 1,200,000
2007	1,000,000
2008	1,200,000
Thereafter	<u>65,690,000</u>
	69,090,000
Plus premium on bonds payable	<u>156,652</u>
Net bonds payable	<u><u>\$ 69,246,652</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, 2003:

Construction Fund	\$ 16,306,884
Bond Fund	4,812,782
Community Center Fund	<u>1,712,979</u>
	<u><u>\$ 22,832,645</u></u>

Bear Creek has entered into an agreement with the developer to construct the student housing facility. The agreement contains a maximum commitment of approximately \$59,800,000. The facility was partially completed in August 2003 and Bear Creek expects the facility to be fully completed in August 2004. As of June 30, 2003, the Foundation has incurred approximately \$46,117,000 of costs in connection with the construction of this project. These amounts are included in construction-in-progress in the accompanying consolidated balance sheets.

#### (8) Line of Credit

In August 2002, the Foundation established a \$10 million line of credit with a bank and borrowed funds to facilitate the purchase and improvement of an office building by the Foundation's wholly owned subsidiary, Cragwood. The line of credit bears interest at a variable rate of prime minus 1%. Subsequent to year-end, the balance of borrowed funds was paid off (see note 13 – Subsequent Events).

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

**(9) 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, 2003 and 2002, 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	\$ 10,027,419
Less amount representing interest	<u>(3,447,245)</u>
Present value of minimum lease payments	<u><u>\$ 6,580,174</u></u>
Year ending June 30:	
2004	\$ 742,729
2005	768,724
2006	795,630
2007	823,477
2008	852,299
Thereafter	<u>6,044,560</u>
	<u><u>\$ 10,027,419</u></u>

The net book value of property and equipment under the capital lease totaled \$4,312,500, net of \$1,437,500 of accumulated depreciation, as of June 30, 2003.

**(b) Operating Leases**

The Foundation leases office space and equipment under rental agreements. Total rent expense for fiscal years 2003 and 2002 under these agreements was \$98,461 and \$107,965, respectively. Future minimum operating lease obligations for each of the next three years is as follows at June 30, 2003:

Year ending June 30:	
2004	\$ 67,383
2005	7,783
2006	<u>649</u>
	<u><u>\$ 75,815</u></u>

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

**(10) Net Assets**

Restrictions placed upon net assets as of June 30, 2003 are as follows:

	<u>University</u>	<u>Hospital</u>	<u>Total</u>
Temporarily restricted:			
Academic	\$ 41,207,554	—	41,207,554
Faculty and staff compensation	7,514,521	28,374	7,542,895
Financial aid	64,349,608	113,750	64,463,358
Land, buildings, and equipment	37,465,362	33,826,326	71,291,688
Library	4,131,924	—	4,131,924
Professorship chairs	56,874,284	—	56,874,284
Research	41,646,851	119,367	41,766,218
Special programs	3,641,026	24,215	3,665,241
Other academic purposes	30,688,747	2,095,182	32,783,929
	<u>\$ 287,519,877</u>	<u>36,207,214</u>	<u>323,727,091</u>
Permanently restricted:			
Academic	\$ 15,686,658	—	15,686,658
Faculty and staff compensation	7,986,654	—	7,986,654
Financial aid	59,939,709	59,893	59,999,602
Land, buildings, and equipment	25,375	—	25,375
Library	7,745,614	—	7,745,614
Professorship chairs	50,308,098	—	50,308,098
Research	13,716,064	80,000	13,796,064
Special programs	900,847	—	900,847
Other academic purposes	15,438,088	—	15,438,088
	<u>\$ 171,747,107</u>	<u>139,893</u>	<u>171,887,000</u>

**UNIVERSITY OF COLORADO FOUNDATION**

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

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>

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

Gifts and income distributed and applied for the year ended June 30, 2003 were as follows:

	<u>University</u>	<u>Hospital</u>	<u>Total</u>
Academic	\$ 4,226,068	—	4,226,068
Faculty and staff compensation	1,223,981	—	1,223,981
Financial aid	11,113,605	9,950	11,123,555
Land, buildings, and equipment	21,460,203	12,737,061	34,197,264
Library	739,916	—	739,916
Professorship chairs	3,438,581	—	3,438,581
Research	8,728,641	33,780	8,762,421
Special programs	996,565	3,680	1,000,245
Other academic purposes	11,377,142	273,760	11,650,902
	<u>\$ 63,304,702</u>	<u>13,058,231</u>	<u>76,362,933</u>

## UNIVERSITY OF COLORADO FOUNDATION

### Notes to Consolidated Financial Statements

June 30, 2003 and 2002

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>

#### (12) Employee Benefit Plan

Prior to January 1, 2003, the Foundation had an employee benefit plan governed by Section 403(b) of the Internal Revenue Code. This plan was replaced with a new Section 401(k) plan on January 1, 2003. Under the 401(k) plan, the Foundation matches employee contributions up to 6% of the employee's salary. The Foundation matched employee contributions at a rate of 5% to 9% under the 403(b) plan. For the fiscal years ended June 30, 2003 and 2002, the Foundation's matching contributions were \$661,226 and \$811,592, respectively.

#### (13) Subsequent Events

In July 2003, a wholly owned subsidiary of the Foundation, Cragwood 3955, LLC (Cragwood) sold an office building in Colorado Springs, Colorado to the University of Colorado at Colorado Springs. According to the terms of a lease agreement between the University and Cragwood, the University had 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. Cragwood used the proceeds from the sale to recover costs related to the transaction and to pay off the Foundation's outstanding line of credit balance plus interest totaling approximately \$7,243,000.