



UNIVERSITY OF DENVER (COLORADO SEMINARY)

Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)



UNIVERSITY OF DENVER (COLORADO SEMINARY)

Table of Contents

	Page
Independent Auditors' Report	1
Statement of Financial Position June 30, 2004	2
Statement of Financial Position June 30, 2003	3
Statement of Activities Year ended June 30, 2004	4
Statement of Activities Year ended June 30, 2003	5
Statements of Cash Flows Years ended June 30, 2004 and 2003	6
Notes to Financial Statements	7



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

The Board of Trustees
University of Denver (Colorado Seminary):

We have audited the accompanying statements of financial position of the University of Denver (Colorado Seminary) (the University) as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

October 1, 2004

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2004

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 32,831,379	11,557,930	—	44,389,309
Short-term investments	47,759,643	1,409,763	—	49,169,406
Accounts receivable, less allowance of \$1,617,037	16,081,072	—	25,412	16,106,484
Pledges receivable, net	875,424	18,527,928	2,165,573	21,568,925
Inventories, prepaid expenses, and other assets	3,485,794	19,521	25,000	3,530,315
Long-term investments	—	—	196,676,107	196,676,107
Loans to students, less allowance of \$900,000	—	—	19,262,626	19,262,626
Deposits with trustees	—	1,927,426	—	1,927,426
Property, plant, and equipment, net	—	400,118,784	—	400,118,784
Total assets	<u>\$ 101,033,312</u>	<u>433,561,352</u>	<u>218,154,718</u>	<u>752,749,382</u>
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 49,131,524	3,962,659	340,000	53,434,183
Other liabilities	—	698,475	1,879,065	2,577,540
Annuity obligations	—	—	7,415,980	7,415,980
Long-term debt	—	117,555,000	—	117,555,000
U.S. Government grants refundable	—	—	16,367,241	16,367,241
Total liabilities	<u>49,131,524</u>	<u>122,216,134</u>	<u>26,002,286</u>	<u>197,349,944</u>
Net assets:				
Unrestricted:				
Available for operations	401,902	—	—	401,902
Designated student loans	—	—	1,846,797	1,846,797
Designated gain sharing	32,742,673	—	—	32,742,673
Designated gifts and endowment income	—	—	92,862,845	92,862,845
Designated plant	—	288,839,442	—	288,839,442
Total unrestricted net assets	<u>33,144,575</u>	<u>288,839,442</u>	<u>94,709,642</u>	<u>416,693,659</u>
Temporarily restricted:				
Gifts and endowment income for specific purposes	18,757,213	—	—	18,757,213
Plant	—	22,505,776	—	22,505,776
Annuity life income	—	—	5,262,695	5,262,695
Total temporarily restricted net assets	<u>18,757,213</u>	<u>22,505,776</u>	<u>5,262,695</u>	<u>46,525,684</u>
Permanently restricted:				
Endowment	—	—	84,978,947	84,978,947
Annuity life income	—	—	5,373,107	5,373,107
Student loans	—	—	1,828,041	1,828,041
Total permanently restricted net assets	<u>—</u>	<u>—</u>	<u>92,180,095</u>	<u>92,180,095</u>
Total net assets	<u>51,901,788</u>	<u>311,345,218</u>	<u>192,152,432</u>	<u>555,399,438</u>
Commitments and contingencies (notes 7, 11, and 13)				
Total liabilities and net assets	<u>\$ 101,033,312</u>	<u>433,561,352</u>	<u>218,154,718</u>	<u>752,749,382</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Financial Position

June 30, 2003

Assets	Operations	Plant	Long-term investment	Total
Cash and cash equivalents	\$ 27,772,414	12,628,006	3,431,254	43,831,674
Short-term investments	43,448,439	905,946	—	44,354,385
Accounts receivable, less allowance of \$1,757,362	17,130,734	—	31,154	17,161,888
Pledges receivable, net	883,671	9,963,277	2,069,912	12,916,860
Inventories, prepaid expenses, and other assets	2,911,030	373,448	25,000	3,309,478
Long-term investments	—	—	173,939,257	173,939,257
Loans to students, less allowance of \$900,000	—	—	15,262,388	15,262,388
Deposits with trustees	—	4,270,458	—	4,270,458
Property, plant, and equipment, net	—	397,302,431	—	397,302,431
Total assets	<u>\$ 92,146,288</u>	<u>425,443,566</u>	<u>194,758,965</u>	<u>712,348,819</u>
Liabilities and Net Assets				
Accounts payable and accrued liabilities	\$ 44,044,455	6,189,004	—	50,233,459
Other liabilities	—	784,193	940,659	1,724,852
Annuity obligations	—	—	7,262,304	7,262,304
Long-term debt	—	141,185,000	—	141,185,000
U.S. Government grants refundable	—	—	16,093,715	16,093,715
Total liabilities	<u>44,044,455</u>	<u>148,158,197</u>	<u>24,296,678</u>	<u>216,499,330</u>
Net assets:				
Unrestricted:				
Available for operations	168,703	—	—	168,703
Designated student loans	—	—	1,816,406	1,816,406
Designated gain sharing	29,988,537	—	—	29,988,537
Designated gifts and endowment income	—	—	78,069,812	78,069,812
Designated plant	—	266,961,715	—	266,961,715
Total unrestricted net assets	<u>30,157,240</u>	<u>266,961,715</u>	<u>79,886,218</u>	<u>377,005,173</u>
Temporarily restricted:				
Gifts and endowment income for specific purposes	17,944,593	—	—	17,944,593
Plant	—	10,323,654	—	10,323,654
Annuity life income	—	—	4,237,224	4,237,224
Total temporarily restricted net assets	<u>17,944,593</u>	<u>10,323,654</u>	<u>4,237,224</u>	<u>32,505,471</u>
Permanently restricted:				
Endowment	—	—	79,591,060	79,591,060
Annuity life income	—	—	4,879,271	4,879,271
Student loans	—	—	1,868,514	1,868,514
Total permanently restricted net assets	<u>—</u>	<u>—</u>	<u>86,338,845</u>	<u>86,338,845</u>
Total net assets	<u>48,101,833</u>	<u>277,285,369</u>	<u>170,462,287</u>	<u>495,849,489</u>
Commitments and contingencies (notes 7, 11, and 13)				
Total liabilities and net assets	<u>\$ 92,146,288</u>	<u>425,443,566</u>	<u>194,758,965</u>	<u>712,348,819</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities
Year ended June 30, 2004

	<u>Operations</u>	<u>Designated unrestricted</u>	<u>Total operations</u>	<u>Plant</u>	<u>Long-term investment</u>	<u>Total</u>
Changes in unrestricted net assets:						
Revenue and gains:						
Tuition and fees	\$ 202,771,705	—	202,771,705	—	—	202,771,705
Less institutional scholarships	41,291,200	—	41,291,200	—	—	41,291,200
	<u>161,480,505</u>	<u>—</u>	<u>161,480,505</u>	<u>—</u>	<u>—</u>	<u>161,480,505</u>
Less noninstitutional scholarships	7,757,075	—	7,757,075	—	—	7,757,075
Net tuition and fees	153,723,430	—	153,723,430	—	—	153,723,430
Private gifts	1,799,162	—	1,799,162	1,681,220	16,000	3,496,382
Grants and contracts	30,104,252	—	30,104,252	—	—	30,104,252
Endowment income	272,576	—	272,576	911	128,650	402,137
Other investment income	3,772,026	—	3,772,026	114,169	—	3,886,195
Net realized and unrealized gains on endowments	333,549	—	333,549	1,663	13,937,882	14,273,094
Net realized and unrealized gains (losses) on other investments	(573,738)	—	(573,738)	9,197,010	—	8,623,272
Sales and services of educational activities	6,243,635	74,845	6,318,480	—	—	6,318,480
Sales and services of auxiliary enterprise	34,017,629	1,766	34,019,395	—	—	34,019,395
Other sources	4,017,097	431,036	4,448,133	2,920,139	—	7,368,272
Total unrestricted revenue and gains	<u>233,709,618</u>	<u>507,647</u>	<u>234,217,265</u>	<u>13,915,112</u>	<u>14,082,532</u>	<u>262,214,909</u>
Net assets released from restrictions	16,470,637	—	16,470,637	6,255,740	—	22,726,377
Total unrestricted revenue, gains, and other support	<u>250,180,255</u>	<u>507,647</u>	<u>250,687,902</u>	<u>20,170,852</u>	<u>14,082,532</u>	<u>284,941,286</u>
Expenses:						
Educational and general:						
Instruction	79,430,460	534,753	79,965,213	7,804,113	—	87,769,326
Research	20,668,806	485,144	21,153,950	665,183	—	21,819,133
Public service	4,376,552	116	4,376,668	41,799	—	4,418,467
Academic support	34,922,422	1,489,159	36,411,581	1,077,327	—	37,488,908
Student services	11,821,809	30,977	11,852,786	1,197,024	—	13,049,810
Institutional support	30,300,120	335,950	30,636,070	2,226,071	87,535	32,949,676
Total educational and general expenses	<u>181,520,169</u>	<u>2,876,099</u>	<u>184,396,268</u>	<u>13,011,517</u>	<u>87,535</u>	<u>197,495,320</u>
Auxiliary enterprises	39,898,856	130,527	40,029,383	7,728,097	—	47,757,480
Total expenses	<u>221,419,025</u>	<u>3,006,626</u>	<u>224,425,651</u>	<u>20,739,614</u>	<u>87,535</u>	<u>245,252,800</u>
Transfers among unrestricted net assets	28,528,031	(5,253,115)	23,274,916	(22,446,489)	(828,427)	—
Total expenses and transfers	<u>249,947,056</u>	<u>(2,246,489)</u>	<u>247,700,567</u>	<u>(1,706,875)</u>	<u>(740,892)</u>	<u>245,252,800</u>
Increase in unrestricted net assets	<u>233,199</u>	<u>2,754,136</u>	<u>2,987,335</u>	<u>21,877,727</u>	<u>14,823,424</u>	<u>39,688,486</u>
Changes in temporarily restricted net assets:						
Private gifts	10,631,838	—	10,631,838	18,450,797	273,377	29,356,012
Endowment income	2,913,565	—	2,913,565	—	—	2,913,565
Other investment income	36,962	—	36,962	28,389	—	65,351
Net realized and unrealized gains on endowments	4,066,748	—	4,066,748	—	—	4,066,748
Net realized and unrealized losses on other investments	(214,758)	—	(214,758)	(38,347)	—	(253,105)
Net assets released from restrictions	(16,470,637)	—	(16,470,637)	(6,255,740)	—	(22,726,377)
Stipulation changed by donor	(151,098)	—	(151,098)	(2,977)	(53,656)	(207,731)
Actuarial adjustments on annuity obligations	—	—	—	—	805,750	805,750
Increase in temporarily restricted net assets	<u>812,620</u>	<u>—</u>	<u>812,620</u>	<u>12,182,122</u>	<u>1,025,471</u>	<u>14,020,213</u>
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	4,967,940	4,967,940
Net realized and unrealized losses on other investments	—	—	—	—	(40,724)	(40,724)
Stipulation changed by donor	—	—	—	—	207,731	207,731
Actuarial adjustments on annuity obligations	—	—	—	—	706,303	706,303
Increase in permanently restricted net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,841,250</u>	<u>5,841,250</u>
Change in net assets	<u>1,045,819</u>	<u>2,754,136</u>	<u>3,799,955</u>	<u>34,059,849</u>	<u>21,690,145</u>	<u>59,549,949</u>
Net assets at beginning of year	18,113,296	29,988,537	48,101,833	277,285,369	170,462,287	495,849,489
Net assets at end of year	\$ <u>19,159,115</u>	<u>32,742,673</u>	<u>51,901,788</u>	<u>311,345,218</u>	<u>192,152,432</u>	<u>555,399,438</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statement of Activities

Year ended June 30, 2003

	<u>Operations</u>	<u>Designated unrestricted</u>	<u>Total operations</u>	<u>Plant</u>	<u>Long-term investment</u>	<u>Total</u>
Changes in unrestricted net assets:						
Revenue and gains:						
Tuition and fees	\$ 184,399,811	—	184,399,811	—	—	184,399,811
Less institutional scholarships	36,368,509	—	36,368,509	—	—	36,368,509
	<u>148,031,302</u>	<u>—</u>	<u>148,031,302</u>	<u>—</u>	<u>—</u>	<u>148,031,302</u>
Less noninstitutional scholarships	7,707,859	—	7,707,859	—	—	7,707,859
Net tuition and fees	140,323,443	—	140,323,443	—	—	140,323,443
Private gifts	1,318,319	—	1,318,319	5,699,346	117,905	7,135,570
Grants and contracts	27,523,316	—	27,523,316	—	—	27,523,316
Endowment income	281,981	—	281,981	1,489	141,816	425,286
Other investment income	4,000,084	—	4,000,084	782,373	—	4,782,457
Net realized and unrealized gains on endowments	374,977	—	374,977	1,916	399,722	776,615
Net realized and unrealized gains on other investments	119,084	—	119,084	399,479	—	518,563
Sales and services of educational activities	5,266,582	29,818	5,296,400	—	—	5,296,400
Sales and services of auxiliary enterprise	32,641,590	—	32,641,590	—	—	32,641,590
Other sources	3,470,053	67,479	3,537,532	458,990	—	3,996,522
Total unrestricted revenue and gains	215,319,429	97,297	215,416,726	7,343,593	659,443	223,419,762
Net assets released from restrictions	26,554,390	—	26,554,390	9,615,815	907,456	37,077,661
Total unrestricted revenue, gains, and other support	<u>241,873,819</u>	<u>97,297</u>	<u>241,971,116</u>	<u>16,959,408</u>	<u>1,566,899</u>	<u>260,497,423</u>
Expenses:						
Educational and general:						
Instruction	73,940,851	447,435	74,388,286	6,501,417	—	80,889,703
Research	16,300,028	347,644	16,647,672	520,070	—	17,167,742
Public service	4,838,119	—	4,838,119	42,784	—	4,880,903
Academic support	32,324,728	1,119,928	33,444,656	1,463,922	—	34,908,578
Student services	10,560,560	16,510	10,577,070	972,030	—	11,549,100
Institutional support	28,457,924	333,318	28,791,242	2,475,293	62,442	31,328,977
Total educational and general expenses	166,422,210	2,264,835	168,687,045	11,975,516	62,442	180,725,003
Auxiliary enterprises	39,079,244	30,886	39,110,130	7,416,636	—	46,526,766
Total expenses	205,501,454	2,295,721	207,797,175	19,392,152	62,442	227,251,769
Transfers among unrestricted net assets	38,090,209	(7,299,329)	30,790,880	(22,768,420)	(8,022,460)	—
Total expenses and transfers	243,591,663	(5,003,608)	238,588,055	(3,376,268)	(7,960,018)	227,251,769
Increase (decrease) in unrestricted net assets	<u>(1,717,844)</u>	<u>5,100,905</u>	<u>3,383,061</u>	<u>20,335,676</u>	<u>9,526,917</u>	<u>33,245,654</u>
Changes in temporarily restricted net assets:						
Private gifts	20,461,715	—	20,461,715	5,651,019	480,574	26,593,308
Endowment income	2,774,885	—	2,774,885	—	—	2,774,885
Other investment income	38,018	—	38,018	413,416	—	451,434
Net realized and unrealized gains on endowments	3,946,174	—	3,946,174	—	—	3,946,174
Net realized and unrealized gains (losses) on other investments	289,323	—	289,323	(3,351)	—	285,972
Net assets released from restrictions	(26,554,390)	—	(26,554,390)	(9,615,815)	(907,456)	(37,077,661)
Stipulation changed by donor	(719,792)	—	(719,792)	719,376	907,456	907,040
Actuarial adjustments on annuity obligations	—	—	—	—	319,740	319,740
Increase (decrease) in temporarily restricted net assets	<u>235,933</u>	<u>—</u>	<u>235,933</u>	<u>(2,835,355)</u>	<u>800,314</u>	<u>(1,799,108)</u>
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	3,150,494	3,150,494
Net realized and unrealized gains on other investments	—	—	—	—	18,291	18,291
Stipulation changed by donor	—	—	—	—	(907,040)	(907,040)
Actuarial adjustments on annuity obligations	—	—	—	—	(114,215)	(114,215)
Increase in permanently restricted net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,147,530</u>	<u>2,147,530</u>
Change in net assets	<u>(1,481,911)</u>	<u>5,100,905</u>	<u>3,618,994</u>	<u>17,500,321</u>	<u>12,474,761</u>	<u>33,594,076</u>
Net assets at beginning of year	19,595,207	24,887,632	44,482,839	259,785,048	157,987,526	462,255,413
Net assets at end of year	\$ <u>18,113,296</u>	<u>29,988,537</u>	<u>48,101,833</u>	<u>277,285,369</u>	<u>170,462,287</u>	<u>495,849,489</u>

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Statements of Cash Flows

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Change in net assets	\$ 59,549,949	33,594,076
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	10,676,283	9,374,498
Decrease in accounts receivable	1,055,404	8,674,061
Decrease (increase) in pledges receivable	(8,652,065)	3,293,735
Increase in inventories, prepaid expenses, and other assets	(220,837)	(136,587)
Increase in accounts payable, accrued liabilities, and other liabilities	3,799,130	6,539,374
Actuarial adjustment for annuity obligations	153,676	(418,192)
Contributions of real and personal property	(4,488,856)	(2,831,574)
Contributions restricted for long-term investment	(3,491,970)	(2,806,720)
Interest and dividends restricted for long-term investment	(128,650)	(141,816)
Net realized and unrealized gains on investments	(16,573,450)	(5,545,615)
Net cash provided by operating activities	<u>41,678,614</u>	<u>49,595,240</u>
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	103,723,124	85,808,019
Purchases of investments	(110,212,689)	(91,404,844)
Purchases of property, plant, and equipment	(26,489,764)	(62,882,557)
Proceeds from disposal of property, plant, and equipment	12,997,128	269,676
Disbursements for Perkins and University loans to students	(8,748,148)	(3,834,374)
Repayment of Perkins and University loans to students	4,747,910	4,535,117
Decrease in deposits with bond trustees, net	2,343,032	36,274,709
Net cash used by investing activities	<u>(21,639,407)</u>	<u>(31,234,254)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	3,491,970	2,806,720
Interest and dividends restricted for long-term investment	128,650	141,816
Payments of notes payable	(85,718)	(177,655)
Proceeds from notes receivable	340,000	784,193
Payments of bonds payable	(23,630,000)	(4,860,000)
Increase in refundable government loan funds, net	273,526	509,838
Net cash used by financing activities	<u>(19,481,572)</u>	<u>(795,088)</u>
Net increase in cash and cash equivalents	557,635	17,565,898
Cash and cash equivalents at beginning of year	<u>43,831,674</u>	<u>26,265,776</u>
Cash and cash equivalents at end of year	\$ <u><u>44,389,309</u></u>	\$ <u><u>43,831,674</u></u>

Interest paid is discussed in note 5.

See accompanying notes to financial statements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

(1) Summary of Significant Accounting Policies

(a) *Nature of the Entity*

The University of Denver (Colorado Seminary) (the University) is an accredited, independent, coeducational institution located in Denver, Colorado. The University was founded as Colorado Seminary in 1864. In 1880, following the reorganization of the Seminary, the University of Denver was established as the degree granting body. The University offers both undergraduate and graduate programs. Enrollment currently stands at approximately 10,100 students, of which approximately 4,500 are undergraduates. The University is primarily supported by tuition and fees, private gifts and grants, and contracts.

(b) *Eleanor Roosevelt Institute*

The University entered into an agreement to acquire by gift certain assets of the Eleanor Roosevelt Institute (ERI) in May 2003. The agreement allowed for making all ERI personnel employees of the University, and acquiring all physical assets including the ownership of the building at 1899 S. Gaylord, Denver, CO. The University has recorded this acquisition of assets as gift revenue of \$5.6 million.

As part of the acquisition, the University also accepted the terms of two recoverable grants from Bonfils-Stanton Foundation and Boettcher Foundation totaling \$800,000 made to ERI for the purpose of paying off the mortgage on the ERI building. ERI had secured pledges for this purpose and must pay back the recoverable grants with any pledge proceeds. Should the University terminate the operations of ERI or sell the building before 2013, Bonfils-Stanton and Boettcher Foundations must be reimbursed by the University for any outstanding balance on the recoverable grant.

(c) *Basis of Presentation*

The financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The University maintains its accounts in accordance with the principles of fund accounting. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. For financial reporting purposes, resources are classified into net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are generally not subject to donor-imposed stipulations. Uses of certain unrestricted net assets are committed as matching funds under student loan programs of the federal government. Unrestricted net assets are designated for specific purposes by the University.

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

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that are maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for specific or general purposes.

Additionally, the University has classified activities and balances within the above described net asset classes representing the level of operations and also the liquidity and nature of assets. These classifications (columns) are described as follows:

Operations – Activities which define the University’s “level of operations,” relating to its educational activities and auxiliary enterprises. All assets, excluding pledges receivable, inventories, prepaid expenses, and other assets, are current in nature. Accounts payable and accrued liabilities, other than accumulated postretirement benefit obligations (see note 7), are near maturity. Other liabilities are long-term in nature. Balances and activities are either unrestricted or have been released from restrictions.

Designated unrestricted – The University’s board of trustees has elected to transfer operation funds for specific future operating purposes to a designated classification. Expenses incurred for the stated purposes are charged to expense accounts. The board may also elect to return any balances of designated funds to operations.

Plant – Activities include depreciation on equipment and buildings, interest expense on long-term debt and receipt of gifts which include donor-imposed restrictions for the acquisitions of physical properties. All assets are limited to long-term purposes.

Long-term investment – Endowment and loan activities and balances are grouped in this column. All assets are limited to long-term purposes.

The board retains the authority to designate surpluses for funding of designated operations, plant, and long-term investment activities in subsequent years. Such designations of activities are reported as transfers among unrestricted net assets in the statements of activities.

(d) *Cash and Cash Equivalents*

The University controls cash for all activities through one operating account. The cash or deficit balances represent cash positions and temporary interfund borrowings for the respective funds. Certificates of deposits, short-term securities, and deposits with trustees are stated at fair value.

The University considers all liquid investments with original maturities of three months or less to be cash equivalents.

(e) *Accounts Receivable*

Accounts receivable consist primarily of amounts due from students for tuition, room, board and fees, and amounts due to the University under federal, state, and private grants and contracts.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

(f) Investments

Investments received by gift, including investments in real estate, are recorded at estimated fair value at the date of the gift and are subsequently adjusted for changes in fair value thereafter. Purchased investments are carried at fair value. Realized and unrealized gains and losses are reported in the appropriate net asset classification.

(g) Pledges Receivable

Unconditional promises to give are recorded when pledges are made by the respective donors at their estimated present value. An allowance for uncollectibility is provided based on review of individually significant pledges and an estimated rate of uncollectibility. All contributions are available for unrestricted use unless specifically restricted by the donor.

Donor restricted contributions whose restrictions are met in the same reporting period are initially reported as restricted revenue, which increase temporarily restricted net assets, then reclassified (or released from restrictions), simultaneously increasing unrestricted net assets and decreasing temporarily restricted net assets. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met.

Net assets released from restrictions are reported in the statements of activities when the University has met the donor restrictions. Assets released from restrictions in the current year are for scholarships, plant acquisitions, and departmental operations (see note 6).

(h) Inventories

Inventories, which consist mainly of bookstore merchandise and operating supplies, are valued at the lower of cost or fair value using the first-in, first-out (FIFO) method.

(i) Deposits With Trustees

Deposits with trustees represents cash and U.S. government securities that have been set aside to meet the reserve requirements of the University's long-term debt for issuances 1993 and 1996 and includes unspent funds from the Series 2000 acquisition fund. The bond reserve requirements for all other issuances are funded by a reserve fund insurance policy.

(j) Property, Plant, and Equipment

The University capitalizes all assets valued at \$5,000 or greater with estimated useful lives greater than one year.

Property, plant, and equipment are carried at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Books and bound periodicals in the library are valued at \$3.00 per volume. Depreciation on property, plant, and equipment, except library books, is calculated on the straight-line method over the estimated useful lives of the assets which range from 3 to 15 years for equipment and 10 to 80 years for buildings and improvements.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

The University reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(k) *Deferred Revenue*

Summer school tuition, fee revenue, and related expenses are deferred at June 30, 2004 and 2003 and recorded as revenue and expenses in the succeeding fiscal year. Deferred revenue is included in other liabilities on the accompanying statements of financial position.

(l) *Compensated Absences*

The University's employees earn paid vacation each month based upon their years of service with the University. Vacation time accrues and vests proportionately between July 1 and June 30 of the current year and employees can carry a maximum of 22 days to the next fiscal year. An accrual has been made for earned vacation time and is included in accounts payable and accrued liabilities on the accompanying statements of financial position.

The University has a sick leave plan covering substantially all employees. The University provides employees approximately eight hours of paid sick leave per month depending on employment status. The University's employees' accumulated unused sick leave is carried over to the next year and is cumulative. Unused sick pay is forfeited by employees when they cease to be employed by the University. Therefore, no amount is accrued for sick leave.

Faculty members do not accrue vacation or sick leave.

(m) *Annuity Obligations*

Annuity obligations represent the actuarially determined present value of future payments due to beneficiaries under split-interest agreements, primarily charitable remainder trusts.

(n) *Taxes*

The University is recognized as an organization generally exempt from income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3). However, income generated from activities unrelated to the University's exempt purpose is subject to tax under Section 511 of the Code.

(o) *Fair Value of Financial Instruments*

The fair value of the University's financial instruments are determined as follows:

Cash and cash equivalents – fair value is estimated to be the same as carrying (book) value because of their short maturities.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

Short-term and long-term investments – fair value of cash equivalents and U.S. government securities is estimated to be the same as carrying (book) value because of their short maturities; fair value of mutual funds, stocks, and bonds is the market value based on quoted market prices, fair value of notes receivable cannot be determined without incurring excessive costs. Both short and long-term investments are carried at fair value.

Accounts receivable – fair value is estimated to be the same as carrying (book) value because of their short maturities.

Pledges receivable – fair value is determined by computing the present value of future cash flows discounted at the prevailing interest rate as of the period in which the agreement was received. Carrying value of pledges receivable approximates fair value.

Loans to students – fair value cannot be determined without incurring excessive costs. Repayment terms for University loans average less than one year and on average carry a 7% interest rate. The Perkins program has a maximum repayment period of 10 years and carries an average interest rate of 5%.

Deposits with trustees – fair value is estimated to be the same as carrying (book) value because of the short maturities of the U.S. government securities held by the trustees.

Accounts payable and accrued liabilities – fair value is estimated to be the same as carrying (book) value due to the short maturities of accounts payable; included in accrued liabilities is the present value of future obligations which are adjusted annually – this carrying value approximates fair value.

Annuity obligations – fair value is determined by computing the present value of the University's obligation to pay beneficiaries based on the beneficiaries' life expectancies from actuarial tables published by the Internal Revenue Service, using the prevailing interest rate as of the date of each agreement. Annuity obligations are adjusted annually for these factors and carried at fair value.

Long-term debt – fair value is determined by computing the present value of future payments discounted at the prevailing interest rate for comparable debt instruments at year-end.

(p) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(q) Reclassifications

Certain amounts have been reclassified in the 2003 financial statements to conform to the 2004 presentation.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

(2) Short-Term and Long-Term Investments

Investments at June 30 consist of the following:

	Fair value	
	2004	2003
Operations:		
U.S. government securities	\$ 34,057,919	42,580,447
Stocks	10,412,455	562,358
Real estate	52,748	52,748
Other	3,236,521	252,886
	<u>47,759,643</u>	<u>43,448,439</u>
Plant:		
Stocks and bonds	1,230,580	101,286
Real estate	179,169	179,169
Other	14	625,491
	<u>1,409,763</u>	<u>905,946</u>
Long-term investment:		
Short-term investments	8,315,938	6,197,515
U.S. government securities	295,593	73,826
Stocks	120,869,585	90,900,019
Bonds	21,391,068	39,413,559
Real estate	19,673,348	13,043,282
Beneficial trust interest	10,363,718	9,691,531
Equity mutual funds	10,982,692	9,505,116
Fixed income mutual funds	3,990,958	4,217,222
Notes receivable	793,207	897,187
	<u>196,676,107</u>	<u>173,939,257</u>
Total	<u>\$ 245,845,513</u>	<u>218,293,642</u>

The changes in unrealized appreciation (depreciation) on endowment investments and all other investments for the year ended June 30 are comprised of the following:

	2004		2003	
	Endowment	Total	Endowment	Total
Net unrealized appreciation in fair value at beginning of year	\$ 10,089,021	10,735,075	10,205,545	9,570,805
Current year unrealized appreciation (depreciation)	<u>15,726,089</u>	<u>16,942,963</u>	<u>(116,524)</u>	<u>1,164,270</u>
Net unrealized appreciation in fair value at end of year	<u>\$ 25,815,110</u>	<u>27,678,038</u>	<u>10,089,021</u>	<u>10,735,075</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

During the years ended June 30, 2004 and 2003, the University paid approximately \$171,000 and \$400,000, respectively, in management and custodian fees which were netted against endowment income and other investment income on the accompanying statements of activities. All endowments established by various donors over the years are accounted for separately in the accounting records of the University to ensure that the purposes for which the endowments were initially created are carried out in perpetuity. For investment purposes, to maximize total investment return and administrative efficiency, the University commingles certain assets in an investment pool.

Individual endowments own shares in the pool, the value per share being determined by the pool's aggregate fair value and the number of shares outstanding at the time contributions are made. The pool is valued on a quarterly basis for this purpose. At June 30, 2004, the pool had 39,648,692 shares outstanding, with a fair value of approximately \$4.07 per share or \$161,416,061. The University has adopted a spending policy whereby the board of trustees has authorized a stipulated percent of the fair value of endowments participating in the investment pool to be spent for the purposes of the donors. The distribution for spending in 2004 was \$0.26 per share, of which \$0.07 represented income yield. The remaining \$0.19 represented spending of unrealized gains. At June 30, 2003, the pool had 37,888,176 shares outstanding, with a fair value of approximately \$3.78 per share or \$143,125,798. The distribution for spending in 2003 was \$0.27 per share, of which \$0.07 represented income yield. The remaining \$0.20 represented spending of unrealized gains.

The investment pool consist of 541 individual endowments at June 30, 2004. Of these endowments, 35 are considered to be 'under water' as the fair value of the underlying investments is less than the original gift value. At June 30, 2004, the fair value of the underlying investments related to these 35 endowments totaled approximately \$11,602,000 while the original gift value was approximately \$12,607,000.

The University has the following split interest agreements which are included in long-term investments at June 30, 2004 and 2003:

	2004		
	Number of agreements	Net assets classification	
		Temporary	Permanently
Perpetual trusts held by third party	5	\$ —	8,017,783
Charitable Remainder Trusts:			
University named trustee	23	5,928,877	5,840,456
Third party named trustee	10	1,356,671	1,783,801
Charitable Annuity Agreements	90	2,860,773	1,321,345
	<u>128</u>	<u>\$ 10,146,321</u>	<u>16,963,385</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

	Number of agreements	2003	
		Net assets classification	
		Temporary	Permanently
Perpetual trusts held by third party Charitable Remainder Trusts:	5	\$ —	7,496,711
University named trustee	24	5,259,796	5,109,376
Third party named trustee	9	1,231,741	1,813,443
Charitable Annuity Agreements	84	2,254,538	1,482,182
Pooled Life Income Fund	1	148,213	—
	<u>123</u>	<u>\$ 8,894,288</u>	<u>15,901,712</u>

The University is the beneficiary of certain perpetual trusts held by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenue at the date the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts as gains and losses on the endowment investments.

The Charitable Remainder Trusts, Charitable Annuity Agreements, and Pooled Life Income Fund are split interest agreements that are either held and administered by the University or by others. In the period when the agreement is established, the University recognizes an asset at fair value, a liability to the beneficiary for the estimated future benefits to be distributed and contribution revenue for the difference. Annual adjustments are made to the liability for the estimated future benefits to be distributed due to changes in the actuarial assumptions and the discount rate, where applicable, over the term of the agreement.

(3) Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	2004	2003
Unconditional promises expected to be collected in:		
Less than one year	\$ 12,209,022	5,135,926
One to five years	13,365,471	9,606,262
Six to ten years	—	650,000
	<u>25,574,493</u>	<u>15,392,188</u>
Less allowance for uncollectible pledges	(2,557,449)	(1,539,220)
Less present value discount (2.7% – 4.5%)	<u>(1,448,119)</u>	<u>(936,108)</u>
Net pledges receivable	<u>\$ 21,568,925</u>	<u>12,916,860</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

(4) Property, Plant, and Equipment

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

	<u>2004</u>	<u>2003</u>
Land	\$ 7,955,866	8,415,295
Land improvements	13,792,109	9,558,101
Buildings and improvements	388,903,515	343,536,321
Equipment	51,424,460	47,381,284
Library books	7,718,659	7,624,015
Construction in progress	8,876,792	58,669,446
	<u>478,671,401</u>	<u>475,184,462</u>
Less accumulated depreciation	<u>(78,552,617)</u>	<u>(77,882,031)</u>
	<u>\$ 400,118,784</u>	<u>397,302,431</u>

The University had approximately \$10,676,000 and \$9,374,000 of depreciation expense for the years ended June 30, 2004 and 2003, respectively, which was reported within all functions in the accompanying statements of activities.

The University capitalizes interest cost on major construction projects. The amount of interest capitalized was approximately \$0 and \$1,091,000 for the years ended June 30, 2004 and 2003, respectively.

(5) Long-Term Debt

Bonds payable at June 30 consist of the following:

	<u>2004</u>	<u>2003</u>
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2001 A	\$ 27,000,000	27,000,000
Colorado Educational and Cultural Facilities Authority Variable Rate Demand Revenue Bonds, Series 2001 B	20,385,000	20,710,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 2000	46,490,000	47,800,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 1999	3,235,000	3,810,000
Colorado Postsecondary Educational Facilities Authority Improvement and Refunding Revenue Bonds, Series 1997	18,540,000	18,810,000
Colorado Postsecondary Educational Facilities Authority Revenue Bonds, Series 1996	1,905,000	2,345,000
Colorado Postsecondary Educational Facilities Authority Refunding Revenue Bonds, Series 1993	—	20,710,000
	<u>\$ 117,555,000</u>	<u>141,185,000</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

The University had approximately \$6,064,222 and \$8,041,000 of interest expense for the years ended June 30, 2004 and 2003, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately \$4,114,000 and \$5,629,000 was paid in cash during the years ended June 30, 2004 and 2003, respectively. The fair value of bonds payable was approximately \$121,719,000 and \$150,375,000 at June 30, 2004 and 2003, respectively.

(a) Issuance of Series 2001 B Bonds

In November 2001, the Colorado Educational and Cultural Facilities Authority issued \$23,000,000 of University of Denver Variable Rate Demand Revenue Bonds, Series 2001 B. The proceeds from the sale of the 2001 B bonds were used to (1) finance the construction of a law school, (2) obtain a municipal bond insurance policy for the Bonds, (3) obtain a reserve fund surety bond for the Bonds, (4) obtain a liquidity facility for the Bonds, and (5) pay certain costs associated with the issuance of the Bonds.

The bond agreement provides for a mandatory annual sinking fund redemption payments of \$500,000 in 2004 and increasing to \$1,300,000 in 2031. Interest is payable depending on the interest rates ranging from weekly to annually on a monthly or semiannual basis. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

(b) Issuance of Series 2001 A Bonds

In October 2001, the Colorado Educational and Cultural Facilities Authority issued \$27,000,000 of University of Denver Revenue Bonds, Series 2001 A. The proceeds from the sale of the 2001 A bonds were used to (1) finance the completion of a residence hall and the construction of a law school, (2) obtain municipal bond insurance policy, and (3) obtain a reserve fund surety bond for the Bonds.

The bond agreement provides for a mandatory annual sinking fund redemption payments of \$2,080,000 in 2025 and increasing to \$7,250,000 in 2027. Interest is payable semiannually at the rate of 5%. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

(c) Issuance of 2000 Bonds

In November 2000, the Colorado Educational and Cultural Facilities Authority issued \$51,395,000 of University of Denver Revenue Bonds, Series 2000. The proceeds from the sale of the 2000 bonds were used to (1) finance a portion of the cost of constructing a new residence hall and a new parking structure on the University's main campus, (2) refinance all of the City and County of Denver Industrial Development Bonds, Series 1991, (3) pay capitalized interest, (4) obtain a Reserve Fund Insurance Policy in an amount equal to the Bond Reserve Requirement, and (5) pay certain of the costs associated with the issuance of the Bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$1,125,000 in 2002 and increasing to \$6,445,000 in 2021. Interest is payable semiannually at rates ranging from 5.00% to 5.50%. Payment of principal and interest on the bonds is guaranteed by Ambac Assurance Corporation.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

(d) Issuance of 1999 Bonds

In January 1999, the Colorado Postsecondary Educational and Cultural Facilities Authority issued \$5,900,000 of University of Denver Revenue Bonds, Series 1999. The proceeds from the sale of the 1999 bonds were used to (1) finance the costs of a portion of the Daniel L. Ritchie Sports and Recreational Center (the Center), (2) fund a Bond Reserve fund, and (3) pay certain costs associated with the issuance of the Bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$535,000 in 2002 and increasing to \$700,000 in 2009. Interest is payable semiannually at rates ranging from 3.30% to 4.25%. Payment of principal and interest on the bonds is guaranteed by the AMBAC Assurance Corporation.

(e) Issuance of 1997 Bonds

In October 1997, the Colorado Postsecondary Educational Facilities Authority issued \$19,755,000 of University of Denver Improvement and Refunding Revenue Bonds, Series 1997. The proceeds from the sale of the 1997 bonds were used to (1) finance the costs of a portion of the Daniel L. Ritchie Sports and Wellness Center and finance a parking facility near the center, (2) refinance the University's obligations with respect to the Colorado Postsecondary Educational Facilities Authority Improvement Revenue Bonds, Series 1992, (3) obtain a Reserve Fund insurance policy in an amount equal to the Bond Reserve requirement, and (4) pay the costs associated with the issuance of the bonds. The \$11,860,000 in refunded bonds were legally defeased and removed from the accounting records of the University. As of June 30, 2004 and 2003, all of the refunded Series 1992 bonds were still outstanding, pending scheduled payment from escrow.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$240,000 in 2002 and increasing to \$4,520,000 in 2018. Interest is payable semiannually at rates ranging from 4.10% to 5.5%. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

(f) Issuance of 1996 Bonds

In September 1996, the Colorado Postsecondary Educational Facilities Authority issued \$4,570,000 of University of Denver Revenue Bonds, Series 1996. The proceeds from the sale of the 1996 bonds were used to (1) finance certain energy conservation measures which include a lighting upgrade program and a control system upgrade, (2) finance the expansion of the heating and cooling plant at the University Park Campus, (3) fund a Bond Reserve Fund, and (4) pay the costs associated with the issuance of the bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$40,000 in 2002 and increasing to \$965,000 in 2007. Interest is payable semiannually at rates ranging from 4.65% to 5.75%. Payment of principal and interest on the bonds is guaranteed by the AMBAC Insurance Company.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

(g) Issuance of 1993 Bonds and Partial Refunding of 1991 Bonds

In February 1993, the Colorado Postsecondary Educational Facilities Authority issued \$21,460,000 of University of Denver Refunding Revenue Bonds, Series 1993. The proceeds from the sale of the 1993 bonds were used (1) to refund \$17,880,000 of the University's outstanding City and County of Denver, Colorado Industrial Development Revenue Bonds, Series 1991, (2) to fund a portion of the Bond Reserve Fund in an amount equal to the Bond Reserve Requirement with respect to the 1993 Bonds, and (3) to pay certain costs associated with the issuance of the 1993 Bonds. The \$17,880,000 in refunded bonds were legally defeased and removed from the accounting records of the University. As of June 30, 2004 and 2003, all of the refunded Series 1991 bonds were still outstanding, pending scheduled payment from escrow.

During 2004, the University closed on the real estate contract to sell the western portion of the Park Hill Campus to Johnson & Wales University for approximately \$22 million. All operations, including the College of Law, on the Park Hill Campus were moved to the main campus by August 1, 2003. The sales proceeds were used to pay off the remaining balance of \$20,710,000 of the Series 1993 revenue bonds.

(h) Aggregate Annual Maturities of Bonds Payable

At June 30, 2004, the aggregate annual maturities of bonds payable for the five succeeding years are as follows:

2005	\$	3,040,000
2006		3,170,000
2007		3,765,000
2008		3,460,000
2009		3,615,000
Thereafter		100,505,000
	\$	117,555,000

(6) Net Assets Released From Restrictions

The sources of net assets released from temporary restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows:

		2004	2003
Acquisition of buildings and equipment	\$	6,255,740	9,615,815
Scholarships		3,267,145	3,179,996
Instruction, research, academic and departmental support, and other		13,203,492	24,281,850
Total	\$	22,726,377	37,077,661

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

(7) Retirement Plan and Postretirement Benefits

Full-time employees, including part-time employees who work at least 20 hours per week for at least six months, of the University are eligible to participate in a contributory tax-deferred annuity retirement plan (the Retirement Plan) under Section 403(b) of the Internal Revenue Code. Administrators, faculty members, and staff-appointed employees are eligible to participate in the Retirement Plan after one year of service. Participating employees may contribute up to 4% of their base salary, limited by the Internal Revenue Code to \$10,500 per employee. The University contributes an amount twice that of the employee up to 8%. Participants have a fully vested interest in the total contributions immediately. Accounts of each employee are invested at the employee's discretion. Under the Retirement Plan, the University contributed approximately \$6,085,000 and \$5,691,000 for the years ended June 30, 2004 and 2003, respectively, which were charged to operating expenses.

The University also sponsors a defined benefit health care plan (the Health Care Plan) that provides postretirement medical benefits to full-time employees who have worked 10 years and attained age 55 while in service with the University if hired prior to January 1, 1992, or full-time employees who have worked 20 years and attained age 55 while in service with the University if hired after December 31, 1991. Participants receive \$55 per month, toward the cost of their postretirement medical costs. At June 30, 2004, the Health Care Plan covered 241 retirees with an additional 2,086 active employees potentially eligible for coverage. At June 30, 2003, the Health Care Plan covered 238 retirees with an additional 2,027 active employees potentially eligible for coverage. The Health Care Plan is noncontributory and was not amended during 2004 or 2003. Under the Health Care Plan, the University contributed approximately \$4,930,000 and \$4,684,000 for the years ended June 30, 2004 and 2003, respectively, which were charged to operating expenses.

The University has elected to amortize the initial transition postretirement benefit obligation of approximately \$1,989,000 over 20 years. The remaining balance was approximately \$895,000 at June 30, 2004.

The following table represents the Health Care Plan's status reconciled with amounts recognized in the University's statements of financial position as accounts payable and other accrued liabilities at June 30:

	<u>2004</u>	<u>2003</u>
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 1,346,682	1,370,842
Fully eligible active participants	838,507	906,616
Other active plan participants	214,394	241,860
Total APBO, all unfunded	<u>\$ 2,399,583</u>	<u>2,519,318</u>
Accumulated postretirement benefit obligations	\$ 2,399,583	2,519,318
Unrecognized net gain	337,449	217,864
Unrecognized prior service cost	(106,144)	(117,965)
Unrecognized transition obligation	<u>(895,243)</u>	<u>(994,714)</u>
Accrued postretirement benefit cost	<u>\$ 1,735,645</u>	<u>1,624,503</u>

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

At June 30, net periodic postretirement benefit cost included the following components:

	<u>2004</u>	<u>2003</u>
Service cost	\$ 17,774	13,385
Interest cost	139,597	147,584
Amortization of transition obligation over 20 years	99,471	99,471
Prior service cost	11,821	22,234
Amortization of unrecognized net gain	—	(25,552)
Net periodic postretirement benefit cost	\$ <u>268,663</u>	<u>257,122</u>

The weighted average discount rate used in determining the accumulated postretirement benefit obligations was 6.25% and 5.75% at June 30, 2004 and 2003, respectively. It is the University's policy to fund the benefit cost with current cash balances.

The estimated benefits expected to be paid in following years are as follows:

2005	\$ 186,500
2006	185,300
2007	185,300
2008	186,900
2009	187,200
2010 – 2014	<u>1,127,200</u>
Total	\$ <u>2,058,400</u>

For the year ended June 30, 2004, all medical premiums were greater than the amount subsidized by the University. Therefore, a health care trend was not used as all retirees receiving the subsidy receive the full \$55.

The measurement date for the Health Care Plan was June 30, 2004.

(8) Loans to Students

Student loans made through the Federal Perkins Loan Program (Perkins), constitute substantially all of the student loans outstanding at June 30, 2004 and 2003. New contributions to the Perkins programs are funded 75% by the federal government with the University providing the remaining 25% for fiscal years 2004 and 2003. Perkins provides for cancellation of a note at rates of 10% to 30% per year up to a maximum of 100% if the debtor complies with certain provisions of Perkins. The federal government reimburses the loan funds of the University at rates of 10% to 30% for canceled indebtedness due to certain teaching service and various types of services for the U.S. government and 100% for loans declared not collectible due to death, permanent disability, or a declaration of bankruptcy.

At June 30, 2004 and 2003, the allowance for possible loan losses of Perkins approximated \$750,000; however, due to federal regulations, no loans of Perkins have been written-off since the inception of Perkins.

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

The University has other loan funds obtained primarily through gifts and grants from individuals, corporations, and foundations. At June 30, 2004 and 2003, the allowance for possible loan losses of these funds was \$150,000.

During the years ended June 30, 2004 and 2003, the University made loans directly to students under the Federal Family Education Loan Program totaling approximately \$41.3 million and \$32.7 million, respectively. Prior to year-end the loans were sold without recourse to a third party.

(9) Federal Financial Awards

The federal government awards the University various monies restricted for student financial aid. The monies are awarded through three federal programs: Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (SEOG), and Federal College Work Study (CWS). The University considers this financial aid an integral part of its educational and general activities.

Pell grant monies are received by the University on behalf of students who have been identified by the federal government to assist the students in defraying the cost of post-secondary education. The University received and disbursed approximately \$1,555,000 and \$1,374,000 of Pell monies during the years ended June 30, 2004 and 2003, respectively, which are not reported in the accompanying statements of activities.

SEOG provides eligible students a foundation of financial aid to assist them with defraying the cost of post-secondary education. During 2004 and 2003, the University received and disbursed SEOG monies of approximately \$472,000 and \$525,000, respectively, which are reported as changes in unrestricted net assets under operations.

The CWS program provides part-time employment to students who need the earnings to help meet their post-secondary education costs. The program is also intended to broaden the range of worthwhile job opportunities to qualified students. The University received and disbursed approximately \$929,000 and \$1,287,000 of CWS awards during 2004 and 2003, respectively, which are reported as changes in unrestricted net assets under operations. The University provided matching funds of approximately \$452,000 and \$386,000, respectively, during the years ended June 30, 2004 and 2003.

(10) Fundraising Expenses

The University had fundraising expenses of approximately \$3,910,000 and \$3,550,000 in 2004 and 2003, respectively, which were recognized in institutional support in the accompanying statements of activities.

(11) Off-Balance Sheet Risk

During the years ended June 30, 2004 and 2003, the University participated in the Federal Direct Student Loan Program (FDSLPL). The FDSLPL allows "one-stop" student access to federal educational loan funds, including the Stafford Loan Program, the Supplemental Loans for Students Program, the PLUS Loan Program, and the Consolidation Loan Program, directly through schools. Such transactions are not reported in the University's statements of activities. During the years ended June 30, 2004 and 2003, the University received approximately \$19,747,000 and \$24,246,000 and disbursed approximately \$19,502,000 and \$23,886,000, respectively, of FDSLPL funds. The difference between the University's receipts and

UNIVERSITY OF DENVER (COLORADO SEMINARY)

Notes to Financial Statements

June 30, 2004 and 2003

disbursements is reported as accounts receivable under operations. The University performs certain administrative functions under FDSL P which, if not performed timely, could result in a liability to the University.

(12) Transactions With Related Parties

Included in pledges receivable is the present value of approximately \$12,388,000 and \$5,564,000 as of June 30, 2004 and 2003, respectively, in pledges from related parties.

(13) Commitments and Contingencies

At June 30, 2004 and 2003, the University had outstanding commitments totaling approximately \$6,395,000 and \$17,750,000, respectively, for contracts related to various construction projects on campus.

The University participates in a number of federal programs which are subject to financial and compliance audits. The amount of expenses which may be disallowed by the granting agencies cannot be determined at this time, although the University does not expect these amounts, if any, to be material to the financial statements.

The University is a party to a number of matters of litigation. It is the opinion of management, based on the advice of counsel, that the University's liability insurance is sufficient to cover the potential judgments, and that the outcome of the suits will not have a material adverse effect on the financial position or operations of the University.