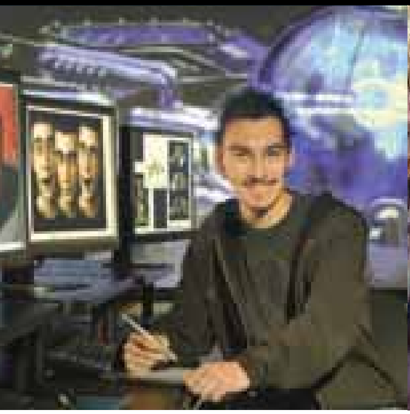
UNIVERSITY *of* COLORADO

2005 FINANCIAL REPORT




UNIVERSITY OF COLORADO
LET YOUR LIGHT SHINE
1876

University of Colorado Board of Regents

(Back, Left to Right) Dr. Peter Steinhauer, Paul Schauer (Chair), Jerry Rutledge, Tom Lucero, Patricia Hayes
(Front) Gail Schwartz, Steve Bosley, Cindy Carlisle, Michael Carrigan

On the Cover: *(Left to right)*

Digital animation isn't just video games and cartoonish features for the children anymore. The **UCDHSC downtown Denver campus** Digital Animation Center (DAC) has turned 3-D graphics into art and science, conducting cross-discipline research on diverse studies such as how muscles twist, move, and heal, and the gait of prehistoric creatures.

Bernard Amadei is a professor of civil engineering at **CU-Boulder**. In April 2000, he visited a Mayan village in Belize and was inspired to found Engineers Without Borders-USA, a volunteer-based organization that brings together engineers, engineering students, and underdeveloped villages to create sustainable solutions for the water, sanitation, and other basic services needs of the developing world.

CU-Denver and Health Sciences Center's School of Pharmacy ranked 1st in the nation for National Institutes of Health individual research grant awards for full-time PhD-level faculty in Fiscal Year 2003.

Nichole Nidney, Pueblo sophomore, shows off the newest **CU-Colorado Springs** academic program, a PGA-certified Professional Golf Management program. The discipline combines superior athletic abilities with the business skills required for successful golf course management. The program is one of only 14 in the nation.

FROM THE PRESIDENT

The last year has provided an opportunity for the University to publicly examine itself. The last months, in particular, have been filled with changes at the University and as a result, it is an exciting time of renewal.

Dramatic reforms in athletics and fiscal management and a new policy on openness and accountability have made CU stronger. As a University community we remain committed to addressing our challenges in a forthright manner.

As a CU alumnus, parent, and donor, I have great passion for our outstanding University and I am grateful for the role all of our constituents play in securing its future.

State funds, while important, cannot alone provide the "margin of excellence" necessary for CU to retain its position of strong leadership in teaching, research, and public service. CU faculty, fundraisers, students, alumni, and donors contribute significantly to CU's nationally and internationally recognized academic and research achievements.

We all have had much to celebrate recently.

- John Hall, a fellow and senior research associate at JILA, a joint institute of CU-Boulder and the National Institute of Standards and Technology, was awarded the 2005 Nobel Prize in Physics. It is the fourth Nobel for CU.
- Students from the downtown campus of CU-Denver and Health Sciences Center and CU-Boulder captured first place in the national Solar Decathlon competition for the second straight time.
- CU-Colorado Springs Professor Carlos Araujo was the first professor in America to receive international recognition as the 2006 Daniel E. Nobel Award winner for his contributions to the field of computer engineering.

These are but three examples of the numerous accomplishments of our faculty and students in which we all take tremendous pride.

The financial viability of the University is based on state support, private and corporate gifts, federal research funds, tuition and fees, and funds from our campuses' revenue-generating entities. Collectively, these funds help us sustain the kind of University that truly transforms lives and makes the world a better place for us all.

If you have any questions regarding the University's financials, please feel free to contact me at officeofthepresident@cu.edu.

Sincerely,

Hank Brown
President

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Colorado (the University), a component unit of the State of Colorado, as of and for the years ended June 30, 2005 and 2004, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2005 or 2004 financial statements of University Physicians, Inc. (UPI), a blended component unit, which represents 5%, 6%, and 12%, respectively, for 2005, and 5%, 5%, and 11%, respectively, for 2004, of the assets, net assets, and revenues of the business-type activities of the University. In addition, we did not audit the 2005 financial statements of the University of Colorado Foundation (CU Foundation), which represents 92%, 97%, and 97%, respectively for 2005, of the assets, net assets, and revenues of the aggregate discretely presented component units. We also did not audit the 2005 or 2004 financial statements of the University of Colorado Real Estate Foundation (CUREF), which represents 8%, 3%, and 2%, respectively, for 2005, and 2%, 3%, and 10%, respectively, for 2004, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for UPI, CU Foundation, and CUREF, are based on the reports of the other auditors.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2005 and 2004, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 12 to the financial statements, during fiscal year 2005, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. As discussed in note 20, the University restated the 2004 financial statements of the discretely presented component units.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 16, 2005

We are pleased to present this financial discussion and analysis of the University of Colorado (the University). It is intended to make the University's financial statements easier to understand and communicate our financial situation in an open and accountable manner. It provides an objective analysis of the University's position and results of operations as of and for the years ended June 30, 2005 and 2004 (Fiscal Year 2005 and 2004, respectively), with comparative information for Fiscal Year 2003. University management is responsible for the completeness and fairness of this discussion and analysis and the financial statements.

UNDERSTANDING THE UNIVERSITY

The presented information relates to the financial activities of the primary reporting entity of the University, a comprehensive degree-granting research university in the State of Colorado (State). The University comprises the system offices, the following three campuses, and blended component units.

- University of Colorado at Boulder (CU-Boulder)
- University of Colorado at Denver and Health Sciences Center (UCDHSC)
- University of Colorado at Colorado Springs (CU-Colorado Springs)

The above description reflects the Regents' approval of the consolidation of the Denver and Health Sciences Center campuses into a single major urban research university. Effective July 1, 2004, the new campus, UCDHSC, maintains separate facilities in the Denver/Aurora metropolitan area (or the Downtown Denver, Fitzsimons, and 9th Avenue campuses). The primary goal of the consolidation is to open collaborations in education, research, and community partnerships while increasing access for students and offering innovative opportunities across various disciplines.

With more than 52,400 students and 2,800 full-time instructional faculty, the University is the largest institution of higher education in Colorado, providing a comprehensive baccalaureate and graduate education. As discussed in Note 1, each of the three campuses brings a unique character to the system in order to meet the specialized needs of its communities.

In addition, the University has three supporting foundations which are included as discretely presented component units in the University's financial statements (Notes 1, 12, and 20).

Legislation passed in Fiscal Year 2004 provided that higher education institutions in the State of Colorado the ability to designate themselves as enterprises under the State's Constitution section 20, commonly referred to as the Taxpayer's Bill of Rights (TABOR), given the institution met the stated qualifications. The University qualified as an enterprise because it is a government-owned business with legal authority to issue revenue bonds. In addition, the University was required to receive (and expected to continue to receive) less than 10 percent (in relation to total revenues) in support from the State. In Fiscal Years 2005 and 2004, the University received approximately 8 percent and 9 percent, respectively, in State support (Note 13). The Regents approved the enterprise designation in July 2004 and received validation of its status from the State's Legislative Audit Committee in August 2004.

UNDERSTANDING THE FINANCIAL STATEMENTS

Financial highlights are presented in this discussion and analysis to help your assessment of the University's financial activities. Since this presentation includes highly summarized data, it should be read in conjunction with the financial statements, which have the following five other parts.

- ***Report of Independent Auditors*** presents an unqualified opinion prepared by our auditors (an independent certified public accounting firm, KPMG LLP) on the fairness (in all material respects) of our financial statements.
- ***Statement of Net Assets*** presents the assets, liabilities, and net assets of the University at a point in time (June 30, 2005 and 2004). Its purpose is to present a financial snapshot of the University. It aids readers in determining the assets available to continue the University's operations, how much the University owes to vendors, investors, and lending institutions, and a picture of net assets and their availability for expenditure in the University.
- ***Statement of Revenues, Expenses, and Changes in Net Assets*** presents the total revenues earned and expenses incurred by the University for operating, nonoperating, and other related activities during a period of time (the years ended June 30, 2005 and 2004). Its purpose is to assess the University's operating results.
- ***Statement of Cash Flows*** presents cash receipts and payments of the University during a period of time (the years ended June 30, 2005 and 2004). Its purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.

- ***Notes to the Financial Statements*** present additional information to support the financial statements and are commonly referred to as Note(s). Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to direct you to the details of the financial highlights.

We suggest that you combine this financial analysis with relevant nonfinancial indicators to assess the overall health of the University. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, building condition, and campus safety. Information about nonfinancial indicators is not included in this analysis,

The University has grown over the past three fiscal years with its mix of assets, liabilities, and net assets primarily changing in the last fiscal year due to a revenue bond issue.

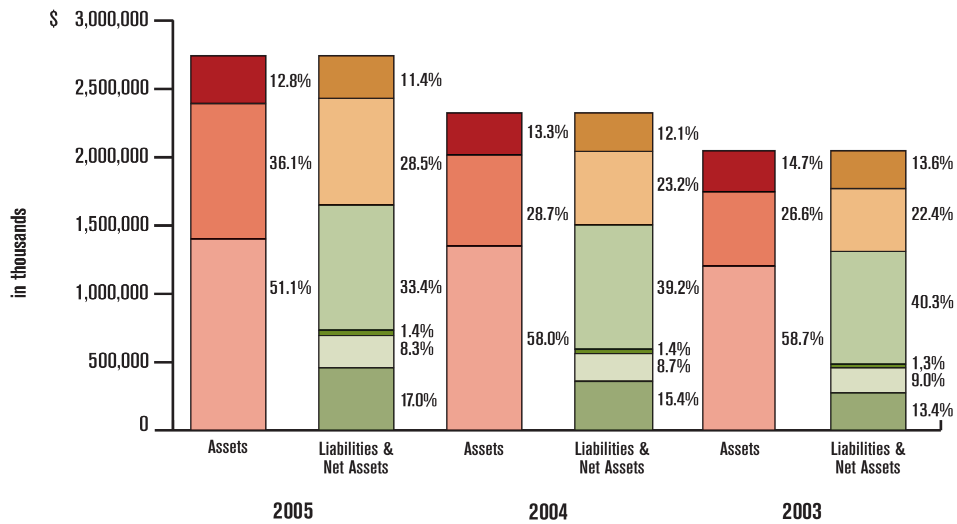


Figure 1. Condensed Statement of Assets, Liabilities, and Net Assets as of June 30, 2005, 2004, and 2003
(all dollars in thousands)

	2005	2004	2003	Increase (Decrease) 2005 vs 2004 Amount	2005 vs 2004 Percent	2004 vs 2003 Amount	2004 vs 2003 Percent
Assets							
Current Assets	$ 350,608	309,239	300,836	$ 41,369	13.4%	$ 8,403	2.8%
Noncurrent, Noncapital Assets	990,200	666,618	544,686	323,582	48.5%	121,932	22.4%
Net Capital Assets	1,400,018	1,346,896	1,200,123	53,122	3.9%	146,773	12.2%
Total Assets	$ 2,740,826	2,322,753	2,045,645	$ 418,073	18.0%	$ 277,108	13.5%
Liabilities							
Current Liabilities	$ 311,748	281,805	277,614	$ 29,943	10.6%	$ 4,191	1.5%
Noncurrent Liabilities	781,679	538,072	458,921	243,607	45.3%	79,151	17.2%
Total Liabilities	$ 1,093,427	819,877	736,535	$ 273,550	33.4%	$ 83,342	11.3%
Net Assets							
Invested in Capital Assets, Net of Related Debt	$ 915,344	910,007	825,653	$ 5,337	0.6%	$ 84,354	10.2%
Restricted for Nonexpendable Purposes	38,651	32,484	26,442	6,167	19.0%	6,042	22.9%
Restricted for Expendable Purposes	226,733	202,515	183,441	24,218	12.0%	19,074	10.4%
Unrestricted	466,671	357,870	273,574	108,801	30.4%	84,296	30.8%
Total Net Assets	$ 1,647,399	1,502,876	1,309,110	$ 144,523	9.6%	$ 193,766	14.8%
Total Net Assets and Liabilities	$ 2,740,826	2,322,753	2,045,645	$ 418,073	18.0%	$ 277,108	13.5%

but may be obtained from the University's Office of Information and Analysis (see www.cu.edu/system_info).

FINANCIAL HIGHLIGHTS

Sustained increases in net assets over time are one indicator of financial health. The University has sustained increases in its net assets during Fiscal Years 2005, 2004, and 2003. As of June 30, 2005, 2004, and 2003, the University's net assets increased by approximately $144,523,000, $193,766,000, and $103,798,000, respectively. These increases are primarily attributable to the increases in our investments and capital assets of approximately $351,211,000 and $256,629,000 for Fiscal Years 2005 and 2004, respectively, as offset by the increase in our long-term debt financing of those capital assets. The following sections provide further explanation of these drivers of the University's financial health.

STATEMENT OF NET ASSETS

Figure 1 illustrates the University's condensed statement of net assets and demonstrates the University has grown over the past three fiscal years with its mix of assets, liabilities, and net assets primarily changing in the last fiscal year due to a revenue bond issue. Analysis of the University's capital assets and related debt is included in the section Capital Asset and Debt Management, whereas this section provides analysis of the University's non-capital assets and other liabilities.

In analyzing the University's assets, the majority (80 percent) of the University's non-capital assets are investments, with a balance of $1,075,627,000 and $777,538,000 at the end of Fiscal Years 2005 and 2004, respectively. The University maximizes earnings through an internal pooling program and targeted rates of returns. The University has leveraged the investment portfolio and earning power, while ensuring safety and liquidity requirements are also met.

The University's non-debt-related liabilities are 35 and 43 percent, respectively, of total liabilities with $380,695,000 and $353,917,000 of liabilities at June 30, 2005 and 2004, respectively. These liabilities are comprised of amounts due to vendors and others as categorized in Figure 2.

The three largest categories of non-debt-related liabilities are accrued salaries and benefits, accrued compensated absences, and deferred revenue. For each category, the increase in Fiscal Years 2005 and 2004 is a result of the University's overall programmatic growth. Accrued salaries and benefits represent amounts earned by University employees but not paid at fiscal

The categories and mix of other liabilities reflects the nature of our operations and has remained stable over the last three years.

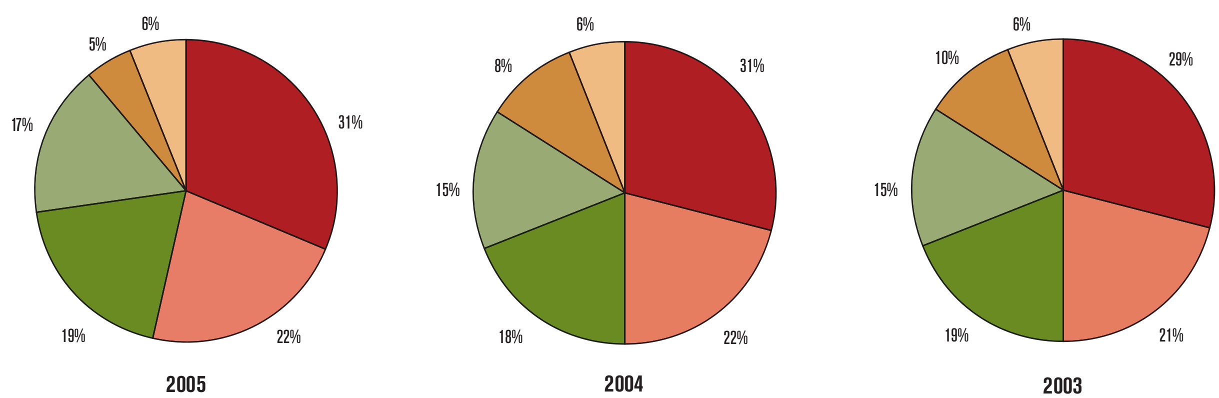


Figure 2. Composition of Non-debt-related Liabilities as of June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

					Increase (Decrease)				
					2005 vs 2004			2004 vs 2003	
		2005	2004	2003		Amount	Percent		Amount	Percent
Accrued Salaries and Benefits	$	118,512	106,774	100,317	$	11,738	11.0%	$	6,457	6.4%
Accrued Compensated Absences		83,890	78,384	74,320		5,506	7.0%		4,064	5.5%
Deferred Revenue		73,715	64,258	67,236		9,457	14.7%		(2,978)	(4.4%)
Accounts Payable to Vendors		62,585	54,147	51,419		8,438	15.6%		2,728	5.3%
Miscellaneous Liabilities		19,544	29,063	34,244		(9,519)	(32.8%)		(5,181)	(15.1%)
Risk Financing Related		22,448	21,291	21,581		1,157	5.4%		(290)	(1.3%)
Total Other Liabilities	$	380,694	353,917	349,117	$	26,777	7.6%	$	4,800	1.4%

year end. Accrued compensated absences estimate the amount payable to employees in the future for their vested rights under the University's various leave programs. This estimate is based on personnel policies that define the amount of vacation and sick leave to which each employee is entitled. Deferred revenue represents amounts prepaid by students, auxiliary enterprise customers, grantors, and contractors (or amounts received before the University met all of its requirements for earning the amounts). These amounts will be recognized as revenue in future periods after all conditions have been satisfied.

The University's net assets may have restrictions imposed by external parties, such as donors, or by their nature are invested in capital assets (property, plant, and equipment). The University's net assets have four categories, as displayed in Figure 1.

Net assets are restricted on a global basis for either expendable or nonexpendable purposes, and then more specifically by programmatic restrictions. The programmatic category of the restriction is shown on the statement of net assets. A nonexpendable restriction requires the original principal to be set aside for perpetual investment (as an endowment). The majority of the endowment assets benefiting the University are held by the University of Colorado Foundation, Inc., which is a discretely presented component unit not included in the above figures but discretely included in the financial statements (Note 20). Unrestricted net assets are usually available for spending for any lawful purpose under the full discretion of management. However, the University has placed some limitations on future use by designating unrestricted net assets for certain purposes (Note 11).

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

A shown in Figure 3, the University's condensed statement of revenues, expenses, and changes in net assets, the University's net assets increased by 10 and 15 percent during Fiscal Years 2005 and 2004, respectively.

A key component of this statement is the differentiation of operating and nonoperating activities. Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are paid to acquire or produce goods and services provided in return for operating revenues, and to carry out the mission of the University. Nonoperating revenues are received when goods and services are not provided. Thus, state appropriations are nonoperating because they are provided by the State without the State directly receiving goods and services. For similar reasons, most gifts and investment income are also nonoperating revenues.

State appropriations represent 8 and 9 percent of the University's total revenue in Fiscal Years 2005 and 2004, respectively, as compared to 12 percent in Fiscal Year 2003. However, State appropriations combined with gift and investment revenues are necessary to maintain a balanced operation at the University. Since these revenues are not classified as operating, the University (like most public colleges and univer-

Operations have steadily grown to provide increased instructional, research, and health services. This program expansion has been financed by increases in service fees as well as investment earnings and intellectual property endeavors. Associated expenses reflect a balance of cost containment strategies with necessary investments to support program expansion.

Figure 3. Condensed Statement of Revenues, Expenses, and Changes in Net Assets as of June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

				Increase (Decrease)			
				2005 vs 2004		2004 vs 2003	
	2005	2004	2003	Amount	Percent	Amount	Percent
Operating revenues	$ 1,515,413	1,421,580	1,294,429	$ 93,833	6.6%	$ 127,151	9.8%
Operating expenses	1,688,196	1,569,395	1,491,562	118,801	7.6%	77,833	5.2%
Operating Loss	(172,783)	(147,815)	(197,133)	(24,968)	16.9%	49,318	(25.0%)
Nonoperating revenues (net of expenses)	294,206	268,369	265,330	25,837	9.6%	3,039	1.1%
Income before Other Revenues, Expenses, Gains, or Losses	121,423	120,554	68,197	869	0.7%	52,357	76.8%
Other revenues	23,100	73,212	35,601	(50,112)	(68.4%)	37,611	105.6%
Increase in Net Assets	144,523	193,766	103,798	(49,243)	(25.4%)	89,968	86.7%
Net assets, beginning of year	1,502,876	1,309,110	1,205,312	193,766	14.8%	103,798	8.6%
Net Assets, end of year	$ 1,647,399	1,502,876	1,309,110	$ 144,523	9.6%	$ 193,766	14.8%

sities) experienced an operating loss; the University's operating loss totaled $172,783,000 and $147,815,000 in Fiscal Years 2005 and 2004, respectively.

This classification creates a need to consider not just the operating loss but also the net income before other revenues in determining the University's overall financial health. For Fiscal Years 2005 and 2004, a net income before other revenues of $121,423,000 and $120,554,000, respectively, presents the complete picture of the University. It provides a full match between the source of revenues and the related expenses. The increase in the operating loss in Fiscal Year 2005 is a result of the University's growth in instructional, research, and health programs. Such growth required expanded investments that were not fully offset by cost containment strategies and service fee increases. This operating loss was mitigated by increased nonoperating revenues, specifically investment earnings and intellectual property endeavors.

Figure 4 provides a graphic display of operating and nonoperating revenues by major sources. These sources include both State-appropriated and non-appropriated funds (Note 13). Appropriated funds include both State appropriations and certain cash funds, including tuition. Thus, the ability of the Regents to increase tuition rates is limited by the State, although the University's operations no longer impact the state's TABOR spending limits due to the University's enterprise status. However, increases in tuition revenue due to student growth are not directly restricted.

The University has experienced steady growth in all categories of revenues except state appropriations, which have been significantly reduced over the last three fiscal years.

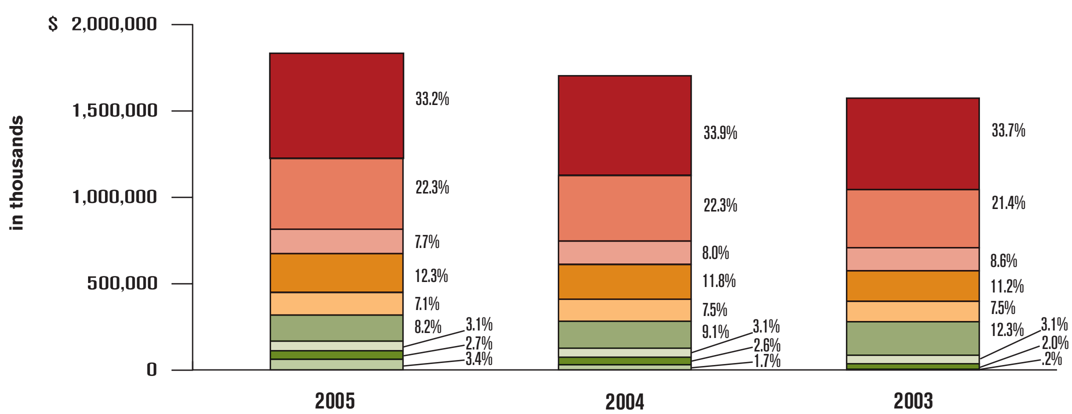


Figure 4. Operating and Nonoperating Revenues for years ended June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

	2005	2004	2003	Increase (Decrease) 2005 vs 2004 Amount	2005 vs 2004 Percent	2004 vs 2003 Amount	2004 vs 2003 Percent
Operating Revenues							
Grants and contracts	$ 609,369	577,672	529,408	$ 31,697	5.5%	$ 48,264	9.1%
Student tuition and fees, net	409,136	379,103	336,321	30,033	7.9%	42,782	12.7%
Other operating	141,135	135,851	133,878	5,284	3.9%	1,973	1.5%
Health services	225,205	200,819	176,500	24,386	12.1%	24,319	13.8%
Auxiliary enterprises, net	130,568	128,135	118,322	2,433	1.9%	9,813	8.3%
Total Operating Revenues	1,515,413	1,421,580	1,294,429	93,833	6.6%	127,151	9.8%
Nonoperating Revenues							
State appropriations	150,673	155,173	193,628	(4,500)	(2.9%)	(38,455)	(19.9%)
Gifts	56,278	51,983	48,715	4,295	8.3%	3,268	6.7%
Investment income, net	49,488	44,383	33,500	5,105	11.5%	10,883	32.5%
Other nonoperating, net	61,064	29,513	2,528	31,551	106.9%	26,985	1,067.4%
Total Nonoperating Reveues	317,503	281,052	278,371	36,451	13.0%	2,681	1.0%
Total Revenues (noncapital)	$ 1,832,916	1,702,632	1,572,800	$ 130,284	7.7%	$ 129,832	8.3%

As illustrated in Figure 4, the University experienced increases in all operating revenue sources in Fiscal Years 2005 and 2004. The increase in tuition and fees revenues reflects both enrollment and approved rate increases. (Trend analysis of both factors is included in Figures 13 and 14 toward the end of this discussion.) Consistent with the University's goal to increase its focus and national role as a research institution, the University increased grants and contracts revenue by 6 and 9 percent in Fiscal Years 2005 and 2004, respectively, to achieve a ranking as the sixth and first highest among research institutions in the nation per National Science Foundation and National Aeronautics Space Administration, respectively. The majority of health services represents medical practice plan revenues earned through University Physicians, Incorporated (Note 1). The practice plan growth results from additional service contracts in Fiscal Year 2005.

The University also experienced growth in all nonoperating revenues, except State appropriations. In Fiscal Years 2005 and 2004, the University experienced decreases in State appropriations of $4,500,000 and $38,455,000, respectively, or 3 and 20 percent, respectively. This decrease was the third cut of State appropriations experienced in the last three fiscal years as the State is challenged with an economic downturn. The decrease results in the Fiscal Year 2005 and 2004 State appropriations being approximately equal to the amount received by the University in 1989 (on an absolute dollar basis). The University has maintained a constant increase in the levels of gifts of 8 and 7 percent, respectively, for Fiscal Years 2005 and 2004. Investment income increased by $5,105,000 and $10,883,000 or 12 and 33 percent in Fiscal Years 2005 and 2004, respectively. In Fiscal Year 2004, the investment income increase was primarily driven by unrealized gains. The University recognized one-time revenue from the sale of intellectual property receivables (patent fees to be paid in future years) of $44,000,000 in Fiscal Year 2005 and a technology transfer legal settlement (to reimburse the University for past unpaid patent fees) of approximately $28,306,000 in Fiscal Year 2004.

In addition to operating and nonoperating revenues, the University had capital revenues in the amounts depicted in Figure 5. The largest factor contributing to the University's Fiscal Year 2004 growth in capital revenues was the receipt of equipment related to a federal-sponsored research program valued at approximately $50,108,000. Otherwise, there has been a steady decline in capital revenues over the last three fiscal years, similar to State appropriations for operations.

The programmatic uses of expenses are displayed in Figure 6, which demonstrates the programmatic focus is basically unchanged over the past three fiscal years while the programs overall have grown. Due to decreasing State support, cost management measures implemented in Fiscal Year 2003 were continued into Fiscal Years 2004 and 2005. The objectives of such measures were to expand programmatic costs to meet increased demand for services, while limiting increases in support services costs. In Fiscal Year 2005, the University experienced an increase in total operating expenses of 8 percent, as necessary investments in the University's programs were made to offset the reduced investment in previous years.

In Fiscal Years 2005 and 2004, depreciation expense increased by $19,503,000 and $20,155,000, respectively, due to two factors. First, the University accelerated its depreciation by $8,529,000 related to a change in estimated useful lives for the buildings and improvements on UCDHSC's 9th Avenue campus. The change in life was triggered by the State legislative requirement that the Regents approve a third-party master developer agreement to carry out the sale and redevelopment of the campus by June 30, 2006. The current plans indicate that the 9th Avenue campus will no longer be in use by Fiscal Year 2008. Second, depreciation expense increased as the result of the new acquisitions of capital assets (discussed more in the following section).

Outside of a one-time contribution of equipment related to a federally sponsored research program in Fiscal Year 2004, capital revenues have been declining over the last three fiscal years.

Figure 5. Capital Revenues for years ended June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

					Increase (Decrease)			
					2005 vs 2004		2004 vs 2003	
		2005	2004	2003	Amount	Percent	Amount	Percent
Grants and gifts	$	16,208	70,451	25,806	$ (54,243)	(77.0%)	$ 44,645	173.0%
Appropriations		1,037	2,744	9,734	(1,707)	(62.2%)	(6,990)	(71.8%)
Total Capital Revenues	$	17,245	73,195	35,540	$ (55,950)	(76.4%)	$ 37,655	106.0%

CAPITAL ASSET AND DEBT MANAGEMENT

The University had $2,244,687,000 and $2,092,867,000 of plant, property, and equipment at June 30, 2005 and 2004, respectively, offset by accumulated depreciation of $844,669,000 and $745,971,000, respectively. The major categories of plant, property, and equipment at June 30, 2005 and 2004 are displayed in Figure 7. Related depreciation charges of $108,038,000 and $88,535,000 were recognized in Fiscal Years 2005 and 2004, respectively. Detailed financial activity related to the changes in capital assets is presented in Note 5.

In Fiscal Years 2005 and 2004, the University put into service capital construction projects of $77,418,000 and $336,918,000, respectively. In addition, another $100,102,000 and $68,302,000 of construction activity was in progress at June 30, 2005 and 2004, respectively. Major projects are detailed in Figure 8.

The University plans to continue its investment in property, plant, and equipment with an approved Fiscal Year 2006 capital projects budget of $76,326,000 (excluding the UCDHSC Fitzsimons Campus Academic Expansion described below). Of this budget amount, $35,026,000 is related to continuing projects (described in Figure 8). New projects included in the Fiscal Year 2006 budget are detailed in Figure 9. There is relatively no State support available for construction projects. Therefore, all of these projects, except the CU-Colorado Springs Dwire Building project, will be funded by existing resources of the campus or through additional financing to be issued in Fiscal Year 2006.

The University's focus on programs (as illustrated by its expense categories) has remained stable over the last three fiscal years as overall the programs have grown.

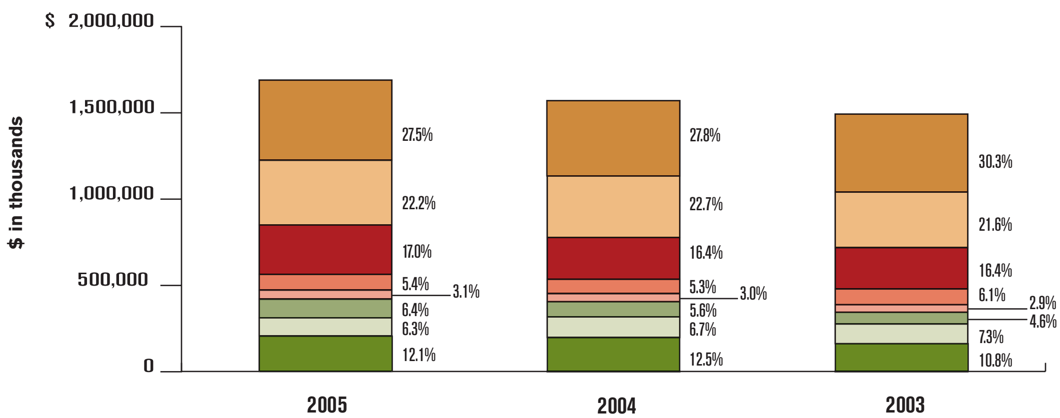


Figure 6. Expense Program Categories for years ended June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

				Increase (Decrease)			
				2005 vs 2004		2004 vs 2003	
	2005	2004	2003	Amount	Percent	Amount	Percent
Instruction	$ 464,743	436,598	452,457	$ 28,145	6.4%	$ (15,859)	(3.5%)
Research	374,753	356,280	321,743	18,473	5.2%	34,537	10.7%
Academic, Institutional, and Plant Support	285,817	257,146	245,298	28,671	11.1%	11,848	4.8%
Student Aid and Other Services	91,239	83,439	90,670	7,800	9.3%	(7,231)	(8.0%)
Public Service	52,436	46,568	43,764	5,868	12.6%	2,804	6.4%
Total Education and General	1,268,988	1,180,031	1,153,932	88,957	7.5%	26,099	2.3%
Depreciation	108,038	88,535	68,380	19,503	22.0%	20,155	29.5%
Auxiliary enterprises	105,971	104,436	108,176	1,535	1.5%	(3,740)	(3.5%)
Health services	205,024	196,372	161,014	8,652	4.4%	35,358	22.0%
Miscellaneous	175	21	60	154	733.3%	(39)	(65.0%)
Total Operating Expenses	$ 1,688,196	1,569,395	1,491,562	$ 118,801	7.6%	$ 77,833	5.2%

In addition to the authorized budget above, the Regents have authorized the construction of educational buildings at the UCDHSC Fitzsimons campus, detailed in Figure 8 as Fitzsimons Campus Academic Expansion. The financing for these buildings will be provided by the State. In Fiscal Year 2003, the State (not the University) received legislative authorization for the issuance of a lease-purchase agreement not to exceed $202,876,000, which will be collateralized by the University's buildings. Certain legal challenges were resolved that allow the target issuance date to be the second quarter of Fiscal Year 2006. The construction project schedules have various completion dates through Fiscal Year 2008.

As discussed previously, as a condition of receiving the Fitzsimons lease purchase agreement funding from the State, UCDHSC was required to sell for redevelopment the land and buildings located at the 9th Avenue campus. Therefore, the University was required to enter into a third-party master development agreement to carry out the sale and redevelopment of the 9th Avenue campus by June 30, 2006.

As a result of the University's efforts to identify alternative financing sources for its capital improvements to offset the lack of State capital support, the University financed the capital projects detailed in Figure 10 during the Fiscal Years 2005, 2004, and 2003.

At June 30, 2005 and 2004, the University had debt (or similar long-term obligations) of $712,733,000 and $465,960,000, respectively, in the categories illustrated in Figure 11. More detail about the University's debt is included in Note 9.

The University Board of Regents (the Regents) has adopted a debt management policy that includes limitations on the use of external debt. A component of this policy is debt capacity, which is the calculated ratio of our debt service requirement as compared to certain unrestricted revenues. The University was able to minimize financing costs due to current market conditions and by maintaining a bond rating of AA- and Aa3 (Standard & Poors and Moody's, respectively). The University increased its outstanding debt by 53 and 20 percent in Fiscal Years 2005 and 2004, respectively, while maintaining its debt capacity limits.

The University's completed construction projects in each of the last three fiscal years, continuing its trend of physical facility investment.

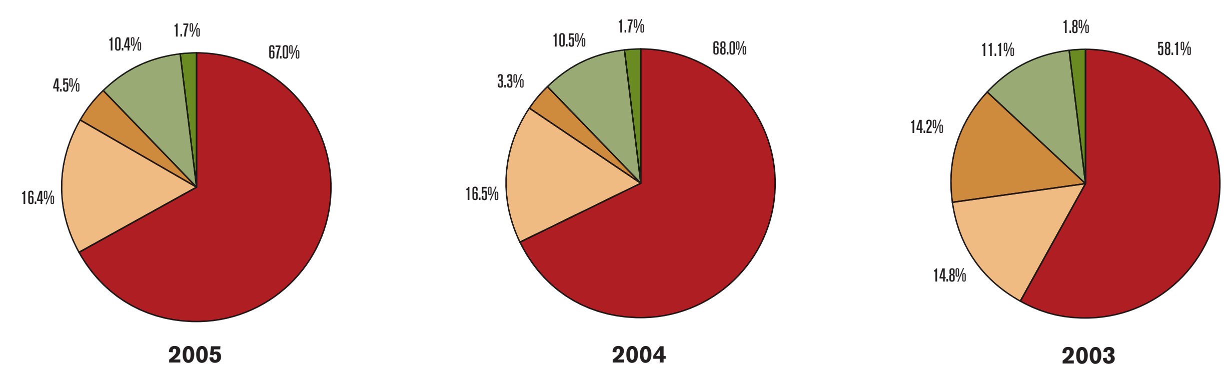


Figure 7. Capital Asset Categories (before depreciation) for years ended June 30, 2005, 2004, and 2003
(all dollars in thousands)

					Increase (Decrease)			
					2005 vs 2004		2004 vs 2003	
		2005	2004	2003	Amount	Percent	Amount	Percent
Buildings and Improvements	$	1,503,011	1,422,943	1,088,366	$ 80,068	5.6%	$ 334,577	30.7%
Equipment		370,027	345,047	276,933	24,980	7.2%	68,114	24.6%
Construction in progress		100,102	68,302	266,091	31,800	46.6%	(197,789)	(74.3%)
Library and other collections		232,629	220,061	208,697	12,568	5.7%	11,364	5.4%
Land		38,918	36,514	33,921	2,404	6.6%	2,593	7.6%
Total Capital Assets (gross)	$	2,244,687	2,092,867	1,874,008	$ 151,820	7.3%	$ 218,859	11.7%

Figure 8. Current Construction Project Details *(in thousands)*

Campus/Project Description	Project Status	Financing Sources	Value*
CU-Boulder:			
• Alliance for Teaching, Learning, and Society (ATLAS) Center, new building to support information technology curriculums	In progress	State appropriations, bond proceeds, and campus cash resources	$ 29,995
• Energy Savings and Conservation Projects	In progress	Bond proceeds and campus cash resources	6,320
• Laboratory for Atmospheric and Space Physics Technology Research Center addition	In progress	Bond proceeds	13,022
• Wolf Law Building	In progress	State appropriations, bond proceeds, and campus cash resources	46,350
• An extensive renovation to student housing centers, which has been segregated into the following phases:		Bond proceeds and campus cash resources	
– Phase I	2003		14,857
– Phase II	2004		5,704
– Phase III	2005		770
– Future Phases	In progress		34,752
• CU-Boulder Research Laboratory, new research building	2004	Bond proceeds and campus cash resources	8,200
• Folsom Stadium improvements to enlarge seating capacity and facilities management shop space	2004	Bond proceeds	45,574
UCDHSC:			
• Oral Health Building to provide space for patient care and instruction	In progress	Private resources and Certificates of Participation (COP) proceeds	28,774
• Fitzsimons Campus Academic Expansion:		State of Colorado lease purchase agreements	
– Academic Office West	In progress		41,069
– Education Facility II and Bridge and Academic Office East	In progress		75,714
– Fitzsimons Library	In progress		34,999
– Education Complex 1B	In progress		32,581
– Facilities Support Building	In progress		15,707
– Environmental Health and Safety II	In progress		1,806
• Fitzsimons Building 500 phase 3 remodel	In progress	Campus cash resources	9,000
• Fitzsimons Center for BioEthics and Humanities, new building	In progress	Campus cash resources	5,436
• Fitzsimons infrastructure development:			
– Phase 8	In progress	Campus cash resources	4,357
– Phase 9	In progress	Campus cash resources	5,424
• Fitzsimons parking facility	In progress	Campus cash resources	23,000
• Barbara Davis Center for Childhood Diabetes (Fitzsimons) providing clinical, research, and educational space:		Private donations, federal grants, and bond proceeds	
– Phase I & II	2005		22,539
– Phase III	In Progress		6,442
• State-of-the art biomedical research facilities with research laboratory modules, lab support space, research offices, and academic auditorium space:		Bond proceeds, federal awards, gifts, and campus cash resources	
– Research Complex I	2004		214,688
– Research Complex II	In Progress		205,820
• Administration building for University Physicians, Inc.	2004	Bond proceeds	20,500
CU-Colorado Springs:			
• Dwire Hall, renovation and upgrade of the classroom library facility	In Progress	State appropriations and campus cash resources	10,084
• Heller Center, new building for humanities and arts center	In Progress	Campus cash resources	5,400
• Parking facility to address the campus' growing needs:			
– Phase I	2005	Bond proceeds	6,743
– Phase II	In Progress	Bond proceeds	4,000
• Recreation Center, new building	In progress	Bond proceeds	12,000
• Science and Engineering building (Phase I), new building	In progress	Bond proceeds and campus cash resources	38,251
• Housing facilities to address the campus' growing student housing needs	2005	Bond proceeds	18,040
• Cragmor administrative building renovation	2004	State appropriations and COP proceeds	3,500
• University Hall, new building for nursing and engineering programs	2004	COP proceeds	7,925

** Value represents actual costs for completed projects and budgeted costs for projects in progress.*

WHERE DO WE GO FROM HERE?

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Legislation passed in Fiscal Year 2004 provided for a change in the funding mechanism of higher education beginning in July 2005. The State will no longer provide State appropriations to public institutions of higher education. The College Opportunity Fund has been established to provide stipends to qualified undergraduate students; the receiving students will then use the stipends to pay a portion of their tuition. The University expects to receive $64,600,000 of its tuition revenue in Fiscal Year 2006 from the College Opportunity Fund. This budgeted amount is based on the assumption that the change in funding does not have a negative impact on enrollment. In addition, the Colorado Commission on Higher Education (CCHE) will purchase certain educational services, including graduate and specialized education such as law and medicine, from public higher education institutions. The University's service contract for Fiscal Year 2006 provides for revenue of $86,048,000. In total, this funding mechanism change is projected to have a neutral impact on the University's funding from the State in Fiscal Year 2006 as compared to Fiscal Year 2005.

To be eligible for participation in either the College Opportunity Fund or the educational service contracts with CCHE, the University entered into a performance contract with CCHE in April 2005. The purpose of the performance contract is to increase the accountability of the University to its constituents. The goals of the performance contract are detailed in Figure 12.

Due to the Enterprise designation, the State Legislature established the University's tuition rates at a higher level than the rest of the public institutions in the State. Figure 13 depicts the three-year trend of tuition and fee rate increases for the predominant undergraduate degree program (Arts & Sciences and

The University is continuing its trend of investing in physical facilities in Fiscal Year 2005 through different financing mechanisms.

Figure 9. Fiscal Year 2006 Planned Capital Projects
(in thousands)

CU-Boulder Business School renovation and addition	$	34,300
CU-Boulder Ekeley sciences building renovation		13,950
CU-Boulder Information technology upgrade		13,524
CU-Boulder Ketchum arts & sciences building restoration		8,090
CU-Boulder Outdoor recreation improvements		5,731
CU-Boulder Visual Arts Complex		53,110

Figure 10. Capital Projects Financed by Debt
(in thousands)

Issuance Description	Construction Project (See Figure 8 for Project Description)		Allocated Proceeds
Fiscal Year 2005 Revenue Bonds:			
• UCDHSC Fitzsimons Research Complex II		$	141,770
• CU-Boulder Wolf Law Building			40,400
• CU-Boulder Alliance for Teaching, Learning, and Society (ATLAS) Center			27,900
• CU-Colorado Springs Housing			18,040
• CU-Boulder Laboratory for Atmospheric and Space Physics Technology Research Center addition			13,022
• CU-Boulder Energy Savings and Conservation Projects			6,320
• CU-Colorado Springs Parking Facility Phase II			4,000
	Total 2005 Revenue Bonds issuance*		251,452
Fiscal Year 2004 Revenue Bonds:			
• UCDHSC Fitzsimons Research Complex 1			31,660
• UCDHSC Fitzsimons Barbara Davis Center for Childhood Diabetes			20,000
• CU-Boulder Research Laboratory			6,600
• CU-Colorado Springs Parking			6,000
	Total 2004 Revenue Bonds issuance		64,260
Fiscal Year 2004 Certificates of Participation:			
• UCDHSC Fitzsimons Oral Health Building			25,000
• CU-Colorado Springs University Hall			7,925
• CU-Colorado Springs Cragmor Building			2,550
	Total 2004 Certificates of Participation Issuance	$	35,475

* *Proceeds do not include $2,933,000 of proceeds used to pay prior year revenue bonds.*

The University's overall bonds and lease obligations have grown over the last three years as the University has financed its capital investments.

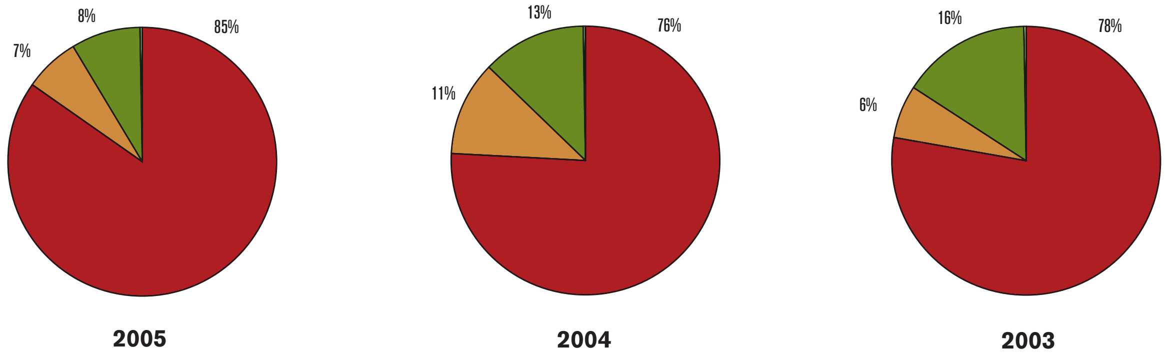


Figure 11. Debt Categories for years ended June 30, 2005, 2004, and 2003 *(all dollars in thousands)*

					Increase (Decrease)			
					2005 vs 2004		2004 vs 2003	
		2005	2004	2003	Amount	Percent	Amount	Percent
Revenue Bonds	$	604,913	354,517	301,627	$ 250,396	70.6%	$ 52,890	17.5%
Certificates of Participation		47,100	52,725	25,240	(5,625)	(10.7%)	27,485	108.9%
Other Capital Lease Obligations		60,543	58,386	60,204	2,157	3.7%	(1,818)	(3.0%)
Notes Payable		177	332	347	(155)	(46.7%)	(15)	(4.3%)
Total Long-term Debt	$	712,733	465,960	387,418	$ 246,773	53.0%	$ 78,542	20.3%

Figure 12. Performance Contract Goals

Access:

- Guaranteed admission for in-state undergraduate applicants meeting published criteria
- Greater access for academically qualified in-state students who are historically underrepresented
- Debt-free coverage for low-income, in-state students who are first-time freshmen or community college transfers
- Increased transferability among State institutions of higher education in general education core courses

Quality and Success:

- High level of student satisfaction with their learning experience and overall education
- High numbers of students engaged in activities that lead to successful learning
- High level of student achievement on national standardized tests
- National recognition of the University's high-quality programs
- Increased student retention and graduation rates
- Enhanced academic rigor
- Maintaining a high-quality faculty

Efficiency:

- Efficient use of the University's resources
- Increased revenues from sources other than state funds and tuition dollars
- Increased resources for capital assets and maintenance

Addressing State Needs:

- Enrichment of the State's economy
- Provide undergraduate, graduate, and professional training to meet the State's needs
- Meeting the need for well-prepared primary and secondary education teachers

Figure 13. Undergraduate Tuition and Fees Rate Increases

	In-state			Out-of-state		
	2006	2005	2004	2006	2005	2004
CU-Boulder	23.8%	8.0%	12.7%	6.4%	5.6%	7.7%
CU-Colorado Springs	17.8%	7.3%	9.0%	0.0%	8.0%	10.3%
UCDHSC-Denver	23.3%	12.8%	8.8%	1.0%	4.0%	10.0%
UCDHSC-Health Sciences	12.6%	7.4%	9.4%	1.9%	12.4%	5.7%

Rates shown for the predominant undergraduate degree program (Arts & Sciences and Nursing for the general campuses and Health Sciences, respectively). Actual tuition rates vary by campus, school, and degree level.

Nursing for the general campuses and Health Sciences, respectively). Actual tuition rates vary by campus, school, and degree level. The tuition increases in Fiscal Year 2006 were offset by increased institutional financial aid packages for all students equal to 8.8 percent of the tuition increase.

Another factor in the University's ability to generate tuition and fees (and its overall economic position) relates to its ability to recruit and retain high-quality students. As depicted in Figure 14, student enrollment remains relatively stable.

The University continues to wrestle with the implications of a slow economic recovery in the State and reduced state funding. In November 2005, to provide relief from the slow economic recovery, the voters authorized the State to retain the money it collects over its TABOR spending limit for the next five years to be used for strategic transportation projects; health care for low-income, disabled, and elderly Coloradans; health insurance premiums for individuals and small businesses; preschool through twelfth grade public education; and community colleges and other public institutions of higher education.

The 10 and 15 percent growth in net assets in Fiscal Years 2005 and 2004, respectively, (both of which were periods of declining State support and economic weakness) illustrates the University's financial position. Specifically, the University had an increase in net assets of $144,523,000 and income before other revenues of $121,423,000 over the last fiscal year despite the current economic environment. To date in Fiscal Year 2006, the University's financial position remains stable due to revenues being in line with expectations and expenses being lower than expectations as a result of management's coupling of cost containment strategies and focused programmatic investments. The University has budgeted for Fiscal Year 2006 to continue its prudent use of resources, alternative financing for capital projects, and cost containment strategies. As demonstrated by the University's financial monitoring processes, management will continue to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues and maintain this financial position.

The University's overall student enrollment has remained steady over the last three years.

Figure 14. Fall Enrollment Figures

	2005 Census	2004 Actual	2003 Actual	2005 Census vs. 2004 Actual	2004 Actual vs. 2003 Actual
Resident					
CU-Boulder	20,322	20,376	20,102	(54)	274
CU-Colorado Springs	7,106	7,194	7,175	(88)	19
UCDHSC-Denver	11,244	11,458	11,129	(214)	329
UCDHSC-Health Sciences	2.473	2,438	2,298	35	140
Total Resident	41,145	41,466	40,704	(321)	762
Nonresident					
CU-Boulder	8,793	9,380	9,725	(587)	(345)
CU-Colorado Springs	461	435	465	26	(30)
UCDHSC-Denver	826	888	881	(62)	7
UCDHSC-Health Sciences	301	279	269	22	10
Total Nonresident	10,381	10,982	11,340	(601)	(358)
Total CU	51,526	52,448	52,044	(922)	404

UNIVERSITY OF COLORADO
FINANCIAL STATEMENTS

June 30, 2005 and 2004

UNIVERSITY OF COLORADO

STATEMENTS OF NET ASSETS

June 30, 2005 and 2004 (*in thousands*)

	2005		2004	
	University	Component Units	University	Component Units (restated)
Assets				
Current Assets				
Cash and cash equivalents	$ 27,690	14,836	12,263	11,553
Investments	144,812	31,652	151,244	364
Accounts, contributions, and loans receivable, net	165,681	14,034	134,214	21,143
Inventories	8,476	–	7,540	–
Other assets	3,949	603	3,978	445
Total Current Assets	**350,608**	**61,125**	**309,239**	**33,505**
Noncurrent Assets				
Investments	930,815	663,563	626,294	608,410
Accounts, contributions, and loans receivable, net	50,192	15,893	33,481	43,818
Other assets	9,193	4,294	6,843	1,462
Capital assets, net	1,400,018	95,385	1,346,896	83,736
Total Noncurrent Assets	**2,390,218**	**779,135**	**2,013,514**	**737,426**
Total Assets	**$ 2,740,826**	**840,260**	**2,322,753**	**770,931**
Liabilities				
Current Liabilities				
Accounts payable	$ 62,585	4,188	54,147	3,855
Accrued expenses	119,639	–	109,112	–
Accrued compensated absences	5,872	–	5,487	–
Deferred revenue	66,912	1,268	57,169	1,024
Bonds, notes, and leases payable	29,434	1,425	22,404	177
Split-interest agreements	–	3,372	–	3,250
Custodial funds	–	4,690	–	4,174
Other liabilities	27,306	422	33,486	765
Total Current Liabilities	**311,748**	**15,365**	**281,805**	**13,245**
Noncurrent Liabilities				
Accrued compensated absences	78,018	–	72,897	–
Deferred revenue	6,803	122	7,089	873
Bonds, notes, and leases payable	683,299	123,253	443,556	74,318
Split-interest agreements	–	27,384	–	27,361
Custodial funds	–	85,028	–	74,909
Other liabilities	13,559	3,951	14,530	4,414
Total Noncurrent Liabilities	**781,679**	**239,738**	**538,072**	**181,875**
Total Liabilities	**$ 1,093,427**	**255,103**	**819,877**	**195,120**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF NET ASSETS

June 30, 2005 and 2004 (*in thousands*)

	2005		2004	
	University	Component Units	University	Component Units (restated)
Net Assets				
Invested in capital assets, net of related debt	$ 915,344	8,276	910,007	9,241
Restricted for nonexpendable purposes (endowments)				
Instruction	–	87,189	–	81,211
Research	3,268	24,464	3,049	24,150
Academic support	13,311	15,515	12,653	15,150
Capital and other	3,135	7,605	2,965	7,595
Scholarships and fellowships	18,937	55,147	13,817	51,382
Total restricted for nonexpendable purposes	38,651	189,920	32,484	179,488
Restricted for expendable purposes				
Instruction	20,265	136,959	14,701	123,351
Research	8,345	44,683	12,461	39,754
Academic support	6,511	34,762	5,164	33,871
Student loans and services	39,944	–	40,481	–
Capital	22,360	34,672	11,830	68,490
Scholarships and fellowships	14,446	93,401	11,189	86,965
Auxiliary enterprises	99,392	–	97,201	–
Other	15,470	4,042	9,488	3,826
Total restricted for expendable purposes	226,733	348,519	202,515	356,257
Unrestricted	466,671	38,442	357,870	30,825
Total Net Assets	**$ 1,647,399**	**585,157**	**1,502,876**	**575,811**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

June 30, 2005 and 2004 (*in thousands*)

	2005		2004	
	University	Component Units	University	Component Units (restated)
Operating Revenues				
Student tuition (net of scholarship allowances of $46,687 in 2005 and $43,093 in 2004; pledged revenues of $37,102 in 2005)	$ 370,953	–	342,428	–
Student fees (net of scholarship allowances of $5,216 in 2005 and $5,088 in 2004; pledged revenues of $4,643 in 2005 and $4,457 in 2004)	38,183	–	36,675	–
Federal grants and contracts (pledged revenues of $100,369 in 2005 and $100,638 in 2004)	536,350	–	502,627	–
State and local grants and contracts (pledged revenues of $3,926 in 2005 and $4,130 in 2004)	23,844	–	24,478	–
Nongovernmental grants and contracts	49,175	–	50,567	–
Sales and services of educational departments (pledged revenues of $7,179 in 2005 and $6,065 in 2004)	104,754	–	96,120	–
Auxiliary enterprises (net of scholarship allowances of $2,091 in 2005 and $1,941 in 2004; pledged revenues of $30,227 in 2005 and $30,133 in 2004)	130,568	–	128,135	–
Health services (pledged revenues of $121 in 2005 and $178 in 2004)	225,205	–	200,819	–
Contributions	–	54,059	–	86,267
Other operating revenues (pledged revenues of $2,154 in 2005 and $1,910 in 2004 for University)	36,381	20,691	39,731	20,277
Total Operating Revenues	**1,515,413**	**74,750**	**1,421,580**	**106,544**
Operating Expenses				
Education and General				
Instruction	464,743	–	436,598	–
Research	374,753	–	356,280	–
Public service	52,436	–	46,568	–
Academic support	85,779	–	83,264	–
Student services	63,186	–	57,801	–
Institutional support	101,796	114,011	91,521	97,336
Operation and maintenance of plant	98,242	–	82,361	–
Student aid	28,053	–	25,638	–
Total Education and General Expenses	1,268,988	114,011	1,180,031	97,336
Depreciation	108,038	2,921	88,535	1,997
Auxiliary enterprises	105,971	–	104,436	–
Health services, net	205,024	–	196,372	–
Other operating expenses	175	–	21	–
Total Operating Expenses	**1,688,196**	**116,932**	**1,569,395**	**99,333**
Operating Income (Loss)	**$ (172,783)**	**(42,182)**	**(147,815)**	**7,211**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

June 30, 2005 and 2004 (*in thousands*)

	2005		2004	
	University	Component Units	University	Component Units (restated)
Nonoperating Revenues (Expenses)				
State appropriations	$ 150,673	–	155,173	–
Gifts	56,278	3,600	51,983	–
Investment income (net of investment expenses of $4,142 in 2005 and $3,673 in 2004; pledged revenues of $94 in 2005 and $125 in 2004 for the University)	49,488	51,994	44,383	73,134
Royalty income (net of royalty expense of $6,962 in 2005 and $1,585 in 2004)	51,078	–	23,303	–
Gain (loss) on disposal of capital assets	(2,911)	–	258	–
Interest expense on capital asset related debt	(20,393)	(4,066)	(12,941)	(3,900)
Other nonoperating revenues (net of expenses of $80 in 2005)	9,993	–	6,210	–
Net Nonoperating Revenues	**294,206**	**51,528**	**268,369**	**69,234**
Income Before Other Revenues	**121,423**	**9,346**	**120,554**	**76,445**
Capital appropriations	1,037	–	2,744	–
Capital grants and gifts	16,208	–	70,451	–
Additions to permanent endowments	5,855	–	17	–
Total Other Revenues	**23,100**	**–**	**73,212**	**–**
Increase in Net Assets	**144,523**	**9,346**	**193,766**	**76,445**
Net Assets, beginning of year	1,502,876	575,811	1,309,110	499,366
Net Assets, end of year	**$ 1,647,399**	**585,157**	**1,502,876**	**575,811**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO

STATEMENTS OF CASH FLOWS

June 30, 2005 and 2004 (*in thousands*)

	2005	2004
	University	
Cash Flows from Operating Activities		
Tuition and fees	$ 409,687	382,295
Grants and contracts	611,030	556,797
Payments to suppliers	(415,889)	(385,476)
Payments for utilities	(45,368)	(37,899)
Payments to employees	(889,433)	(858,066)
Payments for benefits	(182,915)	(165,305)
Payments for scholarships and fellowships	(25,808)	(24,268)
Loans issued to students and employees	(8,234)	(10,164)
Collection of loans to students and employees	9,922	9,470
Auxiliary enterprise charges	132,061	123,268
Sales and services of educational departments	104,454	96,254
Health services	218,151	199,540
Other receipts	44,921	68,060
Total Cash Flows Used for Operating Activities	**(37,421)**	**(45,494)**
Cash Flows from Noncapital Financing Activities		
State appropriations	150,673	155,173
Gifts and grants for other than capital purposes	54,552	52,666
Endowment additions	5,855	17
William D. Ford direct lending receipts	99,599	90,420
William D. Ford direct lending disbursements	(99,618)	(90,393)
PLUS loans receipts	43,970	39,402
PLUS loans disbursements	(43,986)	(39,371)
Agency transactions, net	(494)	313
Total Cash Flows Provided by Noncapital Financing Activities	**210,552**	**208,227**
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	267,474	101,709
Capital grants and gifts received	16,208	70,451
Proceeds from sale of capital assets	1,416	6,096
Purchases and construction of capital assets	(162,101)	(166,911)
Principal paid on capital debt	(25,070)	(23,319)
Interest paid on capital debt	(22,245)	(21,410)
Total Cash Flows Provided by (Used for) Capital and Related Financing Activities	**75,682**	**(33,384)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	3,540,094	3,373,034
Purchase of investments	(3,840,359)	(3,515,412)
Interest on investments	51,443	15,828
Royalty income	26,540	3,408
Royalty expense	(6,962)	(1,585)
Investment management fees paid	(4,142)	(5,258)
Total Cash Flows Used for Investing Activities	**(233,386)**	**(129,985)**
Net Increase (Decrease) in Cash and Cash Equivalents	**15,427**	**(636)**
Cash and Cash Equivalents, beginning of year	12,263	12,899
Cash and Cash Equivalents, end of year	**$ 27,690**	**12,263**

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO
STATEMENTS OF CASH FLOWS
June 30, 2005 and 2004 (*in thousands*)

		2005	2004
		University	
Reconciliation of net operating loss to net cash used by operating activities:			
Operating loss	$	(172,783)	(147,815)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation expense		108,038	88,535
Provision for doubtful receivables		1,837	2,116
Receipts of items classified as nonoperating revenues		10,516	30,109
Changes in assets and liabilities			
Receivables		(13,506)	(21,564)
Loans to students and employees		(936)	(1,626)
Inventories		(815)	222
Other assets		5,247	512
Accounts payable		8,705	2,645
Accrued expenses		9,458	794
Deferred revenue		5,506	(2,979)
Accrued compensated absences		1,201	4,064
Other liabilities		111	(507)
Net Cash Used for Operating Activities	**$**	**(37,421)**	**(45,494)**

Noncash Transactions			
Donations, lease-financed acquisitions, or state-funded acquisitions of capital assets	$	8,670	55,991

See accompanying notes to financial statements.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GOVERNANCE

The University of Colorado (the University) is a comprehensive degree-granting research university in the State of Colorado. It is governed by a nine-member Board of Regents (the Regents) elected by popular vote in the State of Colorado's (the State) general elections. Serving staggered six-year terms, one member is elected from each of the State's seven congressional districts with two Regents elected from the State at large. The University comprises the system offices and the following three accredited campuses, each with its unique mission as detailed below:

- University of Colorado at Boulder (CU-Boulder)

  Established in 1861, CU-Boulder is a comprehensive graduate research university (with selective admission standards) offering a comprehensive array of undergraduate, master's, and doctoral degree programs.
- University of Colorado at Denver and Health Sciences Center (UCDHSC)

  Operated as two separate campuses, the Health Sciences Center and the Denver campus were established in 1883 and 1974, respectively. On July 1, 2004, the two campuses were merged into the single campus operations of University of Colorado at Denver and Health Sciences Center. UCDHSC is an urban comprehensive research university offering a full range of undergraduate, graduate, and professional degree programs in life sciences, professional programs, and liberal arts.
- University of Colorado at Colorado Springs (CU-Colorado Springs)

  Established as a separate campus in 1965, CU-Colorado Springs is a comprehensive baccalaureate university (with selective admission standards).

To accomplish these roles, the University's 2,800 full-time instructional faculty serve more than 52,400 students through more than 230 degree programs in 27 schools and colleges.

BASIS OF PRESENTATION AND FINANCIAL REPORTING ENTITY

Blended Component Units

The University's financial reporting entity includes the operations of the University and all related entities for which the University is financially accountable and that provide services entirely or almost entirely to the University, referred to as blended component units. Financial accountability may stem from the University's ability to appoint a majority of the governing board of the related organization, its ability to impose its will on the related organization, its ability to access assets, or its responsibility for debts of the related organization.

The University has the following blended component units:

- Buffalo Power Corporation

  Established in 1991, Buffalo Power is a Colorado nonprofit corporation organized to facilitate the construction and financing of a cogeneration plant project. The project is designed to supply steam and electric power to CU-Boulder. Excess electricity produced by the project is sold to third parties. Buffalo Power Corporation's directors are appointed by the Regents.
- The University of Colorado Finance Corporation

  Established in 1998, the Finance Corporation is a Colorado nonprofit corporation organized to facilitate the acquisition of personal and real property for the University. The corporation is the lessor for The Regents of the University of Colorado Master Lease Purchase Agreement Adjustable Tender Certificates of Participation, Series 1998A (the Certificates). The Certificates provide a lease/purchase financing mechanism for certain equipment, construction projects, and real property necessary for the University's operation.
- University of Colorado Insurance Pool (UCIP)

  Established in 1993, UCIP is a public entity insurance pool operated for the benefit of the University and the University of Colorado Hospital Authority that insures property, liability, and workers' compensation risks under the regulatory authority of the Colorado Division of Insurance. Effective September 30, 1996, the University discontinued utilizing UCIP for its insurance and began utilizing a protected self-insurance program (Note 10). UCIP is responsible for claims covered under the terms of its policies. When all of UCIP's liabilities are discharged, UCIP will be legally dissolved. Detailed financial information may be obtained directly from UCIP at 4001 Discovery Drive, Suite 230, Boulder, Colorado 80303.
- The University Improvement Corporation (TUIC)

  Established in 1976, TUIC is a separate corporation managing real estate investments for the sole benefit of the University. TUIC is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. At June 30, 2004, a majority of the assets of TUIC were transferred to The University of Colorado Real Estate Foundation (CUREF), a discretely presented component unit of the University.
- University License Equity Holding, Inc. (ULEHI)

  Originally established in 1992, with a significant reorganization in 2001, ULEHI facilitates certain licensing activities for the University. ULEHI is a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code. Detailed financial information may be obtained directly from ULEHI at 4001 Discovery Drive, Suite 390B, Boulder, Colorado 80303.

- University Physicians, Inc. (UPI)

  Established in 1982, UPI performs the billing, collection, and disbursement services for the professional health services rendered for UCDHSC as authorized in Section 23-20-114, Colorado Revised Statutes. UPI, a nonprofit entity under Section 501(c)(3), collects patient and other revenues generated from professional activities by over 940 member physicians of the faculty of the UCDHSC School of Medicine. Medical care is provided to patients throughout the Rocky Mountain region through a statewide and regional network of services with over 160 sites of practice. In 1997, UPI acquired a 30 percent interest in the University of Colorado Hospital Authority's investment in TriWest Healthcare Alliance Corp. (TriWest). TriWest was formed to deliver health care services to eligible beneficiaries of the Civilian Health and Medical Program of the Uniformed Services within certain specified geographic regions. UPI accounts for its participation in TriWest on the cost basis. Detailed financial information may be obtained directly from UPI at P.O. Box 876, Aurora, Colorado 80040.

Discretely Presented Component Units

The University's financial statements include certain supporting organizations as discretely presented component units (DPCU) of the University (labeled component units). The majority of the resources, or income thereon, that the supporting organizations hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by the supporting organizations can only be used by, or for the benefit of, the University, the following supporting organizations are considered discretely presented component units of the University:

- Coleman Colorado Foundation (Coleman Foundation)

  Established in 2001, the Coleman Foundation is a nonprofit entity under Sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code and was established to support the University's operational unit, the University of Colorado Coleman Institute for Cognitive Disabilities, and related activities and professorships. A five-member board of directors governs the Coleman Foundation. One of the board members, the Treasurer, is the spouse of the previous University President in 2004 and 2005.

- University of Colorado Foundation (CU Foundation)

  Established in 1967, the CU Foundation solicits, collects, and invests donations for the University. The CU Foundation, a nonprofit entity under Section 501(c)(3) of the Internal Revenue Code, has a 15-member board of directors, of which a member of the Regents and the president of the University serve as ex-officio non-voting members. CU Foundation's reporting entity includes the Alumni Association of the University of Colorado at Boulder (Boulder Alumni Association) and Bear Creek I, LLC (Bear Creek).

  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 CU Foundation established Bear Creek, a Colorado limited liability company, whose sole member is the CU Foundation. Bear Creek was established for the purpose of financing, developing, and operating a student residence center on land located at CU-Boulder. The terms of the operating agreement provide Bear Creek with the use of the University's land in exchange for net cash flow of the housing project as defined in the agreement.

  Under an agreement between the CU Foundation and the University, the CU Foundation provides development and investment services to the University in exchange for a fee. Detailed financial information may be obtained directly from the CU Foundation at 4740 Walnut Street, Boulder, Colorado 80301.

- The University of Colorado Real Estate Foundation (CUREF)

  Established in 2002, CUREF solicits and manages real estate investments for the sole benefit of the University. CUREF, a nonprofit entity under Section 509(a)(3) of the Internal Revenue Code, has up to a 14-member board of directors, of which up to nine are voting members who may not be University employees and up to five are ex-officio non-voting members who may be University employees. Under an operating agreement, CUREF provides management services to TUIC in exchange for a nominal fee. At June 30, 2004, the University transferred the majority of the assets of TUIC to CUREF. Detailed financial information may be obtained directly from CUREF at 4740 Walnut Street, Boulder, Colorado 80301.

  In May 2005, Campus Village Apartments, LLC (Campus Village) was formed with CUREF as the sole shareholder to promote the general welfare, development, growth, and well being of the University, specifically by acquiring, constructing, improving, equipping, and operating a new student housing facility located in Denver, Colorado.

Joint Ventures and Related Organizations

The University has associations with the following organizations for which it is not financially accountable, nor has primary access to the resources. Accordingly, these organizations have not been included in the University's financial statements. Information regarding the nature of the relationships are included in Note 21.

- University of Colorado Hospital Authority (Hospital Authority)
- Auraria Higher Education Center (AHEC)

Relationship to State of Colorado

The University of Colorado is an institution of higher education of the State of Colorado (State). Thus, for financial reporting purposes, the University is included as part of the State of Colorado's primary government.

TAX EXEMPT STATUS

The income generated by the University, as an instrumentality of the State, is generally excluded from federal income taxes under Section 115(a) of the Internal Revenue Code. The University also has a determination letter from the Internal Revenue Service stating it is exempt under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Income generated from activities unrelated to the University's exempt purpose is subject to tax under Internal Revenue Code Section 511(a)(2)(B). There was no tax liability related to income generated from activities unrelated to the University's exempt purpose as of June 30, 2005 and 2004.

BASIS OF ACCOUNTING

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

The University applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. In addition, the University has chosen to only apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements. All changes in accounting are discussed in Note 12.

ACCOUNTING POLICIES

Cash and Cash Equivalents are defined for the purposes of reporting cash flows as cash on hand and deposit accounts. Investments in mutual funds and deposits with the State Treasurer are presented as investments. UPI and the DPCU consider money market accounts with a maturity, when acquired, of three months or less to be cash equivalents.

Investments reported in the financial statements are at fair value, which is determined primarily based on quoted market prices as of June 30, 2005 and 2004. Amortized costs (which approximate fair value) are used for money market investments.

The classification of investments as current or noncurrent is based on the underlying nature and restricted use of the asset. Current investments are those without restrictions imposed by third parties that can be used to pay current obligations of the University. Noncurrent investments include restricted investments and those investments designated to be used for long-term obligations.

The University's investment policies permit investments in fixed-income and equity securities. These policies are implemented using individual securities, mutual funds, commingled funds, and alternative investments for the endowments.

Investments of the DPCU are comprised of marketable securities and alternative investments such as interest in private equity partnerships and real estate. All investments are stated at fair value based upon quoted market prices, professional appraisals, and other readily determinable information.

Endowments and similar gift instruments owned by the University and the DPCU are primarily recorded as investments in the accompanying financial statements. True endowment funds are subject to the restrictions of donor gift instruments requiring the principal to be invested in perpetuity. Life income funds are used to account for cash or other property contributed to the University subject to the requirement that the University periodically pay the income earned on such assets to a designated beneficiary. The assets of life income funds become the property of the University or DPCU upon the death of the designated beneficiary. Annuity funds are used to account for property contributed to the University or DPCU in exchange for a promise to pay a fixed amount to the donor for a specified period of time. In addition, certain funds have been established by the Regents to function as endowment funds until the restrictions are lifted by the Regents and are referred to as quasi-endowments.

Accounts, Contributions, and Loans Receivable are recorded net of estimated uncollectible amounts, approximating anticipated losses.

Contributions receivable for the DPCU are unconditional promises to give. Promises to give to CUREF are recorded at net realizable value if expected to be collected within one year and at fair value if expected to be collected in more than one year. The CU Foundation and Coleman Foundation use the allowance method to determine the uncollectible portion of the unconditional contributions receivable. The allowance is based on management's analysis of the historical collectibility of contributions pledged. These promises to give are recorded at the net present value of the expected future cash flows using a risk-free interest rate.

For all receivables, individual accounts are written off against the allowance when collection of the account appears doubtful. Bad debts substantially consist of write offs for uncollectible balances on self-pay patients and contributions receivable.

Inventories are primarily accounted for using the consumption method and are stated at the lower of cost or market. Cost is determined using either the first-in, first-out, average cost, or retail method.

Capital Assets are stated at cost at the date of acquisition or at fair value at the date of donation. For equipment, the capitalization policy, except for UPI, includes all items with a value of $5,000 or more, and an estimated useful life of greater than one year. UPI capitalizes assets with a value of $1,000 or greater, and an estimated useful life of greater than one year.

Renovations to buildings and other improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense. Major outlays for capital assets and improvements are capitalized as construction in progress throughout the building project. Interest incurred during the construction phase is included as part of the value of the construction in progress.

All collections, such as works of art and historical artifacts, have been capitalized at cost at the date of acquisition or fair value at the date of donation. The nature of certain collections is such that the value and usefulness of the collections does not decrease over time. These collections have not been depreciated in the accompanying financial statements.

Assets under capital leases are recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or the estimated useful life. Such amortization is included as depreciation expense in the accompanying financial statements.

Depreciation is computed using the straight-line method and monthly convention over the estimated useful lives of the assets as displayed in Table 1, Asset Useful Lives.

Accrued Compensated Absences and related personnel expenses are recognized based on estimated balances due to employees upon termination or retirement. The limitations on such payments are defined by the rules associated with the personnel systems at the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service. Vacation accruals are paid in full upon separation whereas only a portion of sick leave is paid upon specific types of separation, such as retirement.

TABLE 1 Asset Useful Lives

Asset Class	Years
Buildings	20 – 50*
Improvements other than buildings	10 – 40
Equipment	3 – 20
Library and other collections	6 – 15

*Certain buildings are componentized and the components may have useful lives similar to Improvements or Equipment.

The recording of the liability for compensated absences may result in deficit net assets that are expected to be funded by state appropriations, federal funds, or other sources available in future years when the liability is paid.

Deferred Revenue consists of amounts received from the provision of educational, research auxiliary goods and services, and royalties that have not yet been earned.

Capital Leases consists of various lease-purchase contracts and other lease agreements. Such contracts provide that any commitments beyond the current year are contingent upon funds being appropriated for such purposes by the Regents. It is reasonably assured that such leases will be renewed in the normal course of business and, therefore, are treated as non-cancelable for financial reporting purposes.

Split-Interest Agreements are beneficial interests in various agreements held by one of the DPCU, which include gift annuities, charitable remainder annuity trusts and unitrusts, and a pooled income fund. The DPCU typically serves as trustee, although certain trusts are administered by outside trustees. For trusts administered by the DPCU, specified earnings are typically paid to a named beneficiary. After termination of the trusts, the assets revert to the DPCU 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 financial statements. The estimated net present value of the obligation to named beneficiaries is recorded as a liability under split-interest agreements. A risk-free rate, 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 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 accompanying financial statements.

In cases where a split-interest agreement is administered by an outside trustee, the DPCU 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 DPCU becomes aware of its interest in the trust. Under certain circumstances, the DPCU accepts and manages trust funds for which the DPCU or University has beneficial interest but is not the sole beneficiary of the trust. Funds received for which the DPCU or the University is not the ultimate beneficiary are included as other liabilities in the accompanying financial statements and are not included in contributions revenue.

Custodial Funds consist of funds held by the DPCU for endowments legally owned by other entities, including the University (Note 20).

Net Assets are classified in the accompanying financial statements as follows:

Invested in capital assets, net of related debt represents the total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted for expendable purposes represents net resources in which the University or DPCU is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted for nonexpendable purposes consists of true endowments and similar instruments in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets represent net resources derived from student tuition and fees, state appropriations, and sales and services of educational departments. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Regents to meet current expenses for any purpose. These resources also include those from auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

Internal Transactions occur between University operating units, including its formal self-funded internal service units and blended component units. Examples of self-funded operating units are telecommunications, cogeneration, and storerooms. Transactions include the recognition of revenues, expenses, receivables, and payables in the appropriate accounts of the operating units. To accommodate external financial reporting, the internal revenues and receivables are netted against expenses and payables, respectively.

Classification of Revenues and Expenses in the accompanying financial statements as either operating or nonoperating has been made according to the following criteria:

Operating Revenues are derived from activities associated with providing goods and services for instruction, research, public service, health services, or related support to entities separate from the University and that are exchange transactions. Examples include student tuition and fees, sales and services of auxiliary enterprises, healthcare and patient service, grants, contracts, and interest on student loans. Operating revenues also include contributions to DPCU, which are derived from their fundraising mission.

Operating expenses are paid to acquire or produce goods and services provided in return for operating revenues, and to carry out the mission of the University. All other expenses are deemed nonoperating.

Nonoperating Revenues include all revenues that do not meet the definition of operating revenues, capital revenues, or endowment additions. They are primarily derived from activities that are non-exchange transactions (e.g., gifts); from activities defined as such by the GASB cash flow standard (e.g., investment income); and from sources defined as such by other GASB standards (e.g., State appropriations).

Scholarship Allowances are the difference between the stated charge for the goods and services provided by the University and the amount that is paid by the students or by other third parties making payments on the students' behalf. Student tuition and fee revenues and certain other auxiliary enterprises revenue are reported net of scholarship in the accompanying financial statements. Certain grants from external governmental and private programs are recorded as either operating or nonoperating revenues in the accompanying financial statements. To the extent that such grant revenues are used to satisfy tuition and fees and other student charges, the University records scholarship allowances. Any excess grant revenues are recorded as student aid operating expense.

Health Service Revenue from Contractual Arrangements is recognized by UPI as a result of providing care to patients covered under various third-parties such as Medicare and Medicaid, private insurance companies, and managed care programs, primarily from fixed-rate agreements. The federal and state government update fixed-rate agreements for Medicare and Medicaid, respectively, annually. In addition to the standard Medicaid program, UPI provides substantial care to Medicaid patients under the Colorado Access program. Contractual arrangements with insurance companies and managed care plans are negotiated periodically for future years.

Health services revenue is reported at the estimated net realizable amounts due from third-party payers and others for services rendered. Net patient service revenue includes care provided to patients who meet certain criteria under UPI's medically indigent care policy as reimbursed with funds provided by the State of Colorado processed by Hospital Authority, and co-payments made by care recipients. In accordance with UPI's mission and philosophy, UPI members annually provide substantial levels of charity care to patients who meet certain defined criteria. Charity care relates to services rendered for which no payment is expected.

Donor Restricted Endowment disbursements of the net appreciation (realized and unrealized) of investments of endowment gifts are permitted by State law, except where a donor has specified otherwise. The amount of earnings and net appreciation available for spending by the University and the CU Foundation is based on a spending rate set by the Regents on an annual basis. For the years ended June 30, 2005 and 2004, the authorized spending rate was equal to the greater of 4 percent of the prior month's market value or 4.5 percent of the average market value of endowment investments at the end of the previous three years. Earnings in excess of the amount authorized for spending are available in future years and are included in the value of the related investment. Earnings authorized to be spent are recognized in the University's financial statements as investment or gift revenue for University or CU Foundation-owned endowments, respectively.

Application of Restricted and Unrestricted Resources is made on a case-by-case basis by management depending on overall program resources. Generally, management applies unrestricted resources then restricted resources when both restricted and unrestricted resources are available to pay an expense.

Use of Estimates is made in order to prepare financial statements in conformity with accounting principles generally accepted in the United States of America. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ significantly from those estimates.

Reclassifications of certain prior year balances have been made to conform to the current year's financial statement presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

The University's and DPCUs' cash and cash equivalents are detailed in Table 2.1, Cash and Cash Equivalents.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. To manage custodial credit risk, deposits with U.S. and foreign financial institutions are made in accordance with University and State policy, including the Public Deposit Protection Act (PDPA). PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal depository insurance. Deposits collateralized under the PDPA are considered to be collateralized with securities held by the pledging institution in the University's name. Deposits with foreign financial institutions are not PDPA-eligible deposits and thus are exposed to custodial credit risk and require separate authorization as depositories by the State. During the years ended June 30, 2005 and 2004, all deposits with foreign financial institutions were authorized. Of the University's total cash and cash equivalents, $67,000 and $49,000 related to deposits in foreign institutions is subject to custodial credit risk at June 30, 2005 and 2004, respectively. Custodial credit risk investment is not available for the DPCU.

TABLE 2.1 Cash and Cash Equivalents *(in thousands)*

Type	2005	2004
University		
Cash on hand (petty cash and change funds)	$ 281	272
Deposits with U.S. and foreign financial institutions	27,409	11,991
Total Cash and Cash Equivalents – University	**$ 27,690**	**12,263**
Discretely Presented Component Units		
Deposits with University Treasurer	$ –	664
Deposits with U.S. financial institutions	14,836	10,889
Total Cash and Cash Equivalents – DPCU	**$ 14,836**	**11,553**

NOTE 3 – INVESTMENTS

The University's investments generally include direct obligations of the U.S. Government and its agencies, commercial paper, corporate bonds, asset-backed securities, mortgage-backed securities, money market funds, commingled and mutual funds, repurchase agreements, guaranteed investment contracts, and equities. Endowments are pooled to the extent possible under gift agreements. The CU Foundation manages certain of these endowments for the University in accordance with their investment policy.

To the extent permitted, and excepting the University's blended entities, the University pools cash balances for investment purposes. An investment policy statement approved by the Regents directs the treasurer of the University to meet the following investment objectives:

- liquidity for daily operations,
- protection of the nominal value of assets, and
- generation of distributable earnings at a level commensurate with the time horizon of the investments.

For financial statement purposes, investment income is reported on a total return basis and is allocated among operational units based on average daily balances, using amortized costs. Average daily balances approximated $631,052,000 and $547,105,000 for the years ended June 30, 2005 and 2004, respectively. The total return on this pool was 6.0 percent and 5.6 percent for the years ended June 30, 2005 and 2004, respectively.

CUSTODIAL CREDIT RISK

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Therefore, exposure arises if the securities are uninsured, are not registered in the University's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the University's name. Open-ended mutual funds and certain other investments are not subject to custodial risk because ownership of the investment is not evidenced by a security. The University does not have a policy concerning custodial credit risk. Table 3.1, Investments, lists the fair value of the major types of investments owned by the University. None of the University's investments are subject to custodial risk. Custodial credit risk categories are not available for the DPCU.

TABLE 3.1 Investments *(in thousands)*

Investment Type	2005	2004 (restated)
University		
U.S. government and agency securities	$ 95,373	123,773
Corporate securities	16,110	17,542
Corporate bonds and commercial paper	87,776	84,379
Repurchase agreements	226,227	41,397
Certificates of deposit	–	6,146
Asset-backed securities	114,808	93,336
Open-ended mutual funds	452,294	336,518
Endowment-related investments held by CU Foundation	82,406	72,473
Other	633	1,974
Total Investments – University	**$1,075,627**	**777,538**
Discretely Presented Component Units		
Equity securities		
Domestic	$ 239,891	244,530
International	100,029	86,592
Fixed income securities	99,152	97,584
Alternative non-equity securities	218,574	179,704
Guaranteed investment contracts	37,569	364
Total Investments – DPCU	**$ 695,215**	**608,774**

TABLE 3.2 Debt Investments *(in thousands)* **and Interest Rate Risk** *(in years)*

	2005	
Investment Type	Amount	Duration
University		
U.S. government and agency securities	$ 89,765	4.796
Corporate bonds	55,123	4.792
Asset-backed securities	114,484	5.800
Bond mutual funds	32,250	2.050
	Amount	Weighted Average Maturity
University Physicians Inc.		
U.S. government and agency securities	$ 1,458	2.04
Federal agency paper	4,150	3.01
Commercial paper	1,983	0.24
Corporate bonds	30,670	2.38
Asset-backed securities	95	1.00
Money market mutual funds (Non-2a7-like pools)	320	0.50

INTEREST RATE RISK

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. Interest rate risk only applies to debt investments. The University, except for UPI, manages interest rate risk in its investment portfolios by managing the duration, the maximum maturity, or both. University investment policies establish duration and maturity guidelines for each portfolio. The duration methods use the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. UPI manages interest rate risk using weighted average maturity. Weighted average maturity is a measure of the time to maturity in years that has been weighted to reflect the dollar size of the individual investment within an investment type. The University's investment policy mitigates interest rate risk through the use of maturity limits for each of the investment segment pools.

A summary of the fair value of the University's debt investments and interest rate risk as of June 30, 2005, is shown in Table 3.2, Debt Investments and Interest Rate Risk. Interest rate risk is not available for the DPCU.

As disclosed above, the University has investments in asset-backed securities. The securities consist mainly of mortgages, home equity loans, student loans, automobile loans, equipment trusts, and credit card receivables. These securities are based on cash flows from principal and interest payments on the underlying securities. An asset-backed security has repayments that are expected to significantly vary with interest rate changes. The variance may present itself in terms of variable repayment amounts and uncertain early or extended repayments. At June 30, 2005, the University has $114,484,000 invested in asset-backed securities. Of this amount, $69,427,000 are invested in fixed-rate securities, $37,141,000 are invested in variable-rate securities, and $7,916,000 are invested in collateralized mortgage obligations.

CREDIT QUALITY RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk only applies to debt investments. This risk is assessed by national rating agencies, which assign a credit quality rating for many investments. The University's investment policies for the Treasury pool do not permit investments in debt securities that are below investment grade at the time the security is purchased. University policy allows no more than 20 percent of investments to be rated below A- (Standard and Poor's) or A3 (Moody's). There are two other investment policies tailored to non-pooled investments. Those policies do not restrict investments to a particular credit quality standard. Credit quality ratings are not required for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government. A summary of the University's debt investments and credit quality risk as of June 30, 2005, is shown in Table 3.3, Debt Investments and Credit Quality Risk. Credit quality risk is not available for the DPCU.

At June 30, 2004, in accordance with GASB Statement No. 3, as amended by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* the Univesity's investments have been catagorized into the following three categories of credit risk:

Category 1–Investments that are insured or registered or investments that are held by the University in the University's name.

Category 2–Investments that are uninsured or unregistered that are held by the counterparty's agent or trust department in the University's name.

Category 3–Investment that are uninsured or unregistered that are held by the counterparty's agent or trust department but are not in the University's name.

Mutual funds and certain other investments, including trusts, are not categorized as to custodial risk because ownership is not evidenced by a security. Custodial credit risk categories are not available for the DCPU. Table 3.4, Investments by Risk Category, summarizes the risk categories as of June 30, 2004. A summary of the fair value of the investments as of June 30, 2004, is shown in Table 3.1, Investments.

Table 3.3 Debt Investments and Credit Quality Risk

	2005		
	Unrated	Rated	
Investment Type	*Fair Value (in thousands)*	*Fair Value (in thousands)*	*% of Rated Value by Credit Rating*
U.S. government agencies	$ 27,208	66,306	100% AAA/Aaa
Commercial paper	992	992	100% A-1
Corporate bonds	2,039	83,754	9% AAA 58% Aa/A 1% A-1 23% Baa 9% Ba/Caa
Asset-backed securities	44,770	69,808	90% AAA/Aaa 8% AA/BB 2% A-1
Money market mutual funds	47,291	146,934	100% Aaa
Bond mutual funds	32,577	–	NA

TABLE 3.4 Investments by Risk Category *(in thousands)*

Investment Type	2004
University	
Category of Risk No. 1	
U.S. government and agency securities	$ 123,773
Corporate securities and commercial paper	101,921
Repurchase agreements	41,397
Certificates of deposit	6,146
Subtotal Category of Risk No. 1	273,237
Uncategorized	504,301
Total Investments–University	**$ 777,538**

SECURITY LENDING

The University treasurer, under the authority granted by the Regents, enters into an agreement with the trust department of its custodial bank to lend its fixed income and equity securities to certain qualified borrowers. Loans can be terminated on demand by either the University or the borrowers. The loans consist of two types: term and open. A term loan is for a fixed number of days while an open loan may be renewed by both parties daily.

The custodian, acting as lending agent, lends the University's securities for collateral of 102 percent to broker-dealers and other entities (borrowers) with a simultaneous agreement to return the collateral for the same security in the future. Acceptable forms of collateral are cash, irrevocable standby letters of credit, and obligations issued or guaranteed by the U.S. Government or its agencies. If the fair value of a loaned security increases, the borrower is required to deliver additional collateral to the custodian to protect the University. For both term and open loans collateralized by cash from the borrower, the collateral is invested in high-quality, U.S. dollar-denominated, short-term money market instruments that can have fixed, variable, or floating rates of interest. Collateral is invested in diversified instruments to provide adequate liquidity and to avoid concentration by issuer or industry except that no concentration limits are set for obligations of the U.S. Government or its agencies. The University does not have the ability to pledge or sell securities under a security lending agreement unless the borrower defaults. As of June 30, 2005 and 2004, the University had no securities on loan.

The custodian provides indemnification to protect against a borrower's failure to perform or a borrower's default on a loan. There were no violations of legal or contractual provisions and no borrower or custodian has defaulted.

TABLE 3.5 DPCU Investments Held Under Split-Interest Agreements *(in thousands)*

Type		2005	2004
Beneficial interests in perpetual trusts held by others	$	52	37
Charitable unitrusts and other life income		44,085	42,841
Charitable annuity trusts		5,160	4,974
Charitable gift annuities and pooled income funds		996	892
Total Investments Held Under Split-Interest Agreements	**$**	**50,293**	**48,744**

SPLIT-INTEREST AGREEMENTS

Assets held by the DPCU under split-interest agreements are included in investments, and consisted of the following as of June 30, 2005 and 2004, and are shown in Table 3.5, DCPU Investments Held Under Split-Interest Agreements.

For years ended June 30, 2005 and 2004, $673,000 and $438,000, respectively, was included as contributions revenue attributable to new split-interest agreements and $1,406,000 and $4,000,000, respectively, was included as contribution revenue resulting from the change in value of the split-interest agreements.

NOTE 4 – ACCOUNTS, CONTRIBUTIONS, AND LOANS RECEIVABLE

Table 4.1, Accounts, Contributions, and Loans Receivable, segregates receivables as of June 30, 2005 and 2004, by type.

During previous years, the DPCU recorded contributions receivable from a single donor totaling $65,000,000 that are expected to be received over a five-year period. As of June 30, 2005 and 2004, the DPCU have collected approximately $47,800,000 and $47,700,000, respectively, of this pledge. At June 30, 2005, the remaining balance was $0 because $17,200,000 was distributed to the University of Colorado Hospital. At June 30, 2004, the remaining balance of approximately $17,300,000 comprises approximately 27 percent of net contributions receivable. In 2001, the Coleman Foundation received a pledge from another single donor of $250,000,000 (Note 20).

TABLE 4.1 Accounts, Contributions, and Loans Receivable *(in thousands)*

		2005			
Type of Receivable		**Gross Receivables**	**Allowances**	**Net Receivables**	**Net Current Portion**
University					
Student accounts	$	25,149	8,284	16,865	16,854
Federal government		39,582	–	39,582	39,580
Other governments		12,249	–	12,249	12,249
Private sponsors		61,596	–	61,596	45,096
Patient accounts		36,756	5,586	31,170	31,170
DPCU		5,742	–	5,742	5,742
Interest		3,918	–	3,918	3,918
Other		12,442	1,557	10,885	10,417
Total Accounts Receivable		197,434	15,427	182,007	165,026
Student loans		34,310	3,104	31,206	–
Other loans receivable		2,660	–	2,660	655
Total Loans Receivable		36,970	3,104	33,866	655
Total Receivable–University	**$**	**234,404**	**18,531**	**215,873**	**165,681**
Discretely Presented Component Units					
Contributions*	$	281,170	251,428	29,742	13,849
Interest		108	–	108	108
Other		77	–	77	77
Total Receivable–DPCU	**$**	**281,355**	**251,428**	**29,927**	**14,034**
		2004 (restated)			
Type of Receivable		**Gross Receivables**	**Allowances**	**Net Receivables**	**Net Current Portion**
University					
Student accounts	$	23,529	8,149	15,380	15,375
Federal government		40,651	–	40,651	40,582
Other governments		7,692	–	7,692	7,692
Private sponsors		25,578	–	25,578	25,476
Patient accounts		29,701	5,635	24,066	24,066
DPCU		3,765	–	3,765	3,765
Interest		2,128	–	2,128	2,128
Other		15,871	1,441	14,430	14,430
Total Accounts Receivable		148,915	15,225	133,690	133,514
Student loans		35,359	3,076	32,283	–
Other loans receivable		1,722	–	1,722	700
Total Loans Receivable		37,081	3,076	34,005	700
Total Receivable–University	**$**	**185,996**	**18,301**	**167,695**	**134,214**
Discretely Presented Component Units					
Contributions*	$	319,279	254,731	64,548	20,730
Interest		92	–	92	92
Other		321	–	321	321
Total Receivable–DPCU	**$**	**319,692**	**254,731**	**64,961**	**21,143**

*The allowance on the contributions receivable is comprised of uncollectible and unamortized discount of $249,843,000 and $1,585,000 as of June 30, 2005, respectively, and $249,139,000 and $5,592,000 as of June 30, 2004, respectively.

CONCENTRATION OF CREDIT RISK

UPI grants credit without collateral to its patients. The mix of gross receivables from patients and third-party payers as of June 30, 2005 and 2004 is detailed in Table 4.2, UPI Concentration of Credit Risk.

TABLE 4.2 UPI Concentration of Credit Risk

Category	2005	2004
Managed care	50.7%	41.2%
Medicare	15.3	13.4
Medicaid	11.9	16.9
Other third-party payers	7.9	17.6
Self-pay	14.2	10.9
Total	**100.0%**	**100.0%**

NOTE 5 – CAPITAL ASSETS

Table 5, Capital Assets, presents changes in capital assets and accumulated depreciation by major asset category for the years ended June 30, 2005 and 2004.

The total interest expense related to capital asset debt incurred by the University during the years ended June 30, 2005 and 2004 approximated $24,067,000 and $21,235,000, respectively. Of this amount, approximately $1,896,000 and $7,615,000, respectively, was capitalized as part of the value of construction in progress. Interest expense incurred by the DPCU and capitalized for the years ended June 30, 2005 and 2004 was $0 and $2,554,000 respectively.

TABLE 5 Capital Assets *(in thousands)*

Category	Balance 2004 (restated)	Additions	Adjustments/Retirements	Transfers	Balance 2005
University					
Nondepreciable Capital Assets					
Land	$ 36,514	2,404	–	–	38,918
Construction in progress	68,302	109,427	209	(77,418)	100,102
Collections	7,847	231	–	–	8,078
Total Nondepreciable Capital Assets	112,663	112,062	209	(77,418)	147,098
Depreciable Capital Assets					
Buildings	1,327,561	5,677	2,557	66,668	1,397,349
Improvements other than buildings	95,382	1,679	2,149	10,750	105,662
Equipment	345,047	33,615	8,635	–	370,027
Library and other collections	212,214	12,863	526	–	224,551
Total Depreciable Capital Assets	1,980,204	53,834	13,867	77,418	2,097,589
Less Accumulated Depreciation					
Buildings	374,864	54,686	1,202	–	428,348
Improvements other than buildings	37,292	4,538	575	–	41,255
Equipment	205,438	37,854	7,031	–	236,261
Library and other collections	128,377	10,960	532	–	138,805
Total Accumulated Depreciation	745,971	108,038	9,340	–	844,669
Net Depreciable Capital Assets	1,234,233	54,204	4,527	77,418	1,252,920
Total Net Capital Assets – University	**$ 1,346,896**	**57,858**	**4,736**	**–**	**1,400,018**
Discretely Presented Component Units					
Nondepreciable Capital Assets					
Land	$ 12,859	6,963	–	–	19,822
Construction in progress	482	4,740	–	(482)	4,740
Total Nondepreciable Capital Assets	13,341	11,703	–	(482)	24,562
Depreciable Capital Assets					
Buildings	68,992	2,174	–	482	71,648
Improvements other than buildings	592	9	–	–	601
Equipment	5,888	732	435	–	6,185
Total Depreciable Capital Assets	75,472	2,915	435	482	78,434
Less Accumulated Depreciation					
Buildings	2,694	1,946	–	–	4,640
Improvements other than buildings	146	47	–	–	193
Equipment	2,237	928	387	–	2,778
Total Accumulated Depreciation	5,077	2,921	387	–	7,611
Net Depreciable Capital Assets	70,395	(6)	48	482	70,823
Total Net Capital Assets – DPCU	**$ 83,736**	**11,697**	**48**	**–**	**95,385**

TABLE 5 (continued) Capital Assets *(in thousands)*

Category	Balance 2003 (restated)	Additions	Retirements	Transfers	Balance 2004 (restated)
University					
Nondepreciable Capital Assets					
Land	$ 33,921	2,854	263	2	36,514
Construction in progress	266,091	139,205	76	(336,918)	68,302
Collections	7,246	569	–	32	7,847
Total Nondepreciable Capital Assets	307,258	142,628	339	(336,884)	112,663
Depreciable Capital Assets					
Buildings	1,002,307	7,164	4,810	322,900	1,327,561
Improvements other than buildings	86,059	1,685	3,358	10,996	95,382
Equipment	276,933	79,502	14,376	2,988	345,047
Library and other collections	201,451	11,480	717	–	212,214
Total Depreciable Capital Assets	1,566,750	99,831	23,261	336,884	1,980,204
Less Accumulated Depreciation					
Buildings	335,724	42,622	3,482	–	374,864
Improvements other than buildings	33,004	4,864	576	–	37,292
Equipment	186,877	30,235	11,674	–	205,438
Library and other collections	118,280	10,814	717	–	128,377
Total Accumulated Depreciation	673,885	88,535	16,449	–	745,971
Net Depreciable Capital Assets	892,865	11,296	6,812	336,884	1,234,233
Total Net Capital Assets – University	**$ 1,200,123**	**153,924**	**7,151**	**–**	**1,346,896**
Discretely Presented Component Units					
Nondepreciable Capital Assets					
Land	$ 1,274	12,341	1,242	485	12,858
Construction in progress	46,117	17,489	856	(62,267)	483
Total Nondepreciable Capital Assets	47,391	29,830	2,098	(61,782)	13,341
Depreciable Capital Assets					
Buildings	13,209	2,853	7,041	59,970	68,991
Improvements other than buildings	592	–	–	–	592
Equipment	4,877	144	944	1,812	5,889
Total Depreciable Capital Assets	18,678	2,997	7,985	61,782	75,472
Less Accumulated Depreciation					
Buildings	1,569	1,157	32	–	2,694
Improvements other than buildings	99	47	–	–	146
Equipment	1,895	793	451	–	2,237
Total Accumulated Depreciation	3,563	1,997	483	–	5,077
Net Depreciable Capital Assets	15,115	1,000	7,502	61,782	70,395
Total Net Capital Assets – DPCU	**$ 62,506**	**30,830**	**9,600**	**–**	**83,736**

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Table 6.1, Accounts Payable and Accrued Expenses, details the accounts payable and accrued expenses as of June 30, 2005 and 2004, by type.

OPERATING LEASES

The University leases various buildings and equipment under operating lease rental agreements. Operating leases do not give rise to property rights or meet other capital lease criteria and, therefore, the related asset and liabilities are not recorded in the accompanying financial statements. For the years ended June 30, 2005 and 2004, total rental expense under these agreements approximated $6,985,000 and $6,983,000 for the University, respectively. Future minimum payments for these operating leases are shown in Table 6.2, Operating Leases Minimum Lease Obligations.

NOTE 7 – ACCRUED COMPENSATED ABSENCES

Table 7, Accrued Compensated Absences, presents changes in accrued compensated absences for the years ended June 30, 2005 and 2004.

NOTE 8 – DEFERRED REVENUE

As of June 30, 2005 and 2004, the types and amounts of deferred revenue are shown in Table 8, Deferred Revenue.

TABLE 6.1 Accounts Payable and Accrued Expenses
(in thousands)

Type		2005	2004
University			
Accounts payable vendors	$	62,585	54,147
Accrued salaries and benefits		115,325	106,774
Accrued interest payable		3,187	1,365
Other accrued expenses		1,127	973
Total Accounts Payable and Accrued Expenses–University	**$**	**182,224**	**163,259**
Discretely Presented Component Units			
Accounts payable vendors	$	4,188	3,855

TABLE 6.2 University Operating Leases Minimum Lease Obligations *(in thousands)*

Years Ending June 30		Minimum Lease Obligation
2006	$	5,566
2007		4,505
2008		3,221
2009		2,598
2010		1,779
2011 – 2015		2,778
Total Operating Lease Obligations	**$**	**20,447**

TABLE 8 Deferred Revenue *(in thousands)*

		2005		2004	
Type		Total	Current Portion	Total	Current Portion
University					
Tuition and fees	$	12,061	12,061	11,258	11,258
Auxiliary enterprises		17,681	10,878	17,844	10,755
Grants and contracts		37,088	37,088	28,862	28,862
Miscellaneous		6,885	6,885	6,294	6,294
Total Deferred Revenue – University	**$**	**73,715**	**66,912**	**64,258**	**57,169**
Discretely Presented Component Units					
Miscellaneous	$	1,390	1,268	1,897	1,024

TABLE 7 University Accrued Compensated Absences *(in thousands)*

Balance 2003	Additions	Adjustments/Reductions	Balance 2004	Additions	Adjustments/Reductions	Balance 2005
$ 74,320	59,907	55,843	78,384	66,879	61,373	83,890

NOTE 9 – BONDS, NOTES, AND LEASES PAYABLE

As of June 30, 2005 and 2004, the categories of long-term obligations are detailed in Table 9.1, Bonds, Notes, and Leases Payable.

Table 9.2, Changes in Bonds, Notes, and Leases Payable, presents changes in bonds, notes, and leases payable for the years ended June 30, 2005 and 2004.

REVENUE BONDS

A general description of each revenue bond issue, original issuance amount, and the amount outstanding as of June 30, 2005 and 2004 is detailed in Table 9.3, Revenue Bonds Detail.

The University's revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the University to redeem, at various dates, portions of the outstanding revenue bonds at prices varying from 100 to 101 percent of the principal amount of the revenue bonds redeemed.

The Enterprise System Revenue Bonds are secured by a pledge of all net revenues of certain auxiliary enterprise facilities and further secured by a subordinate pledge of Research Building Revolving Fund (RBRF) net revenues as defined below. As of June 30, 2005 and 2004, total net pledged revenues, including the subordinate pledge, approximate $185,815,000 and $147,636,000, respectively.

The RBRF revenue bonds (Note 19) were secured by a pledge of net revenues of the Research Building Support Services Enterprise, including: all rents and charges generated from buildings and facilities, net of applicable operating expenses; allocated investment earnings on balances in the RBRF; and to the extent necessary, indirect cost recoveries received by the University on grants and contracts performed by the University. As of June 30, 2004, net pledged revenues for RBRF approximate $111,579,000. During the year ended June 30, 2005, proceeds from the University Enterprise Refunding and Improvement Revenue Bonds Series 2005A were used to defease the RBRF revenue bonds. Subsequent to the in-substance defeasance and prior to June 30, 2005, the RBRF revenue bonds were called and paid in full.

TABLE 9.1 Bonds, Notes, and Leases Payable *(in thousands)*

Type	Interest Rates	Final Maturity		Balance 2005	Balance 2004 (restated)
University					
Revenue Bonds					
Research Building Revolving Fund (RBRF)	4.45–6.00%	6/1/12	$	–	2,865
Enterprise System (including premium of $17,063 in 2005 and $4,442 in 2004)	3.50%–7.00%	6/1/28		584,973	331,152
UPI Variable Demand Bonds	2.35%*	1/1/25		19,940	20,500
Total Revenue Bonds				604,913	354,517
Certificates of Participation					
Cogeneration Plant Series 1996	4.63–6.00%	12/1/05		7,515	11,440
Master Lease Purchase Series 1998A	3.90–5.25%*	7/1/18		5,575	6,555
Master Lease Purchase Series 2003A and 2003B	2.00–4.125%	6/1/33		34,010	34,730
Total Certificates of Participation				47,100	52,725
Other Capital Lease Obligations					
Central Utility Plant	6.00%	12/31/22		30,265	27,025
Other Lease Obligations	2.87–13.95%	Various		30,278	31,361
Total Other Capital Lease Obligations				60,543	58,386
Notes Payable	5.00–6.00%	12/31/09		177	332
Total Bonds, Notes, and Leases Payable – University			**$**	**712,733**	**465,960**
Discretely Presented Component Units					
Revenue Bonds					
Student Housing Series 2002 (including premium of $146 in 2005 and $151 in 2004)	2.50–5.38%	7/1/32	$	69,236	69,241
Student Housing Facility Series 2005	3.205%*	7/1/37		50,365	–
Total Revenue Bonds				119,601	69,241
Capital Leases	7.50%	9/1/14		5,077	5,254
Total Bonds, Notes, and Leases Payable – DPCU			**$**	**124,678**	**74,495**

*Interest on the UPI Variable Rate Demand Bonds, the Master Lease Purchase Certificates of Participation, and the Student Housing Faculty Series 2005 Bonds are set at an adjustable rate as discussed below under Revenue Bonds and Certificates of Participation, respectively; the rates reflected in this table are as of June 30, 2005.

TABLE 9.2 Changes in Bonds, Notes, and Leases Payable *(in thousands)*

Type		Balance 2004 (restated)	Additions	Retirements	Balance 2005	Current Portion
University						
Revenue Bonds	$	350,075	254,385	16,610	587,850	16,120
Plus Unamortized Premiums		4,442	13,089	468	17,063	1,378
Net Revenue Bonds		354,517	267,474	17,078	604,913	17,498
Certificates of Participation		52,725	–	5,625	47,100	9,195
Other Capital Lease Obligations		58,386	4,837	2,680	60,543	2,700
Notes Payable		332	–	155	177	41
Total Bonds, Notes, and Leases Payable – University	**$**	**465,960**	**272,311**	**25,538**	**712,733**	**29,434**
Discretely Presented Component Units						
Revenue Bonds	$	69,090	50,365	–	119,455	1,200
Plus Unamortized Premium		151	–	5	146	–
Net Revenue Bonds		69,241	50,365	5	119,601	1,200
Capital Leases		5,254	–	177	5,077	225
Total Bonds, Notes, and Leases Payable – DPCU	**$**	**74,495**	**50,365**	**182**	**124,678**	**1,425**

Type		Balance 2003 (restated)	Additions	Retirements	Balance 2004 (restated)	Current Portion
University						
Revenue Bonds	$	298,760	64,260	12,945	350,075	14,120
Plus Unamortized Premiums		2,867	1,974	399	4,442	468
Net Revenue Bonds		301,627	66,234	13,344	354,517	14,588
Certificates of Participation		25,240	35,475	7,990	52,725	5,370
Other Capital Lease Obligations		60,204	508	2,326	58,386	2,352
Notes Payable		347	43	58	332	94
Total Bonds, Notes, and Leases Payable – University	**$**	**387,418**	**102,260**	**23,718**	**465,960**	**22,404**
Discretely Presented Component Units						
Revenue Bonds	$	69,090	–	–	69,090	–
Plus Unamortized Premium		156	–	5	151	–
Net Revenue Bonds		69,246	–	5	69,241	–
Capital Leases		5,534	–	280	5,254	177
Total Bonds, Notes, and Leases Payable – DPCU	**$**	**74,780**	**–**	**285**	**74,495**	**177**

All University revenue bonds are special limited obligations of the Regents and are payable solely from the pledged revenues (or the Net Income of the Facilities as defined in the bond resolution). The revenue bonds are not secured by any encumbrance, mortgage, or other pledge of property, except pledged revenues, and do not constitute general obligations of the Regents.

The University revenue bonds contain provisions to establish and maintain reasonable fees, rates, and other charges to ensure gross revenues are sufficient for debt service coverage. The University is also required to comply with various other covenants while the bonds are outstanding. These covenants, among other things, restrict the disposition of certain assets, require the Regents to maintain adequate insurance, and require the Regents to continue to operate the underlying programs. Management of the University believes the University has met all debt service coverage ratios and has complied with all bond covenants.

UPI variable rate demand bonds, Series 2002 were issued on behalf of UPI by the Fitzsimons Redevelopment Authority. The bonds bear interest at a variable municipal bond interest rate that is reset weekly. In addition, UPI has entered into a five-year renewable letter of credit agreement with Allied Irish Bank allowing the bonds to be remarketed using Allied Irish Bank's national credit rating. UPI is required to carry an annual $28,000,000 unrestricted operating reserve and UPI management believes it has met all of the financial ratio requirements.

TABLE 9.3 Revenue Bonds Detail *(in thousands)*

Issuance Description		Original Issuance Amount	Outstanding Balance 2005	Outstanding Balance 2004
University				
Enterprise System Revenue Bonds:				
Refunding Series 1995A –				
Used to refund all of the Refunding Series 1986, 1989, 1990 and 1992B	$	32,940	21,450	23,075
Refunding and Improvement Series 1997 –				
Used to refund all of the Series 1986 and fund capital improvements at CU-Boulder and CU-Colorado Springs		12,760	1,415	2,045
Refunding Series 1999A –				
Used to refund all of the Adjustable Tender Series 1996A		22,495	21,030	21,420
Refunding Series 2001A –				
Used to refund all of the Student Recreation Center and Refunding Series 1989, Auxiliary Facilities System Refunding Series 1992A, RBRF Series 1989 (Note 18), and RBRF Series 1992 (Note 18) and a portion of the Enterprise System Tax Exempt Commercial Paper		34,840	21,846	25,567
Refunding and Improvement Series 2001B –				
Used to refund all of the Tax Exempt Commercial Paper and fund capital improvements at CU-Boulder (includes premium)		51,320	49,097	50,692
Series 2002A –				
Used to fund capital improvements at UCDHSC (includes premium)		101,875	95,687	98,179
Series 2002B –				
Used to fund capital improvements at CU-Boulder (includes premium)		40,055	40,104	40,107
Series 2002C –				
Used to fund capital improvements at CU-Boulder (includes premium)		5,670	4,258	5,242
Series 2003A –				
Used to finance capital improvements at CU-Boulder, CU-Colorado Springs, and UCDHSC		64,260	62,862	64,825
Series 2004 –				
Used to fund improvements at CU-Boulder, CU-Colorado Springs, and UCDHSC		24,360	24,110	–
Series 2005A –				
Used to construct Wolf Law Building, ATLAS Center, UCCS Parking Facility, and RC2; expand LASP; and refund 1995 RBRF Bonds (includes premium)		230,025	243,114	–
Total Enterprise System Revenue Bonds			584,973	331,152
Research Building Revolving Fund (RBRF) Revenue Bonds:				
Refunding Series 1995 –				
Used to refund a portion of the Series 1986 and all of Series 1990 (Note 19)		11,055	–	2,865
UPI Variable Rate Demand Bonds-				
Used to finance construction of UPI's administrative office building		20,500	19,940	20,500
Total Revenue Bonds			604,913	354,517
Less Premium			17,063	4,442
Total Outstanding Revenue Bond Principal – University			**587,850**	**350,075**
Discretely Presented Component Units				
Student Housing Series 2002 –				
Used to finance Williams Village student housing		69,090	69,236	69,241
Less Premium			(146)	(151)
Student Housing Facility Series 2005 –				
Used to finance construction of housing facility adjacent to Auraria Higher Education Center		50,365	50,635	–
Total Outstanding Revenue Bond Principal – DPCU			**119,455**	**69,090**

TABLE 9.4 Revenue Bonds Future Minimum Payments *(in thousands)*

	University			Discretely Presented Component Units		
Years Ending June 30	Principal	Interest	Total	Principal	Interest	Total
2006	$ 16,120	29,166	45,286	1,200	4,932	6,132
2007	19,030	27,430	46,460	1,000	4,890	5,890
2008	19,860	26,637	46,497	1,525	4,857	6,382
2009	21,480	25,736	47,216	1,865	4,794	6,659
2010	21,400	24,715	46,115	2,010	4,727	6,737
2011 – 2015	111,200	108,027	219,227	12,625	22,322	34,947
2016 – 2020	115,705	80,577	196,282	16,600	19,134	35,734
2021 – 2025	143,335	49,796	193,131	21,315	14,844	36,159
2026 – 2030	86,445	18,252	104,697	27,180	9,532	36,712
2031 – 2035	33,275	2,608	35,883	25,045	3,259	28,304
2036 – 2037	–	–	–	9,090	200	9,290
Total	**$ 587,850**	**392,944**	**980,794**	**119,455**	**93,491**	**212,946**

Colorado Educational and Cultural Facilities Authority (the Authority) issued $69,090,000 of Series 2002 Student Housing Revenue Bonds. The Authority then loaned the proceeds of the bonds to Bear Creek. The Student Housing revenue 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 Student Housing revenue bonds, 2) funds held by the trustee of the Student Housing revenue bonds pursuant to the loan agreement, and 3) in certain events, monies derived under a Commitment of Support entered into by and between the CU Foundation and the Authority and assigned to the trustee of the Student Housing revenue bonds. The CU Foundation entered into a Commitment of Support with the Authority pursuant to which the CU Foundation agrees that as long as any of the Student Housing revenue bonds are outstanding, it will contribute such amount as may be necessary to make up any deficiency in the Student Housing revenue bonds on the business day preceding any date on which a payment is due on the Student Housing revenue bonds. The Loan Agreement and other agreements contain certain financial and nonfinancial covenants that include the generation of revenue in each fiscal year that the student housing facility is in operation in an amount at least equal to 120 percent of the actual annual debt service.

The Student Housing revenue bonds are payable annually, commencing July 1, 2005, and are subject to optional, mandatory, and extraordinary redemption prior to the stated maturity. Payment of the principal and interest on the Student Housing revenue bonds when due is insured by a financial guaranty insurance policy.

Colorado Educational and Cultural Facilities Authority (the Authority) issued $50,365,000 of Series 2005 Variable Rate Student Housing Facility Revenue Bonds. The Authority then loaned the proceeds of the bonds to Campus Village. The assets of Campus Village are not available to satisfy the claims of creditors of any affiliate of Campus Village, including CUREF, and the assets of any affiliate of Campus Village, including CUREF, are not available to satisfy the claims of any creditors of Campus Village. The bonds payable are secured by a letter of credit held with Citibank, N.A. The letter of credit expires on May 25, 2010, and provides for the renewal or replacement of such upon that date. Under the letter of credit agreement, Campus Village is required to pay annual letter of credit fees and quarterly remarketing fees equal to 1.24 percent and 0.125 percent, respectively, of the outstanding principal balance.

The Variable Rate Student Housing revenue bonds are payable annually, commencing July 1, 2008, with interest payments due monthly at a variable rate established by the remarketing agent.

Future minimum payments for revenue bonds are detailed in Table 9.4, Revenue Bonds Future Minimum Payments.

CERTIFICATES OF PARTICIPATION

Certificates of participation have been issued to finance lease purchase agreements for a cogeneration plant (1996 Series), the acquisition and refinancing of equipment (1998A Series), and finance capital improvements and acquisitions (2003A and 2003B Series). The certificates are secured by the buildings or equipment acquired with the lease proceeds and any unexpended lease proceeds. Annual lease payments are subject to annual appropriations by the Regents. The underlying capitalized assets have a gross cost of approximately $86,635,000 and $68,213,000 as of June 30, 2005 and 2004, respectively. The certificates contain optional redemption provisions allowing the University to redeem, at various dates, portions of the outstanding certificates at prices varying from 100 to 102 percent of the principal amount of the certificates redeemed.

At any time, the certificates for the 1998A Series bear interest at adjustable rates equal to comparable rates for tax-exempt obligations (market-rate). The interest is payable monthly and may be reset at the following four defined periods as elected by the University: daily, weekly, short-term (more than weekly and less than semi-annually), or long-term (more than semi-annually and less than the maturity period). The interest rate period during the year ended June 30, 2005 and 2004 was weekly. Principal is payable annually or semiannually subject to annual appropriation by the Regents. Future minimum payments for certificates of participation are detailed in Table 9.5, Certificates of Participation.

OTHER CAPITAL LEASES

During the year ended June 20, 2004, the University effectively entered into a capital lease agreement to lease purchase a central utility plant (CUP) to deliver steam and chilled water to the UCDHSC Fitzsimons campus. As of June 30, 2005 and 2004, the CUP capital lease had an outstanding liability approximating $30,265,000 and $27,025,000, respectively, with underlying gross capitalized asset cost approximating $32,685,000 and $28,545,000, respectively. The CUP capital lease agreement provides for biannual payments through December 2022 with an effective interest rate of 6 percent.

TABLE 9.5 Certificates of Participation *(in thousands)*

Years Ending June 30		Principal	Interest	Total
2006	$	9,195	2,086	11,281
2007		1,750	1,792	3,542
2008		1,820	1,716	3,536
2009		1,900	1,633	3,533
2010		1,975	1,548	3,523
2011 – 2015		4,910	7,016	11,926
2016 – 2020		5,760	5,839	11,599
2021 – 2025		7,360	4,248	11,608
2026 – 2030		7,985	2,248	10,233
2031 – 2035		4,445	452	4,897
Total	**$**	**47,100**	**28,578**	**75,678**

Beginning in 2011, the University has the ability to purchase the CUP from the lessor in accordance with an established purchase price schedule.

As of June 30, 2005 and 2004, the University had an outstanding liability for all other capital leases approximating $30,278,000 and $31,361,000, respectively, with underlying gross capitalized asset cost approximating $35,498,000 and $34,744,000, respectively. As of June 30, 2005 and 2004, the DPCU had an outstanding liability for capital leases approximating $5,077,000 and $5,254,000, respectively, with underlying gross capitalized asset cost approximating $5,750,000.

Future minimum payments for capital lease obligations are detailed in Table 9.6, Capital Leases.

NOTES PAYABLE

As of June 30, 2005 and 2004, the University had notes payable issued for general purposes and with amounts outstanding in Table 9.7, Notes Payable. Future minimum payments of the notes payable are detailed in Table 9.8, Notes Payable Future Minimum Payments.

EXTINGUISHMENT OF DEBT

Previous revenue bond issues and certificates of participation, considered to be extinguished through in-substance defeasance under generally accepted accounting principles, are not included in the accompanying financial statements. The amount of debt in this category, covered by assets placed in trust to be used solely for future payments, amounted to approximately $1,910,000 and $4,396,000 as of June 30, 2005 and 2004, respectively.

TABLE 9.6 Capital Leases *(in thousands)*

		University			*Discretely Presented Component Units*		
Years Ending June 30		Principal	Interest	Total	Principal	Interest	Total
2006	$	2,700	3,450	6,150	225	563	788
2007		2,383	3,299	5,682	281	535	816
2008		2,302	3,172	5,474	345	499	844
2009		2,200	3,049	5,249	417	457	874
2010		2,228	2,926	5,154	499	405	904
2011 – 2015		13,070	12,516	25,586	3,310	898	4,208
2016 – 2020		17,510	8,065	25,575	–	–	–
2021 – 2025		12,600	2,813	15,413	–	–	–
2026 – 2030		5,550	549	6,099	–	–	–
Total	**$**	**60,543**	**39,839**	**100,382**	**5,077**	**3,357**	**8,434**

TABLE 9.7 Notes Payable *(in thousands)*

Issuance Description		2005	2004
Issued for the acquisition of land for the site of student housing known as Williams Village at CU-Boulder; payable from student housing revenue	$	177	216
Issued for the acquisition of a property known as the Bennett Property contiguous to the CU-Colorado Springs campus; payable by general campus resources		–	73
Issued for the acquisition of the UPI automobile and medical equipment		–	43
Total Notes Payable	**$**	**177**	**332**

TABLE 9.8 Notes Payable Future Minimum Payments *(in thousands)*

Years Ending June 30		Principal	Interest	Total
2006	$	41	9	50
2007		43	7	50
2008		45	5	50
2009		48	2	50
Total	**$**	**177**	**23**	**200**

NOTE 10 – OTHER LIABILITIES

Table 10.1, Other Liabilities, details other liabilities as of June 30, 2005 and 2004.

RISK FINANCING RELATED LIABILITIES

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; medical malpractice; employee occupational injuries; graduate medical students' health; and natural disasters. The University finances these risks through various self-insurance programs. The University finances costs and risks associated with employee health benefit programs through purchase of commercial insurance.

The University utilizes a protected self-insurance program for its property, liability, and workers' compensation risks. The University has established a separate self-insurance program for the purpose of providing professional liability coverage for UCDHSC and the University of Colorado Hospital Authority (Note 21). A separate self-insurance program has also been established to provide health insurance for graduate medical students and eligible dependents at UCDHSC.

All self-insurance programs assume losses up to certain limits and purchase a defined amount of excess insurance for losses over those limits. These limits range from $100,000 to $1,000,000 per occurrence.

Reserves for unpaid claims under these programs are actuarially reviewed and evaluated for adequacy each year and are reported on an undiscounted basis. Settlements have not exceeded coverages for each of the past three fiscal years. There were no significant reductions or changes in insurance coverage from the prior year.

The amount recorded as risk financing related liabilities represents reserves based upon the annual actuarial valuation and includes reserves for incurred but not reported claims. Such liabilities depend on many factors including claims history, inflation, damage awards, investment return, and changes in legal doctrine. Accordingly, computation of the claims liabilities requires an annual estimation process. Claims liabilities are reevaluated on a periodic basis and take into consideration recently settled claims, frequency of claims, and other relevant factors.

Changes in the balances of risk financing related liabilities for the years ended June 30, 2005 and 2004 are presented in Table 10.2, Risk Financing Related Liabilities.

TABLE 10.1 Other Liabilities *(in thousands)*

		2005		2004	
Type		Total	Current Portion	Total	Current Portion
University					
Risk financing	$	22,448	8,901	21,291	7,521
Construction contract retainage		3,837	3,825	11,660	11,660
Funds held for others		13,682	13,682	14,210	14,210
Miscellaneous		898	898	855	95
Total Other Liabilities – University	**$**	**40,865**	**27,306**	**48,016**	**33,486**
Discretely Presented Component Units					
Funds held for others	$	3,188	422	3,529	765
Miscellaneous		1,185	–	1,650	–
Total Other Liabilities – DPCU	**$**	**4,373**	**422**	**5,179**	**765**

TABLE 10.2 Risk Financing Related Liabilities *(in thousands)*

	Property, General Liability and Workers' Compensation	UCDHSC Professional Liability	Graduate Medical Students' Health Benefits	Total
Balance 2003	**$ 12,034**	**8,759**	**788**	**21,581**
Fiscal Year 2004				
Claims and changes in estimates	7,025	149	4,135	11,309
Claim payments	(6,217)	(1,270)	(4,112)	(11,599)
Balance 2004	**$ 12,842**	**7,638**	**811**	**21,291**
Fiscal Year 2005				
Claims and changes in estimates	8,810	(225)	5,166	13,751
Claim payments	(6,732)	(857)	(5,005)	(12,594)
Balance 2005	**$ 14,920**	**6,556**	**972**	**22,448**

TABLE 10.3 Direct Lending *(in thousands)*

Campus	2005	2004
CU-Boulder	$ 106,268	98,614
UCDHSC	37,336	31,150
Total Direct Lending	**$ 143,604**	**129,764**

DIRECT LENDING

CU-Boulder and UCDHSC participate in the federal government's Direct Loan Program. This program provides loans from the federal government to qualifying students and their families for educational purposes. While the University helps students obtain these loans, the University is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers, as the U.S. Department of Education performs these functions. The amount of direct loans during the years ended June 30, 2005 and 2004 is detailed in Table 10.3, Direct Lending.

NOTE 11 – UNRESTRICTED NET ASSETS

In addition to external restrictions, the University has many activities that require a certain level of reserves to be maintained. Examples of this include working capital reserves for auxiliary operations, internal service centers, and continuing education activities; loss reserves for risk financing activities; and capital reserves for planned construction efforts.

As of June 30, 2005 and 2004, all of the University's unrestricted net assets have been designated or reserved by management for the following purposes and amounts detailed in Table 11, Designations of Unrestricted Net Assets.

TABLE 11 Designations of Unrestricted Net Assets
(in thousands)

Designation Description	2005	2004
Accounts Receivable	$ 94,698	50,656
Accumulated Unrealized Gain on Investments	19,067	16,891
Auxiliary Facilities Operating Reserves	28,567	3,915
Campus Operating Reserves	16,455	23,374
Capital Related Activities	108,132	98,721
Faculty Start-up and Research Initiatives	60,530	38,080
Inventories and Prepaids	10,469	9,939
Investment Pool	27,247	10,942
Purchase Commitments	4,849	6,938
Quasi-endowments	21,341	19,432
Risk Financing Activities	14,774	12,780
Service Center Reserves	2,896	6,943
Technology Transfer Office	2,861	6,422
University Physicians, Inc.	54,785	52,837
Total Designated Unrestricted Net Assets	**$ 466,671**	**357,870**

NOTE 12 – CHANGES IN ACCOUNTING AND REPORTING

CHANGE IN DEPRECIABLE LIVES

It is the University's policy to periodically reassess the estimated useful lives of its capital assets. The reassessment during the year ended June 30, 2004 indicated that the useful lives for certain buildings and improvements associated with the UCDHSC's 9th Avenue campus were impacted by the Regent's approval of an agreement with a third-party master developer to carry out the sale and redevelopment of the campus. As a result, the University revised the estimated useful lives of the campus' buildings and improvements effective July 1, 2003 and recognized approximately $8,529,000 of additional depreciation expense during the year ended June 30, 2004.

CHANGE IN REPORTING ENTITY

In 2004, the University was required to adopt GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. It requires legally separate, tax-exempt organizations be recognized as discretely presented component units (DPCU) if the entities' economic resources are for the benefit of, accessible by, and significant to the University. The change was made effective July 1, 2002.

CHANGE IN REPORTING REQUIREMENTS

Effective July 1, 2004, the University adopted GASB No. 40, *Deposit and Investment Risk Disclosures*. This statement changes the reporting requirements for deposits and investments.

RESTATEMENT

As discussed in Note 20, the CU Foundation restated its financial statements as of July 1, 2003.

NOTE 13 – SPENDING LIMITATIONS

In November 1992, the Colorado voters passed Section 20, Article X of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax, and debt limitations that apply to all local governments and the State of Colorado, including the University. During the year ended June 2004, the Colorado State Legislature determined that in Section 23-5-101.7 of the Colorado Revised Statutes an institution of higher education may be designated as an enterprise for the purposes of TABOR so long as the institution's governing board retains authority to issue revenue bonds on its behalf and the institution receives less than ten percent of its total annual revenues in grants from all Colorado State and local governments combined. Further, so long as it is so designated as an enterprise, the institution shall not be subject to any of the provisions of TABOR.

TABLE 13.1 TABOR Enterprise State Support Calculation *(in thousands)*

State Grants	
State appropriations	$ 150,673
Capital appropriations	1,037
Total State Grants	$ 151,710
Total Revenues (gross operating, nonoperating, and other revenues)	$ 1,867,207
Ratio of State Grants to Total Revenues	8.12%

TABLE 13.2 Appropriated Funds *(in thousands)*

Description	2005	2004
Total appropriation	$ 612,270	594,838
Actual appropriated revenues	606,502	542,151
Actual appropriated expenditures and transfers	606,825	537,005
Net increase (decrease) in appropriated net assets	(323)	5,146

In July 2005, the Regents designated the University as a TABOR enterprise pursuant to the statute. During the year ended June 30, 2005, the University believes it has met all requirements of TABOR enterprise status. Specifically, the Regents retain the authority to issue revenue bonds and the amount of State grants received by the University was 8.11 percent during the year ended June 30, 2005, as shown in Table 13.1, TABOR Enterprise State Support Calculation.

A portion of the University is subject to revenue and expense limitations imposed by the Colorado State Legislature through the annual appropriation process. The University's appropriated funds include the State appropriation from the State's General Fund, as well as certain cash funds as specified in the State's annual appropriations bill. Appropriated cash funds include tuition, certain fees, and certain other revenue sources, which are recognized in various revenue lines, as appropriate, in the accompanying financial statements.

All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

For the years ended June 30, 2005 and 2004, appropriated expenses were within the authorized spending authority. Table 13.2, Appropriated Funds, details the related activities for the years ended June 30, 2005 and 2004.

NOTE 14 – SCHOLARSHIP ALLOWANCES

During the years ended June 30, 2005 and 2004, scholarship allowances were provided by the following funding sources in amounts detailed in Table 14, Scholarship Allowances.

NOTE 15 – HEALTH SERVICES REVENUE

Health services revenue is recorded net of contractual adjustments of $220,445,000 and $196,992,000 and bad debt expense on uncollectible patient account receivables of $8,238,000 and $7,921,000 as of June 30, 2005 and 2004, respectively. Charity care provided during the years ended June 30, 2005 and 2004, for which no reimbursement was received, measured at established rates, totaled approximately $16,200,000 and $13,300,000, respectively.

NOTE 16 – ON-BEHALF PAYMENTS

On-behalf payments occur when a third party, instead of the University, pays the salary and benefits (or portion thereof) for a University employee. The University receives on-behalf payments from the Hospital Authority and other sponsors. On-behalf payments for University faculty salaries and benefits during the year ended June 30, 2005 and 2004 were approximately $3,339,000 and $4,100,000, respectively.

NOTE 17 – RETIREMENT PLANS AND INSURANCE PROGRAMS

Employees of the University eligible for retirement benefits participate in one of four retirement plans. Eligible student employees participate in a student retirement plan that is funded solely by contributions from the student employees. The student retirement plan is a defined contribution plan administered by a consortium of higher educational institutions in the State. All other eligible employees of the University participate in one of the three additional plans, the Public Employees' Retirement Association (PERA) plan, the University's optional retirement plan, and UPI's retirement plan. The CU Foundation and CUREF offers a retirement plan for certain of their employees.

TABLE 14 Scholarship Allowances *(in thousands)*

Funding Source Description		Tuition and Fees	Auxiliary Enterprise Revenues	Total 2005	Tuition and Fees	Auxiliary Enterprise Revenues	Total 2004
University general resources	$	13,254	588	13,842	10,100	474	10,574
University auxiliary resources		3,545	236	3,781	3,413	238	3,651
Colorado Commission on Higher Education financial aid program		6,424	156	6,580	6,957	201	7,158
Federal programs, including Pell grants		20,948	781	21,729	21,160	788	21,948
Other State of Colorado programs		1,547	103	1,650	640	8	648
Private programs		2,301	5	2,306	2,074	17	2,091
Gift fund		3,884	222	4,106	3,837	215	4,052
Total Scholarship Allowances	$	**51,903**	**2,091**	**53,994**	**48,181**	**1,941**	**50,122**

PERA DEFINED BENEFIT PENSION PLAN

The PERA plan provides income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple-employer plan administered by PERA. PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The State and other employers' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203 or at www.copera.org.

Plan members vest after five years of service and are eligible for retirement benefits at age fifty with thirty years of service, age sixty with twenty years of service, or at age sixty-five with five years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least fifty-five and have a minimum of five years of service credit and their age plus years of service equals eighty or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of twelve consecutive months of service credit.

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

The total payroll of employees covered by PERA was $215,062,000 and $208,913,000 for the years ended June 30, 2005 and 2004, respectively. Employees contribute 8 percent of their gross covered wages to an individual account in the plan. During the years ended June 30, 2005, 2004, and 2003, the University contributed a total of 10.16, 10.15, and 9.9 percent, respectively, of the employee's gross covered wages to PERA in accordance with the following allocations and amounts detailed in Table 17, University Contributions to PERA. These contributions met the contribution requirement for each year.

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

VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

On January 1, 2001, the Matchmaker Program established a State match for PERA members' voluntary contributions to other tax-deferred retirement plans: PERA's voluntary 401(k) plan, the State's 457 deferred compensation plan, and a 403(b) plan of certain agencies and institutions of the State.

The PERA Board sets the level of the match annually, based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan assets is 110 percent of the actuarially accrued plan liabilities. This condition was not met during the years ended June 30, 2005 and 2004.

UNIVERSITY OPTIONAL RETIREMENT PLAN

Under the University's optional retirement plan, certain members of the University participate in a defined contribution retirement plan administered by the University for the benefit of full-time faculty and unclassified staff members. The Constitution of the State assigns the authority to establish and amend plan provisions to the Regents. The contribution requirements of plan members and the University are established and may be amended by the Regents. For the years ended June 30, 2005 and 2004, the University's contribution to the defined contribution retirement plan was equal to 10 percent of covered payroll and the employee contribution was equal to 5 percent of covered payroll. The University's contribution under the optional retirement plan during the years

TABLE 17 University Contributions to PERA *(in thousands)*

Program	Basis	2005	2004	2003
Health Care Trust Fund	1.02 percent after January 1, 2004; 1.1 percent between July 1, 2004 and January 1, 2003; and 1.64 percent between January 1, 2003 and January 1, 2002	$ 223	2,298	3,037
Matchmaker Program (see Voluntary Tax Deferred Retirement Plans above)	The amount needed to meet the match requirement established by the PERA Board	–	1,690	3,184
Defined Benefit Plan	The balance remaining	21,628	17,217	15,978
Total University Contribution		**$ 21,851**	**21,205**	**22,199**

ended June 30, 2005 and 2004 approximated $46,771,000 and $44,388,000, respectively. The employees' contribution under the optional retirement plan approximated $23,297,000 and $21,877,000 during the years ended June 30, 2005 and 2004, respectively.

Participants in the University's optional retirement plan choose to invest all contributions with one or more of three designated vendors. In addition, participants in the University's optional retirement plan are covered under federal Social Security (FICA). Federal Social Security regulations required both the employer and employee to contribute 6.2 percent of covered payroll to the plan during the years ended June 30, 2005 and 2004.

UPI RETIREMENT PLAN

UPI sponsors a defined contribution retirement plan for its permanent employees that is administered by the Teachers Insurance Annuities Association's College Retirement Equities Fund. The board of directors for UPI has the authority to amend plan provisions. Employees are eligible for participation in the plan after completing one year of service. UPI contributed an amount equal to 7 percent of eligible employees' salaries for the years ended June 30, 2005 and 2004. UPI's contributions for covered payroll to the retirement plan for the years ended June 30, 2005 and 2004 approximated $1,381,000 and $1,101,000, respectively.

CU FOUNDATION RETIREMENT PLAN

The CU Foundation sponsors a 401(k) plan for the benefit of its employees. Under the 401(k) plan, the CU Foundation matches employee contributions up to 6 percent of the employee's salary. For the years ended June 30, 2005 and 2004, the CU Foundation's matching contributions approximated $421,000 and $448,000, respectively.

CUREF RETIREMENT PLAN

Starting July 1, 2004, CUREF established a 401(k) safe-harbor plan for the benefit of substanially all full-time employees. Under the 401(k) plan, CUREF matches employee contributions up to 6 percent of the employee's salary. Participating employees immediately vest in employer contributions. For the year ended June 30, 2005, CUREF's matching contributions approximated $26,000.

HEALTH INSURANCE PROGRAMS

The University's contributions to the various health insurance programs approximated $35,138,000 and $30,379,000 during the years ended June 30, 2005 and 2004, respectively.

NOTE 18 – POST-EMPLOYMENT BENEFITS

UNIVERSITY POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE PLAN

The University provides certain post-retirement health care and life insurance benefits for retired employees in accordance with the Regents' authority. Substantially all of the University's employees may become eligible for those benefits if they reach normal retirement age while working for the University. During the years ended June 30, 2005 and 2004, approximately 3,160 and 3,051 retirees, respectively, met the eligibility requirements and are receiving benefits. Under this program, the University subsidizes a portion of health care and life insurance premiums by charging them as a current expense. These costs approximated $4,031,000 and $3,275,000 during the years ended June 30, 2005 and 2004, respectively.

PERA POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERACare (formerly know as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the PERACare and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of the premium through an automatic deduction from the monthly retirement benefit. During the years ended June 30, 2005 and 2004, the premium subsidy was $115 for those with twenty years of service credit ($230 for members under age sixty-five and not eligible for Medicare), and it was reduced by five percent for each year of service fewer than twenty.

The Health Care Trust Fund is maintained by an employer's contribution (see PERA Defined Benefit Pension Plan (Note 17).

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2004, there were approximately 39,668 enrollees in the plan.

Life Insurance Program

During the years ended June 30, 2005 and 2004, PERA provided its members access to two group decreasing-term life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who transition to the new plan may continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means.

NOTE 19 – SEGMENT INFORMATION

As of June 30, 2005, the University has one segment, UPI. As of June 30, 2004, the University had two segments, the Research Building Revolving Fund (RBRF) and UPI.

The RBRF had identifiable activities for which Refunding Series 1995 and a portion of the Refunding Series 2001A revenue bonds approximating $18,207,000 were outstanding as of June 30, 2004. The activities supported by this segment include research operations and related support. During fiscal year 2005, the RBRF revenue bonds were defeased and subsequently called and paid in full.

UPI has identifiable activities for which UPI Variable Rate Demand bonds approximating $19,940,000 and $20,500,000 are outstanding as of June 30, 2005 and 2004, respectively. The activities of this segment include all the UCDHSC's School of Medicine's faculty practice plan.

Summary financial information as of and for the years ended June 30, 2005 and 2004, respectively, is presented in Table 19, Segment Financial Information.

NOTE 20 – DISCRETELY PRESENTED COMPONENT UNITS

Summary financial information as of and for the years ended June 30, 2005 and 2004, respectively, for the University's DPCU are presented in Table 20, DPCU Summary Financial Statements.

UNIVERSITY OF COLORADO FOUNDATION

Distributions made by the CU Foundation to the University during the years ended June 30, 2005 and 2004 were approximately $48,738,000 and $62,522,000, respectively. This amount has been recorded as University gift revenue and DPCU operating expense in the accompanying financial statements, and does not include undistributed income on University endowments. At June 30, 2005 and 2004, the CU Foundation recorded an accounts payable to the University and the University has recorded an equal accounts receivable from the CU Foundation of $5,742,000 and $3,765,000, respectively.

The University is the ultimate beneficiary of substantially all restricted and trust funds held by the CU Foundation and is income beneficiary of a significant portion of endowment funds held by the CU Foundation. The University has endowments held by the CU Foundation totaling $82,742,000 and $76,634,000 at June 30, 2005 and 2004, respectively.

In 1996, the University of Colorado Real Estate Council (the Council) was created as a division of the CU Foundation to provide resources for the development of a real estate curriculum at the University, as well as to advise the CU Foundation in real estate holdings, research park development, potential investments, and real estate gifts to the University. In November 2003, the board of directors of the CU Foundation approved the dissolution of the Council's status as a division of the CU Foundation and authorized the transfer of the Council's ongoing activities, operations, and applicable funds and other assets to CUREF.

Bear Creek

During the year ended June 30, 2002, CU-Boulder and Bear Creek entered into an operating agreement whereby Bear Creek would construct and operate a student residence center on certain campus land, commonly referred to as Williams Village. The terms of the operating agreement provide the CU Foundation with the use of the University's land in exchange for net cash flow of the housing project as defined in the agreement. During the year ended June 30, 2005 and 2004, the University recognized related revenue of $786,000 and $1,300,000, respectively. During the year ended June 30, 2005, the University made an irrevocable gift to Bear Creek of $3,600,000 to facilitate its housing operations.

Restatement

Following a review of its accounting policies during 2005, the CU Foundation determined that in Fiscal Year 2000, the building and land under its capital lease obligation had been incorrectly accounted for. In a related transaction, the building owner made a conditional promise to gift the building, or the cash equivalent of the building, at the end of the lease term. The CU Foundation recorded the appraised fair value of the building and the pledge receivable in its financial statements. In accordance with Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS No.116), the conditional pledge receivable should not be recognized until the promise to give becomes unconditional. Accordingly, the CU Foundation has restated its 2004 financial statements to properly account for the capital lease and the conditional promise to give. As a result, the previously recorded unrestricted net assets as of July 1, 2003 decreased by approximately $4,400,000, from $15,100,000 to $10,700,000.

Also, University policy was clarified in 1986 to provide clear guidelines on the deposit of funds with the CU Foundation. This policy states that all gift monies received by the University, intended by the donor for the exclusive use of the University, will be deposited directly by the CU Foundation into its bank accounts. Exceptions to the above guidelines are when the donor specifically requests the gift be retained by the University. During 2005, the CU Foundation performed a legal review of donor intent documentation on all externally held trusts, at which time it was determined that nine trusts were exclusively between the University and the donor. Accordingly, the CU Foundation has restated its 2004 financial statements to remove these external trust accounts from its financial statements.
As a result, the previously reported temporarily restricted and permanently restricted net assets as of July 1, 2003 decreased by

TABLE 19 Segment Financial Information *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2005
	UPI
Assets	
Cash, cash equivalents	$ 18,926
Short-term investments	14,290
Other current assets	35,700
Total current assets	68,916
Investments	38,978
Capital assets, net	18,847
Other noncurrent assets	1,372
Total noncurrent assets	59,197
Total Assets	**$ 128,113**
Liabilities	
Accounts payable and accrued expenses	$ 17,103
Bonds, notes, and leases payable	457
Other current liabilities	–
Total current liabilities	17,560
Bonds, notes, and leases payable	19,895
Other noncurrent liabilities	–
Total noncurrent liabilities	19,895
Total Liabilities	**$ 37,455**
Net Assets	
Invested in capital assets, net of related debt	$ (1,199)
Unrestricted	91,857
Total Net Assets	**$ 90,658**
Operating revenues	$ 220,588
Depreciation expense	(1,654)
Other operating expenses	(207,802)
Operating Income	11,132
Nonoperating Revenues (Expenses)	
Investment income	1,885
Interest expense on capital asset related debt	(432)
Other nonoperating expenses	(3,352)
Total Nonoperating Revenues (Expenses)	(1,899)
Increase in Net Assets	**9,233**
Net Assets, beginning of year	81,425
Net Assets, end of year	**$ 90,658**
Condensed Statement of Cash Flows	
Net Cash Flows Provided by (Used for)	
Operating activities	$ 7,655
Non-capital financing activities	(2,828)
Capital and related financing activities	(1,756)
Investing activities	3,912
Net Decrease in Cash and Cash Equivalents	**6,983**
Cash and Cash Equivalents, beginning of year	11,943
Cash and Cash Equivalents, end of year	**$ 18,926**

TABLE 19 (continued) Segment Financial Information *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2004	
	RBRF	UPI
Assets		
Cash, cash equivalents, and equity in pooled cash and investments	$ 27,649	11,943
Short-term investments	–	20,856
Other current assets	–	26,739
Total current assets	27,649	59,538
Investments	–	34,476
Capital assets, net	49,542	19,850
Other noncurrent assets	–	1,869
Total noncurrent assets	49,542	56,195
Total Assets	**$ 77,191**	**115,733**
Liabilities		
Accounts payable and accrued expenses	$ 225	13,273
Bonds, notes, and leases payable	3,041	732
Other current liabilities	85	–
Total current liabilities	3,351	14,005
Bonds, notes, and leases payable	15,165	20,303
Other noncurrent liabilities	38	–
Total noncurrent liabilities	15,203	20,303
Total Liabilities	**$ 18,554**	**34,308**
Net Assets		
Invested in capital assets, net of related debt	$ 32,196	497
Unrestricted	26,441	80,928
Total Net Assets	**$ 58,637**	**81,425**
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues	$ 11,639	194,761
Depreciation expense	(3,509)	(1,196)
Other operating expenses	(5,465)	(187,636)
Operating Income	2,665	5,929
Nonoperating Revenues (Expenses)		
Investment income	1,145	279
Interest expense on capital asset related debt	(936)	(143)
Other nonoperating expenses	–	(634)
Total Nonoperating Revenues (Expenses)	209	(498)
Income Before Other Revenues and Transfers	**2,874**	**5,431**
Transfers in from other University funds	214	–
Increase in Net Assets	**3,088**	**5,431**
Net Assets, beginning of year	55,549	75,994
Net Assets, end of year	**$ 58,637**	**81,425**
Condensed Statement of Cash Flows		
Net Cash Flows Provided by (Used for)		
Operating activities	$ 6,537	9,704
Non-capital financing activities	215	(646)
Capital and related financing activities	(6,152)	(13,250)
Investing activities	(600)	4,087
Net Decrease in Cash and Cash Equivalents	**–**	**(105)**
Cash and Cash Equivalents, beginning of year	–	12,048
Cash and Cash Equivalents, end of year	**$ –**	**11,943**

TABLE 20 DPCU Summary Financial Statements *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2005			
	Coleman Foundation	CU Foundation	CUREF	Total
Assets				
Current Assets				
Cash, cash equivalents, and investments	$ 65	14,189	582	14,836
Investments	–	–	31,652	31,652
Accounts and contributions receivable, net	–	13,773	261	14,034
Other assets	–	491	112	603
Total current assets	65	28,453	32,607	61,125
Noncurrent Assests				
Investments	–	657,646	5,917	663,563
Contributions receivable, net	–	15,642	251	15,893
Other assets	–	1,608	2,686	4,294
Capital assets, net	–	67,743	27,642	95,385
Total noncurrent assets	–	**742,639**	**36,496**	**779,135**
Total Assets	**$ 65**	**771,092**	**69,103**	**840,260**
Liabilities				
Current Liabilities				
Accounts payable	$ –	3,655	533	4,188
Deferred revenue	–	1,242	26	1,268
Bonds and leases payable	–	1,425	–	1,425
Split-interest agreements	–	3,372	–	3,372
Custodial funds	–	4,690	–	4,690
Other liabilities	–	422	–	422
Total current liabilities	–	14,806	559	15,365
Noncurrent Liabilities				
Deferred revenue	–	122	–	122
Bonds and leases payable	–	72,888	50,365	123,253
Split-interest agreements	–	27,384	–	27,384
Custodial funds	–	85,028	–	85,028
Other liabilities	–	2,766	1,185	3,951
Total noncurrent liabilities	–	188,188	51,550	239,738
Total Liabilities	$ –	**202,994**	**52,109**	**255,103**
Net Assets				
Invested in capital assets, net of related debt	$ –	(6,570)	14,846	8,276
Restricted for nonexpendable purposes	–	189,920	–	189,920
Restricted for expendable purposes	65	347,974	479	348,519
Unrestricted	–	36,773	1,669	38,442
Total Net Assets	**$ 65**	**568,098**	**16,994**	**585,157**
Statements of Revenue, Expenses, and Changes in Net Assets				
Operating Revenues				
Contributions	$ 1,472	51,899	688	54,059
University support	–	8,246	–	8,246
Other revenue	–	10,749	1,696	12,445
Total operating revenues	1,472	70,894	2,384	74,750
Operating Expenses				
Institutional Support				
Gifts and income distributed to University and related parties	1,800	85,864	86	87,750
Other program services	–	7,523	1,284	8,807
Support services	4	17,112	338	17,454
Depreciation	–	2,818	103	2,921
Total operating expenses	1,804	113,317	1,811	116,932
Operating Income (loss)	**(332)**	**(42,423)**	**573**	**(42,182)**
Nonoperating Revenues (Expenses)				
Gifts	–	3,600	–	3,600
Investment income	8	51,954	32	51,994
Interest expense on capital asset related debt	–	(4,066)	–	(4,066)
Increase in Net Assets	**(324)**	**9,065**	**605**	**9,346**
Net Assets, beginning of year	389	559,033	16,389	575,811
Net Assets, end of year	**$ 65**	**568,098**	**16,994**	**585,157**

TABLE 20 (continued) DPCU Summary Financial Statements *(in thousands)*

Condensed Statement of Net Assets	As of and for the year ended June 30, 2004			
	Coleman Foundation	CU Foundation (restated)	CUREF	Total
Assets				
Current Assets				
Cash, cash equivalents, and investments	$ 25	10,488	1,040	11,553
Investments	364	–	–	364
Accounts and contributions receivable, net	–	20,866	277	21,143
Other assets	–	445	–	445
Total current assets	389	31,799	1,317	33,505
Noncurrent Assets				
Investments	–	608,410	–	608,410
Contributions receivable, net	–	43,539	279	43,818
Other assets	–	1,462	–	1,462
Capital assets, net	–	68,608	15,128	83,736
Total noncurrent assets	–	722,019	15,407	737,426
Total Assets	**$ 389**	**753,818**	**16,724**	**770,931**
Liabilities				
Current Liabilities				
Accounts payable	$ –	3,554	301	3,855
Deferred revenue	–	990	34	1,024
Leases payable	–	177	–	177
Split-interest agreements	–	3,250	–	3,250
Custodial funds	–	4,174	–	4,174
Other liabilities	–	765	–	765
Total current liabilities	–	12,910	335	13,245
Noncurrent Liabilities				
Deferred revenue	–	873	–	873
Bonds and leases payable	–	74,318	–	74,318
Split-interest agreements	–	27,361	–	27,361
Custodial funds	–	74,909	–	74,909
Other liabilities	–	4,414	–	4,414
Total noncurrent liabilities	–	181,875	–	181,875
Total Liabilities	**$ –**	**194,785**	**335**	**195,120**
Net Assets				
Invested in capital assets, net of related debt	$ –	(5,887)	15,128	9,241
Restricted for nonexpendable purposes	–	179,488	–	179,488
Restricted for expendable purposes	389	355,353	515	356,257
Unrestricted	–	30,079	746	30,825
Total Net Assets	**$ 389**	**559,033**	**16,389**	**575,811**
Statements of Revenue, Expenses, and Changes in Net Assets				
Operating Revenues				
Contributions	$ 1,810	67,380	17,077	86,267
University support	–	8,146	–	8,146
Other revenue	–	11,686	445	12,131
Total operating revenues	1,810	87,212	17,522	106,544
Operating Expenses				
Institutional Support				
Gifts and income distributed to University and related parties	1,830	74,484	656	76,970
Other program services	–	6,987	205	7,192
Support services	11	12,962	201	13,174
Depreciation	–	1,930	67	1,997
Total operating expenses	1,841	96,363	1,129	99,333
Operating Income (loss)	**(31)**	**(9,151)**	**16,393**	**7,211**
Nonoperating Revenues (Expenses)				
Investment income	137	72,995	2	73,134
Interest expense on capital asset related debt	–	(3,900)	–	(3,900)
Increase in Net Assets	**106**	**59,944**	**16,395**	**76,445**
Net Assets, beginning of year as adjusted	283	499,089	(6)	499,366
Net Assets, end of year	**$ 389**	**559,033**	**16,389**	**575,811**

approximately $100,000 and $7,100,000, respectively. The transfers of these trusts were recorded by the University as additions to endowments and gift revenues in the current period.

COLEMAN COLORADO FOUNDATION

The Coleman Foundation received a January 2001 private donor pledge of $250,000,000 benefiting the University's Coleman Institute for Cognitive Disabilities. The ultimate timing to be contributed to the Coleman Foundation can be altered by the donors. As of June 30, 2005 and 2004, the donor deferred all scheduled payments, except the initial payment, and as a result, the pledge receivable has been recorded with a full allowance.

Distributions made by the Coleman Foundation to the University during the years June 30, 2005 and 2004 were $1,800,000 and $1,830,000, respectively. All contributions have been recorded as University gift revenue and DPCU operating expense in the accompanying financial statements. The CU Foundation received a partial pledge contribution, which created an endowment fund. As of June 30, 2005 and 2004, this related endowment was valued at $10,111,000 and $9,692,000, respectively.

THE UNIVERSITY OF COLORADO REAL ESTATE FOUNDATION

At June 30, 2004, the majority of the assets and liabilities of TUIC were transferred to CUREF. The assets consisted of three parcels of real property and cash and cash equivalents. The real property was transferred "as is, where is with all faults" at fair value as determined by market quotes on similar property. CUREF assumed all risks and obligations associated with the real property. CUREF also has all rights to future income associated with the real property. The transfer resulted in a contribution recorded by CUREF of approximately $16,168,000 and an equal amount of University gift expense. For the years ended June 30, 2005 and 2004, CUREF distributed $86,000 and $205,000, respectively, reported as operating expense, to the University, which recognized an equal amount of gift revenue. CUREF has a $7,000,000 line of credit with an interest rate of 4.5 percent from the University. During the year ended June 30, 2005, approximately $1,185,000, including accrued interest of $5,000, was drawn and owed under the line of credit. Amounts drawn and repaid during the year ended June 30, 2004 totaled approximately $6,734,000.

CUREF has a long-term agreement with the University to rent portions of the building owned by CUREF. For the years ended June 30, 2005 and 2004, the University paid $378,000 and $179,000, respectively, in rent to CUREF, which recognized an equal amount of other operating revenues.

NOTE 21 – RELATED ORGANIZATIONS AND JOINT VENTURES

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

In accordance with 1991 State legislation, the University of Colorado Hospital Authority (Hospital Authority) was established as a separate and distinct entity, where the University does not control the appointment of staff nor does it assume responsibility for the debts of the Hospital Authority. The Hospital Authority is not considered a component unit of the University because the University is not financially accountable for the Hospital Authority and its resources are not restricted to the University. Detailed financial information may be obtained directly from the Hospital Authority at Mail Stop F-401, P.O. Box 6506, Aurora, Colorado, 80045.

UCDHSC and UPI have several types of financial transactions with the Hospital Authority. On an annual basis, UCDHSC or UPI and the Hospital Authority enter into agreements specifying the fees to be charged for services and the allocation of expenses between the two organizations. In certain circumstances, UCDHSC may bear the entire cost of certain services in exchange for educational or other services provided by the Hospital Authority. In some instances, the fee charged by UCDHSC, UPI, or the Hospital Authority is a set amount for specific services to be provided. In other circumstances, the fee charged is based upon the amount or type of services requested by either UCDHSC or the Hospital Authority.

Examples of services provided by UCDHSC to the Hospital Authority include telecommunications services, rental of office space, and resident doctors. Examples of services provided by the Hospital Authority to UCDHSC include shipping and receiving services and student health services. In general, amounts receivable from, or payable to, the Hospital Authority are settled within the following calendar quarter.

Total payments issued by the Hospital Authority to UCDHSC approximated $27,230,000 and $30,000,000 for the years ended June 30, 2005 and 2004, respectively. Total payments issued by UCDHSC to the Hospital Authority for the years ended June 30, 2005 and 2004 approximated $6,770,000 and $7,222,000, respectively.

During the years ended June 30, 2005 and 2004, UPI recognized approximately $16,684,000 and $14,462,000, respectively, in health services revenue from the Hospital Authority in support of clinical and academic missions. Additionally, during the years ended June 30, 2005 and 2004, the Hospital Authority reimbursed UPI approximately $2,313,000 and $1,708,000, respectively, for joint patient care and network administrative functions performed by UPI. UPI also received approximately $19,839,000 and $17,752,000 during the years ended June 30, 2005 and 2004, respectively, from the Hospital Authority for amounts earned for services performed by UPI faculty members but required to be processed through the Hospital

Authority (such as State of Colorado medically indigent program, Ryan White, and other miscellaneous programs).

In 1997, UPI assumed a 30 percent participation in the Hospital Authority's investment in TriWest Healthcare Alliance Corp. (TriWest) for $994,000. The Hospital Authority purchased the minority interest in TriWest for approximately $3,300,000. UPI received $189,000 and $1,022,000 in dividends from TriWest during the years ended June 30, 2005 and 2004, respectively. UPI has also signed an agreement to assume the Hospital Authority's network management commitment to TriWest for a fee and has also signed a provider service agreement with TriWest.

The Hospital Authority is relocating to the Fitzsimons Campus in Aurora, Colorado. The new Fitzsimons site will require substantial infrastructure improvements to support the current and future buildings. The Hospital Authority and UCDHSC are sharing in the costs of the infrastructure projects based on estimates of future usage. An agreement governs the sharing of infrastructure costs between the two parties. UCDHSC is responsible for managing the infrastructure improvement projects and is then reimbursed by the Hospital Authority for its share under the agreement. During the years ended June 30, 2005 and 2004, UCDHSC received $906,000 and $1,025,000, respectively, in reimbursements for the projects.

AURARIA HIGHER EDUCATION CENTER

The Auraria Higher Education Center (AHEC), established by legislation in 1974, is jointly governed and utilized by UCDHSC, the Community College of Denver, and Metropolitan State College of Denver. The institutions share the costs of operating common educational, library, and other auxiliary facilities. Costs of the common facilities are shared in accordance with an operating agreement between AHEC and the respective institutions. During the years ended June 30, 2005 and 2004, the University incurred expenses related to the common facilities of $4,678,000 and $4,678,000, respectively, for payments to AHEC.

NOTE 22 – COMMITMENTS AND CONTINGENCIES

Contracts have been entered into for the purpose of planning, acquiring, constructing, and equipping certain building additions and other projects with outstanding amounts totaling approximately $66,212,000 and $69,992,000, as of June 30, 2005 and 2004, respectively. These additions will be funded or financed by donor contributions, appropriations from the State, issuance of revenue bonds, and other financing. As of June 30, 2005 and 2004, the amount of capital construction appropriations authorized from the State for these projects approximated $407,000 and $870,286, respectively.

Substantial amounts are received and expended by the University under federal and State grants and contracts, and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position or operations.

UPI, as a member of the healthcare industry, is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued to increase with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. UPI management believes that UPI is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The University is a defendant in a number of legal actions. While the final outcome of many of these legal actions cannot be determined at this time, management is of the opinion that the ultimate liability not covered by insurance, if any, for these legal actions will not have a material effect on the University's financial position or operations.

NOTE 23 – SUBSEQUENT EVENTS

On September 30, 2005, the University issued $25,225,000 of University Enterprise Revenue Bonds, Series 2005B. The proceeds of the bonds will be used to finance capital improvements and acquisitions for a parking facility at the Fitzsimons site of the Health Sciences Center location of UCDHSC and certain energy-related improvements to facilities at CU-Colorado Springs. The revenue bonds bear interest rates from 3 to 5 percent with final maturity in 2035. The revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the University to redeem, at various dates, portions of the outstanding revenue bonds at prices equal to 100 percent of the principal amount of the revenue bonds redeemed.

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Officers as of December 16, 2005

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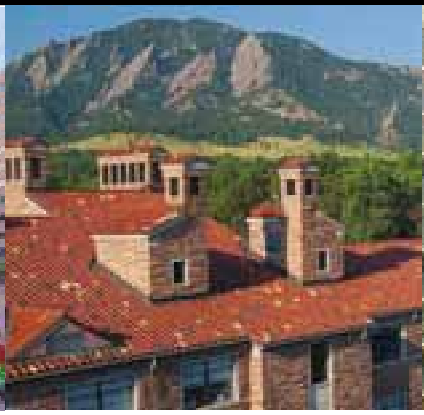

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