

# **Rockhurst University**

Accountants' Report and Consolidated Financial Statements

June 30, 2004 and 2003



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## Independent Accountants' Report

Board of Trustees  
Rockhurst University  
Kansas City, Missouri

We have audited the accompanying consolidated statement of financial position of Rockhurst University as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Rockhurst University as of and for the year ended June 30, 2003, were audited by other accountants whose report dated March 24, 2004, expressed an unqualified opinion on those statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2004, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BKD, LLP

November 4, 2004

Solutions  
for  
Success

**Rockhurst University**  
**Consolidated Statements of Financial Position**  
**June 30, 2004 and 2003**

**Assets**

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 9,841,975	\$ 9,601,061
Accounts receivable, net of allowance; 2004 - \$632,000, 2003 - \$637,000	5,082,494	5,519,747
Inventories	1,358,262	1,425,872
Prepaid expenses	11,650,836	9,704,643
Investments	38,899,971	35,267,974
Contributions receivable, net of allowance; \$50,000 in 2004 and 2003	7,829,152	6,524,328
Notes receivable, net of allowance of \$11,200 in 2004 and 2003	2,401,727	2,445,333
Property and equipment, net	69,314,651	66,300,156
Intangible assets, net	2,360,000	3,540,000
Restricted cash and cash equivalents	1,449,699	1,406,242
Other	<u>1,134,659</u>	<u>924,966</u>
Total assets	<u>\$ 151,323,426</u>	<u>\$ 142,660,322</u>

**Liabilities and Net Assets**

**Liabilities**

Line of credit	\$ 3,455,074	\$ 2,933,567
Accounts payable	5,654,559	3,553,869
Accrued expenses	12,582,572	12,140,655
Deferred revenue	7,752,195	6,615,148
Deposits held for others	380,592	336,529
Notes and bonds payable	48,234,252	47,858,006
Annuities payable	255,699	287,984
Interest rate swap agreements	594,279	2,396,491
Federal contribution to loan program	<u>1,603,745</u>	<u>1,603,745</u>
Total liabilities	<u>80,512,967</u>	<u>77,725,994</u>

**Minority Interest in Equity of RUCEC**

<u>3,091,876</u>	<u>2,708,849</u>
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**Net Assets**

Unrestricted	31,190,317	28,734,410
Temporarily restricted	13,513,307	11,855,974
Permanently restricted	<u>23,014,959</u>	<u>21,635,095</u>

Total net assets	<u>67,718,583</u>	<u>62,225,479</u>
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Total liabilities and net assets	<u>\$ 151,323,426</u>	<u>\$ 142,660,322</u>
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**Rockhurst University**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2004 and 2003**

	2004			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains and Other Support</b>				
Gross student tuition and fees	\$ 26,571,334	\$ —	\$ —	\$ 26,571,334
Less institutional financial aid	<u>7,546,411</u>	<u>—</u>	<u>—</u>	<u>7,546,411</u>
	19,024,923	—	—	19,024,923
Investment income	2,505,448	—	—	2,505,448
Government grants and contracts	1,367,351	—	—	1,367,351
Private gifts and grants, net	1,336,779	2,779,156	871,901	4,987,836
Auxiliary enterprises	3,725,100	—	—	3,725,100
Other	618,666	—	—	618,666
Net assets released from restrictions	1,224,035	(1,224,035)	—	—
Change in donors' restrictions	<u>(97,795)</u>	<u>—</u>	<u>97,795</u>	<u>—</u>
	29,704,507	1,555,121	969,696	32,229,324
Seminar related activities	<u>106,451,168</u>	<u>—</u>	<u>—</u>	<u>106,451,168</u>
Total revenues, gains and other support	<u>136,155,675</u>	<u>1,555,121</u>	<u>969,696</u>	<u>138,680,492</u>
<b>Expenses and Losses</b>				
University related				
Instructional	13,113,202	—	—	13,113,202
Institutional support	8,395,401	—	—	8,395,401
Sponsored programs	130,997	—	—	130,997
Student aid	1,811,668	—	—	1,811,668
Academic support	5,168,712	—	—	5,168,712
Student services	3,746,190	—	—	3,746,190
Auxiliary enterprises	<u>6,563,188</u>	<u>—</u>	<u>—</u>	<u>6,563,188</u>
Total University related	<u>38,929,358</u>	<u>—</u>	<u>—</u>	<u>38,929,358</u>
Seminar related activities				
Direct advertising	40,790,894	—	—	40,790,894
Cost of revenues	37,592,308	—	—	37,592,308
Administrative and operating	13,766,932	—	—	13,766,932
Amortization	1,180,000	—	—	1,180,000
Other	<u>3,364,559</u>	<u>—</u>	<u>—</u>	<u>3,364,559</u>
Total Seminar related	<u>96,694,693</u>	<u>—</u>	<u>—</u>	<u>96,694,693</u>
Total expenses and losses	<u>135,624,051</u>	<u>—</u>	<u>—</u>	<u>135,624,051</u>

See Notes to Consolidated Financial Statements

2003			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 25,633,899	\$ —	\$ —	\$ 25,633,899
7,127,605	—	—	7,127,605
<u>18,506,294</u>	<u>—</u>	<u>—</u>	<u>18,506,294</u>
298,393	—	—	298,393
1,603,057	—	—	1,603,057
2,505,934	1,595,492	1,229,311	5,330,737
3,738,375	—	—	3,738,375
618,461	—	—	618,461
1,168,753	(1,168,753)	—	—
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
28,439,267	426,739	1,229,311	30,095,317
<u>104,827,290</u>	<u>—</u>	<u>—</u>	<u>104,827,290</u>
<u>133,266,557</u>	<u>426,739</u>	<u>1,229,311</u>	<u>134,922,607</u>
13,335,989	—	—	13,335,989
8,743,811	—	—	8,743,811
303,476	—	—	303,476
1,315,584	—	—	1,315,584
5,034,876	—	—	5,034,876
3,449,727	—	—	3,449,727
<u>6,019,111</u>	<u>—</u>	<u>—</u>	<u>6,019,111</u>
<u>38,202,574</u>	<u>—</u>	<u>—</u>	<u>38,202,574</u>
42,623,034	—	—	42,623,034
36,830,407	—	—	36,830,407
13,861,308	—	—	13,861,308
1,180,000	—	—	1,180,000
<u>2,551,778</u>	<u>—</u>	<u>—</u>	<u>2,551,778</u>
<u>97,046,527</u>	<u>—</u>	<u>—</u>	<u>97,046,527</u>
<u>135,249,101</u>	<u>—</u>	<u>—</u>	<u>135,249,101</u>

**Rockhurst University**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2004 and 2003**

	2004			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Change in net assets from operations	\$ 531,624	\$ 1,555,121	\$ 969,696	\$ 3,056,441
Unrealized gain (loss) on				
Investments	3,557,256	(3,112)	(31,911)	3,522,233
Interest rate swap agreements	1,802,212	—	—	1,802,212
Minority interest in equity of RUCEC	(383,027)	—	—	(383,027)
Dividends to minority shareholder	<u>(2,504,755)</u>	<u>—</u>	<u>—</u>	<u>(2,504,755)</u>
<b>Change in Net Assets Before Reclassifications of Net Assets</b>	3,003,310	1,552,009	937,785	5,493,104
<b>Reclassification of Net Assets</b>	<u>(547,403)</u>	<u>105,324</u>	<u>442,079</u>	<u>—</u>
<b>Change in Net Assets</b>	2,455,907	1,657,333	1,379,864	5,493,104
<b>Net Assets, Beginning of Year</b>	<u>28,734,410</u>	<u>11,855,974</u>	<u>21,635,095</u>	<u>62,225,479</u>
<b>Net Assets, End of Year</b>	<u>\$ 31,190,317</u>	<u>\$ 13,513,307</u>	<u>\$ 23,014,959</u>	<u>\$ 67,718,583</u>

<b>2003</b>			
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
\$ (1,982,544)	\$ 426,739	\$ 1,229,311	\$ (326,494)
2,935,858	—	—	2,935,858
(2,396,491)	—	—	(2,396,491)
(298,289)	—	—	(298,289)
<u>(393,806)</u>	<u>—</u>	<u>—</u>	<u>(393,806)</u>
(2,135,272)	426,739	1,229,311	(479,222)
<u>6,807,180</u>	<u>(4,670,300)</u>	<u>(2,136,880)</u>	<u>—</u>
4,671,908	(4,243,561)	(907,569)	(479,222)
<u>24,062,502</u>	<u>16,099,535</u>	<u>22,542,664</u>	<u>62,704,701</u>
<u>\$ 28,734,410</u>	<u>\$ 11,855,974</u>	<u>\$ 21,635,095</u>	<u>\$ 62,225,479</u>

**Rockhurst University**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
<b>Operating Activities</b>		
Change in net assets	\$ 5,493,104	\$ (479,222)
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	4,595,799	3,668,302
Net realized and unrealized gains on investments	(4,493,868)	(2,493,197)
Gain on sale of property and equipment	(6,492)	—
Change in fair value of interest rate swap agreement	(1,802,212)	2,396,491
Change in minority interest in net income of RUCEC	383,027	298,289
Dividends to minority shareholder	2,504,755	393,806
Contributions received restricted for long-term investment or acquisition of long-lived assets	(3,651,057)	(2,824,803)
Changes in		
Accounts receivable	437,253	(1,892,830)
Inventories	67,610	(501,893)
Prepaid expenses	(1,946,193)	(2,165,660)
Accounts payable and accrued expenses	2,542,607	3,044,071
Deferred revenue	1,137,047	1,513,257
Deposits held for others	44,063	120,303
Annuities payable	(32,285)	(27,403)
Other assets and liabilities	(209,693)	(70,541)
Net cash provided by operating activities	5,063,465	978,970
<b>Investing Activities</b>		
Purchase of property and equipment	(5,966,988)	(5,566,501)
Proceeds from disposition of property and equipment	28,725	—
Purchase of investments	(18,837,007)	(48,068,679)
Proceeds from disposition of investments	19,532,779	33,838,818
Advances made on notes receivable	(365,720)	(318,915)
Principal payments received on notes receivable	409,326	417,664
Restricted cash and cash equivalents	(43,457)	(66,094)
Net cash used in investing activities	(5,242,342)	(19,763,707)
<b>Financing Activities</b>		
Proceeds from contributions restricted for long-term investment or acquisition of long-lived assets	2,026,793	8,462,564
Dividends to minority shareholder	(2,504,755)	(393,806)
Net borrowings (repayments) on line of credit	521,507	(3,080,633)
Proceeds from issuance of notes and bonds payable	6,922,584	27,369,328
Principal payments on notes and bonds payable	(6,546,338)	(9,650,447)
Net cash provided by (used in) financing activities	419,791	22,707,006
<b>Increase in Cash and Cash Equivalents</b>	240,914	3,922,269
<b>Cash and Cash Equivalents, Beginning of Year</b>	9,601,061	5,678,792
<b>Cash and Cash Equivalents, End of Year</b>	\$ 9,841,975	\$ 9,601,061

**Rockhurst University**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
<b>Supplemental Cash Flows Information</b>		
Interest paid (net of amount capitalized)	\$1,912,216	\$1,544,889
Transfer of real estate held for investment to property and equipment	\$485,539	—
Gifts of investments	\$319,440	\$2,431,093
Other gifts in kind	\$5,095	\$5,786

**Rockhurst University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Rockhurst University is a private, Catholic, Jesuit comprehensive university, which offers baccalaureate and masters degrees in arts and sciences, education and business in a co-educational environment. Major funding sources include student tuition and fees, private gifts and grants, government grants and contracts and endowment income. Rockhurst University also participates in the Federal Pell Grant, Federal Work Study, Federal Supplemental Educational Opportunity Grant, Federal Perkins Loan and Federal Family Education Loan programs. Rockhurst University Continuing Education Center (RUCEC), a majority owned subsidiary of the University, designs, markets and presents business skills training seminars throughout the United States and in Canada.

***Basis of Presentation***

The accompanying consolidated financial statements include the accounts of Rockhurst University and RUCEC, (collectively referred to as the "University"). All significant interorganization balances and transactions have been eliminated in consolidation.

***Use of Estimates***

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

***Cash Equivalents***

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2004 and 2003, cash equivalents consisted primarily of money market funds.

***Restricted Cash and Cash Equivalents***

Restricted cash and cash equivalents represents proceeds from the issuance of bonds that are on deposit at a third-party financial institution custodian. These amounts are restricted for purposes of debt service and sinking fund deposits.

**Rockhurst University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

***Investments***

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment income includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment income that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

***Accounts Receivable***

Student accounts receivable are stated at the amount billed to students less any applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. University tuition is generally due at the beginning of the semester. University charges that are past due and have had no response to the due diligence process and are assigned to third-party collection agencies are considered delinquent. RUCCEC accounts receivable are ordinarily due 30 days after issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable consist of amounts due under the Federal Perkins Loan Program and institutional loan programs and are stated at their outstanding principal amount, net of an allowance for doubtful notes. Loans are made to students based on demonstrated financial need for both Perkins and institutional loans and satisfaction of federal eligibility requirements for the Federal Perkins Loan Program. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The University provides an allowance for doubtful notes, which is based upon a review of outstanding loans, historical collection information and existing conditions. Interest income is recorded as received, which is not materially different from the amount that would have been recognized on the accrual basis. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

***Property and Equipment***

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives.

# **Rockhurst University**

## **Notes to Financial Statements**

### **June 30, 2004 and 2003**

The University capitalizes interest costs as a component of construction in progress, based on the weighted average rates paid for long-term borrowing. The University capitalized interest of approximately \$400,000 and \$335,000 relative to the campus improvement projects in 2004 and 2003, respectively.

#### ***Intangible Assets***

Intangible assets represent mailing lists and exclusive rights to sell certain seminar materials which are amortized using the straight-line method over four years.

#### ***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the University has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the University in perpetuity.

During 2004 and 2003, the University performed analyses of its net assets to determine if they were appropriately classified among unrestricted, temporarily restricted and permanently restricted net assets. As a result of these analyses, in 2004 the University reclassified \$105,324 to temporarily restricted net assets and \$442,079 to permanently restricted net assets from unrestricted net assets. In 2003 the University reclassified \$4,670,300 from temporarily restricted net assets and \$2,136,880 from permanently restricted net assets to unrestricted net assets. The most significant cause of the differences was the misclassification of unrealized gains (losses) on long-term investments in prior years.

#### ***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

**Rockhurst University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

***Inventory Pricing***

Inventories consist of books, tapes and other training products. Inventories are stated at the lower of cost or market. Costs are determined using the first-in, first-out (FIFO) method.

***Prepaid Expenses***

Prepaid expenses consist of costs incurred for postage, printing and advertising for seminars that will be held subsequent to the fiscal year end. These costs are expensed upon the occurrence of the related seminar, which is generally within three months of the incurrence of the costs. Prepaid advertising amounted to approximately \$11,339,000 and \$8,900,000 at June 30, 2004 and 2003, respectively.

***Government Grants***

Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

***Revenue Recognition***

Revenue from seminars is recorded at the time the seminar is presented. Seminar fees received in advance are recorded as deferred revenue at the time the fees are collected. Related expenses for cost of revenues, *i.e.*, instructor fees and expenses, room charges, product costs, etc., and seminar advertising are recognized at the time of the seminar in order to match expenses with the associated revenues. The primary expenses deferred for recognition until the seminar is presented are the advertising costs of the seminar.

***Income Taxes***

The University is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program categories based on various methods.

**Rockhurst University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Fundraising**

The University participated in various fundraising activities such as direct mail campaigns and special events. The expenses related to these fundraising activities are recorded in institutional support and approximated \$966,000 and \$948,000 for the years ended June 30, 2004 and 2003, respectively.

**Reclassifications**

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 financial statement presentation. These reclassifications had no effect on the change in net assets.

**Note 2: Investments**

Investments at June 30 consisted of the following:

	<b>Endowment</b>	<b>2004 Other</b>	<b>Total</b>	<b>Endowment</b>	<b>2003 Other</b>	<b>Total</b>
Equity securities	\$ 23,281,003	\$ —	\$ 23,281,003	\$ 19,868,181	\$ —	\$ 19,868,181
U.S. Treasury securities	9,130,727	143,884	9,274,611	6,982,348	86,571	7,068,919
Corporate debt securities	1,730,916	25,093	1,756,009	2,862,796	15,420	2,878,216
Assets under irrevocable trusts	1,678,239	—	1,678,239	1,876,340	—	1,876,340
Money market and other funds	1,359,571	10,916	1,370,487	2,021,301	89,555	2,110,856
Real estate	1,208,616	—	1,208,616	1,300,405	—	1,300,405
Other	<u>331,006</u>	<u>—</u>	<u>331,006</u>	<u>165,057</u>	<u>—</u>	<u>165,057</u>
	<u>\$ 38,720,078</u>	<u>\$ 179,893</u>	<u>\$ 38,899,971</u>	<u>\$ 35,076,428</u>	<u>\$ 191,546</u>	<u>\$ 35,267,974</u>

The University has significant investment in marketable securities which are subject to price fluctuation. This risk is controlled through a diversified portfolio and regular monitoring procedures.

The University is the beneficiary of trusts administered by outside fiscal agents under the terms of irrevocable trust arrangements. The fair value of the University's beneficial interest in these trusts is included in investments.

The University's temporarily and permanently restricted net assets include various endowment funds established by donors. At June 30, 2004, the fair value of the assets of some of these funds was approximately \$340,000 less than the level required by donor stipulation or law.

**Rockhurst University**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

Total investment return is comprised of the following:

	<b>2004</b>	<b>2003</b>
Interest, dividend and rental income	\$ 1,533,813	\$ 741,054
Net realized gains (losses) on investments reported at fair value	<u>971,635</u>	<u>(442,661)</u>
Investment income – operating	2,505,448	298,393
Net unrealized gains on investments reported at fair value – nonoperating	<u>3,522,233</u>	<u>2,935,858</u>
	<u>\$ 6,027,681</u>	<u>\$ 3,234,251</u>

**Note 3: Contributions Receivable**

Contributions receivable at June 30 consisted of the following:

	<b>2004</b>	<b>2003</b>
Due within one year	\$ 1,778,326	\$ 1,812,330
Due in one to five years	3,840,747	2,478,144
Due in more than five years	<u>4,884,308</u>	<u>4,500,000</u>
	10,503,381	8,790,474
Less		
Allowance for uncollectible contributions	50,000	50,000
Unamortized discount	<u>2,624,229</u>	<u>2,216,146</u>
	<u>\$ 7,829,152</u>	<u>\$ 6,524,328</u>

The discount rate was 5% for 2004 and 2003.

**Note 4: Property and Equipment**

Property and equipment at June 30 consisted of the following:

	<b>2004</b>	<b>2003</b>
Land	\$ 4,574,911	\$ 4,241,488
Buildings and leasehold improvements	60,484,799	49,704,166
Equipment, furniture and fixtures	23,110,581	21,742,986
Construction in progress	<u>6,358,625</u>	<u>12,533,226</u>
	94,528,916	88,221,866
Less accumulated depreciation and amortization	<u>25,214,265</u>	<u>21,921,710</u>
	<u>\$ 69,314,651</u>	<u>\$ 66,300,156</u>

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Depreciation expense for the years ended June 30, 2004 and 2003, was \$3,415,799 and \$2,488,302, respectively.

**Note 5: Intangible Assets**

Intangible assets at June 30 consisted of the following:

	<b>2004</b>	<b>2003</b>
Purchased mailing list	\$ 4,720,000	\$ 4,720,000
Less accumulated amortization	<u>(2,360,000)</u>	<u>(1,180,000)</u>
	<u>\$ 2,360,000</u>	<u>\$ 3,540,000</u>

Amortization expense was \$1,180,000 per year for the years ended June 30, 2004 and 2003. Estimated amortization expense for the fiscal years 2005 and 2006 is \$1,180,000 per year.

**Note 6: Line of Credit**

The University has a \$4,000,000 revolving bank line of credit expiring in 2005. At June 30, 2004 and 2003, there was \$3,455,074 and \$2,933,567, respectively, borrowed against this line. The line is collateralized by substantially all of the University's assets. Interest varies with the bank's prime rate, which was 4% on June 30, 2004, and is payable monthly.

**Note 7: Long-term Debt**

	<b>2004</b>	<b>2003</b>
Health and educational facilities revenue anticipation notes (A)	\$ 6,875,000	\$ 5,362,519
Installment notes payable (B)	83,967	100,461
Educational facilities revenue bonds – 1999 Series (C)	14,435,000	14,730,000
Educational facilities revenue bonds – 2002 Series (D)	26,810,000	27,275,000
Capital lease obligations (E)	30,285	45,676
Note payable (F)	<u>—</u>	<u>344,350</u>
	<u>\$ 48,234,252</u>	<u>\$ 47,858,006</u>

(A) The University is required to deposit one-third of the amount outstanding on January 15, February 15 and March 15, 2005, to a debt service account at the trustee financial institution; interest is 3%; principal and interest due on April 22, 2005.

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- (B) Due April 2005 and January 2007; payable \$746 to \$750 monthly, including interest ranging from 5.95% to 6.5%; secured by certain property and equipment.
- (C) Obligations issued by the University; maturing serially at varying amounts through October 1, 2028; debt service payments to meet and pay the principal of, redemption premium, if any, and interest on the bonds as they become due and payable; interest payments at rates ranging from 3.7% to 5.5%; secured by first lien on the University's educational facilities and by assignment of the net revenue derived therefrom. The bonds are subject to redemption and payment prior to maturity in whole or in part from time to time on any interest payment date at redemption prices set in the bond agreement.
- (D) Obligations issued by the University; maturing serially at varying amounts through November 1, 2032; debt service payments to meet and pay the principal of, redemption premium, if any, and interest on the bonds as they become due and payable; interest payments are at variable rates; secured by first lien on the University's educational facilities and by assignment of the net revenue derived therefrom.
- (E) Capital leases include leases for various equipment expiring April 2006.
- (F) Note payable to another university, interest of 7%; due in monthly installments through June 2004.

Interest expense totaled \$1,871,440 and \$1,651,972 for the years ended June 30, 2004 and 2003, respectively. Interest expense related to the University totaled \$1,860,161 and \$1,651,972 for the years ended June 30, 2004 and 2003, respectively.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2004, are:

2005	\$ 7,736,535
2006	855,923
2007	901,794
2008	915,000
2009	960,000
Thereafter	<u>36,865,000</u>
	<u>\$ 48,234,252</u>

**Note 8: Derivative Financial Instruments**

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the University entered into two interest rate swap agreements in October 2002. One agreement provides for the University to receive interest from the counterparty at 70% of the one-month LIBOR and to pay interest to the counterparty at a fixed rate of 3.96% on an amortizing notional amount (initially \$18,190,000) at June 30, 2004 and 2003. This agreement expires November 1, 2032. The second agreement provides for the University to receive interest from the counterparty at 70% of the one-month LIBOR and to pay interest at a fixed rate of 3.96% beginning February 1, 2005, on an amortizing notional amount (initially \$8,630,000). This

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agreement expires November 1, 2017. Under these agreements, the University pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreements are recorded at fair value with subsequent changes in fair value included in change in net assets.

**Note 9: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	<b>2004</b>	<b>2003</b>
Scholarships	\$ 1,960,182	\$ 2,030,473
Property and equipment	9,461,997	6,725,911
Other	2,091,128	3,099,590
	\$ 13,513,307	\$ 11,855,974

***Permanently Restricted Net Assets***

Permanently restricted net assets are restricted for investment in perpetuity, the income from which is generally expendable for student scholarships.

***Net Assets Released from Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

**Note 10: Operating Leases**

Noncancelable operating leases expire in various years through 2009. These leases generally contain renewal options for periods ranging from one to five years.

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Future minimum lease payments at June 30, 2004, were:

2005	\$	617,765
2006		555,318
2007		464,775
2008		459,336
2009		<u>191,390</u>
	\$	<u><u>2,288,584</u></u>

Rental expense for all operating leases was \$592,005 and \$488,508 for the years ended June 30, 2004 and 2003, respectively.

**Note 11: Employee Benefit Plans**

The University participates in a multi-college, defined contribution pension plan covering substantially all employees. The plan provides retirement benefits to eligible participants. The University matches a certain percentage of employee contributions to the plan. RUCEC has a retirement savings plan covering substantially all of its employees. The RUCEC plan allows employee contributions and an RUCEC matching contribution. Total consolidated pension expense was approximately \$976,000 and \$970,000 for 2004 and 2003, respectively.

The University also offers a contributory welfare plan (the "Welfare Plan") that provides health care coverage to all eligible employees of the University and their dependents who elect to participate in the Welfare Plan. Expenses related to the Welfare Plan were approximately \$1,293,000 and \$1,790,000 during 2004 and 2003, respectively.

**Note 12: Endowment Fund**

The composition of the total endowment fund as of June 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Marketable securities	\$ 35,502,210	\$ 31,734,626
Endowment funds held in trust by others	1,678,238	1,876,340
Note receivable from subsidiary, real estate and other assets	<u>4,241,763</u>	<u>4,672,602</u>
Total endowment	\$ <u><u>41,422,211</u></u>	\$ <u><u>38,283,568</u></u>

Assets of the endowment fund are pooled on a market value basis. Each individual pooled endowment fund subscribes to or disposes of units on the basis of the per-unit market value at the beginning of the calendar month within which the transaction takes place. Under the University's endowment spending policy, for operational purposes the Board of Trustees annually directs that a percentage of a three-year rolling average market value of investments held for endowment purposes

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be allocated as a distribution of endowment income for current operations. For 2004 and 2003, such percentage was 5%, and the allocation totaled approximately \$1,354,000 and \$1,685,000, respectively.

The state of Missouri adopted the 1972 Uniform Management of Institutional Funds Act (the “Act”). Under the provisions of the Act, appreciation of permanently restricted endowment net assets is considered unrestricted unless the applicable gift instrument specifically states such appreciation should not be spent. This appreciation continues to be invested in the University’s pooled endowment. The composition of the University’s endowment net assets is as follows:

	<b>2004</b>	<b>2003</b>
Unrestricted	\$ 17,786,060	\$ 16,024,169
Temporarily restricted	621,192	624,304
Permanently restricted	<u>23,014,959</u>	<u>21,635,095</u>
Total endowment	<u>\$ 41,422,211</u>	<u>\$ 38,283,568</u>

**Note 13: Disclosures About Fair Value of Financial Instruments**

The following methods were used to estimate the fair value of financial instruments.

The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the University does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

***Investments***

Fair value on marketable securities is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The carrying amounts (which are fair value) of beneficial interests in perpetual trusts are based on values provided by an external investment manager. Investments in real estate of \$1,208,616 and \$1,300,405 at June 30, 2004 and 2003, respectively, are excluded from the fair value estimates because they are not financial instruments.

***Contributions Receivable***

The carrying amount is a reasonable estimate of fair value.

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***Notes Receivable***

A reasonable estimate of the fair value of the loans to students under government loan programs and U.S. government loan funds refundable could not be made because the notes receivable are not salable and can only be assigned to the U.S. government or its designees.

***Notes and Bonds Payable***

The carrying amount is a reasonable estimate of fair value.

***Interest Rate Swap Agreement***

The fair value is estimated by a third party.

***Annuities Payable***

Fair values of the annuity obligations are based on an actuarial evaluation of the estimated annuity or other payments under such obligations.

**Note 14: Commitments and Contingencies**

***Litigation***

The University is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University.

**Note 15: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Pledges Receivable***

Approximately 54% and 63% of all pledges receivable were from two donors in 2004 and 2003, respectively.

