

***University of Idaho  
Foundation, Inc.***

*Financial Statements for the Years  
Ended June 30, 2004 and 2003 and  
Independent Auditors' Report*

# UNIVERSITY OF IDAHO FOUNDATION, INC.

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-7
FINANCIAL STATEMENTS:	
Statements of Net Assets	8
Statements of Revenues, Expenditures and Changes in Net Assets	9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-24

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
University of Idaho Foundation, Inc.  
Moscow, Idaho

We have audited the accompanying statements of net assets of the University of Idaho Foundation, Inc. (the "Foundation") as of June 30, 2004 and 2003, and the related statements of revenues, expenditures and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

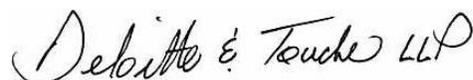
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining,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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Foundation at June 30, 2004 and 2003, and the changes in net assets and in cash for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Foundation's management. 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.

As discussed in Note 2, the Foundation has restated the accompanying financial statements to record certain liabilities and the related changes in expenses and net assets for the year ended June 30, 2003.

The accompanying financial statements have been prepared assuming that the Foundation will continue as a going concern. As discussed in Note 10 to the financial statements, the Foundation does not currently have a funding source for the repayment of its note payable to the University of Idaho which is due December 31, 2004. Management's plans concerning this matter is also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



November 3, 2004

# UNIVERSITY OF IDAHO FOUNDATION, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

---

The University of Idaho Foundation, Inc. (the "Foundation") was established in 1970 to solicit financial support for the University of Idaho and to manage and invest the resulting charitable gifts. The Foundation is made up of over 150 volunteers who are governed by a 25 member Board of Directors elected annually by the Foundation members. The Foundation is supported by professional staff of the University of Idaho (the "University") in the Foundation Office, the Trust & Investment Office, the Development Office, and throughout the colleges.

### *Overview*

The Management's Discussion and Analysis is designed to provide an easily readable analysis of the University of Idaho Foundation's financial condition, results of operations, and cash flows based on facts, decisions, and conditions known at the date of the auditors' report. A comparative analysis of financial data is presented.

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments*. These statements focus on the financial condition of the Foundation, the results of operations, and cash flows of the Foundation as a whole. There are three financial statements presented: the statement of net assets; the statement of revenues, expenditures and changes in net assets; and the statement of cash flows. They are prepared using the accrual basis of accounting.

### *Reporting Entity*

The Foundation is a nonprofit corporation whose mission is to facilitate the solicitation and management of gifts for the benefit of the University. In this capacity, the Foundation is considered to be a component unit of the University. Accordingly, the Foundation is included in the University's financial statements as a discrete component unit. Transactions with the University relate primarily to the disbursement of gift funds. The Foundation also manages, in trust, over \$70 million in endowment assets.

### *Statement of Net Assets*

The statement of net assets outlines the Foundation's financial condition at fiscal year-end. The Foundation operates on a fiscal year which begins July 1 and ends June 30. This statement reflects the various assets, liabilities, and net assets of the Foundation as of the fiscal years ended June 30, 2004 and 2003.

From the data presented, readers of the statement of net assets have the information to determine the assets available to continue the operations of the Foundation. They are also able to determine how much the Foundation owes vendors, trust beneficiaries, and lending institutions.

Finally, the statement of net assets provides a snapshot of the net assets (assets minus liabilities) and their availability for expenditure by the Foundation.

The statement of net assets is presented in a classified format, which differentiates between current and noncurrent assets and liabilities, and also categorizes net assets into four categories:

- *Restricted Nonexpendable*—Net assets subject to donor-imposed stipulations that must be maintained permanently by the Foundation.
- *Restricted Expendable*—Net assets subject to donor-imposed stipulations that will be transferred to the University for direct use by a designated program.
- *Invested in Capital Assets, Net of Related Debt*—This represents the Foundation’s total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Unrestricted*—Net assets not subject to donor-imposed stipulations or received with restrictions that were satisfied in the same period.

The corpus of nonexpendable restricted resources as it pertains to endowments is available only for investment purposes. The Consolidated Investment Trust (“C.I.T.”) is a pooled endowment fund and makes up the majority of the assets of the Foundation. Donors have primarily restricted income derived from these investments to fund scholarships, research, and other programs at the University of Idaho. Upon their transfer, expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors. Unrestricted net assets are available to the Foundation for any lawful purpose of the Foundation.

**Condensed Statements of Net Assets  
As of June 30, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
Assets:		
Current assets	\$ 21,379,039	\$ 23,065,986
Capital assets, net	23,084,585	28,375,852
Noncurrent investments	151,190,754	122,820,231
Other assets	<u>9,447,091</u>	<u>20,287,834</u>
Total assets	<u>\$ 205,101,469</u>	<u>\$ 194,549,903</u>
Liabilities:		
Current liabilities	\$ 11,358,089	\$ 7,544,935
Noncurrent liabilities	<u>89,642,818</u>	<u>93,664,929</u>
Total liabilities	<u>\$ 101,000,907</u>	<u>\$ 101,209,864</u>
Net assets:		
Restricted—nonexpendable	\$ 75,873,832	\$ 52,442,271
Restricted—expendable	33,401,579	39,201,277
Invested in capital assets—net of debt	3,209,561	3,016,912
Unrestricted	<u>(8,384,410)</u>	<u>(1,320,421)</u>
Total net assets	<u>\$ 104,100,562</u>	<u>\$ 93,340,039</u>

The total net assets of the Foundation increased by nearly \$10.8 million during fiscal year 2004. The net increase is an offset of a \$23.4 million dollar increase in restricted nonexpendable assets, a \$7.1 million dollar decrease in the unrestricted net assets, a \$5.8 million decrease in restricted expendable and a slight increase in capital assets. The increase in restricted nonexpendable is the result of new gifts and market appreciation in the endowment funds. The decrease in the unrestricted balance is the result of writing off the last remaining piece of the University Place Project the Health Professions Building. This Building was being developed for Idaho State University who decided not to go forward with the project in April 2004. The decrease in restricted expendable is due to funds that were given for capital projects being transferred to the University to pay for the projects.

During the year, cash decreased by approximately \$11.8 million mainly due to investment allocation decisions in the pooled endowment fund and cash management fund. Pledges receivable decreased by approximately \$2.9 million, which is reflective of the post Campaign for Idaho period where pledges made during the campaign are now being paid down. The market value of the Consolidated Investment Trust increased by approximately \$21 million.

The total liabilities of the Foundation decreased slightly. This was the primarily the result of a decrease in notes payable of approximately \$2 million offset by an approximate \$1.5 million increase in the total liability for on-going commitments to donors who have established split interest trusts. This is a combination of six new gift arrangements and an increase in the market value of many of the trusts. The payment obligation to the trust beneficiaries is funded from the earnings of the individual trusts.

#### ***Statement of Revenues, Expenditures and Changes in Net Assets***

Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenditures and changes in net assets. The purpose of the statement is to present the revenues received by the Foundation, both operating and non-operating, and the expenses paid by the Foundation.

Operating revenues are received for providing services to the various customers and constituencies of an institution. Operating expenses are expenses paid to acquire or produce the goods and services provided in return for the operating revenues. The main purpose of the Foundation is to support the University by accepting and managing gifts. Gift and investment income comprise the majority of the revenue received in a given year. Likewise, the primary use of such funds is to transfer them to the University.

**Condensed Statements of Revenues, Expenditures and Changes in Net Assets  
For the Years Ended June 30, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
Operating revenues	\$ 34,095,732	\$ 22,623,967
Operating expenses	<u>(18,104,048)</u>	<u>(12,605,226)</u>
Operating income	15,991,684	10,018,741
Non-operating expenses	<u>(495,461)</u>	<u>(531,288)</u>
Income before other expenses	15,496,223	9,487,453
Other expenses	<u>(4,735,700)</u>	<u>(15,647,253)</u>
Increase (decrease) in net assets	10,760,523	(6,159,800)
Net assets—beginning of year, as restated	<u>93,340,039</u>	<u>99,499,839</u>
Net assets—end of year	<u>\$ 104,100,562</u>	<u>\$ 93,340,039</u>

The statement of revenues, expenditures and changes in net assets reflects an increase in the net assets at the end of the year. Some items of note presented on this statement are:

- Gifts decreased approximately \$1.2 million, an 8% decrease. The change in fair value of investments was up approximately \$13.1 million, which reflects recovery in the securities markets from the previous fiscal year. Combined dividend and interest income remained steady at approximately \$6 million.
- Interest expense showed little fluctuation over the prior year. No additional debt was assumed during the year.
- Operating expenses increased by \$5.5 million. The largest increase of \$5.3 million is the increased distribution of gifts to the University.
- Other expenses decreased \$10.9 million which is the difference in the amount of the Water Center project expenses that were written down in Fiscal Year 2003 and the additional amount written down in Fiscal Year 2004.

## *Statement of Cash Flows*

The final statement presented by the Foundation is the statement of cash flows. The statement of cash flows presents detailed information about the cash activity of the Foundation during the fiscal year.

	2004	2003
Cash (used in) provided by:		
Operating activities	\$(14,398,313)	\$ 13,628,140
Capital and related financing activities	<u>2,607,251</u>	<u>(3,805,888)</u>
Net (decrease) increase in cash and cash equivalents	(11,791,062)	9,822,252
Cash and cash equivalents—beginning of year	<u>23,005,823</u>	<u>13,183,571</u>
Cash and cash equivalents—end of year	<u>\$ 11,214,761</u>	<u>\$ 23,005,823</u>

The decrease in cash and cash equivalents is mainly due to a management decision to hold operating resources in investments rather than cash and cash equivalents.

## *Economic Outlook*

The economic outlook for the Foundation remains optimistic. While the Foundation has made significant progress in reducing the debt resulting from the University Place project it still faces serious challenges in eliminating the debt entirely. Despite these challenges, it remains supportive of the mission of the University. The Foundation, in partnership with the University, is addressing its own policies and operating structure to assure the continued strength and integrity of the Foundation as an asset management and fundraising organization.

## *University Place Project in Boise*

Over the past several years the Foundation assisted the University in developing the University Place project in Boise. The Foundation's involvement was at the request of the University administration to help them in their goal of consolidating the programs offered by the University in the Treasure Valley and to further serve the people in the area with a full array of educational offerings, delivered by all of Idaho's higher educational institutions, at a single, accessible and visible location.

During fiscal year 2004 and 2003, a variety of decisions by the University and other state agencies left the Foundation in a position with no alternative but to remove itself from future financial involvement in this project. The results of those decisions are reflected in the financial statements. In accordance with accounting principles generally accepted in the United States of America, approximately \$6.1 million in 2004 and \$15.6 million in 2003 of predevelopment costs have been written off. This includes certain un-reimbursed predevelopment costs associated with the Idaho Water Center, as well as predevelopment costs for the Learning Center, the Auditorium, and the Health Professions Center. The Foundation is now focused on maximizing the recovery of some of the predevelopment costs and repayment of related debt. During fiscal year 2004 the Foundation received \$4.5 million in construction savings reimbursement from the ISBA. The Foundation has recorded an additional approximately \$430,000 that it expects to receive in fiscal year 2005. In addition a payment of \$388,500 was received from the garage equalization fund in fiscal year 2004.

During fiscal years 2004 and 2003 the Foundation's members and staff have restructured its debt position, stabilized cash flow, and collateralized debt to minimize risk to Foundation assets. These actions have included:

- Paying off the \$1.9 million note to the University, leaving the Foundation with clear title to the land in Boise. This land was sold to a third party in September 2004. Some of the proceeds were used to repay a \$2.0 million note to the C.I.T. and the balance has been reserved for repayment of bank debt.
- Restructuring the commitments of approximately \$6 million and \$2 million in repayment of expenditures made by the University for the project. Approximately \$1.0 million was paid on the first note in August 2003.
- An agreement has been entered into, subject to final approval from the Board of Regents, to sell land and a building located in Idaho Falls to Idaho State University for \$5.5 million. This sale is expected to close before the end of calendar year 2004. Four million of the proceeds will be used to pay off a note collateralized by this property to the C.I.T. and the balance will be used to pay down other debt as determined by the Foundation board of directors. The property was acquired by the Foundation in 1980 and was financed entirely by debt which was repaid from rental income from the property.
- Evaluating and pursuing legal action against various third parties. A complaint has been filed in Ada County Idaho against a developer of the project seeking recovery of excessive and unearned payments made by the Foundation. A court date has not been set.

In accordance with accounting principles generally accepted in the United States of America, the \$11.7 million in notes between the C.I.T. and Foundation as well as interest payments to the C.I.T. from the Foundation are not reflected in these statements because they are intra-agency transactions and by definition must be eliminated. However, those transactions are reflected in the C.I.T.'s separately audited financial statements.

For further information, please refer to the notes to the financial statements.

### *Summary*

During fiscal year 2004, total assets of the Foundation increased by \$10.6 million from \$194.5 million in fiscal year 2003 to \$205.1 million in fiscal year 2004.

Total liabilities decreased by \$.2 million from \$101.2 million in fiscal year 2003 to \$101.0 million in fiscal year 2004.

Total net assets (total assets minus total liabilities) increased by \$10.8 million from \$93.3 million in fiscal year 2003 to \$104.1 million in fiscal year 2004.

# UNIVERSITY OF IDAHO FOUNDATION, INC.

## STATEMENTS OF NET ASSETS JUNE 30, 2004 AND 2003

<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 4)	\$ 6,092,289	12,440,617
Accrued interest and other receivables	1,190,316	1,795,711
Pledges receivable, net (Note 5)	1,664,308	2,920,313
Investments (Note 6)	11,982,581	5,728,751
Notes receivable (Note 7)	449,545	180,594
Total current assets	<u>21,379,039</u>	<u>23,065,986</u>
<b>NONCURRENT ASSETS:</b>		
Restricted cash and cash equivalents (Note 4)	5,122,472	10,565,206
Accrued interest and other receivables	206,922	3,172,938
Pledges receivable, net (Note 5)	2,707,165	4,336,590
Investments (Note 6)	151,190,754	122,820,231
Notes receivable (Note 7)	934,321	1,625,250
Property, net (Note 8)	23,084,585	28,375,852
Other assets	476,211	587,850
Total noncurrent assets	<u>183,722,430</u>	<u>171,483,917</u>
<b>TOTAL</b>	<u><u>\$ 205,101,469</u></u>	<u><u>\$ 194,549,903</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 335,696	\$ 100,405
Notes payable (Note 10)	5,041,759	1,263,700
Liability for split interest trusts (Note 11)	964,081	816,710
Trust earnings payable to trust beneficiaries (Note 9)	5,016,553	5,364,120
Total current liabilities	<u>11,358,089</u>	<u>7,544,935</u>
<b>NONCURRENT LIABILITIES:</b>		
Funds held in trust for University of Idaho (Notes 2 and 6)	71,171,461	70,746,186
Notes payable (Note 10)	11,930,198	17,699,123
Liability for split interest trusts (Note 11)	6,541,159	5,219,620
Total noncurrent liabilities	<u>89,642,818</u>	<u>93,664,929</u>
Total liabilities	<u>101,000,907</u>	<u>101,209,864</u>
<b>NET ASSETS:</b>		
Restricted—nonexpendable (Note 2)	75,873,832	52,442,271
Restricted—expendable	33,401,579	39,201,277
Invested in capital assets—net of related debt	3,209,561	3,016,912
Unrestricted	(8,384,410)	(1,320,421)
Total net assets	<u>104,100,562</u>	<u>93,340,039</u>
<b>TOTAL</b>	<u><u>\$ 205,101,469</u></u>	<u><u>\$ 194,549,903</u></u>

See notes to financial statements.

# UNIVERSITY OF IDAHO FOUNDATION, INC.

## STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUES:		
Gifts	\$ 14,146,658	\$ 15,164,069
Dividends	2,998,370	2,614,488
Interest	3,175,853	3,635,960
Change in fair value of investments	13,400,056	346,533
Lease and rental income	487,417	430,672
Change in split interest trusts (Note 11)	(371,910)	307,084
Other	<u>259,288</u>	<u>125,161</u>
Total operating revenues	34,095,732	22,623,967
OPERATING EXPENSES:		
Distribution of endowment income to trust beneficiaries (Note 9)	5,016,553	5,364,120
Distribution to University and affiliates (Note 9)	9,937,996	4,637,998
Distribution of trust income to life income beneficiaries	631,393	480,120
Administrative expense	1,208,147	999,175
Property management	358,996	325,504
Uncollectible pledge expense (Note 5)	20,410	224,166
Change in value of funds held in trust for the University of Idaho	425,275	572,626
Other	<u>505,278</u>	<u>1,517</u>
Total operating expenses	<u>18,104,048</u>	<u>12,605,226</u>
OPERATING INCOME	15,991,684	10,018,741
NON-OPERATING EXPENSES:		
Interest expense	(410,987)	(458,146)
Amortization of note issuance costs	(34,803)	(34,803)
Depreciation expense (Note 8)	<u>(49,671)</u>	<u>(38,339)</u>
Total non-operating expenses	<u>(495,461)</u>	<u>(531,288)</u>
INCOME BEFORE OTHER REVENUES (EXPENSES)	15,496,223	9,487,453
OTHER REVENUES (EXPENSES):		
Recovery (impairment) of Water Center (Note 3)	1,343,342	(10,038,136)
Write-off of the University Place (Note 3)	<u>(6,079,042)</u>	<u>(5,609,117)</u>
Total other revenues (expenses)	<u>(4,735,700)</u>	<u>(15,647,253)</u>
INCREASE (DECREASE) IN NET ASSETS	10,760,523	(6,159,800)
NET ASSETS—Beginning of year, as restated (Note 2)	<u>93,340,039</u>	<u>99,499,839</u>
NET ASSETS—End of year	<u>\$ 104,100,562</u>	<u>\$ 93,340,039</u>

See note to financial statements.

# UNIVERSITY OF IDAHO FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

---

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Donations received	\$ 16,099,078	\$ 10,585,341
Investment income	6,068,608	6,342,232
Cash received from lease and rental income	487,417	430,672
Split interest trust obligations	1,097,000	681,976
Real estate contracts	421,978	701,433
Distributions for the benefit of trust beneficiaries	(978,961)	(299,279)
Distributions for the benefit of University of Idaho	(14,911,925)	(9,978,704)
Administrative and management fees	(1,331,852)	(1,391,701)
Proceeds from sales and maturities of investments	110,889,341	114,446,294
Purchase of investments and related fees	(132,150,465)	(107,715,437)
Other payments	<u>(88,532)</u>	<u>(174,687)</u>
Net cash (used in) provided by operating activities	<u>(14,398,313)</u>	<u>13,628,140</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital donations received		1,768,063
Proceeds from capital financing		13,784,591
Recovery of Water Center costs	4,888,500	
Payments of capital financing	(1,967,166)	(9,537,693)
Interest paid on capital debt and leases	(410,987)	(458,146)
Purchase of capital assets	(524,846)	(9,499,503)
Sale of capital assets	<u>621,750</u>	<u>136,800</u>
Net cash provided by (used in) capital and related financing activities	<u>2,607,251</u>	<u>(3,805,888)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(11,791,062)</u>	<u>9,822,252</u>
CASH AND CASH EQUIVALENTS—Beginning of year	<u>23,005,823</u>	<u>13,183,571</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 11,214,761</u>	<u>\$ 23,005,823</u>

(Continued)

# UNIVERSITY OF IDAHO FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

---

	2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 15,991,684	\$ 10,018,741
Capital contributions	<u>(912,600)</u>	<u>(1,768,063)</u>
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Interest receivable	(105,615)	91,784
Pledges receivable	2,885,430	(2,586,499)
Split interest trust obligations	1,468,910	374,892
Other receivables, net and other assets	200,081	(46,557)
Accounts payable and accrued liabilities	235,291	(67,022)
Notes receivable	421,978	701,433
Deferred Compensation		(228,360)
Presidential Annuity		
Funds held for others	(347,567)	180,841
Proceeds from sales and maturities of investments	110,889,341	114,446,294
Purchase of investments and related fees	(132,150,465)	(107,715,437)
Change in fair value of investments	(13,400,056)	(346,533)
Change in value of funds held in trust for the University of Idaho	<u>425,275</u>	<u>572,626</u>
Total adjustments	<u>(29,477,397)</u>	<u>5,377,462</u>
Net cash (used in) provided by operating activities	<u>\$ (14,398,313)</u>	<u>\$ 13,628,140</u>
NONCASH ACTIVITIES:		
Account receivable for construction in progress	\$ 431,142	\$ 4,000,000
Write-off of investment in Boise Project	6,079,042	15,647,253
Noncash gifts	4,354,163	2,322,574

See notes to financial statements.

(Concluded)

# UNIVERSITY OF IDAHO FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

---

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Idaho Foundation, Inc., (the “Foundation”) was established to solicit donations and to hold and manage invested donations for the exclusive benefit of the University of Idaho (the “University”). The significant accounting policies followed by the Foundation are described below to enhance the usefulness of the financial statements to the reader.

***Basis of Accounting***—The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The statement of revenues, expenditures and changes in net assets is a statement of financial activities of funds related to the current reporting period. All significant intra-agency transactions have been eliminated.

The Foundation has the option to apply all Financial Accounting Standards Board (“FASB”) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Foundation has elected to not apply FASB pronouncements issued after the applicable date.

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined to report by classification and only the net assets (fund balance) is shown.

Restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the Directors of the Foundation retain full control to use in achieving the Foundation’s purposes.

***Cash and Cash Equivalents***—Cash and cash equivalents include cash in banks and temporary investments with a remaining maturity of three months or less at the date of acquisition. Restricted cash and cash equivalents where the restriction will be met within one year or less are also classified as current cash and cash equivalents.

***Investments***—The Foundation accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gains or losses on the carrying value of investments are reported as a component of the change in fair value of investments in the statement of revenues, expenditures and changes in net assets.

***Pledges Receivable***—The Foundation reports pledges made by donors that are measurable, verifiable, unconditional, and are probable of collection. Pledges receivable are recorded net of estimated uncollectible amounts.

***Restricted Cash and Cash Equivalents and Investments***—Cash and cash equivalents and investments that are restricted in accordance with donor stipulations for endowments are not expected to be used within one year and are classified as noncurrent assets in the statement of net assets.

***Property***—Property is stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair market value at the date of the gift. Cost includes expenditures for major improvements and the net amount of interest cost associated with significant capital additions. Gains and losses from sales are included in income as they occur. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings.

***Split Interest Agreements***—Split interest agreements held by the Foundation are irrevocable charitable remainder trusts and charitable gift annuities. Assets and liabilities related to split interest agreements for which the Foundation is trustee and is the designated remainderman for the trusts' assets are included in the accompanying balance sheet as restricted investments and cash. Trust assets are recorded at fair market value and a liability is recorded for the present value of estimated distributions to the beneficiaries. The liability is calculated using life expectancy tables and discount rates published by the Internal Revenue Service.

***Income Taxes***—The Internal Revenue Service has ruled that the Foundation is a publicly supported organization under Internal Revenue Code, Section 170(b)(1)(A) and is not a private foundation as defined under Section 509(a)(1). The Foundation is a tax-exempt organization under Section 501(c)(3) and, as such, is subject to federal income tax only on net unrelated business income.

***Revenue Recognition***—All income, gains and losses arising from the sale, collection or disposition of investments and other noncash assets are accounted for in the fund owning such assets.

Noncash tangible assets, other than marketable securities, contributed to the Foundation are recorded on the date legal title passes at the appraised value when it is provided by an independent third party acceptable to Foundation management. If no such independent third-party appraisal is available, the asset is recorded at an objective, verifiable basis which is, in the judgment of Foundation management, a fair value to the Foundation for its purposes. If it is not practicable to determine an objective, verifiable valuation, the contribution is not recorded. Marketable securities contributed to the Foundation are recorded at market value at the date of gift. In-kind contributions of labor and services are not recorded.

Revenues of the Foundation that are for its primary purposes, which is to solicit financial support for the University and to manage and invest the resulting charitable gifts, are recorded as operating revenue.

***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, liabilities, net assets and disclosures regarding contingent assets and liabilities. Actual results could differ from those estimates.

**Current Accounting Pronouncements**—In May 2002, the Governmental Accounting Standards Board issued GASB Statement No. 39, *Determining whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)* effective for financial statement with periods beginning after June 15, 2003. Adoption of this pronouncement does not impact the Foundation’s financial statements; rather, the Foundation is considered a component unit of the University and will be included in the June 30, 2004 financial statements of the University as a discrete component unit.

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. Statement No. 40 amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The Foundation has not completed the process of evaluating the impact that will result from adopting this Statement and is therefore unable to disclose the impact that adopting the Statement will have on its financial statements. The requirements of this Statement are effective for the Foundation’s fiscal year ending June 30, 2005.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Foundation has not completed the process of evaluating the impact that will result from adopting this Statement and is therefore unable to disclose the impact that adopting the Statement will have on its financial statements. The requirements of this Statement are effective for the Foundation’s fiscal year ending June 30, 2006.

**Reclassifications**—Certain 2003 amounts have been reclassified to conform with the 2004 presentation.

## 2. RESTATEMENT OF BEGINNING NET ASSETS

As part of the examination of records to comply with the adoption of GASB 39 the Foundation was required to make certain changes in accounting principles. Original documents transferring assets to the Foundation contain language that requires those assets to also be recorded as a liability. Net assets at July 1, 2002 (as disclosed below) were reduced by \$70,173,560 for the cumulative effect of these changes on years prior to fiscal 2003.

The following represents the line items affected by the restatement:

	<b>As Previously Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
STATEMENT OF NET ASSETS—Funds			
Held in Trust for University of Idaho	\$ -	\$ 70,746,186	\$ 70,746,186
NET ASSETS—Restricted, nonexpendable	123,188,457	(70,746,186)	52,442,271
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS:			
Change in value of funds held in trust for the University of Idaho		(572,626)	(572,626)
Net assets at beginning of year	169,673,399	(70,173,560)	99,499,839

### **3. UNIVERSITY PLACE IN BOISE**

Over the past several years the Foundation has assisted the University in developing the University Place Project in Boise (formerly referred to as the Idaho Place Project or the Boise Initiative). The Foundation's involvement was at the request of the University administration to help them in their goal of consolidating the programs offered by the University in the Treasure Valley. The Foundation agreed to assist with the financing of the project once the project was approved by the State Board of Education/Regents of the University. The project was to consist of several buildings.

During fiscal years 2004 and 2003 the Foundation's members and staff have restructured its debt position, stabilized cash flow, and collateralized debt to minimize risk to Foundation assets. These actions have included:

- Paying off the \$1.9 million note to the University, leaving the Foundation with clear title to the land in Boise. This land was sold to a third party in September 2004. Some of the proceeds were used to repay a \$2.0 million note to the C.I.T. and the balance has been reserved for repayment of bank debt.
- Restructuring the commitments of approximately \$6 million and \$2 million in repayment of expenditures made by the University for the project. Approximately \$1.0 million was paid on the first note in August 2003.
- Working with construction managers to identify cost savings and other reimbursements from the Water Center. The Foundation has received \$4.5 million and will receive an additional \$430,000 in fiscal year 2005. One million was used to pay down debt to the University and the balance has been reserved for repayment of bank debt.
- An agreement has been entered into, subject to final approval from the Board of Regents, to sell land and a building located in Idaho Falls to Idaho State University for \$5.5 million. This sale is expected to close before the end of calendar year 2004. Four million of the proceeds will be used to pay off a note, collateralized by this property, to the C.I.T. and the balance will be used to pay down other debt as determined by the Foundation board of directors. The property was acquired by the Foundation in 1980 and was financed entirely by debt which was repaid from rental income from the property.
- Evaluating and pursuing legal action against various third parties. A complaint has been filed in Ada County Idaho against a developer of the project seeking recovery of excessive and unearned payments made by the Foundation. A court date has not been set.

In accordance with accounting principles generally accepted in the United States of America, the \$11.7 million in notes between the C.I.T. and the Foundation as well as interest payments to the C.I.T. from the Foundation are not reflected in these statements because they are intra-agency transactions and by definition must be eliminated.

### **4. CASH AND CASH EQUIVALENTS**

The Foundation accounts for its cash on a pooled basis whereby each fund has a positive or negative equity in cash depending upon the net effect of its cash receipts and disbursements activity.

Cash and cash equivalents are deposited with various financial institutions. Such deposits for the year ended June 30, 2004 are categorized below to give an indication of the level of risk assumed by the Foundation at year-end. Category 1 includes deposits that are insured or collateralized with securities held by the Foundation or its agent in the Foundation's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Foundation's name. Category 3 includes uninsured deposits which are uncollateralized. Balances of deposits by such categories consisted of the following at June 30:

	<b>2004</b>	<b>2003</b>
Category 1	\$ 3,889,440	\$ 6,026,714
Category 2	465,694	998,743
Category 3	<u>6,859,627</u>	<u>15,980,366</u>
Total	<u>\$ 11,214,761</u>	<u>\$ 23,005,823</u>

Of the cash and cash equivalents reported on the balance sheet, \$10,549,166 and \$22,308,772 is restricted by donors at June 30, 2004 and 2003, respectively.

## **5. PLEDGES RECEIVABLE**

For the fiscal years ended June 30, 2004 and 2003 the Foundation recorded \$408,200 and \$4,483,314, respectively, of gift revenue in the form of pledges receivable. An allowance for uncollectible pledges of \$20,410 and \$224,166 was recorded for fiscal years ended June 30, 2004 and 2003, respectively. The estimated collection of these gifts is as follows:

One year or less	\$ 1,664,308
2006	1,321,822
2007	1,313,439
2008	108,474
2009	89,677
Thereafter	<u>262,778</u>
	4,760,498
Less allowance for uncollectible pledges	<u>(389,025)</u>
Pledges receivable	<u>\$ 4,371,473</u>

## **6. INVESTMENTS—MARKETABLE SECURITIES**

Investments in marketable securities are recorded at fair value as determined by quoted market prices. At June 30, 2004, the fair value of restricted and unrestricted investments was \$156,501,865 and \$6,671,470, respectively. At June 30, 2003, the fair value of restricted and unrestricted investments was \$125,918,099 and \$2,630,883, respectively.

The C.I.T. was established by the Regents of the University of Idaho in 1959 to pool endowment funds received by the University and the Foundation. The C.I.T. utilizes the market value share method of accounting. The fair value of the C.I.T.'s portfolio is divided by the number of outstanding unit participation shares owned by the individual trusts to determine the value of a share when additional contributions are added. Included in restricted fund investments above are \$128,187,920 and \$107,122,499 at June 30, 2004 and 2003 respectively, at fair value of marketable securities invested in the C.I.T. Unrestricted fund investments in the C.I.T. totaled \$2,083,270 and \$1,851,915 at June 30, 2004 and 2003, respectively, at fair value.

The Foundation's investments described above are categorized below to give an indication of the level of risk assumed by the Foundation at June 30, 2004 and 2003. Category 1 includes investments that are insured or registered, or for which the securities are held by the Foundation or its agent in the Foundation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Foundation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the Foundation's name; or by the counterparty's trust department or agent but not in the Foundation's name. Balances of investments by such categories consisted of the following at June 30:

	<b>Investment Risk Category</b>			<b>Total Carrying Amount</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
<b>June 30, 2004</b>				
Corporate debt securities and preferred stock	\$ 51,187,277	\$ 390,000	\$ -	\$ 51,577,277
U.S. Government or government guaranteed securities	13,890,227			13,890,227
Common stock	96,208,014			96,208,014
Mutual funds	<u>1,146,531</u>	<u>351,286</u>		<u>1,497,817</u>
	<u>\$ 162,432,049</u>	<u>\$ 741,286</u>	<u>\$ -</u>	<u>\$ 163,173,335</u>
<b>June 30, 2003</b>				
Corporate debt securities and preferred stock	\$ 38,705,438	\$ 488,000	\$ -	\$ 39,193,438
U.S. Government or government guaranteed securities	10,813,503			10,813,503
Common stock	77,022,723			77,022,723
Mutual funds	<u>1,178,141</u>	<u>341,177</u>		<u>1,519,318</u>
	<u>\$ 127,719,805</u>	<u>\$ 829,177</u>	<u>\$ -</u>	<u>\$ 128,548,982</u>

## 7. NOTES RECEIVABLE

Notes receivable are held in escrow and substantially all are collateralized by real estate. Interest earnings on the contracts are to be used for the purposes specified by the donor. Principal payments on the contracts are added to the corpus of the appropriate endowment as they are received. Notes and other contracts receivable at June 30, 2004, consist of the following:

	2004	2003
Note receivable dated March 5, 1993, due in equal annual installments of principal and interest payments of \$74,704, including interest at 6% per annum, through 2019.	\$ 725,447	\$ 754,977
Note receivable dated May 1, 1989, due in equal annual installments of principal and interest payments of \$33,123, including interest at 9% per annum, through 2024.	412,045	412,045
Note receivable dated March 4, 1999, due in equal monthly installments of principal and interest payments of \$3,222, including interest at 7.5% per annum, through 2019.		357,604
Note receivable dated October 8, 2002, principal and interest at 6% per annum, due April 11, 2004.		135,000
Note receivable dated August 20, 2003, due in equal monthly installments of principal and interest payments of \$661, including interest at 6.25% per annum, due August 20, 2008.	106,104	
Note receivable dated September 11, 1998, due in equal monthly installments of principal and interest payments of \$676, including interest at 7.25% per annum, through 2013.	71,503	74,678
Note receivable dated February 20, 1985, due in equal monthly installments of principal and interest payments of \$400, including interest at 10% per annum, through 2013.	39,532	39,532
Note receivable dated June 26, 1996, due in equal annual installments of principal and interest payments of \$5,812, including interest at 8.25% per annum, through 2011.	<u>29,235</u>	<u>32,008</u>
	<u>\$1,383,866</u>	<u>\$1,805,844</u>

## 8. PROPERTY

Property holdings consisted of the following at June 30:

June 30, 2004	Balance July 1, 2003	Additions	Deletions	Impairments and Write-offs	Transfers	Balance June 30, 2004
Capital assets not depreciated:						
Land	\$ 6,715,421	\$ 276,249	\$ -	\$ -	\$ -	\$ 6,991,670
Construction in progress	20,563,695	332,197		(6,079,042)	(14,816,850)	-
Property held for the University of Idaho					14,816,850	14,816,850
Property held for trusts	<u>346,000</u>	<u>829,000</u>	<u>(600,000)</u>			<u>575,000</u>
Total capital assets not depreciated	<u>27,625,116</u>	<u>1,437,446</u>	<u>(600,000)</u>	<u>(6,079,042)</u>		<u>22,383,520</u>
Other capital assets:						
Buildings	1,404,941					1,404,941
Less accumulated depreciation	<u>(654,205)</u>	<u>(49,671)</u>				<u>(703,876)</u>
Other capital assets—net	<u>750,736</u>	<u>(49,671)</u>				<u>701,065</u>
Capital assets—net of depreciation	<u>\$28,375,852</u>	<u>\$1,387,775</u>	<u>\$ (600,000)</u>	<u>\$ (6,079,042)</u>	<u>\$ -</u>	<u>\$23,084,585</u>

June 30, 2003	Balance July 1, 2002	Additions	Deletions	Impairments and Write-offs	Transfers	Balance June 30, 2003
Capital assets not depreciated:						
Land	\$ 6,765,000	\$ -	\$ (136,800)	\$ -	\$ 87,221	\$ 6,715,421
Construction in progress	30,798,666	9,499,503	(4,000,000)	(15,647,253)	(87,221)	20,563,695
Property held for trusts	<u>348,700</u>		<u>(2,700)</u>			<u>346,000</u>
Total capital assets not depreciated	<u>37,912,366</u>	<u>9,499,503</u>	<u>(4,139,500)</u>	<u>(15,647,253)</u>		<u>27,625,116</u>
Other capital assets:						
Buildings	1,404,941					1,404,941
Less accumulated depreciation	<u>(615,866)</u>	<u>(38,339)</u>				<u>(654,205)</u>
Other capital assets—net	<u>789,075</u>	<u>(38,339)</u>				<u>750,736</u>
Capital assets—net of depreciation	<u>\$38,701,441</u>	<u>\$9,461,164</u>	<u>\$ (4,139,500)</u>	<u>\$ (15,647,253)</u>	<u>\$ -</u>	<u>\$28,375,852</u>

## 9. DISTRIBUTIONS TO UNIVERSITY OF IDAHO AND AFFILIATES

During fiscal years 2004 and 2003, earnings from endowments invested in the C.I.T., direct gifts and other revenues to the Foundation were distributed as follows:

	2004		2003	
	C.I.T. Endowment Income	Gifts and Other Revenues	C.I.T. Endowment Income	Gifts and Other Revenues
Scholarships	\$2,722,298	\$2,162,847	\$ 2,962,507	\$ 1,851,302
Student loans	146,776		163,088	
Building funds		2,514,057		257,783
University of Idaho College and Department Operating Accounts:				
Academic Excellence	445,143	63,634	491,229	66,173
Agricultural and Life Sciences	168,316	1,084,919	166,453	370,777
Athletics	35,868	289,577	39,830	11,935
Business and Economics	209,391	190,854	225,964	269,361
Education	6,268	89,779	6,679	145,616
Engineering	60,030	423,311	59,970	310,101
Law	156,505	198,525	172,251	156,300
Letters, Arts and Social Science	277,731	306,746	309,503	266,436
Library	96,970	10,076	107,681	15,204
Natural Resources	91,072	936,632	99,405	271,931
Science	106,947	1,005,463	106,327	132,242
Other departments	151,281	648,571	167,051	411,677
Life beneficiaries	312,362		245,075	
University of Idaho affiliates	29,595	13,005	41,107	101,160
	<u>\$5,016,553</u>	<u>\$9,937,996</u>	<u>\$ 5,364,120</u>	<u>\$ 4,637,998</u>

## 10. NOTES PAYABLE

Notes payable at June 30 consisted of the following:

	2004	2003
Unsecured note payable to the University of Idaho, a related party, dated October 14, 2003, due December 31, 2004. Variable rate interest due at maturity at Wells Fargo daily sweep rate plus 2% (2.1% as of June 30, 2004). Proceeds were used to finance University Place in Boise.	\$ 5,041,759	\$ 6,028,925
Unsecured note payable to a third party, dated January 17, 2003, due January 17, 2006. Fixed rate interest due quarterly at 3.85%. Proceeds were used to refinance another note, which was originally used to finance University Place in Boise.	6,000,000	6,000,000
Variable rate demand revenue notes, Series 2000, University of Idaho College of Business Project. Dated November 22, 2000, due January 1, 2007, secured by pledges to the building campaign. Variable rate interest due monthly (1.10% as of June 30, 2004). Proceeds were used to finance J.A. Albertson Building at UI Campus. Original note amount was \$9,205,000.	3,900,000	4,880,000
Unsecured note payable to the University of Idaho, a related party, dated October 14, 2003, due December 3, 2005. Fixed rate interest due at maturity at 1%. Proceeds were used to finance University Place in Boise.	2,030,198	2,030,198
Other notes payable	<u>                    </u>	<u>23,700</u>
	<u>\$ 16,971,957</u>	<u>\$ 18,962,823</u>

Activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Notes payable	\$ 18,962,823	\$ -	\$ (1,990,866)	\$ 16,971,957	\$ 5,041,759

Activity was as follows for the year ended June 30, 2003:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Notes payable	\$ 14,715,925	\$ 13,784,591	\$ (9,537,693)	\$ 18,962,823	\$ 1,023,700

Principal and interest payment on notes payable are due as follows for the year ended June 30, 2004:

	<b>Interest</b>	<b>Principal</b>
2005	\$ 327,274	\$ 5,041,759
2006	190,410	8,030,198
2007	<u>21,744</u>	<u>3,900,000</u>
Total	<u>\$ 539,428</u>	<u>\$ 16,971,957</u>

The Foundation's debt obligations exceed its unrestricted assets. Plans to manage current debt are as follows:

The debt associated with the construction of the University of Idaho College of Business project is secured by pledges to the building campaign. The note is paid down annually based upon the pledges collected during the period.

The six million dollar third-party note related to the University Place project is projected to be paid off during fiscal year 2005 with a combination of funds generated by the gains from unrestricted property sold by the Foundation and cost reimbursement from the Idaho Water Center projects.

No funding source has been identified for the repayment of the \$5,041,759 note payable to the University due December 31, 2004. The Foundation is pursuing all avenues of recovery and settlement of this note.

## 11. SPLIT INTEREST AGREEMENTS

The Foundation has entered into 99 charitable gift arrangements of which the underlying assets have a market value of \$13,278,714 and \$12,230,745, at June 30, 2004 and 2003, respectively. The actuarial obligation to pay the trust beneficiaries at June 30, 2004 and 2003 is \$7,505,240 and \$6,036,330, respectively. The assets of the individual trusts are invested and are expected to generate sufficient income to pay this obligation until the termination of the individual trusts. Contributions of \$1,660,190 and \$891,535 were received in connection with split interest agreements during the years ended June 30, 2004 and 2003, respectively.

Activity for the year ended June 30, 2004 was as follows:

	<b>Balance July 1, 2003</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2004</b>	<b>Due Within One Year</b>
Liability for split interest trusts	\$ 6,036,330	\$ 1,610,812	\$ (141,902)	\$ 7,505,240	\$ 964,081
	<b>Balance July 1, 2002</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2003</b>	<b>Due Within One Year</b>
Liability for split interest trusts	\$ 5,661,438	\$ 681,976	\$ (307,084)	\$ 6,036,330	\$ 816,710

## 12. OPERATING LEASE

The Foundation entered into a sublease on October 1, 2002, to lease the parcel of land next to the Idaho Water Center known as parcel 102. The original lease was for 99 years with variable payments. The annual payment obligations are as follows:

2005	\$ 4,630
2006	5,166
2007	6,096
2008	7,497
2009	8,602
2010–2014	51,276
2015–2019	76,939
2020–2024	105,399
2025–2029	131,077
2030–2034	43,246
2035–2039	20,134
2040–2044	58,119
2045–2049	67,377
2050–2054	78,108
2055–2059	71,352
2060–2064	82,718
2065–2069	95,891
2070–2074	111,165
2075–2079	128,871
2080–2084	149,397
2085–2089	173,192
2090–2094	200,776
2095–2099	157,126

## 13. FOUNDATION OPERATING EXPENSES

Certain general, administrative and fundraising expenses of the Foundation are paid by the University. The University also provides occupancy, accounting, gift receipting and investment services to the Foundation. The value of these services is not reflected in the accompanying financial statements since they are not susceptible to objective measurement or valuation.

## 14. RELATED PARTIES

The Foundation was established for the purpose of soliciting donations and to hold and manage invested donations for the exclusive benefit of the University, a related party.

The University is acting as the Foundation's agent for the payments related to the construction of the College of Business and Economics building. The Foundation reimburses the University for expenses incurred. A receivable is due from the University in the amount of \$170,440 and \$316,495, at June 30, 2004 and 2003, respectively, as a result of an overpayment to the University. The University has exclusive use of this building. The Foundation intends to transfer this building to the University once the final \$3.9 million is collected to pay off the construction note.

The University is holding notes payable from the Foundation in the amounts of \$5,041,759 and \$2,030,198 at June 30, 2004, and \$6,028,925 and \$2,030,198 at June 30, 2003 (see Notes 3 and 10).

The Consolidated Investment Trust is holding \$11,743,285 in notes at June 30, 2004, and \$12,000,000 in notes at June 30, 2003 from the Foundation which carry an average interest rate of 5.375%. The notes are collateralized by real property and unrestricted investments. Because they are intra-agency transactions, accounting principles generally accepted in the United States of America, require principal and interest on this obligation to be eliminated from these financial statements. Interest is due semi-annually.

Principal payments are due as follows at June 30:

2005	\$ 307,195
2006	2,058,354
2007	229,957
2008	<u>9,147,779</u>
	<u>\$ 11,743,285</u>

\* \* \* \* \*