

# **UNIVERSITY OF IDAHO**

**Financial Statements for the  
Year Ended June 30, 2002 and  
Independent Auditors' Report**

# UNIVERSITY OF IDAHO

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## INDEPENDENT AUDITORS' REPORT

To the Board of Regents of the  
University of Idaho:

We have audited the accompanying statement of net assets of the University of Idaho (the "University") as of June 30, 2002, and the related statements of revenues, expenses and changes in net assets and of 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.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University of Idaho at June 30, 2002, and the changes in its net assets and cash flows for the year 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 University'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.

*Deloitte & Touche LLP*

October 4, 2002

# UNIVERSITY OF IDAHO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2002

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### *Overview of the Financial Statements and Financial Analysis*

The University of Idaho (the "University") presents its financial statements for the fiscal year 2002. The emphasis of discussions about these statements will be for the fiscal year 2002. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

Comparative data for the prior period is not provided. This is a year of transition to a new reporting structure under Governmental Accounting Standards Board Statement Nos. 34, 35, 37 and 38. Comparative data will be provided beginning with fiscal year 2003.

This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year. All amounts in this discussion are presented in thousands of dollars.

### *Statement of Net Assets*

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the fiscal year end. The Statement of Net Assets is a "snapshot" financial statement. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets and liabilities will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets, (assets minus liabilities) and their availability for expenditures by the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant and equipment owned by the University. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditures by the University but must be spent for purposes as determined by donors and/or external entities that have place, time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the University for any lawful purpose of the institution.

## Summary Statement of Net Assets

ASSETS:	
Current assets	\$ 51,799
Capital assets, net	276,989
Other assets	<u>132,365</u>
Total assets	<u>\$ 461,153</u>
LIABILITIES:	
Current liabilities	\$ 42,169
Non-current liabilities	<u>138,847</u>
Total liabilities	<u>\$ 181,016</u>
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 170,707
Restricted - non-expendable	70,174
Restricted - expendable	16,869
Unrestricted	<u>22,387</u>
Total net assets	<u>\$ 280,137</u>

The total assets for the year increased by \$32,524 while total liabilities increased by \$26,930 resulting in an increase in net assets of \$5,594.

The total asset increase of \$32,524 is primarily the result of increases in capital assets of \$34,404 net of depreciation and in bond proceeds for the student housing project. In the normal course of the University's operations, assets will be liquidated to fulfill operating requirements of the University.

The increase in total liabilities for the year of \$29,161 is the primary result of issuing bonds for the new student housing project and an increase in payables resulting from the liability created by the Voluntary Separation and Retirement Opportunities Plan explained further in the attached notes to these financial statements.

### ***Statement of Revenues, Expenses, 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, Expenses, and Changes in Nets Assets. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues and expenses received or spent by the University. The University will always reflect a net operating loss since state appropriations, including state and land-grant endowment funds, are not reported as operating revenue.

Generally speaking, operating revenues are received for providing services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the services provided in return for operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which services are not provided. For example, state appropriations for general education (representing 31.7% of total operating and nonoperating revenues) are nonoperating because the Idaho State Legislative process provides them to the University without the Legislature directly receiving services for those revenues.

## Summary Statement of Revenues, Expenses, and Changes in Net Assets

OPERATING REVENUES	\$ 132,334
OPERATING EXPENSES	<u>272,890</u>
Operating loss	(140,556)
NONOPERATING REVENUES	<u>127,282</u>
LOSS BEFORE OTHER REVENUES AND EXPENSES	(13,274)
OTHER REVENUES AND EXPENSES	<u>18,868</u>
INCREASE IN NET ASSETS	5,594
NET ASSETS - BEGINNING OF YEAR	447,666
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	<u>(173,123)</u>
NET ASSETS - BEGINNING OF YEAR, RESTATED	<u>274,543</u>
NET ASSETS - END OF YEAR	<u>\$ 280,137</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an overall increase in net assets of approximately \$5,594. There will always be an operating loss at the University since state appropriations are reported as nonoperating income. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Student tuition and fees increased by \$6,638 as a result of increases in student tuition and fees and enrollment. GASB 34 requires tuition and fee revenues from student to be reported net of scholarship discounts and allowances. Discounts and allowances are the difference between the University's stated charges for tuition and fees and the amount paid by students or third parties on behalf of the students.
- Federal, state and private grants and contracts increased by \$12,309, a 24% increase over the prior year reflecting the University's emphasis in becoming a globally competitive research University. The number of grants received from all areas has increased significantly.
- Sales and services of education and auxiliary services increased by \$3,561 as a result of increased charges for student housing, conferences, events, athletic events, food services, and other related auxiliary and institutional services.
- Expenses for salaries and benefits increased as a result of salary increases, significant benefit increases and expanded work in research activities.
- All state appropriations including state endowment increased by a total of \$6,079. Despite state holdbacks of funding during the year, the University's overall appropriations increased by 5.3% as a result of certain higher education holdback exemptions.
- As a result of the downturn in the United States economy, the change in fair value of investments decreased by \$4,253.
- The University's new Agricultural Biotechnology facility funded primarily by state and federal appropriations accounts for most of the \$16,555 increase in capital appropriations.

### ***Statement of Cash Flows***

The final statement presented by the University of Idaho is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used in operating activities to operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

### **Summary Statement of Cash Flows**

CASH PROVIDED BY (USED IN):	
Operating activities	\$ (121,888)
Noncapital financing activities	131,763
Capital and related financing activities	4,828
Investing activities	<u>(12,896)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,807
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>20,779</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,586</u>

### ***Capital Asset and Debt Administration***

The University issued new bonds during the year for new student residence halls, classroom space improvements, and phase one of an athletic facility upgrade. Total bonds issued, including costs of issuance was \$40,930. The University's credit rating was unaffected by the issue of new debt and there are no foreseen circumstances that would affect the University's access to future capital financing.

### ***Economic Outlook***

Idaho's economic outlook is uncertain as of this date. On August 29, 2002, the Governor's office announced a 3.5% holdback to general fund agencies excluding public schools and higher education. Funds provided to the University for maintenance and repair of our facilities were not exempted from the holdback with the exception of funds provided through the Permanent Building Fund Council for "repairs and alternations". The Governor's plan calls for deferring repairs and alterations until spring 2003. The University has not determined the impact of deferring maintenance projects, but it is not expected to affect normal operating activities in the short term.

# UNIVERSITY OF IDAHO

## STATEMENT OF NET ASSETS JUNE 30, 2002

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### ASSETS

#### CURRENT ASSETS:

Cash and cash equivalents	\$ 18,976,027
Student loans receivable	1,467,309
Accounts receivable and unbilled charges, less allowance for doubtful accounts of \$249,300	20,520,930
Due from state agencies	112,360
Interest receivable	464,983
Inventories	1,890,234
Investments	22,765
Other assets	<u>8,344,520</u>
Total current assets	51,799,128

#### NONCURRENT ASSETS:

Restricted cash and cash equivalents	3,610,246
Student loans receivable, less allowance for doubtful loans of \$1,200,177	9,230,857
Accounts receivable and unbilled charges	130,694
Interest receivable	467,234
Investments	14,350,413
Investments held in trust	64,691,912
Repurchase agreements	32,388,424
Repurchase agreements held in trust	3,404,868
Installment contracts receivable	1,320,425
Deferred bond financing costs	2,210,386
Property, plant and equipment, net	276,989,121
Other noncurrent assets	<u>559,227</u>
Total noncurrent assets	409,353,807

TOTAL	<u><u>\$461,152,935</u></u>
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See notes to financial statements.



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## LIABILITIES

### CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 9,944,138
Accrued salaries and benefits payable	20,481,245
Trust earnings payable to trust beneficiaries	387,232
Accrued interest payable	1,693,176
Deposits	431,731
Deferred revenue	4,412,987
Funds held in custody for others	420,937
Obligations under capital leases	347,632
Notes and bonds payable	4,010,524
Split interest agreements	<u>39,063</u>

Total current liabilities	42,168,665
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### NONCURRENT LIABILITIES:

Accounts payable and accrued liabilities	39,892
Accrued salaries and benefits payable	4,629,483
Deposits	105,973
Obligations under capital leases	569,381
Notes and bonds payable	133,341,740
Split interest agreements	<u>160,568</u>

Total noncurrent liabilities	<u>138,847,037</u>
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TOTAL LIABILITIES	<u>181,015,702</u>
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### NET ASSETS:

Invested in capital assets, net of related debt	170,707,263
Restricted for:	
Nonexpendable	70,173,559
Expendable	16,869,347
Unrestricted	<u>22,387,064</u>

TOTAL NET ASSETS	<u>280,137,233</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$461,152,935</u>
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# UNIVERSITY OF IDAHO

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2002

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### OPERATING REVENUES:

Student tuition and fees (net of scholarship discounts and allowances of \$12,790,806)	\$ 29,492,409
Federal appropriations:	
Agriculture research	2,018,327
Agriculture extension	2,085,062
Federal grants and contracts	43,360,349
State and local grants and contracts	8,518,770
Private grants and contracts	11,795,626
Sales and services of educational activities	10,410,039
Sales and services of auxiliary enterprises	21,485,404
Interest on loans receivable	229,263
Other	2,938,745

Total operating revenues	132,333,994
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### EXPENSES:

Salaries	137,967,102
Benefits	37,064,879
Services	24,825,805
Supplies	29,714,604
Insurance, utilities, and rent	7,607,802
Scholarships and fellowships	10,013,218
Depreciation	15,090,451
Miscellaneous	10,605,838

Total operating expenses	272,889,699
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OPERATING LOSS	(140,555,705)
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### NONOPERATING REVENUES (EXPENSES):

State appropriations:	
State general account - general education	82,376,099
Endowment income	9,637,150
Other state appropriations	29,532,983
Gifts	7,434,489
Private grants and contracts	77,598
Net investment income	8,409,993
Change in fair value of investments	(4,252,584)
Interest on capital asset related debt (net of capitalized interest of \$1,982,740)	(4,890,097)
Endowment income distribution	(232,425)
Endowment administrative expense	(540,540)
Other	(271,314)

Net nonoperating revenues	127,281,352
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LOSS BEFORE OTHER REVENUES AND EXPENSES	(13,274,353)
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See notes to financial statements.

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OTHER REVENUES AND EXPENSES:

Capital appropriations	\$ 17,861,389
Capital grants and contracts	2,049,005
Capital gifts	1,543,322
Additions to permanent endowments	2,202,373
Transfers to University of Idaho Foundation	<u>(4,787,774)</u>

Total other revenues and expenses	<u>18,868,315</u>
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INCREASE IN NET ASSETS	5,593,962
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NET ASSETS, BEGINNING OF YEAR, AS RESTATED (Note 2)	<u>274,543,271</u>
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NET ASSETS, END OF YEAR	<u><u>\$ 280,137,233</u></u>
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# UNIVERSITY OF IDAHO

## STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2002

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Student tuition and fees	\$ 29,152,282
Federal appropriations	7,246,024
Grants and contracts	60,993,577
Sales and services of educational activities	10,397,678
Sales and services of auxiliary enterprises	21,217,490
Payments to employees	(174,980,314)
Payments to suppliers	(61,808,160)
Payments for scholarships and fellowships	(10,013,218)
Loans issued to students and employees	(2,519,593)
Collections of loans to students and employees	2,578,010
Other payments	<u>(4,151,642)</u>
Net cash used in operating activities	<u>(121,887,866)</u>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations	
State general account - general education	82,456,115
Endowment income	10,514,250
Other state appropriations	30,424,381
Gifts	7,444,319
Direct lending receipts	34,829,064
Direct lending payments	(34,829,064)
Agency account receipts	9,770,967
Agency account payments	(9,978,510)
Additions to permanent endowments	2,094,725
Payments for endowment operations	(792,532)
Other payments	<u>(170,950)</u>
Net cash provided by noncapital financing activities	<u>131,762,765</u>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from capital debt	41,611,770
Grants and contracts	2,049,005
Gifts	1,375,342
Proceeds from sale of property, plant and equipment	244,508
Purchases of property, plant and equipment	(29,592,952)
Principal paid on capital debt and leases	(3,891,086)
Interest paid on capital debt and leases (including capitalized interest of \$1,982,741)	(6,381,595)
Payments for bond issuance costs	<u>(587,301)</u>
Net cash provided by capital and related financing activities	<u>4,827,691</u>

See notes to financial statements.

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CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	\$(112,690,338)
Proceeds from sales and maturities of investments	96,455,185
Investment income	7,048,152
Issuance of long-term loans	(3,850,435)
Principle received on notes receivable	<u>141,560</u>
Net cash used in investing activities	<u>(12,895,876)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,806,714
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>20,779,559</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,586,273</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES:	
Operating loss	\$(140,555,705)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	15,090,451
Changes in assets and liabilities:	
Accounts receivable and unbilled charges, net	(327,091)
Student loans receivable, net	3,313
Interest receivable	(17,126)
Inventories	(37,449)
Other assets	390,894
Accrued salaries and benefits payable	(1,190,039)
Accounts payable and accrued liabilities	4,473,491
Deposits	7,527
Deferred revenue	<u>273,868</u>
Net cash used in operating activities	<u>\$ (121,887,866)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:	
Property, plant and equipment acquired through capital lease obligations	\$ 793,299
Notes receivable for construction-in-progress	6,028,925
Property, plant and equipment acquired through DPW appropriations	17,861,387
Donated assets	167,980

# UNIVERSITY OF IDAHO

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2002

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Idaho (the "University") is a publicly-supported comprehensive land grant institution created in 1889 by a statute of the 15th territorial legislature and is part of the public system of higher education in the State of Idaho. The system is considered part of the State of Idaho financial reporting entity. The Board of Regents, appointed by the Governor and confirmed by the State Senate, directs the University. The significant accounting policies followed by the University are described below to enhance the usefulness of the financial statements to the reader.

**Financial Statement Presentation** – In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Other GASB Statements are required to be implemented in conjunction with GASB Statements No. 34 and No. 35. Therefore, the State of Idaho and Idaho public colleges and universities have also implemented Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*.

The University of Idaho has elected to not disclose restated 2001 financial statements to conform with the new financial statement presentation. Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on property, plant and equipment; (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year; (3) recording scholarship discounts and allowances netted against tuition and fee revenues; (4) the elimination of fund group presentation; and (5) the presentation of a cash flow statement. (See Note 2.)

**Basis of Accounting** – For financial statement purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

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

***Cash and Cash Equivalents*** – The University considers all highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents.

***Investments*** – The University 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 gain (loss) on the carrying value of investments are reported as a component of the change in fair value of investments in the Statement of Revenues, Expenses, and Changes in Net Assets.

***Accounts Receivable*** – Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

***Student Loans Receivable*** – Loans receivable from students bear interest at rates ranging from 3% to 7% and are generally repayable in installments to the University over a 5 to 10 year period commencing 6 or 9 months from the date of separation from the University.

***Inventories*** – Bookstore inventories are valued at retail less gross profit percentages sufficient to reduce inventories to the lower of first-in, first-out (FIFO) cost or market. All other inventories are valued at the lower of FIFO cost or market.

***Restricted Cash and Cash Equivalents and Investments*** – Cash and cash equivalents and investments that are restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets (except for currently due payments), are classified as noncurrent assets in the Statement of Net Assets.

***Property, Plant and Equipment*** – Property, plant and equipment are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair market value at the date of gift. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. 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, composite method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for improvements other than buildings, and 10 years for library materials and equipment.

***Deferred Revenues*** – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

***Compensated Absences*** – Employee vacation and compensatory time pay is accrued at year end for financial statement purposes. Included in the accrued salaries and benefits payable at June 30, 2002 is \$7,093,136 related to compensated absences earned but unused. This amount is also included as a component of benefits expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

***Early Retirement Program*** – During fiscal year 2002, the University offered the Voluntary Separation and Retirement Opportunities Program (VSROP). The purpose of VSROP was to afford eligible faculty and staff members who desire to leave or retire from the University an opportunity to do so with additional economic incentives. This was a one-time opportunity, and this program is not expected to become an on-going feature of University benefits. The University accepted enrollment in VSROP from February 1, 2002 to April 2, 2002 only. Included in the accrued salaries and benefits payable at June 30, 2002 is \$6,021,467 (undiscounted) associated with this program. The current portion of \$1,391,984 is due and payable in fiscal year 2003.

***Grants-in-Aid*** – Tuition and fees revenue include grants-in-aid for faculty and staff benefits charged to the appropriate expenditure programs to which the applicable personnel relate. The total of these waivers for 2002 was \$472,152.

***Noncurrent Liabilities*** – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

***Net Assets*** – The University's net assets are classified as follows:

***Invested In Capital Assets, Net of Related Debt*** – This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included in this section.

***Restricted Net Assets – Expendable*** – Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

***Restricted Net Assets – Nonexpendable*** – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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



When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards unrestricted resources, and then toward restricted resources.

***Income Taxes*** – The University is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code, per letter dated November 7, 1945. The University is also considered a Section 501(c)(3) corporation via letter from the Internal Revenue Service dated August 29, 1961.

***Classification of Revenues*** – The University has classified its revenues as either operating or nonoperating according to the following criteria:

*Operating Revenues* – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

*Nonoperating Revenues* - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

***Scholarship Discounts and Allowances*** – Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

***Segment Reporting*** – The University issues revenue bonds to finance certain activities. The University has deemed it not necessary to report segments on these bond issues, based upon the criteria provided in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

***New Accounting Standard*** – GASB has issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Statement No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity*. This Statement amends Statement No. 14 to require reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The University has not completed the process of evaluating the impact that will result from adopting this Statement. The University is therefore unable to disclose the impact that adopting this Statement will have on its net assets, revenues, expenditures, and changes in net assets. The requirements of this statement are effective for the University's fiscal year ending June 30, 2004.

## 2. RESTATEMENT OF BEGINNING NET ASSETS

As described in Note 1, as a result of the adoption of GASB Statements No. 34 and No. 35, the University was required to make certain changes in accounting principles. Net assets at June 30, 2001 (as disclosed below) were reduced by \$173,122,564 for the cumulative effect of these changes on years prior to fiscal year 2002.

The effect of these items in the revised statements was as follows:

Net assets reported as of June 30, 2001	\$ 447,665,835
Adjustments:	
Summer school adjusted to accrual basis	1,711,595
Accumulated depreciation	(173,434,580)
Federal appropriations revenue recognition	(2,096,699)
Capitalized collections	<u>697,120</u>
Change in June 30, 2001 net assets	<u>(173,122,564)</u>
Restated June 30, 2001 net assets	<u>\$ 274,543,271</u>

## 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are deposited with various financial institutions. Such deposits for the year ended June 30, 2002 are categorized below to give an indication of the level of risk assumed by the University at year end. Category 1 includes deposits that are insured or collateralized with securities held by the University or its agent in the University's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in the University's name. Category 3 includes uninsured deposits which are uncollateralized. Balances of deposits by such categories at June 30, 2002 consisted of the following:

Category 1	\$ 100,000
Category 2	20,402,136
Category 3	<u>2,084,137</u>
Total	<u>\$22,586,273</u>

Of the cash and cash equivalents reported on the statement of net assets at June 30, 2002, \$3,610,246 is restricted by donors, granting agencies, or other contractual agreements. Book value of deposits does not materially differ from the bank balance of deposits.

#### **4. INVESTMENTS AND INVESTMENTS HELD IN TRUST**

The general investment policy of the University as adopted by its Board of Regents is that investments in securities are to be made with the objectives of maximizing long-term total return, ensuring safety of principal and providing satisfactory current income. Long-term investments shall be restricted to rated securities traded on standard exchanges of the United States. Temporary investment of cash shall be restricted to:

- Certificates of deposit in major Idaho banking organizations.
- All obligations of the U.S. Government.
- Federal funds bank repurchase agreements.
- Deposits in savings accounts of commercial banks and savings and loan associations in the State of Idaho.
- Commercial paper of prime or equivalent grade.

Repurchase agreements are collateralized by U.S. Government securities held by the pledging financial institution or financial institution's agent in the University's name.

In accordance with established investment policy, the University may invest in various mortgage-backed securities, such as collateralized mortgage obligations. These securities are recorded at fair value in the Statement of Net Assets. Investment income including change in fair value of investments, is recognized as revenue in the Statement of Revenues, Expenses and Changes in Net Assets.

Investments are held by the University, recorded at fair value, and are generally held until maturity. A total of \$100,485,204 of these investments were restricted by donors, granting agencies, or other contractual agreements at June 30, 2002.

Investments Held in Trust represent investments in the Endowment Fund which are held in trust by the University of Idaho Foundation, Inc. and investments held in trust in the University's name. These investments consist of corporate debt securities, U.S. Government or government guaranteed securities, common stocks and mutual funds. These investments are either restricted to the purpose established by the donors or restricted by bond indentures or other contractual agreements.

The University's investments described above are categorized below to give an indication of the level of risk assumed by the University at June 30, 2002. Category 1 includes investments that are insured or registered, or for which the securities are held by the University or its agent in the University'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 University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the University's name; or by the counterparty's trust department or agent but not in the University's name.

	Investment Risk Category			Total Carrying Amount
	1	2	3	
INVESTMENTS:				
Corporate debt securities and preferred stock	\$ 4,001,221			\$ 4,001,221
U.S. Government or government guaranteed securities	9,695,998			9,695,998
Common Stocks	180,615			
Mutual Funds	495,344			495,344
	<u>\$ 14,373,178</u>	<u>\$</u>	<u>\$</u>	<u>\$ 14,373,178</u>
INVESTMENTS HELD IN TRUST:				
Corporate debt securities and preferred stock	\$ 15,672,489		\$ 6,340,788	\$ 22,013,277
U.S. Government or government guaranteed securities	6,892,430	\$ 1,143,802		8,036,232
Common stocks	34,180,378			34,180,378
Mutual funds	462,025			462,025
	<u>\$ 57,207,322</u>	<u>\$ 1,143,802</u>	<u>\$ 6,340,788</u>	<u>\$ 64,691,912</u>
REPURCHASE AGREEMENTS		<u>\$ 32,388,424</u>		<u>\$ 32,388,424</u>
REPURCHASE AGREEMENTS HELD IN TRUST		\$ 3,404,868		\$ 3,404,868

## 5. ACCOUNTS RECEIVABLE AND UNBILLED CHARGES

Accounts receivable and unbilled charges consisted of the following at June 30, 2002:

	Current	Noncurrent
Student tuition and fees	\$ 1,786,939	
Auxiliary enterprises	1,337,667	
Other activities	2,761,459	\$ 130,694
Payroll accruals	2,890,216	
Federal appropriations	98,416	
Federal financial aid funds	130,884	
Grants and contracts	11,760,646	
Scholarships and fellowships	4,003	
	<hr/>	<hr/>
	20,770,230	130,694
Less allowance for doubtful accounts	(249,300)	
	<hr/>	<hr/>
Net accounts receivable and unbilled charges	<u>\$20,520,930</u>	<u>\$ 130,694</u>

## 6. STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2002. Under this Program, the federal government provides approximately 75% of the funding for the Program with the University providing the balance. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions. In the event the University should withdraw from the Perkins loan program or the government were to cancel the program, the amount the University would be liable for as of June 30, 2002 is \$9,876,127.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2002, the allowance for uncollectible loans was \$1,200,177.

## 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2002 consisted of the following:

	Balance June 30, 2001	Additions	Transfers	Retirements	Balance June 30, 2002
Property, plant and equipment not being depreciated:					
Land	\$ 8,422,629	\$ 250,000	\$ 18,000		\$ 8,690,629
Capitalized collections	1,395,397	631,940		\$ (23,950)	2,003,387
Equipment construction in progress	353,838	482,729	(189,391)	(4,493)	642,683
Construction in progress	<u>27,084,441</u>	<u>11,107,377</u>	<u>(19,851,765)</u>	<u>(2,337,533)</u>	<u>16,002,520</u>
Total property, plant and equipment not being depreciated	<u>\$ 37,256,305</u>	<u>\$ 12,472,046</u>	<u>\$ (20,023,156)</u>	<u>\$ (2,365,976)</u>	<u>\$ 27,339,219</u>
Other property, plant and equipment:					
Buildings	\$ 250,898,340	\$ 26,348,351	\$ 18,552,606	\$ (119,678)	\$ 295,679,619
Other improvements	30,953,322	3,178,484	1,281,159		35,412,965
Furniture and equipment	52,327,096	6,731,744	189,391	(3,358,806)	55,889,425
Library materials	<u>45,338,978</u>	<u>2,375,462</u>		<u>(581,715)</u>	<u>47,132,725</u>
Total other property, plant and equipment	379,517,736	38,634,041	20,023,156	(4,060,199)	434,114,734
Less accumulated depreciation:					
Buildings	(88,973,326)	(6,952,140)		119,678	(95,805,788)
Other improvements	(15,853,503)	(1,438,876)			(17,292,379)
Furniture and equipment	(32,711,864)	(4,665,804)		3,358,806	(34,018,862)
Library materials	<u>(35,895,887)</u>	<u>(2,033,631)</u>		<u>581,715</u>	<u>(37,347,803)</u>
Total accumulated depreciation	<u>(173,434,580)</u>	<u>(15,090,451)</u>		<u>4,060,199</u>	<u>(184,464,832)</u>
Other property, plant and equipment, net	<u>\$ 206,083,156</u>	<u>\$ 23,543,590</u>	<u>\$ 20,023,156</u>	<u>\$ -</u>	<u>\$ 249,649,902</u>
Capital asset summary:					
Property, plant and equipment not being depreciated	\$ 37,256,305	\$ 12,472,046	\$ (20,023,156)	\$ (2,365,976)	\$ 27,339,219
Other property, plant and equipment, at cost	<u>379,517,736</u>	<u>38,634,041</u>	<u>20,023,156</u>	<u>(4,060,199)</u>	<u>434,114,734</u>
Total cost of property, plant and equipment	416,774,041	51,106,087		(6,426,175)	461,453,953
Less accumulated depreciation	<u>(173,434,580)</u>	<u>(15,090,451)</u>		<u>4,060,199</u>	<u>(184,464,832)</u>
Property, plant and equipment, net	<u>\$ 243,339,461</u>	<u>\$ 36,015,636</u>	<u>\$ -</u>	<u>\$ (2,365,976)</u>	<u>\$ 276,989,121</u>

In addition to accounts payable for construction in progress, the estimated cost to complete property authorized or under construction at June 30, 2002 is \$54,423,000. These costs will be financed by state appropriations, institutional funds, gifts, grants and contracts, the Department of Public Works, and/or long-term borrowing.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable consisted of the following at June 30, 2002:

	Current	Noncurrent
Payments to contractors	\$1,265,389	
Sales tax and travel and convention tax	15,126	
Operating activities	<u>8,663,623</u>	<u>\$ 39,892</u>
Total accounts payable and accrued liabilities	<u><u>\$9,944,138</u></u>	<u><u>\$ 39,892</u></u>

## 9. ACCRUED SALARIES AND BENEFITS PAYABLE

Accrued salaries and benefits payable consisted of the following at June 30, 2002:

	Current	Noncurrent
Payroll and leave payable	\$19,089,261	
Early retirement program -VSROP	<u>1,391,984</u>	<u>\$4,629,483</u>
	<u><u>\$20,481,245</u></u>	<u><u>4,629,483</u></u>

## 10. CAPITAL LEASES

The University has entered into various capital lease agreements covering certain computer system assets. At June 30, 2002, assets under capital lease totaled \$905,951 and are included in furniture and equipment. Future minimum lease obligations under these agreements for the years ending June 30 are as follows:

2003	\$ 392,739
2004	296,285
2005	287,900
2006	<u>31,076</u>
Total minimum obligations	1,008,000
Less amount representing interest	<u>(90,987)</u>
Present value of minimum obligations	<u><u>\$ 917,013</u></u>

## 11. NOTES AND BONDS PAYABLE

Notes and bonds payable at June 30, 2002 consisted of the following:

<b>Description</b>	<b>Original Balance</b>	<b>Balance Outstanding</b>
Facility Revenue Bonds, Series 1992B, consisting of serial bonds due in the amount of \$300,000, plus interest at 6.00% through the year 2002, collateralized by a portion of the Matriculation Fee, other fees, net revenues of the Housing System and other revenues (the "Matriculation Fee System Pledge").	\$ 8,945,000	\$ 300,000
Facility Refunding and Improvement Revenue Bonds, Series 1994, consisting of serial bonds due in annual installments increasing periodically from \$420,000 to a maximum of \$815,000, plus interest from 4.75% to 5.40% through the year 2016, collateralized by the Matriculation Fee System Pledge.	11,000,000	8,335,000
Student Building Fee Refunding Revenue Bonds, Series 1994, consisting of serial bonds due in annual installments increasing periodically from \$410,000 to a maximum of \$580,000, plus interest from 4.75% to 5.35% through the year 2010, collateralized by a pledge of the Student Building Debt Service Fee.	6,925,000	3,905,000
Student Fee Refunding Revenue Bonds, Series 1996, consisting of serial bonds due in annual installments increasing periodically from \$475,000 to a maximum of \$860,000, plus interest from 4.85% to 5.80% through the year 2013, collateralized by a pledge of the Activity Center Complex Fee and certain other revenues (the "Activity Center Complex Fee Pledge").	9,285,000	7,015,000
Student Fee Revenue Bonds, Series 1996, consisting of serial bonds due in annual installments ranging from \$385,000 to a maximum of \$605,000, plus interest from 5.05% to 5.85% through the year 2011, collateralized by the Matriculation Fee System Pledge.	7,965,000	4,385,000
Student Fee Refunding Revenue Bonds, Series 1997B, consisting of serial bonds due in annual installments increasing periodically from \$640,000 to a maximum of \$1,220,000, plus interest from 5.0% to 5.70% through the year 2016, collateralized by the Matriculation Fee System Pledge.	12,380,000	12,380,000

(Continued)



<b>Description</b>	<b>Original Balance</b>	<b>Balance Outstanding</b>
Student Fee Revenue Bonds (University Commons Project) Series 1997, consisting of serial bonds due in annual installments commencing in 1999 and increasing periodically from \$125,000 to a maximum of \$1,650,000, plus interest from a 4.65% to 5.70% through the year 2022, collateralized by the Activity Center Complex Fee Pledge.	\$ 14,100,000	\$ 13,635,000
Student Fee Revenue Bonds (University Commons Supplemental Project) Series 1997, consisting of serial bonds due in annual installments commencing in 2000 and increasing periodically from \$155,000 to a maximum of \$405,000, plus interest from a 4.80% to 5.35% through the year 2022, collateralized by the Activity Center Complex Fee Pledge.	5,620,000	5,185,000
Student Fee Revenue Bonds (Recreation Center Project), Series 1999, consisting of serial bonds due in annual installments commencing in 2002 and increasing periodically from \$375,000 to a maximum of \$1,425,000, plus interest from 3.75% to 6.50% through the year 2025, collateralized by a pledge of certain student fees, and certain other pledged revenue.	20,115,000	19,785,000
Student Fee Revenue Bonds, Series 1999A, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$35,000 to a maximum of \$105,000, plus interest from 3.80% to 5.25% through the year 2025, collateralized by the Matriculation Fee System Pledge.	1,470,000	1,470,000
Student Fee Revenue Bonds, Series 1999B, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$150,000 to a maximum of \$445,000, plus interest from 4.80% to 5.625% through the year 2025, collateralized by the Matriculation Fee System Pledge.	6,150,000	6,150,000
Student Fee Revenue Bonds, Series 1999C, consisting of serial bonds due in annual installments commencing in 2001 and increasing periodically from \$225,000 to a maximum of \$515,000, plus interest from 4.45% to 5.70% through the year 2019, collateralized by the Matriculation Fee System Pledge.	6,305,000	5,880,000

(Continued)

<b>Description</b>	<b>Original Balance</b>	<b>Balance Outstanding</b>
Student Fee Revenue Bonds, Series 1999D, consisting of serial bonds due in annual installments commencing in 2023 and increasing periodically from \$1,385,000 to a maximum of \$1,630,000, plus interest from 5.85% to 6.00% through the year 2026, collateralized by the Activity Center Complex Fee Pledge.	\$ 6,020,000	\$ 6,020,000
Student Fee Revenue Bonds, Series 2001, consisting of serial bonds due in annual installments commencing in 2005 and increasing periodically from \$250,000 to a maximum of \$2,125,000, plus interest from 3.50% to 5.40% through the year 2041, collateralized by the Matriculation Fee System Pledge.	40,930,000	40,930,000
Other indebtedness, consisting of notes payable with interest rates ranging from 4.75% to 7.62%, due through the year 2019 and the line-of-credit discussed further in this note		<u>1,616,662</u>
	157,210,000	136,991,662
Premium on bonds		<u>360,602</u>
	<u>\$ 157,210,000</u>	<u>\$ 137,352,264</u>

There are a number of limitations and restrictions contained in the various bond indentures.

Principal and interest maturities on notes and bonds payable for the years ending June 30 are as follows:

	<b>Interest</b>	<b>Principal</b>
2003	\$ 7,246,718	\$ 4,010,524
2004	7,070,895	3,796,085
2005	6,882,318	4,279,536
2006	6,672,350	4,623,816
2007	6,447,866	4,813,071
2008-2012	28,390,664	25,729,482
2013-2017	21,298,534	26,595,823
2018-2022	14,526,043	23,298,325
2023-2027	8,316,909	18,205,000
2028-2032	5,210,588	5,995,000
2033-2037	3,429,000	7,775,000
2038-2041	<u>1,090,260</u>	<u>7,870,000</u>
	<u>\$ 116,582,145</u>	<u>\$ 136,991,662</u>

At June 30, 2002, debt in the amount of \$11,595,000 is considered extinguished through refunding of prior issues by a portion of current issues. Sufficient proceeds were invested in government securities placed in escrow to assure timely payments of the maturities of those prior issues. Neither the debt nor the escrowed assets are reflected in the University's financial statements.

**Line-of-Credit** – The University has an unsecured non-revolving line of credit with a bank for the purchase of real property, equipment, and other capital expenditures. The University may borrow at a variable or a fixed rate based on the five year U.S. Government Treasury Note Index less 1.35% with a minimum interest rate of 5.0%. At June 30, 2002, the University was paying the minimum interest rate. The line-of-credit requires semiannual interest payments and expires on December 31, 2002. The amount outstanding is included with other indebtedness in notes payable. The remaining available line is \$469,206 with outstanding borrowings at June 30, 2002 of \$740,613.

**Pledged Revenues** – As stated in the bond descriptions above, the University has pledged certain revenues as collateral for debt instruments. The pledged revenue amounts for the year ended June 30, 2002 are as follows:

	Matriculation Fee System	Activity Center Fee System	Student Rec Center System	Total
	Series 1992A, 1992B FIB 1994, SIB 1994, TIP 1996, 1997A, 1997B 1999A, 1999B, 1993C and 2001	Series 1996, 1997 Commons, Commons Suppl. and Series 1999D	Student Rec Center Series 1999	
Pledged Revenues				
Student matriculation fee	\$ 14,286,301			\$ 14,286,301
Residence hall system	4,580,600			4,580,600
Apartment housing system	2,103,555			2,103,555
Food service (meal plan)	3,006,671			3,006,671
Food service (institutional food service system)		\$ 505,566		505,566
Bookstore		7,167,101		7,167,101
Parking system	940,566			940,566
Telecommunications system revenues	2,278,838			2,278,838
Other student fees and tuition	6,098,735	2,616,361	\$ 1,521,025	10,236,121
Investment income	95,986	1,275	429	97,690
Other transfers (to Series 1998 TIP and Series 1995 SFR)	<u>210,000</u>	<u>159,712</u>	<u>_____</u>	<u>369,712</u>
Total pledge revenues	<u>\$ 33,601,252</u>	<u>\$ 10,450,015</u>	<u>\$ 1,521,454</u>	<u>\$ 45,572,721</u>

## 12. NONCURRENT LIABILITIES

Noncurrent liability activity for year ended June 30, 2002 was as follows:

	Beginning Balance June 30, 2001	Additions	Reductions	Ending Balance June 30, 2002	Amounts due within one year
Bonds and notes payable and capital lease obligations:					
Revenue bonds payable	\$ 98,108,141	\$40,930,000	\$ (3,302,539)	\$ 135,735,602	\$3,695,000
Notes payable	1,570,245	570,674	(524,257)	1,616,662	315,524
Capital lease obligations	188,004	793,299	(64,290)	917,013	347,632
Total bonds, notes and capital leases	99,866,390	42,293,973	(3,891,086)	138,269,277	4,358,156
Other liabilities:					
Accounts payable and accrued liabilities	121,710	39,892	(121,710)	39,892	
Early retirement accrued liability		6,021,467		6,021,467	1,391,984
State teacher loan cancellation deposits	162,442	27,152	(83,621)	105,973	
Split-interest agreements	5,749,078		(5,549,447)	199,631	39,063
Total other liabilities	6,033,230	6,088,511	(5,754,778)	6,366,963	1,431,047
Total noncurrent liabilities	<u>\$ 105,899,620</u>	<u>\$48,382,484</u>	<u>\$ (9,645,864)</u>	<u>\$ 144,636,240</u>	<u>\$5,789,203</u>

## 13. RETIREMENT PLANS

***Public Employee Retirement System of Idaho*** – The Public Employee Retirement System of Idaho (PERSI), a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. Designed as a mandatory system for eligible state employees, the legislation provided for political subdivisions to participate by contractual agreement with PERSI. Financial reports for the plan are available from PERSI upon request.

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each year of credited service, the annual service retirement allowance is 1.917% or 2.225% (depending upon employee classification) of the average monthly salary for the highest consecutive 42 months.

For the year ended June 30, 2002, the required contribution rate as determined by PERSI was 9.77% and 5.86% of covered payroll for the University and employees, respectively. The University's contributions required and paid were \$5,362,184, \$5,127,456 and \$4,993,312 for the years ended June 30, 2002, 2001 and 2000, respectively. The 2000 Idaho Legislature established a Gain Sharing program for PERSI. With Gain Sharing, PERSI was able to share excess earnings with employers, eligible active members and retirees. The University applied its \$2,158,422 PERSI Gain Sharing Credit against the total PERSI employer contribution in fiscal 2001 of \$5,127,456.

***Optional Retirement Plan*** – Effective July 1, 1990, the Idaho State Legislature authorized the Board of Regents to establish an Optional Retirement Plan (ORP), a defined contribution plan, for faculty and exempt employees. The employee contribution requirement for the ORP is based on a percentage of total payroll. Employer contributions are determined by the State of Idaho.

New faculty and exempt employees hired July 1, 1990 or thereafter automatically enroll in the ORP and select their vendor option. Faculty and exempt employees hired before July 1, 1990 had a one-time opportunity to enroll in the ORP. Enrollees in the ORP no longer belong to PERSI. Vendor options include Teachers Insurance and Annuity Association - College Retirement Equities Fund and Variable Annuity Life Insurance Company.

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or any portion thereof upon attaining 62 years of age. The contribution requirement (and amount paid) for the year ended June 30, 2002 was \$8,425,769 which consisted of \$4,427,976 from the University and \$3,997,793 from employees. The contributions represented 7.72% and 6.97% of covered payroll.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute to PERSI 3.03% of the annual covered payroll. These annual supplemental payments are required through July 1, 2015. During the year ended June 30, 2002, this supplemental funding payment made to PERSI was \$1,730,063. This amount is not included in the regular University PERSI contribution discussed previously.

***Early Retirement Program*** – This year, the University offered the Voluntary Separation and Retirement Opportunities Program (VSROP). The purpose of VSROP was to afford eligible faculty and staff members who desire to leave or retire from the University an opportunity to do so with additional economic incentives. This was a one-time opportunity, and this program is not expected to become an on-going feature of University benefits. The University accepted enrollment in VSROP from February 1, 2002 to April 2, 2002 only. Included in accrued salaries and benefits payable at June 30, 2002 is \$6,021,467 (undiscounted) associated with this program. The current portion of \$1,391,984 is due and payable in fiscal year 2003.

***Postretirement Benefits Other Than Pensions*** – In addition to the pension benefits described above, the University provides post-retirement medical, dental and life insurance coverage for life to employees who meet certain age and service requirements. In general, the employee must have completed at least 30 years of credited service or the sum of his/her age and years of credited service must total at least 80 to qualify for this benefit. This benefit will not be offered to employees hired on or after January 1, 2002. Employees who do not qualify for this benefit, but who do qualify for retirement under PERSI or ORP are eligible to use 50% of the cash value of their unused sick leave to continue their insurance coverage through the University. The University partially funds these obligations by depositing .75% of employee gross payroll into a reserve. The University had expenses totaling \$656,060 in fiscal 2002 to purchase insurance for 626 retired employees receiving these benefits. As of June 30, 2002, approximately \$2,340,812 is available to fund these obligations. The GASB is studying a new accounting standard that would require the University to record these obligations on an actuarially determined basis. The University intends to hire actuaries to quantify the unrecorded obligations and is reviewing the provisions of its benefit plans. The actuarially determined obligations are expected to be significantly higher than the amount currently accrued.

#### 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

For fiscal years prior to 2002, the University reported expenses in functional categories. In order to be consistent with the State of Idaho's reporting method, operating expenses are displayed in their natural classifications for fiscal year 2002. The following table shows natural classifications with functional classifications:

	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expense Totals
Instruction	\$ 49,683,952	\$13,622,828	\$ 6,594,881	\$ 4,794,963	\$ 330,616	\$ 1,658,264		\$ 7,974,608	\$ 84,660,112
Research	36,775,134	8,610,526	7,182,055	5,979,868	718,207	27,769		570,789	59,864,348
Public services	11,208,668	3,066,823	2,594,630	1,018,103	206,794	30,736		298,081	18,423,835
Academic support	4,942,371	1,263,883	503,381	762,153	82,749	164,751		229,265	7,948,553
Libraries	2,340,222	719,639	343,397	246,210					3,649,468
Student services	4,488,215	1,329,056	722,812	1,588,026	43,075	37,513			8,208,697
Institutional support	12,009,203	3,498,360	2,292,299	5,021,708	425,140	206,197		152,895	23,605,802
Plant operations	7,288,966	2,567,167	1,461,226	608,251	5,354,223	5,185	\$15,090,451	997,399	33,372,868
Scholarships and fellowships	800,445		6,471	980		7,650,739		28,660	8,487,295
Auxiliaries	8,429,926	2,386,597	3,124,653	9,694,342	446,998	232,064		354,141	24,668,721
Total expenses	<u>\$137,967,102</u>	<u>\$37,064,879</u>	<u>\$24,825,805</u>	<u>\$29,714,604</u>	<u>\$7,607,802</u>	<u>\$10,013,218</u>	<u>\$15,090,451</u>	<u>\$10,605,838</u>	<u>\$272,889,699</u>

## **15. ENCUMBRANCES**

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$6,533,301 of outstanding purchase orders and purchase commitments are not reported in the financial statements.

## **16. CONTINGENCIES AND LEGAL MATTERS**

Revenue from federal research and service grants includes amounts for the recovery of overhead and other costs allocated to these projects. The University may be required to make refunds of amounts received for overhead and other costs reimbursed as a result of audits by agencies of the federal government. University officials are of the opinion that the effect of these refunds, if any, will not have a significant effect on the financial position of the University.

The University is a defendant in litigation arising from the normal course of operations. Based on present knowledge, the University's administration believes any ultimate liability in these matters will not materially affect the financial position of the University.

## **17. RELATED ORGANIZATIONS**

The University of Idaho Foundation, Inc. (the "Foundation") was established for the purpose of soliciting donations and to hold and manage invested donations for the exclusive benefit of the University. Net assets of the Foundation at June 30, 2002 were \$170,289,265. Of this amount, \$70,173,560 are University assets held and managed in trust by the Foundation and are included in the accompanying financial statements. The remaining net assets of \$100,115,705 of which \$94,081,973 are restricted to uses designated by the donors, are owned by the Foundation.

On January 18, 2001 the Foundation executed an uncollateralized promissory note with the University of Idaho for \$1,907,000 due January 18, 2003. Interest is due annually and is based on IRS Section 1274(d). The note receivable is included in other current assets on the Statement of Net Assets.

On June 27, 2002 the Foundation executed an uncollateralized promissory note with the University of Idaho for \$6,028,925 due June 30, 2003. Interest will be assessed at the Wells Fargo sweep rate plus 2%. The note receivable is included in other current assets on the Statement of Net Assets.

On January 17, 2002 the University executed a revolving line-of-credit agreement with the Idaho Research Foundation not to exceed \$200,000. The line may be drawn upon quarterly up to and including April 1, 2005. As of June 30, 2002, the Idaho Research Foundation Inc. has drawn \$76,000 on the line-of-credit. Interest of 5% is due annually on the outstanding balance. Payment of all outstanding interest and principal is due June 30, 2005.

The Vandal Boosters, Inc. (the "Boosters") is a fund raising organization that provides financial assistance and services to the University of Idaho intercollegiate athletic department. Contributions received by the University from this organization are recorded as gifts. Unaudited net assets of the Boosters at June 30, 2002 were \$235,953 of which \$18,763 are restricted to uses designated by the donors. Assets owned by the Boosters are not included in the accompanying financial statements.

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