

University of Idaho

*Financial Statements for the
Year Ended June 30, 2004 and
Independent Auditors' Reports*

UNIVERSITY OF IDAHO

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1–2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3–10
FINANCIAL STATEMENTS:	
Statement of Net Assets	11
Statement of Revenues, Expenses and Changes in Net Assets	12–13
Statement of Cash Flows	14–15
Notes to Financial Statements	16–35
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	36

INDEPENDENT AUDITORS' REPORT

Board of Regents
University of Idaho

We have audited the accompanying statement of net assets of the University of Idaho (the "University") and its discretely presented component unit as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets and of cash flows (for the University only) for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University of Idaho and its discretely presented component unit at June 30, 2004, and the changes in their net assets and their cash flows (for the University only) for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement 14.

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2004 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial statements of the University's discretely presented component unit, the University of Idaho Foundation (the "Foundation") have been prepared assuming that the Foundation will continue as a going concern. As discussed in Note 16 to the financial statements, the Foundation does not currently have a funding source for the repayment of its note payable to the University which is due December 31, 2004. The Foundation's management plans concerning this matter are described in Note 16. The Foundation's discretely presented financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Deloitte & Touche LLP

November 12, 2004

UNIVERSITY OF IDAHO

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

The University of Idaho (the "University") is a doctoral-research extensive land-grant institution, with the principal responsibility for research and the granting of the Ph.D. degree in Idaho. The University serves state, national and international communities by providing academic instruction, conducting research that advances fundamental knowledge and by disseminating this knowledge to the people of Idaho. In addition to its main campus in Moscow, the University has instructional centers in Coeur D'Alene, Boise, Twin Falls and Idaho Falls as well as research and extension centers located across the state.

OVERVIEW

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

The discussion and analysis that follows provides an overview of the University's financial activities for the fiscal year ended June 30, 2004. 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. They are prepared using the accrual basis of accounting, whereby revenues are recognized when services are provided and expenses are recognized when goods or services are received, regardless of when cash is exchanged.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement 14*, these statements also present information for the University of Idaho Foundation, Inc. (the "Foundation") which qualifies as a component unit of the University.

Statement of Net Assets

The statement of net assets outlines the University's financial condition at fiscal year end. This is a point-in-time financial statement and presents end-of-year data concerning assets, liabilities and net assets.

From the data presented, readers 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, it provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

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:

- *Invested in Capital Assets, Net of Related Debt*—Net assets representing the University's total investment in net property, plant and equipment net of outstanding debt obligations related to those capital assets.
- *Restricted Nonexpendable*—Net assets subject to donor-imposed stipulations that must be maintained permanently by the University. These assets are invested with the Foundation.

- *Restricted Expendable*—Net assets subject to donor-imposed stipulations. The University may expend these assets for purposes as determined by donors and/or external entities that have place, time or purpose restrictions.
- *Unrestricted*—Net assets not subject to donor-imposed stipulations or received with restrictions that were satisfied in the same period. These assets are available to the University for any lawful purpose of the institution.

Condensed Statements of Net Assets
June 30, 2004

	University of Idaho	Component Unit
Assets:		
Current assets	\$ 56,517,732	\$ 21,379,039
Property, plant and equipment—net	311,705,296	23,084,585
Other noncurrent assets	<u>107,756,550</u>	<u>160,637,845</u>
Total assets	<u>475,979,578</u>	<u>205,101,469</u>
Liabilities:		
Current liabilities	47,307,183	11,358,089
Noncurrent liabilities	<u>133,148,127</u>	<u>89,642,818</u>
Total liabilities	<u>180,455,310</u>	<u>101,000,907</u>
Net assets:		
Invested in capital assets—net of related debt	179,046,309	3,209,561
Restricted nonexpendable	71,171,461	75,873,832
Restricted expendable	15,388,436	33,401,579
Unrestricted	<u>29,918,062</u>	<u>(8,384,410)</u>
Total net assets	<u>295,524,268</u>	<u>104,100,562</u>
Total liabilities and net assets	<u>\$475,979,578</u>	<u>\$205,101,469</u>

Current assets include the University's cash, accounts receivable, grants and loans receivable, inventories and prepaid expenses expected to benefit the University within one year. Accounts, grants and loans receivable result primarily from student accounts and from sponsored projects which are payable on a cost-reimbursement basis. Inventories include book and medical supplies from auxiliary operations and supplies for resale in other University departments.

Property, plant and equipment, net are values related to new housing construction in progress, library materials, furniture and equipment, and the recognition of buildings and improvements. Equipment acquisitions related largely to the University's research and instruction programs and included several acquisitions of scientific equipment.

In order to accurately reflect the current assets, the University has recorded an allowance of \$5,041,759 against the note receivable from the Foundation that is due December 31, 2004. There is uncertainty about the Foundation's ability to pay the note in accordance with the current terms. The University intends to pursue the collection of the note and believes it may be possible that the Foundation will eventually recover a portion of their losses through legal and other actions and will then be able to repay this note. The University will continue to monitor the recovery efforts of the Foundation and the collectibility of this note.

Other noncurrent assets include endowment fund assets, student loans receivable and investments expected to mature over a period greater than one year.

Current liabilities include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, and debt principal payments due within one year.

Amounts invested in capital assets, net of related debt, consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets.

Restricted, expendable net assets represent balances that may be expended by the University, but only in accordance with the restrictions imposed upon the University by an external party, such as a donor or legislative mandate. The University's most significant restricted, expendable balance relates to funds held by trustees in accordance with bond covenants, which may only be expended for the renewal and replacement of assets whose revenues are pledged as security for repayment of debt.

Restricted, nonexpendable balances must be held in perpetuity, and include endowment principal as well as the University's portion of student loans receivable under the Federal Perkins Loan program.

Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for contractual payments such as debt service and grant-funded employee termination payouts, funds earmarked for facility renewal and replacement and student organization funds.

Significant Changes in the Statement of Net Assets

- Cash and cash equivalents decreased \$13.6 million due to management decisions to invest a portion of the idle cash for a longer term during fiscal year 2004.
- Investments at market increased \$21.5 million due to conversions from cash to investments reflecting a management decision to capture additional return by investing for a longer duration. In addition, unrealized gain on investments increased by over \$300 thousand because of a stronger financial market.
- Notes receivable decreased by approximately \$6 million dollars. \$1 million was a principal payment received on the note with the Foundation. As previously discussed, the other \$5 million decrease was due to a provision for doubtful accounts taken against the same note.
- Repurchase agreements decreased \$14.1 million which was due to actual expenses being incurred on the 2001 University of Idaho Housing Project reducing the funds available for construction.
- Noncurrent accrued salaries and benefits payable decreased \$2.2 million since a portion of the University's Voluntary Separation Retirement Opportunity Program ("VSROP") payment for the program that becomes due in fiscal year 2005 was moved to current accrued salaries and benefit payable. The payment for the program during fiscal year 2004 was \$1.4 million.
- Notes and bonds payable decreased \$3.3 million. This reduction was due to the annual debt service on the outstanding issues. No new bonds were issued during the year. An additional \$675 thousand in notes payable were issued in conjunction with the Vandal Athletic Center project.

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents the revenues earned and expenses incurred during the year, classifying activities as either “operating” or “nonoperating.” This distinction results in operating deficits for those institutions that depend on State aid and gifts, because the GASB 35 reporting model classifies state appropriations and gifts as nonoperating revenue. The utilization of capital assets is reflected in the financial statements as depreciation expense, which allocates the cost of assets over their expected useful lives.

Condensed Statements of Revenues, Expenses and Changes in Net Assets Year Ended June 30, 2004

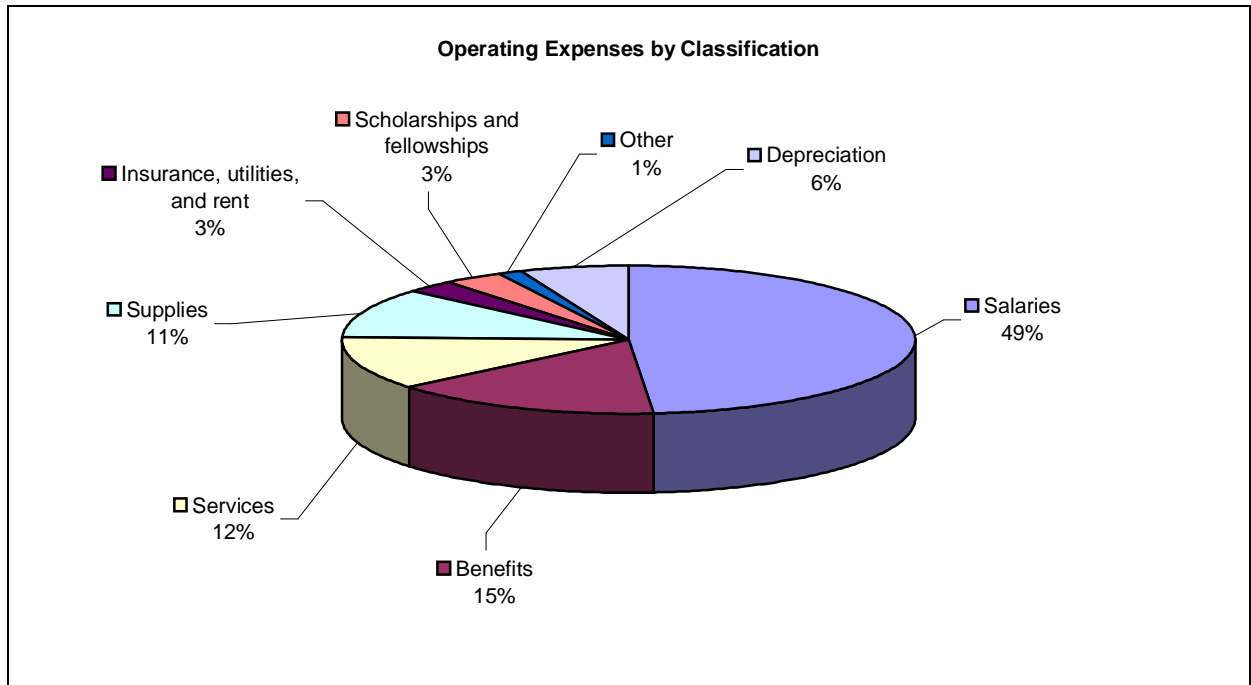
	University of Idaho	Component Unit
Operating revenues	\$ 160,915,310	\$ 14,405,946
Operating expenses	<u>277,676,742</u>	<u>1,783,506</u>
Operating (loss) income	(116,761,432)	12,622,440
Net nonoperating revenues (expenses)	<u>121,752,328</u>	<u>2,873,783</u>
Income before other revenues and (expenses)	4,990,896	15,496,223
Other revenues and (expenses)	<u>6,001,481</u>	<u>(4,735,700)</u>
Increase in net assets	10,992,377	10,760,523
Net assets—beginning of year	<u>284,531,891</u>	<u>93,340,039</u>
Net assets—end of year	<u>\$ 295,524,268</u>	<u>\$104,100,562</u>

Operating Revenues

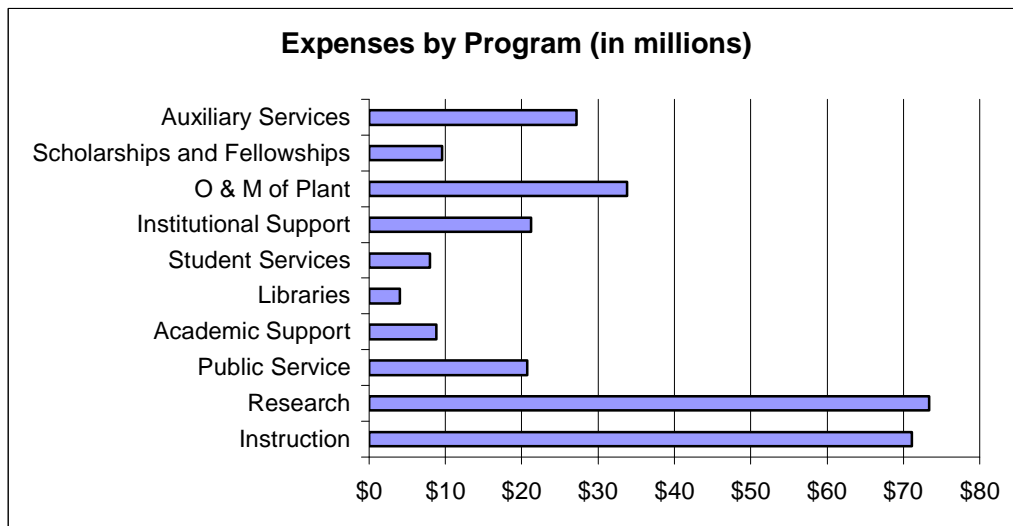
Operating revenues are generated through providing services to the various customers and constituencies of the University. Operating revenues include tuition and fees, grant and contract revenues, and sales and service revenue generated by student housing, bookstores and other enterprises. Student enrollment drives a large portion of operating revenues. Trends indicate that in the future a greater proportion of revenues will be obtained from students and other sources to offset a proportional decrease in available state funding.

Operating Expenses

As shown below, a significant portion of the University’s expenses relate to employee compensation and benefits. This relationship is expected to continue, and the proportion may grow as compensation, insurance and other payroll-related costs increase. Due to the volatility of the utilities industry, utilities and plant-related expenses may fluctuate. Additionally, a concerted effort is being made to ensure access to all qualified applicants through endowed scholarships, as such, financial aid expenses are expected to increase.



As illustrated in the graph below, instruction and research activities together constitute nearly half the University's expenses. The cost of investing in the operation and maintenance of plant is the 3rd largest expense category of the University. The costs of providing auxiliary services, consisting largely of dining and residence hall operations, make up the 4th largest cost category.



Nonoperating Revenues

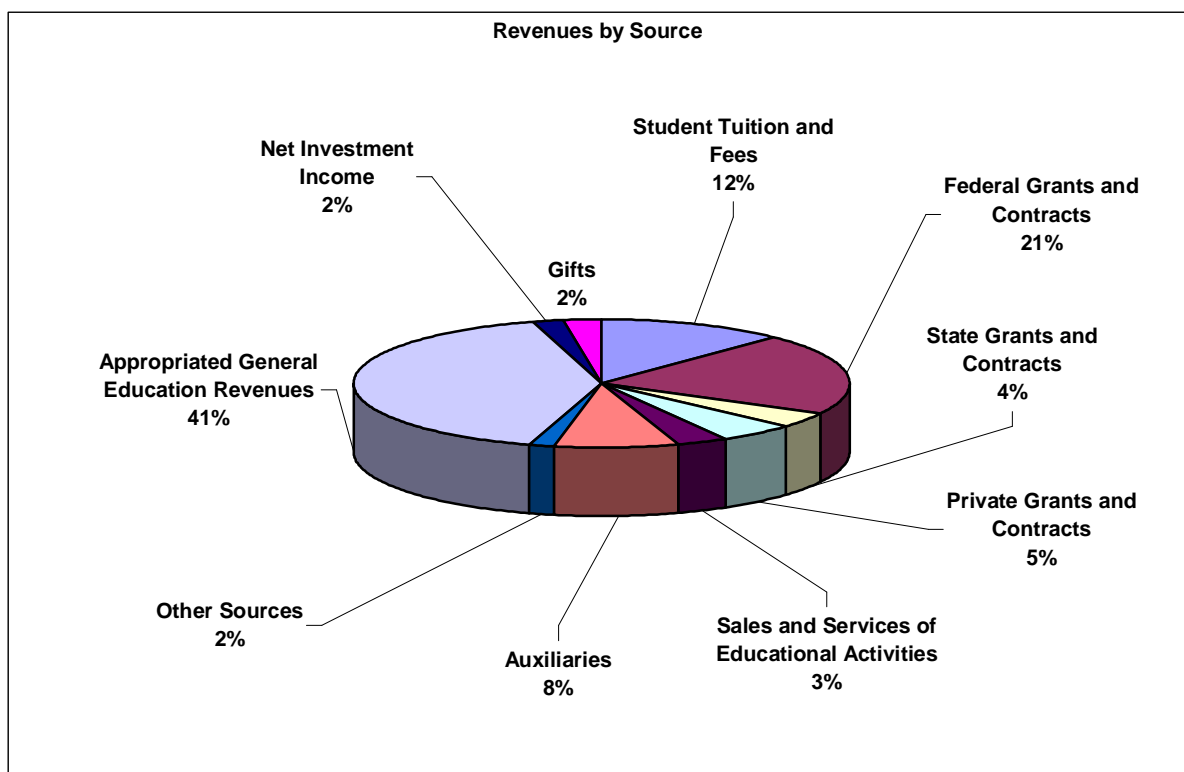
Like most public institutions, the University receives significant nonoperating revenues, including state appropriations, which offset the loss generated by operating activities. The operating loss for the year ended June 30, 2004 was \$116.8 million, and was offset by \$121.7 million in net nonoperating revenues, principally

comprised of \$80.0 million of state general education appropriations, \$7.9 million in land grant income, \$29.8 million in other state appropriations, \$7.0 million in gifts, and \$6.1 million in net investment income, offset by \$4.9 million in interest expense and \$5.0 million in provision for doubtful accounts.

Other Revenues and (Expenses)

Other revenues and expenses include assets contributed to the University from increased investments in its infrastructure, as well as capital asset contributions from other entities including the state's permanent building fund.

The following graph illustrates operating revenue, nonoperating revenue and other revenues by source for fiscal year 2004:



Significant Changes in the Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues increased by \$11.2 million primarily due the following:

- Student tuition and fees increased \$2.6 million due to increased enrollments and increases to the fee structure.
- Federal grants and contracts increased \$4.5 million due to the University's success in attracting federally sponsored research dollars.
- State grants and contracts increased \$3.5 million due to a focused effort by the University to grow its research programs.

Operating expenses increased \$7.7 million primarily due to the following:

- Supplies expense increased \$3.5 million primarily because of increased expenditures for furnishings and equipment as the Living Learning Center and the Vandal Athletic Center projects were completed
- Depreciation expense decreased \$1.7 million.
- Salaries and benefits expense increased \$6.8 million. During fiscal year 2003 the VSROP program created vacancies throughout the University. During fiscal year 2004, some of those positions were refilled. In addition health insurance benefits for employees increased by approximately 10 percent.
- Scholarships and fellowships expense decreased \$.9 million.

Nonoperating revenues increased \$2.0 million primarily due to the following:

- Appropriated general education and other revenues increased \$4.8 million. This increase was a combination of an increase in student fees and out of state tuition coupled with increased enrollment.
- An increase of \$1.6 million in gift revenue.
- A \$5 million increase in provision for doubtful accounts which decreased nonoperating revenues.

Other revenues and expenses increased by \$1.0 million primarily due to an increase in capital gifts from the Foundation of \$2.5 million and a decrease in capital appropriations of \$0.7 million.

Statement of Cash Flows

The statement of cash flows presents detailed information about the cash activity of the University during the year ended June 30, 2004. 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. 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.

Condensed Statement of Cash Flows Year Ended June 30, 2004

Net cash and cash equivalents provided by (used in):	
Operating activities	\$(102,435,488)
Noncapital financing activities	125,326,955
Capital and related financing activities	(33,635,880)
Investing activities	<u>(2,822,692)</u>
Net decrease in cash	(13,567,105)
Cash and cash equivalents—beginning of the year	<u>29,544,316</u>
Cash and cash equivalents—end of the year	<u>\$ 15,977,211</u>

Operating activities used \$102.4 million in cash for the year ended June 30, 2004. This slight decrease in cash used in operating activities was primarily the result of increases in student tuition and fee revenue and grants and contracts revenue.

Noncapital financing activities provided \$125.3 million in cash for the year ended June 30, 2004. This \$7.5 million increase primarily resulted from increased state appropriations and increased gift revenue.

Capital and related financing activities used \$33.6 million of cash during the year ended June 30, 2004, which is \$2.7 million less than fiscal year 2003.

Investing activities used \$2.8 million of cash during the year ended June 30, 2004.

Economic Outlook

The State of Idaho continues to experience economic uncertainty as is common throughout the nation. The University depends on state appropriations for a significant portion of its unrestricted funding, thus uncertainty in the state's economy translates into uncertainty in the University's base budget. The state is forecasting that the special 1% sales tax surcharge will sunset on June 30, 2005, further exacerbating the state's funding woes. Although there appears to be one-time funding sources available to the state that can back fill for this lost revenue in the short-run, this will not be sustainable over the longer term. Thus, like many states, Idaho will need to exercise prudence in its fiscal affairs and will eventually need to identify new revenue sources and/or make permanent reductions in its recurring expenditures.

These fiscal pressures will require changes in the way in which the University conducts its affairs. Recently, a presidential task force released a report urging the campus to make permanent reductions in its base budget and to evaluate programs and services for possible discontinuation. In addition, the University plans to grow and diversify the revenue bases of the institution through increased student revenues, growth in externally funded grants/contracts, strong philanthropic support and other initiatives. As a hedge against this economic uncertainty, the University also plans to maintain modest financial reserves.

University management is emphasizing accountability and stewardship of University resources, with a primary emphasis on maintaining relevance and excellence in programs offered. University management will continue to determine the proper balance between spending reductions and revenue increases to ensure that quality programs remain viable, while access to the University is not unduly limited by the cost of attendance.

University Place in Boise

During the fiscal year 2004, the University renewed two one-year operating leases for parking and office space at the Idaho Water Center ("IWC"). The lease amounts are composed of two components: Basic Rent and Additional Rent. The Basic Rent equals the annual amount of principal and interest payments corresponding to the fiscal year. These amounts range from \$1,448,382 in fiscal year 2005 to \$3,699,625 in fiscal year 2043. Additional Rent equals an amount sufficient to pay IWC operating costs and amounts necessary to meet terms of the bond covenants. The Additional Rent amount for fiscal year 2005 equals \$77,898. Though the leases are subject to non-renewal, the University intends to renew the leases annually through June 30, 2043.

UNIVERSITY OF IDAHO

STATEMENT OF NET ASSETS JUNE 30, 2004

	University of Idaho	Component Unit (Note 16)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,050,780	\$ 6,092,289
Student loans receivable	1,657,636	
Accounts receivable and unbilled charges—net	24,110,783	674,690
Due from state agencies	155,455	
Interest receivable	416,750	515,626
Inventories	1,749,647	
Investments	13,448,480	11,982,581
Repurchase agreements	712,767	
Pledges receivable		1,664,308
Notes receivable		449,545
Other current assets	<u>1,215,434</u>	
Total current assets	<u>56,517,732</u>	<u>21,379,039</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	2,926,431	5,122,472
Student loans receivable—net	9,927,774	
Interest receivable		206,922
Investments	19,489,747	151,190,754
Assets held in trust by the University of Idaho Foundation	71,171,461	
Pledges receivable		2,707,165
Notes receivable	2,030,198	934,321
Deferred bond financing costs	2,067,708	
Property, plant and equipment—net	311,705,296	23,084,585
Other noncurrent assets	<u>143,231</u>	<u>476,211</u>
Total noncurrent assets	419,461,846	183,722,430
TOTAL	<u><u>\$475,979,578</u></u>	<u><u>\$ 205,101,469</u></u>

See notes to financial statements.

	University of Idaho	Component Unit (Note 16)
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 6,043,574	\$ 335,696
Accrued salaries and benefits payable	24,840,606	
Trust earnings payable to trust beneficiaries		5,016,553
Accrued interest payable	1,688,233	
Deposits	634,030	
Deferred revenue	8,022,656	
Funds held in custody for others	1,067,791	
Obligations under capital leases	313,776	
Notes and bonds payable	4,696,517	5,041,759
Split interest agreements		964,081
	<u>47,307,183</u>	<u>11,358,089</u>
Total current liabilities		
NONCURRENT LIABILITIES:		
Accrued salaries and benefits payable	135,786	
Deposits	123,475	
Obligations under capital leases	113,788	
Notes and bonds payable	132,775,078	11,930,198
Assets held in trust for the University of Idaho		71,171,461
Split interest agreements		6,541,159
	<u>133,148,127</u>	<u>89,642,818</u>
Total noncurrent liabilities		
Total liabilities	<u>180,455,310</u>	<u>101,000,907</u>
NET ASSETS:		
Invested in capital assets—net of related debt	179,046,309	3,209,561
Restricted for:		
Nonexpendable	71,171,461	75,873,832
Expendable	15,388,436	33,401,579
Unrestricted	29,918,062	(8,384,410)
	<u>295,524,268</u>	<u>104,100,562</u>
Total net assets		
TOTAL	<u>\$475,979,578</u>	<u>\$205,101,469</u>

UNIVERSITY OF IDAHO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2004

	University of Idaho	Component Unit (Note 16)
OPERATING REVENUES:		
Student tuition and fees (net of scholarship discounts and allowances of \$18,147,302)	\$ 35,126,457	\$ -
Federal appropriations:		
Agriculture research	1,754,936	
Agriculture extension	2,336,494	
Federal grants and contracts	59,701,267	
State and local grants and contracts	11,046,223	
Private grants and contracts	13,914,957	
Sales and services of educational activities	9,321,494	
Sales and services of auxiliary enterprises	23,590,490	
Interest on loans receivable	192,655	
Other	3,930,337	259,288
Gifts		14,146,658
Total operating revenues	<u>160,915,310</u>	<u>14,405,946</u>
OPERATING EXPENSES:		
Salaries	134,723,758	
Benefits	42,355,153	
Services	32,421,892	
Supplies	30,092,895	
Insurance, utilities and rent	7,807,871	
Scholarships and fellowships	9,466,680	
Depreciation	17,291,610	49,671
Other	3,516,883	525,688
Administrative expense		1,208,147
Total operating expenses	<u>277,676,742</u>	<u>1,783,506</u>
OPERATING (LOSS) INCOME	(116,761,432)	12,622,440

(Continued)

UNIVERSITY OF IDAHO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2004

	University of Idaho	Component Unit (Note 16)
NONOPERATING REVENUES (EXPENSES):		
State appropriations:		
State general account—general education	\$ 79,973,500	\$ -
Endowment income	7,864,827	
Other state appropriations	29,822,467	
Gifts from University of Idaho Foundation	7,035,352	
Private grants and contracts	445,071	
Net investment income	6,072,598	6,174,223
Net increase in fair value of investments	15,889	13,400,056
Change in value of assets held in trust for the University of Idaho	425,275	(425,275)
Interest (net of capitalized interest of \$2,399,041)	(4,863,085)	(410,987)
Provision for doubtful accounts	(5,041,759)	
Distribution of endowment income to trust beneficiaries		(5,016,553)
Distribution to University of Idaho & affiliates		(9,937,996)
Distribution of trust income to life income beneficiaries		(631,393)
Lease and rental income		487,417
Property management		(358,996)
Change in split interest trusts		(371,910)
Other	2,193	(34,803)
	<u>121,752,328</u>	<u>2,873,783</u>
Net nonoperating revenues (expenses)		
	<u>121,752,328</u>	<u>2,873,783</u>
INCOME BEFORE OTHER REVENUES AND (EXPENSES)	<u>4,990,896</u>	<u>15,496,223</u>
OTHER REVENUES AND (EXPENSES):		
Capital appropriations	1,369,406	
Capital grants and contracts	1,730,325	
Capital gifts from University of Idaho Foundation	2,901,750	
Recovery on impairment of Water Center		1,343,342
Write down on Idaho Place Projects		(6,079,042)
	<u>6,001,481</u>	<u>(4,735,700)</u>
Total other revenues and (expenses)		
	<u>6,001,481</u>	<u>(4,735,700)</u>
INCREASE IN NET ASSETS	10,992,377	10,760,523
NET ASSETS—Beginning of year	<u>284,531,891</u>	<u>93,340,039</u>
NET ASSETS—End of year	<u>\$ 295,524,268</u>	<u>\$ 104,100,562</u>
See notes to financial statements		(Concluded)

UNIVERSITY OF IDAHO

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2004

	University of Idaho
CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	\$ 35,548,954
Federal appropriations	6,020,134
Grants and contracts	84,285,545
Sales and services of educational activities	9,355,915
Sales and services of auxiliary enterprises	22,848,582
Payments to employees	(179,947,758)
Payments to suppliers	(71,615,708)
Payments for scholarships and fellowships	(9,466,681)
Loans issued to students and employees	(3,283,351)
Collections of loans to students and employees	2,770,153
Other receipts	<u>1,048,727</u>
Net cash used in operating activities	<u>(102,435,488)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations:	
State general account—general education	79,973,500
Endowment income	7,864,827
Other state appropriations	29,817,862
Gifts from University of Idaho Foundation	7,035,352
Direct lending receipts	42,223,790
Direct lending payments	(42,223,790)
Loan receipts	1,868,946
Loan payments	(1,868,946)
Agency account receipts	7,436,851
Agency account payments	(6,777,929)
Grants and contracts for other than capital purposes	445,071
Other payments	<u>(468,579)</u>
Net cash provided by noncapital financing activities	<u>125,326,955</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from capital debt	720,404
Grants and contracts	1,730,325
Capital gifts	2,450,638
Proceeds from sale of property, plant and equipment	607,122
Purchases of property, plant and equipment	(27,672,605)
Principal on capital debt and leases	(4,317,012)
Interest (including capitalized interest of \$2,399,041)	<u>(7,154,752)</u>
Net cash used in capital and related financing activities	<u>(33,635,880)</u>

(Continued)

UNIVERSITY OF IDAHO

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2004

	University of Idaho
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	\$ (30,177,705)
Proceeds from sales and maturities of investments	19,863,846
Investment income	6,504,001
Principal received on note receivable	<u>987,166</u>
Net cash used in investing activities	<u>(2,822,692)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,567,105)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>29,544,316</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 15,977,211</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES:	
Operating loss	\$(116,761,432)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	17,291,610
Changes in assets and liabilities:	
Accounts receivable and unbilled charges—net	(881,163)
Student loans receivable—net	(207,098)
Interest receivable	43,157
Inventories	152,632
Other assets	(682,023)
Accrued salaries and benefits payable	(2,098,166)
Accounts payable and accrued liabilities	(1,343,028)
Deposits	62,927
Deferred revenue	<u>1,987,096</u>
Net cash used in operating activities	<u>\$(102,435,488)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:	
Property, plant and equipment acquired through capital lease obligations	\$ 135,021
Property, plant and equipment acquired through Department of Public Works' appropriations	1,369,406
Provision for doubtful accounts	5,041,759

See notes to financial statements.

(Concluded)

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

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 May 2002, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement 14, which requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The State of Idaho and the Idaho public colleges and universities implemented this Statement for the fiscal year ended June 30, 2004. The University of Foundation, Inc. (the “Foundation”) is considered a component unit of the University and is discretely presented in the University’s financial statements.

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.

Component Unit—The Foundation was established in 1970 to solicit financial support for the University and to manage and invest the resulting charitable gifts. The Foundation is a separate corporation made up of over 150 volunteers who are governed by a 25 member Board of Directors elected by the Foundation members.

The Foundation receipts all gifts to the University and transfers gifts to the donor designated area within the University on a regular schedule. In addition, they manage the endowments funds in a pooled investment fund the Consolidated Investment Trust (“C.I.T.”). Earnings from the endowment are transferred annually to the University. Some funds invested in the C.I.T. are held in trust for the University and are shown as an asset and liability on the Foundation financial statements.

The Foundation also manages a number of split-interest agreements. These are contributions in the form of irrevocable charitable remainder trusts and charitable gift annuities. These gifts have been received from donors subject to obligations to pay stipulated amounts periodically to the donors or designated beneficiaries during their lifetimes or a period of years. These assets for which the Foundation serves as trustee are included in investments, and the present value of the estimated future payments to be made to the donors or other beneficiaries is included in the liabilities. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, amortization of the discount, or the estimated life of the trust.

During the year ended June 30, 2004, the Foundation distributed \$9,937,996 and \$5,016,553 to the University from gifts and other revenues and C.I.T. endowment income, respectively.

Cash and Cash Equivalents—The University considers all highly liquid investments with a remaining maturity of three months or less at the date of acquisition to be cash equivalents.

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 their date of separation from the University. Collections on these student loans are primarily handled through a third party servicer.

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.

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.

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 net increase in fair value of investments in the statement of revenues, expenses and changes in net assets.

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. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense 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.

Compensated Absences—Employee vacation and compensatory pay earned but unused is accrued at year end for financial statement purposes. Included in the accrued salaries and benefits payable at June 30, 2004 is \$7,801,014, related to compensated absences. This amount is also included as a component of benefits expense in the statement of revenues, expenses and changes in net assets.

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 the year ended June 30, 2004 was \$564,050.

Deferred Revenue—Deferred revenue includes 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 revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

Noncurrent Liabilities—Noncurrent liabilities primarily 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 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 as a component of invested in capital assets, net of related debt.

Restricted—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.

Restricted—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.

Unrestricted—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, expense allocation decisions are made on a program-by-program basis. The University does not have a policy regarding the preferred first usage of unrestricted or restricted net assets

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, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, 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*.

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.

Reclassifications—Certain reclassifications have been made in the 2003 financial statements to conform to the 2004 presentation.

New Accounting Standards—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 University has not completed the process of evaluating the impact that will result from adopting this Statement. The requirements of this Statement are effective for the University'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*. This statement establishes accounting and financial reporting standards for impairment of capital assets and requirements for application of related insurance recoveries. The University has not implemented the process of evaluating the impact that will result from adopting this Statement. The requirements of this statement are effective for the University's fiscal year ending June 30, 2006.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement generally requires that the University account for and report the cost and obligations related to postemployment healthcare and other nonpension benefits ("OPEB") and include disclosures regarding its OPEB plans. OPEB costs are likely to be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of Statement No. 45 may be applied prospectively and do not require the University to fund its OPEB plans. The University may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded liability is required to be amortized over future periods. The requirements of this Statement for the University are effective for the fiscal year ending June 30, 2008. The University 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.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are deposited with various financial institutions. Such deposits for the years ended June 30, 2004 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, 2004 consisted of the following:

Category 1	\$ 439,362
Category 2	1,957,636
Category 3	<u>13,580,213</u>
Total	<u>\$15,977,211</u>

Of the cash and cash equivalents reported on the statement of net assets at June 30, 2004, \$2,926,431, is restricted by donors, granting agencies, or other contractual agreements. Book value of deposits does not materially differ from the bank balance of deposits.

3. INVESTMENTS AND REPURCHASE AGREEMENTS

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 \$1,856,864 of these investments were restricted by donors, granting agencies, or other contractual agreements at June 30, 2004.

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, 2004. 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.

	2004			Total Carrying Amount
	Investment Risk Category			
	1	2	3	
INVESTMENTS:				
Corporate debt securities and preferred stock	\$ 19,096,839	\$ -	\$ -	\$ 19,096,839
U.S. government or government guaranteed securities	10,074,561	1,144,097		11,218,658
Common stocks	1,250,000			1,250,000
Mutual funds	<u>1,372,730</u>	<u></u>	<u></u>	<u>1,372,730</u>
	<u>\$ 31,794,130</u>	<u>\$ 1,144,097</u>	<u>\$ -</u>	<u>\$ 32,938,227</u>
REPURCHASE AGREEMENTS HELD IN TRUST		<u>\$ 712,767</u>		<u>\$ 712,767</u>

In additions to the investments above, there are approximately \$71 million of endowment assets classified as Assets held in trust by the University of Idaho Foundation that are discussed in Note 16.

4. RECEIVABLES AND UNBILLED CHARGES

Receivables and unbilled charges consisted of the following at June 30, 2004:

	Current	Noncurrent
Student tuition and fees	\$ 2,266,049	\$ -
Auxiliary enterprises	1,416,971	
Other activities	393,361	
Federal appropriations	169,046	
Federal financial aid funds	40,956	
Grants and contracts	15,427,933	
Scholarships and fellowships	4,672,098	
Notes receivable	<u>5,041,759</u>	<u>2,030,198</u>
	29,428,173	2,030,198
Less allowance for doubtful accounts	<u>(5,317,390)</u>	
Net accounts receivable and unbilled charges	<u>\$ 24,110,783</u>	<u>\$ 2,030,198</u>

The University holds an unsecured note receivable in the amount of \$5,041,759 from the Foundation, a related party, dated October 14, 2003, due December 31, 2004. Variable rate interest is due at maturity at the Wells Fargo daily sweep rate plus 2% (2.1% as of June 30, 2004). An allowance for the full amount has been recorded as of June 30, 2004. There is not sufficient evidence to support the Foundation being able to pay the note when due. The University believes it may be possible to collect on this note once the Foundation proceeds through legal and other potential recoveries. The University is monitoring the Foundation's legal recovery efforts and intends to vigorously pursue collection of this note.

The University also holds an unsecured note receivable in the amount of \$2,030,198 from the Foundation, a related party, dated October 14, 2003, due December 31, 2005. Fixed rate interest due at maturity is 1%. The University has not recorded an allowance on this note based upon the likelihood of repayment from the Foundation.

5. STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2004. 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 Program or the government were to cancel the program, the amount the University would be liable for as of June 30, 2004 is approximately \$10,023,893.

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, 2004, the allowance for uncollectible loans was \$1,114,323.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2004 consisted of the following:

	Balance July 1, 2003	Additions	Transfers	Retirements	Balance June 30, 2004
Property, plant and equipment not being depreciated:					
Land	\$ 9,159,598	\$ 1,053,899	\$ -	\$ (92,884)	\$ 10,120,613
Capitalized collections	2,178,401	17,118		(30,000)	2,165,519
Equipment construction in progress	239,485	633,759	(141,192)	(4,718)	727,334
Construction in progress	<u>28,825,622</u>	<u>6,839,833</u>	<u>(24,894,666)</u>	<u>(106,280)</u>	<u>10,664,509</u>
Total property, plant and equipment not being depreciated	<u>\$ 40,403,106</u>	<u>\$ 8,544,609</u>	<u>\$ (25,035,858)</u>	<u>\$ (233,882)</u>	<u>\$ 23,677,975</u>
Other property, plant and equipment:					
Buildings	\$ 303,432,349	\$ 14,180,280	\$ 25,033,039	\$ (2,283,368)	\$ 340,362,300
Other improvements	36,184,037	511,504	(138,373)	(40,408)	36,516,760
Furniture and equipment	60,388,470	6,201,642	141,192	(2,057,740)	64,673,564
Library materials	<u>48,698,691</u>	<u>2,589,150</u>		<u>(570,180)</u>	<u>50,717,661</u>
Total other property, plant and equipment	<u>448,703,547</u>	<u>23,482,576</u>	<u>25,035,858</u>	<u>(4,951,696)</u>	<u>492,270,285</u>
Less accumulated depreciation:					
Buildings	(100,761,139)	(8,545,502)	(10,213)	2,283,368	(107,033,486)
Other improvements	(16,165,694)	(1,571,497)	10,213	40,408	(17,686,570)
Furniture and equipment	(36,239,574)	(5,002,449)		2,057,740	(39,184,283)
Library materials	<u>(38,736,643)</u>	<u>(2,172,162)</u>		<u>570,180</u>	<u>(40,338,625)</u>
Total accumulated depreciation	<u>(191,903,050)</u>	<u>(17,291,610)</u>		<u>4,951,696</u>	<u>(204,242,964)</u>
Other property, plant and equipment—net	<u>\$ 256,800,497</u>	<u>\$ 6,190,966</u>	<u>\$ 25,035,858</u>	<u>\$ -</u>	<u>\$ 288,027,321</u>
Property, plant and equipment summary:					
Property, plant and equipment not being depreciated	\$ 40,403,106	\$ 8,544,609	\$ (25,035,858)	\$ (233,882)	\$ 23,677,975
Other property, plant and equipment—at cost	<u>448,703,547</u>	<u>23,482,576</u>	<u>25,035,858</u>	<u>(4,951,696)</u>	<u>492,270,285</u>
Total cost of property, plant and equipment	489,106,653	32,027,185		(5,185,578)	515,948,260
Less accumulated depreciation	<u>(191,903,050)</u>	<u>(17,291,610)</u>		<u>4,951,696</u>	<u>(204,242,964)</u>
Property, plant and equipment—net	<u>\$ 297,203,603</u>	<u>\$ 14,735,575</u>	<u>\$ -</u>	<u>\$ (233,882)</u>	<u>\$ 311,705,296</u>

In addition to accounts payable for construction in progress, the estimated cost to complete property authorized or under construction at June 30, 2004 is approximately \$16,613,800. These costs will be financed by state appropriations, institutional funds, gifts, grants and contracts, the Department of Public Works, and/or long-term borrowing.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2004:

Operating activities	\$ 5,997,414
Payments to contractors	18,460
Other activities	<u>27,700</u>
Total accounts payable and accrued liabilities	<u>\$ 6,043,574</u>

8. ACCRUED SALARIES AND BENEFITS PAYABLE

Accrued salaries and benefits payable consisted of the following at June 30, 2004:

	Current	Noncurrent
Payroll and leave payable	\$ 22,173,634	\$ -
Early retirement program—VSROP	<u>2,666,972</u>	<u>135,786</u>
	<u>\$ 24,840,606</u>	<u>\$ 135,786</u>

9. CAPITAL LEASES

The University has entered into various capital lease agreements covering certain computer system assets. At June 30, 2004, assets under capital lease totaled \$1,098,305 and are included in furniture and equipment. Future minimum lease obligations under these agreements for the year ending June 30 are as follows:

2005	\$ 332,652
2006	64,084
2007	32,004
2008	<u>24,226</u>
Total minimum obligations	452,966
Less amount representing interest	<u>(25,402)</u>
Present value of minimum obligations	<u>\$ 427,564</u>

10. OPERATING LEASES

The University has entered into various noncancellable operating lease agreements covering certain assets. The lease terms range from one to six years. The expense for operating leases was \$854,793 for the year ended June 30, 2004.

Future minimum lease payments on noncancelable leases at June 30, 2004 are as follows:

2005	\$ 767,371
2006	186,222
2007	127,896
2008	102,615
2009	<u>21,336</u>
Total future minimum obligations	<u>\$ 1,205,440</u>

During the fiscal year 2004, the University continued two one-year operating leases for parking and office space at the Idaho Water Center (“IWC”). The lease amounts are composed of two components: Basic Rent and Additional Rent. The Basic Rent equals the annual amount of principal and interest payments corresponding to the fiscal year. These amounts range from \$1,448,382 in fiscal year 2005 to \$3,699,625 in fiscal year 2043. Additional Rent equals an amount sufficient to pay IWC operating costs and amounts necessary to meet terms of the bond covenants. The Additional Rent amount for fiscal year 2005 equals \$77,898. The schedule above does not reflect amounts related to the Idaho Water Center. Though the leases are subject to non-renewal, the University intends to renew the leases annually through June 30, 2043.

11. NOTES AND BONDS PAYABLE

Notes and bonds payable consisted of the following at June 30, 2004:

Description	Original Balance	Balance Outstanding
Student Fee Refunding Revenue Bonds, Series 1996, consisting of serial bonds due in annual installments increasing periodically from \$530,000 to a maximum of \$860,000, plus interest from 5.05% to 5.80% through the year 2013, collateralized by a pledge of net revenues and certain student fees of the University	\$ 9,285,000	\$ 6,040,000
Student Fee Revenue Bonds, Series 1996, consisting of serial bonds due in annual installments ranging from \$435,000 to a maximum of \$605,000, plus interest from 5.75% to 5.85% through the year 2011, collateralized by a pledge of the University's Student Matriculation Fee and other pledged net revenues derived from the Telecommunications System, Non-Dormitory Housing System, and Parking System	7,965,000	3,590,000
Student Fee Refunding Revenue Bonds, Series 1997B, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$690,000 to a maximum of \$1,220,000, plus interest from 5.00% to 5.70% through the year 2016, collateralized by a pledge of net revenues of the Student Housing System, University's Student Matriculation Fee and other pledged net revenues	12,380,000	11,085,000
Student Fee Revenue Bonds (University Commons Project) Series 1997, consisting of serial bonds due to annual installments commencing in 1999 and increasing periodically from \$130,000 to a maximum of \$1,650,000, plus interest from 4.85% to 5.70% through the year 2022, collateralized by a pledge of certain student fees, and certain other pledged revenue	14,100,000	13,380,000
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 \$175,000 to a maximum of \$405,000, plus interest from 4.60% to 5.35% through the year 2022, collateralized by a pledge of certain student fees, and certain other pledged revenue	5,620,000	4,865,000
Student Fee Revenue Bonds (Recreation Center Project), Series 1999, consisting of serial bonds due in annual installments commencing in 2002 and increasing periodically from \$470,000 to a maximum of \$1,425,000, plus interest from 3.85% to 6.50% through the year 2025, collateralized by a pledge of certain student fees, and certain other pledged revenue	20,115,000	18,985,000

(Continued)

Description	Original Balance	Balance Outstanding
Student Fee Revenue Bonds, Series 1999A, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$40,000 to a maximum of \$105,000, plus interest from 4.00% to 5.25% through the year 2025, collateralized by a pledge of net revenues of the Student Housing System, University's Student Matriculation Fee, and other pledged net revenues	\$ 1,470,000	\$ 1,395,000
Student Fee Revenue Bonds, Series 1999B, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$155,000 to a maximum of \$445,000, plus interest from 4.95% to 5.625% through the year 2025, collateralized by a pledge of net revenues of the Student Housing System, University's Student Matriculation Fee, and other pledged net revenues	6,150,000	5,850,000
Student Fee Revenue Bonds, Series 1999C, consisting of serial bonds due in annual installments commencing in 2001 and increasing periodically from \$245,000 to a maximum of \$515,000, plus interest from 4.65% to 5.70% through the year 2019, collateralized by a pledge of net revenues of the Student Housing System, University's Student Matriculation Fee, and other pledged revenues	6,305,000	5,420,000
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 a pledge of net revenues of certain student fees, and certain other pledged revenue	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 a pledge of net revenues of the Student Housing System, net revenues derived from the Telecommunications System, and certain other pledged revenues	40,930,000	40,930,000
Student Fee Refunding and Revenue Bonds, Series 2003, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$20,000 to a maximum of \$1,525,000, plus interest from 4.00% to 5.25% through the year 2014, collateralized by a pledge of net revenues of the Student Housing System, net revenues derived from the Telecommunications System, and certain other pledged revenues	17,585,000	16,695,000
Other indebtedness, consisting of notes payable with interest rates ranging from 3.80% to 5.00%, due through the year 2019	<u>2,790,768</u>	<u>1,945,211</u>
	150,715,768	136,200,211
Premium on bonds	<u> </u>	<u>1,271,384</u>
	<u><u>\$ 150,715,768</u></u>	<u><u>\$ 137,471,595</u></u>

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

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

	Interest	Principal
2005	\$ 7,168,756	\$ 4,696,517
2006	6,943,460	5,031,679
2007	6,704,609	5,240,898
2008	6,456,083	5,291,487
2009	6,193,898	5,551,289
2010–2014	26,618,679	28,327,208
2015–2019	18,898,463	27,196,133
2020–2024	12,098,032	24,145,000
2025–2029	6,529,437	11,295,000
2030–2034	4,558,508	6,645,000
2035–2039	2,566,620	8,640,000
2040–2041	338,310	4,140,000
	<u>\$ 105,074,855</u>	<u>\$ 136,200,211</u>

At June 30, 2004, debt in the amount of \$568,840 is considered extinguished through defeasance 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.

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, 2004 are as follows:

	Matriculation Fee System	Activity Center Fee System	Student Rec Center System	
	Series TIP 1996, 1997B 1999A, 1999B, 1999C, 2001 and 2003	Series 1996, 1997 Commons, Commons Suppl. and Series 1999D	Student Rec Center Series 1999	Total
Pledged Revenues				
Student matriculation fee	\$ 22,971,201	\$ -	\$ -	\$ 22,971,201
Residence hall system	7,228,986			7,228,986
Apartment housing system	2,086,102			2,086,102
Food service (meal plan)	3,052,562			3,052,562
Food service (institutional food service system)		419,510		419,510
Bookstore		7,749,677		7,749,677
Parking system	2,101,910			2,101,910
Telecommunications system revenues	3,571,826			3,571,826
Other student fees and tuition	191,914	3,685,678	1,692,532	5,570,124
Investment income	57,844	39,645	185	97,674
Other transfers (to Series 1998 TIP and Series 1995 SFR)	210,000			210,000
Total pledge revenues	<u>\$ 41,472,345</u>	<u>\$ 11,894,510</u>	<u>\$ 1,692,717</u>	<u>\$ 55,059,572</u>

12. NONCURRENT LIABILITIES

Noncurrent liability activity for year ended June 30, 2004 is as follows:

	Ending Balance June 30, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts Due within One Year
Bonds and notes payable and capital lease obligations:					
Revenue bonds payable	\$ 139,162,391	\$ -	\$3,636,007	\$ 135,526,384	\$4,345,000
Notes payable	1,591,226	720,404	366,419	1,945,211	351,517
Capital lease obligations	607,128	135,021	314,585	427,564	313,776
Total bonds, notes and capital leases	<u>141,360,745</u>	<u>855,425</u>	<u>4,317,011</u>	<u>137,899,159</u>	<u>5,010,293</u>
Other liabilities:					
Accounts payable and accrued liabilities	117,191		117,191		
Early retirement program—VSROP	4,629,483	434,699	2,261,424	2,802,758	2,666,972
State teacher loan cancellation deposits	130,779	29,540	36,844	123,475	
Split-interest agreements	161,248		161,248		
Total other liabilities	<u>5,038,701</u>	<u>464,239</u>	<u>2,576,707</u>	<u>2,926,233</u>	<u>2,666,972</u>
Total noncurrent liabilities	<u>\$ 146,399,446</u>	<u>\$ 1,319,664</u>	<u>\$ 6,893,718</u>	<u>\$ 140,825,392</u>	<u>\$ 7,677,265</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. The plan provides benefits based on members’ years of service, age and compensation. In addition, benefits are provided for disability, death and survivors of eligible members or beneficiaries. 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. The benefits and obligations to contribute to the plan were established and may be amended by the Idaho State Legislature. Financial reports for the plan are available from PERSI upon request.

After five 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, 2004, 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 \$4,984,862, \$5,053,518 and \$5,362,184 for the years ended June 30, 2004, 2003 and 2002, respectively.

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, 2004 was \$8,698,483 which consisted of \$4,571,295 from the University and \$4,127,188 from employees. The contributions represent 7.72% of covered payroll for the year ended June 30, 2004.

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 years ended June 30, 2004, the supplemental funding payments made to PERSI was \$1,784,474. This amount is not included in the regular University PERSI contribution discussed previously.

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. Included in accrued salaries and benefits payable at June 30, 2004 is \$2,802,758 (undiscounted) associated with this program.

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 was not 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 medical insurance coverage through the University. The University partially funds these obligations by depositing a percentage of employee gross payroll into a reserve. This percentage was 1.5% at June 30, 2004. The University had expenses totaling \$2,941,547 in fiscal year 2004 to purchase insurance for 712 retired employees receiving these benefits. As of June 30, 2004, approximately \$2,670,534 is available to fund these obligations. The GASB has issued Statement No. 45 that will require the University to record these obligations on an actuarially determined basis. An actuarially determined valuation of this obligation would likely be significantly higher than the amount currently accrued.

14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

The following table shows natural classifications with functional classifications for the year ended June 30, 2004:

	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expense Totals
Instruction	\$ 43,403,205	\$13,740,821	\$ 8,433,677	\$ 3,880,000	\$ 303,464	\$ 454,611	\$ -	\$ 880,509	\$ 71,096,287
Research	40,626,314	11,180,342	13,124,323	6,972,952	777,024	269,850		382,995	73,333,800
Public services	11,607,033	3,742,859	3,470,681	1,004,514	165,915	221,014		501,963	20,713,979
Academic support	5,193,736	1,596,213	979,785	823,166	76,721	82,545		30,633	8,782,799
Libraries	2,082,962	772,159	793,643	410,792					4,059,556
Student services	4,689,768	1,714,894	1,056,896	396,010	41,129	34,097		73,475	8,006,269
Institutional support	10,782,977	3,093,369	1,703,955	1,355,742	3,222,350	178,129		853,895	21,190,417
Plant operations	6,684,565	2,980,763	1,086,302	3,289,852	2,097,008		17,291,610	348,239	33,778,339
Scholarships and fellowships	1,175,872	1,668	5,955			8,215,109		155,999	9,554,603
Auxiliaries	<u>8,477,326</u>	<u>3,532,065</u>	<u>1,766,675</u>	<u>11,959,867</u>	<u>1,124,260</u>	<u>11,325</u>		<u>289,175</u>	<u>27,160,693</u>
Total operating expenses	<u>\$ 134,723,758</u>	<u>\$42,355,153</u>	<u>\$32,421,892</u>	<u>\$30,092,895</u>	<u>\$7,807,871</u>	<u>\$9,466,680</u>	<u>\$17,291,610</u>	<u>\$3,516,883</u>	<u>\$277,676,742</u>

15. 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.

16. COMPONENT UNIT

As described in Note 1, the Foundation has been determined to be a component unit of the University. Significant accounting policies associated with the University, also described in Note 1, apply to the Foundation, when applicable. Significant disclosures at June 30, 2004 are as follows:

University Place Project in Boise—Over the past several years the Foundation has 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. During fiscal year 2004, approximately \$6.1 million of predevelopment costs associated with the Health Professions Center have been written off. 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.

Cash & 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 definitions, as they apply, are described in Note 2. Balances of deposits by such categories at June 30, 2004 consisted of the following:

Category 1	\$ 3,889,440
Category 2	465,694
Category 3	<u>6,859,627</u>
Total	<u>\$11,214,761</u>

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

Investments—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.

The C.I.T. was established by the Regents of the University 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 at fair value of marketable securities invested in the C.I.T. Unrestricted fund investments in the C.I.T. totaled \$2,083,270, at fair value. Included in these investments are funds held by the Foundation for the University of \$71 million.

The Foundation's investments categorized below to give an indication of the level of risk assumed by the Foundation at June 30, 2004. Balances of investments by such categories at June 30, 2004 consisted of the following:

	2004			
	Investment Risk Category			Total Carrying Amount
	1	2	3	
INVESTMENTS:				
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 stocks	96,208,014			96,208,014
Mutual funds	<u>1,146,531</u>	<u>351,286</u>	<u></u>	<u>1,497,817</u>
	<u>\$ 162,432,049</u>	<u>\$ 741,286</u>	<u>\$ -</u>	<u>\$ 163,173,335</u>
REPURCHASE AGREEMENTS HELD IN TRUST		\$ 712,767		\$ 712,767

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.

For the fiscal year ended June 30, 2004 the Foundation recorded \$408,200 of gift revenue in the form of pledges receivable. An allowance for uncollectible pledges of \$20,410 was recorded. 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>

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:

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
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
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
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
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.	29,235
	<u>\$ 1,383,866</u>

Property, Plant and Equipment—Property, plant and equipment at June 30, 2004 consisted of the following:

	Balance July 1, 2003	Additions	Deletions	Impairments and Write-offs	Transfers	Balance June 30, 2004
Property, plant and equipment not being 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 use by 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 property, plant and equipment not being 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 property, plant and equipment:						
Buildings	1,404,941					1,404,941
Less accumulated depreciation	<u>(654,205)</u>	<u>(49,671)</u>				<u>(703,876)</u>
Other property, plant, and equipment—net	<u>750,736</u>	<u>(49,671)</u>				<u>701,065</u>
Property, plant and equipment—net	<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>

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 at June 30, 2004, as a result of overpayment to the University. The University has exclusive use of this building. The Foundation intends to transfer the building to the University once the final \$3.9 million is collected to pay off the construction note.

Trust Earnings Payable to Trust Beneficiaries—Earnings from the Consolidated Investment Trust payable to beneficiaries of the endowments at June 30, 2004 consisted of \$4.7 million due to scholarships and programs at the University, \$312 thousand due to life income beneficiaries, and \$29 thousand to other University affiliates.

Notes and Bonds Payable—Notes payable at June 30, 2004 consisted of the following:

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
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
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 University of Idaho Campus. Original note amount was \$9,205,000.	3,900,000
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.	<u>2,030,198</u>
	<u>\$ 16,971,957</u>

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

	Interest	Principal
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.

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.

The Foundation has entered into 99 charitable gift arrangements of which the underlying assets have a market value of \$13,278,714. The actuarial obligation to pay the trust beneficiaries at June 30, 2004 is \$7,505,240. 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 were received in connection with split interest agreements during the year.

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
Liability for split interest trusts	\$6,036,330	\$1,610,812	\$ (141,902)	\$7,505,240	\$964,081

17. RELATED ORGANIZATIONS

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, 2004, the Idaho Research Foundation Inc. has drawn \$126,000 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, 2004 were \$213,598 of which \$174,607 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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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Regents
University of Idaho

We have audited the financial statements of the University of Idaho (the "University") as of and for the year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the University's internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 12, 2004