

UNIVERSITY OF IDAHO

**Financial Statements for the
Year Ended June 30, 2001 and
Independent Auditors' Reports**

UNIVERSITY OF IDAHO

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INDEPENDENT AUDITORS' REPORT

To the Board of Regents of the
University of Idaho:

We have audited the accompanying balance sheet of the University of Idaho (the "University") as of June 30, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University of Idaho at June 30, 2001, and the changes in its fund balances and its current funds revenues, expenditures and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the University changed its application of an accounting principle related to the capitalization of property, plant and equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2001 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 7, 2001
(October 4, 2001 as to Note 6)

Budget	Current Funds		Invested	Assets
	Operating	Non-Operating		
282,984	2,427,712	2,427,712	2,612,712	Cap and exp. equipment
10,948,014				Student loan receivable less allowance for doubtful
				items of \$1,404,342
88,544	412,727,042	1,091,967	2,196,806	Accounts receivable and prepaid charges less allowance for
68,662	1,594,247	27,721	6,210,646	doubtful accounts of \$112,142
148,222	49,282		998,232	Due from other funds
202,116		28,431	12,020,471	Due from State Agencies
		1,148,212	700,873	Accounts receivable
				Investments
				Investments held in trust
				Prepaids
				Deferred bond financing costs
				Property, plant and equipment
				Investment contracts receivable
				Other assets
212,800,280	218,120,012	22,627,712	228,100,402	

LIABILITIES AND FUND BALANCES

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Budget	Current Funds		Invested	Liabilities
	Operating	Non-Operating		
102,281	4,021,249	424,202	2,787,248	Accounts payable and accrued liabilities
	822,247	227,122		Trust charges payable to trust beneficiaries
				Accounts receivable
				Due to other funds
				Deposits
				Deferred revenues
				Accounts held in custody for others
				Self-insured agreements
				Options under capital leases
				Notes and bonds payable
168,242	12,727,211	2,227,782	22,202,248	
				FUND BALANCES
				Unrestricted
				Designated
				Committed
				Unexpended plant
				Renewal and replacement
				Replacement of endowments
				Reserves
				Committed
				Unexpended plant
				Renewal and replacement
				Replacement of endowments
				U.S. government grants receivable
				Held in trust by the University of Idaho Foundation
				Net investment in plant
12,642,847	2,486,712	177,922	13,307,481	
212,800,280	218,120,012	22,627,712	228,100,402	

UNIVERSITY OF IDAHO

BALANCE SHEET

JUNE 30, 2001 WITH COMPARATIVE TOTALS FOR 2000

ASSETS	Current Funds			Student Loan Funds
	Unrestricted	Auxiliary Enterprises	Restricted	
Cash and cash equivalents	\$ 6,512,712	\$ 45,777		\$ 680,385
Student loans receivable, less allowance for doubtful loans of \$1,409,242				10,698,055
Accounts receivable and unbilled charges, less allowance for doubtful accounts of \$213,142	3,196,806	1,091,967	\$15,757,196	85,566
Due from other funds	6,210,696	25,731	1,554,747	68,025
Due from State Agencies	998,533		906,852	
Accrued interest receivable				448,229
Investments	19,030,471	58,431		825,039
Investments held in trust				
Inventories	703,873	1,148,912		
Deferred bond financing costs				
Property, plant and equipment				
Installment contracts receivable				
Other assets	<u>2,513,372</u>	<u>256,897</u>	<u>1,228</u>	
	<u>\$39,166,463</u>	<u>\$2,627,715</u>	<u>\$18,220,023</u>	<u>\$12,805,299</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable and accrued liabilities	\$20,561,700	\$1,502,428	\$ 7,858,465	
Trust earnings payable to trust beneficiaries				
Accrued interest payable				
Due to other funds			4,051,849	
Deposits		424,202		\$ 162,442
Deferred revenue	2,741,598	327,153	822,997	
Amounts held in custody for others				
Split-interest agreements				
Obligations under capital leases				
Notes and bonds payable				
	<u>23,303,298</u>	<u>2,253,783</u>	<u>12,733,311</u>	<u>162,442</u>
FUND BALANCES:				
Unrestricted:				
Designated	1,184,642			
General	14,678,523	373,932		
Unexpended plant				
Renewal and replacement				
Retirement of indebtedness				
Restricted:				
General			5,486,712	3,064,553
Unexpended plant				
Renewal and replacement				
Retirement of indebtedness				
U.S. government grants refundable				9,578,304
Held in trust by the University of Idaho Foundation				
Net investment in plant				
	<u>15,863,165</u>	<u>373,932</u>	<u>5,486,712</u>	<u>12,642,857</u>
	<u>\$39,166,463</u>	<u>\$2,627,715</u>	<u>\$18,220,023</u>	<u>\$12,805,299</u>

See notes to financial statements.

Endowment and Similar Funds	Combined Plant Funds	Agency Funds	Totals	
			2001	2000
\$ 7,888,064	\$ 1,977,844	\$ 615,405	\$ 17,720,187	\$ 8,169,962
			10,698,055	10,786,429
64,180	25,699	7,866	20,229,280	16,513,121
		223	7,859,422	6,781,403
			1,905,385	549,233
403,902	175,591		1,027,722	1,086,951
3,763,916	17,795,995	10,689,567	52,163,419	79,539,183
71,452,519	1,442,346		72,894,865	71,595,640
			1,852,785	1,735,861
	1,745,219		1,745,219	1,860,006
	416,774,041		416,774,041	417,397,697
1,461,985			1,461,985	1,495,254
957,320			3,728,817	4,054,734
<u>\$85,991,886</u>	<u>\$439,936,735</u>	<u>\$11,313,061</u>	<u>\$610,061,182</u>	<u>\$621,565,474</u>
\$ 28,810	\$ 1,668,881	\$ 665,471	\$ 32,285,755	\$ 25,953,594
417,881			417,881	256,843
	1,201,935		1,201,935	1,238,317
2,728,221	1,079,352		7,859,422	6,781,403
			586,644	521,434
			3,891,748	2,881,159
5,749,078		10,647,590	10,647,590	14,910,890
	188,004		5,749,078	
	99,567,290		188,004	221,541
			99,567,290	102,797,957
<u>8,923,990</u>	<u>103,705,462</u>	<u>11,313,061</u>	<u>162,395,347</u>	<u>155,563,138</u>
			1,184,642	1,257,053
			15,052,455	16,412,261
	476,417		476,417	1,559,697
	2,747,806		2,747,806	3,565,364
	2,100,305		2,100,305	4,136,724
			8,551,265	6,887,960
	12,738,455		12,738,455	28,734,313
	1,149,543		1,149,543	2,081,653
			9,578,304	9,357,333
77,067,896			77,067,896	77,631,779
	317,018,747		317,018,747	314,378,199
<u>77,067,896</u>	<u>336,231,273</u>		<u>447,665,835</u>	<u>466,002,336</u>
<u>\$85,991,886</u>	<u>\$439,936,735</u>	<u>\$11,313,061</u>	<u>\$610,061,182</u>	<u>\$621,565,474</u>

UNIVERSITY OF IDAHO

STATEMENT OF CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 2001 WITH COMPARATIVE TOTALS FOR 2000

	Current Funds			Student Loan Funds
	Unrestricted	Auxiliary Enterprises	Restricted	
REVENUES AND OTHER ADDITIONS:				
Unrestricted current funds revenues	\$148,269,531	\$29,443,293		
Private gifts, grants and contracts			\$ 12,417,358	\$ 10
Government grants and contracts			42,856,638	97,088
Governmental appropriations			34,379,475	
Investment income				138,815
Interest on loans receivable				253,319
Expended for plant facilities, including \$7,076,232 charged to current funds' expenditures and capitalized interest of \$784,683				
Retirement of indebtedness				
Change in fair value of investments				53,345
Proceeds from issuance of bonds and notes payable				
Public works projects completed				
Other additions			3,365,308	88,283
Total revenues and other additions	148,269,531	29,443,293	93,018,779	630,860
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	139,810,291		85,449,025	
Auxiliary enterprises expenditures		27,771,107		
Indirect costs recovered			5,500,511	
Loan cancellations, write-offs and provisions for doubtful accounts				433,232
Expended for plant facilities, including noncapitalized expenditures of \$1,261,612				
Retirement of indebtedness				
Interest on indebtedness				
Disposal of plant facilities				
Additions to indebtedness				
Additions to capital leases				
Other deductions				9,259
Total expenditures and other deductions	139,810,291	27,771,107	90,949,536	442,491
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):				
Mandatory:				
Principal and interest	(5,791,131)	(1,933,811)	(215,873)	
Loans and matching grants	(370,594)		338,231	32,363
Net transfers (voluntary)	(3,406,992)	(61,115)	(451,907)	(76,150)
Total transfers	(9,568,717)	(1,994,926)	(329,549)	(43,787)
NET INCREASE (DECREASE) FOR THE YEAR	(1,109,477)	(322,740)	1,739,694	144,582
FUND BALANCES, BEGINNING OF YEAR	16,972,642	696,672	3,747,018	12,498,275
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	16,972,642	696,672	3,747,018	12,498,275
FUND BALANCES, END OF YEAR	\$ 15,863,165	\$ 373,932	\$ 5,486,712	\$12,642,857

See notes to financial statements.

Endowment and Similar Funds	Plant Funds				Totals	
	Unexpended Plant	Renewal and Replacement	Retirement of Indebtedness	Net Investment In Plant	2001	2000
					\$177,712,824	\$163,146,322
.025,809	\$ 1,043,358			\$ 578,241	15,064,776	16,741,421
	3,829,445				46,783,171	38,670,539
4,213,692	.157,102		\$ 177,091		34,379,475	32,349,728
					5,686,700	6,343,434
					253,319	258,409
				37,245,105	37,245,105	36,395,732
				3,558,599	3,558,599	3,268,484
3,805,449	106,318	\$ 142,743	108,134		4,215,989	(6,306,322)
	260,650				260,650	12,325,000
				1,306,413	1,306,413	2,683,661
<u>362,573</u>	<u>199,655</u>				<u>4,015,819</u>	<u>3,392,517</u>
<u>9,407,523</u>	<u>6,596,528</u>	<u>142,743</u>	<u>285,225</u>	<u>42,688,358</u>	<u>330,482,840</u>	<u>309,268,925</u>
					225,259,316	202,449,939
					27,771,107	26,387,779
					5,500,511	4,570,807
					433,232	50,410
	29,954,546	693,017			30,647,563	31,938,761
			3,558,599		3,558,599	3,268,484
			5,418,900		5,418,900	5,284,934
				8,853,556	8,853,556	5,313,599
				260,650	260,650	12,325,000
				33,745	33,745	222,618
<u>9,971,406</u>			<u>201,638</u>		<u>10,182,303</u>	<u>5,172,173</u>
<u>9,971,406</u>	<u>29,954,546</u>	<u>693,017</u>	<u>9,179,137</u>	<u>9,147,951</u>	<u>317,919,482</u>	<u>296,984,504</u>
			7,940,815			
	<u>6,278,880</u>	<u>(267,284)</u>	<u>(2,015,432)</u>			
	<u>6,278,880</u>	<u>(267,284)</u>	<u>5,925,383</u>			
<u>(563,883)</u>	<u>(17,079,138)</u>	<u>(817,558)</u>	<u>(2,968,529)</u>	<u>33,540,407</u>	<u>12,563,358</u>	<u>12,284,421</u>
77,631,779	30,294,010	3,565,364	6,218,377	314,378,199	466,002,336	453,717,915
				(30,899,859)	(30,899,859)	
<u>77,631,779</u>	<u>30,294,010</u>	<u>3,565,364</u>	<u>6,218,377</u>	<u>283,478,340</u>	<u>435,102,477</u>	<u>453,717,915</u>
<u>\$77,067,896</u>	<u>\$ 13,214,872</u>	<u>\$2,747,806</u>	<u>\$ 3,249,848</u>	<u>\$317,018,747</u>	<u>\$447,665,835</u>	<u>\$466,002,336</u>

UNIVERSITY OF IDAHO

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES YEAR ENDED JUNE 30, 2001 WITH COMPARATIVE TOTALS FOR 2000

	Unrestricted	Auxiliary Enterprises
REVENUES:		
Appropriated general education revenues:		
State general account - general education	\$ 75,812,785	\$ 1,879,600
Endowment income	9,094,000	
Student fees and miscellaneous receipts	20,293,618	
Other state general accounts		
Federal appropriations		
Federal grants and contracts	101,684	
State grants and contracts	77,743	
Private gifts, grants and contracts	6,167,048	1,244,979
Other student fees	19,065,561	4,312,235
Sales and services of educational departments	4,143,962	
Sales and services of auxiliary enterprises		21,215,742
Indirect costs recovered	5,500,511	
Other sources	6,534,534	772,512
Change in fair value of investments	1,478,085	18,225
Total revenues	<u>148,269,531</u>	<u>29,443,293</u>
EXPENDITURES AND MANDATORY TRANSFERS:		
Educational and general:		
Instruction	59,289,144	
Research	12,765,139	
Public service	1,651,858	
Academic support	10,016,759	
Libraries	6,136,049	
Student services	7,183,538	
Institutional support	19,654,525	
Operations and maintenance of plant	16,938,744	
Scholarships and fellowships	6,174,535	
Educational and general expenditures	<u>139,810,291</u>	
Mandatory transfers for loans and matching grants	370,594	
Mandatory transfers for principal and interest	5,791,131	
Total educational and general	<u>145,972,016</u>	
Auxiliary enterprises:		
Expenditures		27,771,107
Mandatory transfers for principal and interest		1,933,811
Total auxiliary enterprises		<u>29,704,918</u>
Total expenditures and mandatory transfers	<u>145,972,016</u>	<u>29,704,918</u>
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):		
Excess of restricted receipts over transfers to revenue		
Net transfers (voluntary)	(3,406,992)	(61,115)
Total other transfers and additions (deductions)	<u>(3,406,992)</u>	<u>(61,115)</u>
NET INCREASE (DECREASE) IN FUND BALANCES	<u>\$ (1,109,477)</u>	<u>\$ (322,740)</u>

See notes to financial statements.

Restricted			Totals	
Agricultural Research		Other	2001	2000
			\$ 77,692,385	\$ 74,013,300
			9,094,000	7,835,324
			20,293,618	19,024,324
\$13,631,732	9,499,968	\$ 5,548,878	28,680,578	27,518,280
1,858,739	2,568,971		4,427,710	4,522,149
		29,979,054	30,080,738	23,896,250
59,385		7,317,688	7,454,816	6,872,395
		10,748,802	18,160,829	15,772,559
		134,021	23,511,817	20,903,145
57,107			4,201,069	5,292,647
			21,215,742	20,319,659
			5,500,511	4,570,807
		3,174,180	10,481,226	10,795,281
			1,496,310	(986,759)
<u>15,606,963</u>	<u>12,068,939</u>	<u>56,902,623</u>	<u>262,291,349</u>	<u>240,349,361</u>
		16,246,282	75,535,426	68,169,637
15,391,090		27,194,059	55,350,288	51,535,011
	12,068,939	2,916,670	16,637,467	15,155,311
			10,016,759	9,228,077
			6,136,049	5,793,814
			7,183,538	6,611,844
			19,654,525	16,415,640
			16,938,744	13,791,867
		<u>11,631,985</u>	<u>17,806,520</u>	<u>15,748,738</u>
15,391,090	12,068,939	57,988,996	225,259,316	202,449,939
		(338,231)	32,363	33,111
<u>215,873</u>			<u>6,007,004</u>	<u>5,347,078</u>
<u>15,606,963</u>	<u>12,068,939</u>	<u>57,650,765</u>	<u>231,298,683</u>	<u>207,830,128</u>
			27,771,107	26,387,779
			1,933,811	1,646,660
			<u>29,704,918</u>	<u>28,034,439</u>
<u>15,606,963</u>	<u>12,068,939</u>	<u>57,650,765</u>	<u>261,003,601</u>	<u>235,864,567</u>
635,707	635,480	1,668,556	2,939,743	865,801
(436,501)	(24,658)	9,252	(3,920,014)	191,183
<u>199,206</u>	<u>610,822</u>	<u>1,677,808</u>	<u>(980,271)</u>	<u>1,056,984</u>
<u>\$ 199,206</u>	<u>\$ 610,822</u>	<u>\$ 929,666</u>	<u>\$ 307,477</u>	<u>\$ 5,541,778</u>

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2001

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 legislature, 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.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with the principles outlined in the American Institute of Certified Public Accountants' Industry Audit Guide, *Audits of Colleges and Universities*. In accordance with the practice generally acceptable for governmental colleges and universities, no provision for depreciation has been recorded by the University. The statement of current funds revenues, expenditures and other changes is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses. The financial information shown for 2000 in the accompanying financial statements is included to provide a basis for comparison with 2001 and presents summarized totals only.

Fund Accounting - In order to ensure observance of limitations and restrictions placed on the use of the resources available, the University maintains its accounting records in accordance with the principles of "fund accounting". These principles require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for the resources. Accounts are separately maintained for each fund. However, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the University's Board of Regents. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the University's Board of Regents retains full control to use in achieving any of its institutional purposes.

All changes in fair value of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from receivables and the like is accounted for in the fund owning such assets. Income derived from investments of endowment and similar funds is accounted for in the fund to which it is restricted. Income derived from non-endowment type investments is accounted for in the fund to which it restricted, or if unrestricted, as revenues in unexpended plant funds.

Description of Funds

Current Funds - Current funds are used primarily to account for amounts which are expended in performing the primary and support objectives of the University, i.e., instruction, research, public service, academic support, libraries, student services, institutional support, operations and maintenance of plant, scholarships and fellowships and auxiliary activities. Funds included in this classification consist of the following:

- a. Unrestricted funds - These funds are used to account for transactions related to the educational and general operations of the University. These funds may be used at the discretion of the Board of Regents or their designee to meet current expenditures for any purpose.
- b. Auxiliary enterprise funds - These funds are used to account for transactions of substantially self-supporting activities that primarily provide services to students, faculty and staff. Auxiliary enterprises include, but are not limited to, student housing, food services, bookstore and intercollegiate athletics.
- c. Restricted funds - These funds are used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be used. Revenues of the restricted funds are reported in the statement of current funds revenues, expenditures and other changes principally when cash is received or when qualifying expenditures are made under reimbursement type grants and contracts. However, revenues are deferred when the provider stipulates the expenditures to occur in the next fiscal year or when advances are made by providers under reimbursement type grants and contracts.

Student Loan Funds - These funds, which are primarily obtained from the Federal Government, are used to account for loans to students. The University participates in the Perkins Student Loan Program which requires the University to match 33% of the federal contributions. A portion or all of the loan principal and interest may be canceled upon the occurrence of certain events. The amount of such cancellations is partially absorbed by the Federal Government.

Endowment and Similar Funds - Endowment funds are subject to the restrictions of donor gift instruments requiring that the principal be invested in perpetuity and that only the income be utilized. Term endowment funds provide that upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. Quasi-endowment funds have been established by the University Administration for the same purposes as endowment funds and any portion of such funds may be expended.

Plant Funds - These funds are used to account for the transactions relating to investment in University properties. Plant funds include (1) Unexpended Plant Funds, (2) Renewal and Replacement Funds, (3) Retirement of Indebtedness Funds and (4) Net Investment in Plant Funds. The Unexpended Plant Funds are comprised of amounts which have been appropriated or designated for land, improvements, buildings and equipment. The Renewal and Replacement Funds are comprised of amounts provided for renewal and replacement of certain properties. The Retirement of Indebtedness Funds represent bond sinking funds used to provide for payment of principal and interest pursuant to terms of bond indentures. Net Investment in Plant Funds represent the accumulated cost of property, buildings and equipment over related liabilities.

Agency Funds - These funds are used to account for assets held by the University as custodian or fiscal agent for others. Consequently, the transactions of these funds do not affect the statement of changes in fund balances.

Interfund Borrowings - All interfund borrowings are payable within one year without interest.

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

Inventories - Bookstore inventories are valued at average cost. All other inventories are valued at the lower of FIFO cost or market.

Property, Plant and Equipment - To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal additions; (2) mandatory transfers, in the case of required provisions for debt amortization and interest; and (3) as voluntary transfers for all other cases.

Plant assets are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair market value at the date of gift.

Accrued Vacation - Included in accounts payable and accrued liabilities at June 30, 2001 is \$7,052,221 related to compensated absences earned but unused.

Split Interest Agreements - Split interest agreements held by the University of Idaho Foundation (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 investments held in trust (asset) and split-interest agreements (liability) for the endowment fund. 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 developed by the Internal Revenue Service.

The Foundation has entered into 77 charitable gift arrangements of which the underlying assets had a market value of \$10,888,449 at June 30, 2001. The actuarial obligation to pay the trust beneficiaries at June 30, 2001 was \$5,749,078. 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 \$342,779 were received in connection with split interest agreements during the year ended June 30, 2001.

Summer Session Activities - Revenues and related expenditures resulting from summer sessions are reported within the fiscal year in which the total summer sessions program is predominantly conducted. Accordingly, only the revenues and expenditures of the 2000 summer sessions are included in the statement of current operating funds revenues, expenditures and other changes. Receipts and disbursements related to the 2001 summer sessions are reflected in the financial statements as deferred items.

Grants-in-Aid - Tuition and fees revenue include grants-in-aid charged to scholarships and fellowships and grants-in-aid for faculty and staff benefits charged to the appropriate expenditure programs to which the applicable personnel relate. Grants-in-aid for 2001 total \$6,724,843.

Change in Application of an Accounting Principle - The University of Idaho changed their application of an accounting principle regarding the capitalization of property, plant and equipment by increasing the threshold at which items would be capitalized. As a result, the University wrote-off as disposals all fixed assets with a cost less than its new capitalization threshold. The University recorded a cumulative effect on prior years totaling \$30,899,859, as an adjustment to beginning fund balances in the accompanying statement of changes in fund balances as a result of this change.

Adoption of Accounting Standard - Effective July 1, 2000, the University adopted Statement No. 33 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Nonexchange Transactions*. This Statement establishes accounting and financial reporting standards to guide state and local governments' decisions about when (in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. Adoption of this Statement did not have a significant impact on the University's financial position or results of operations.

New Accounting Standard - GASB has issued Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The University has not completed the process of evaluating the impact that will result from adopting this Statement. The University is therefore unable to disclose the impact that adopting the Statement will have on its financial position and revenues, expenditures and other changes in fund balances. The requirements of this statement are effective for the fiscal year ending June 30, 2002.

Reclassifications - Certain prior year amounts have been reclassified to conform with the current year's presentation.

2. CASH AND CASH EQUIVALENTS

The University 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. In effect, funds with negative cash balances are borrowing from those with positive cash balances and are recorded as due to other funds.

Cash and cash equivalents are deposited with various financial institutions. Such deposits for the year ended June 30, 2001 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, 2001 consisted of the following:

Category 1	\$ 100,000
Category 2	16,999,040
Category 3	<u>621,147</u>
Total	<u>\$ 17,720,187</u>

Of the cash and cash equivalents reported on the balance sheet at June 30, 2001, \$10,062,755 is restricted by donors, granting agencies, or other contractual agreements.

3. INVESTMENTS AND INVESTMENTS HELD IN TRUST

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

- Certificates of deposit in major Idaho banking organizations.

- All obligations of the U.S. Government.

- Federal funds bank repurchase agreements.

- Deposits in savings accounts of commercial banks and savings and loan associations in the state of Idaho.

- Commercial paper of prime or equivalent grade.

Covenants of certain bond resolutions restrict investment of funds to U.S. Government or government guaranteed securities. 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 balance sheet. Investment income including change in fair value of investments, is recognized as revenue in the statement of current funds revenues, expenditures, and other changes (or in the statement of changes in fund balance depending on the fund).

Investments are held by the University, recorded at fair value, and are generally held until maturity. A total of \$31,496,360 of these investments were restricted by donors, granting agencies, or other contractual agreements at June 30, 2001.

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

The University's investments described above are categorized below to give an indication of the level of risk assumed by the University at June 30, 2001. Category 1 includes investments that are insured or registered, or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the University's name; or by the counterparty's trust department or agent but not in the University's name.

	Investment Risk Category			Total
	1	2	3	
INVESTMENTS:				
Repurchase agreements		\$14,258,399		\$14,258,399
Corporate debt securities and preferred stock	\$10,034,521			\$10,034,521
U.S. Government or government guaranteed securities	26,150,681			26,150,681
Common stocks	785,526			785,526
Mutual Funds	<u>934,292</u>			<u>934,292</u>
	<u>\$37,905,020</u>	<u>\$14,258,399</u>	<u>\$ 0</u>	<u>\$52,163,419</u>
INVESTMENTS HELD IN TRUST:				
Corporate debt securities and preferred stock	\$22,199,743	\$ 1,137,519		\$23,337,262
U.S. Government or government guaranteed securities	9,913,058	304,827		10,217,885
Common stocks	38,725,150			38,725,150
Mutual funds	<u>614,568</u>			<u>614,568</u>
	<u>\$71,452,519</u>	<u>\$ 1,442,346</u>	<u>\$ 0</u>	<u>\$72,894,865</u>

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2001 consisted of the following:

Buildings and improvements	\$281,851,662
Furniture, equipment and library materials	99,061,471
Land	8,422,629
Construction in progress	<u>27,438,279</u>
	<u>\$416,774,041</u>

In addition to the accounts payable for construction costs shown in the Plant Fund, the estimated cost to complete property authorized or under construction at June 30, 2001 is \$38,439,000. These costs will be financed by State appropriations, available resources and/or long-term borrowing.

5. CAPITAL LEASES

The University has entered into various capital lease agreements covering equipment and furniture. At June 30, 2001, assets under capital lease total \$289,764 and are included in property, plant and equipment. Future minimum lease obligations under these agreements for the years ending June 30 are as follows:

2002	\$ 79,426
2003	74,892
2004	40,177
2005	20,545
2006	<u>6,573</u>
Total minimum obligations	221,613
Less interest	<u>(33,609)</u>
Present value of minimum obligations	<u>\$ 188,004</u>

6. NOTES AND BONDS PAYABLE

Notes and bonds payable at June 30, 2001 consisted of the following:

Description	Balance Outstanding
Facility Revenue Bonds, Series 1992A, consisting of serial bonds due in 2002 via a payment of \$195,000, plus interest at 6.20%, collateralized by a pledge of net revenues derived from the rentals of the family student and graduate student apartments, the operation of the University Conference Facility, certain utility charges assessed by the University, and by a portion of matriculation fees.	\$ 195,000
Facility Revenue Bonds, Series 1992B, consisting of serial bonds due in annual amounts increasing periodically from \$280,000 to a maximum of \$300,000, plus interest from 5.90% to 6.00% through the year 2002, collateralized by a pledge of net revenues derived from the rentals of the family student and graduate student apartments and by a portion of matriculation fees.	580,000
Facility Refunding and Improvement Revenue Bonds, Series 1994, consisting of serial bonds due in annual installments increasing periodically from \$400,000 to a maximum of \$815,000, plus interest from 4.65% to 5.40% through the year 2016, collateralized by a pledge of net revenues of the Student Housing System, a portion of matriculation fees, and certain other designated funds and revenues.	8,735,000
Student Building Fee Refunding Revenue Bonds, Series 1994, consisting of serial bonds due in annual installments increasing periodically from \$390,000 to a maximum of \$580,000, plus interest from 4.65% to 5.35% through the year 2010, collateralized by a pledge of certain net revenues of the University and the Student Building Debt Service Fees.	4,295,000

(continued)

Description	Balance Outstanding
Student Fee Refunding Revenue Bonds, Series 1996, consisting of serial bonds due in annual installments increasing periodically from \$435,000 to a maximum of \$860,000, plus interest from 4.65% to 5.80% through the year 2013, collateralized by a pledge of revenues and certain student fees of the University.	\$ 7,450,000
Student Fee Revenue Bonds, Series 1996, consisting of serial bonds due in annual installments ranging periodically from \$370,000 to a maximum of \$685,000, plus interest from 4.95% 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.	4,755,000
Student Fee Refunding Bonds, Series 1997A, consisting of serial bonds due in 2002 via a payment of \$390,000, plus interest at 6.85%, collateralized by a pledge of net revenues of the Student Housing System, University's Student Matriculation Fee and other pledged net revenues.	390,000
Student Fee Refunding Revenue Bonds, Series 1997B, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$640,000 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
Student Fee Revenue Bonds (University Commons Project), Series 1997, consisting of serial bonds due annual installments increasing periodically from \$125,000 to a maximum of \$1,650,000, plus interest from 4.55% to 5.70% through the year 2022, collateralized by a pledge of certain student fees and certain other pledged revenue.	13,770,000
Student Fee Revenue Bonds Series 1997 (University Commons Supplemental Project), consisting of serial bonds due in annual installments commencing in 2000 and increasing periodically from \$150,000 to a maximum of \$405,000, plus interest from 4.3% to 5.35% through the year 2022, collateralized by a pledge of certain student fees and certain other pledged revenue.	5,335,000
Student Fee Revenue Bonds, Series 1999, consisting of serial bonds due in annual installments commencing in 2002 and increasing periodically from \$330,000 to a maximum of \$1,425,000, plus interest from 3.65% to 6.50%, through the year 2025, collateralized by a pledge of certain student fees and certain other pledged revenue.	20,115,000
Student Fee Revenue Bonds, Series 1999A, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$35,000 to a maximum of \$105,000, plus interest from 3.80% to 5.25% through the year 2025, collateralized by a pledge of net revenues of the Student Housing System, University's Student Matriculation Fee, and other pledged net revenues.	1,470,000

(continued)

Description	Balance Outstanding
Student Fee Revenue Bonds, Series 1999B, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$150,000 to a maximum of \$445,000, plus interest from 4.80% to 5.625% through the year 2025, collateralized by a pledge of net revenues of the Student Housing System, University's Student Matriculation Fee, and other pledged net revenues.	\$ 6,150,000
Student Fee Revenue Bonds, Series 1999C, consisting of serial bonds due in annual installments and increasing periodically from \$215,000 to a maximum of \$515,000, plus interest from 4.3% 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.	6,095,000
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 revenues of the Activity Center Complex Fee and certain other pledged net revenues.	6,020,000
Other indebtedness, consisting of notes payable and line-of-credit with interest rates ranging from 5% to 10%, due through the year 2017.	<u>1,570,245</u>
	99,305,245
Premium on bonds	<u>262,045</u>
	<u>\$ 99,567,290</u>

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

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

2002	\$ 3,735,594
2003	3,952,779
2004	3,721,282
2005	3,951,025
2006	4,166,444
Thereafter	<u>79,778,121</u>
	<u>\$ 99,305,245</u>

At June 30, 2001, debt in the amount of \$16,440,000 is considered extinguished through refunding of prior issues by a portion of current issues. Sufficient proceeds are invested in government securities and 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.

The University has an unsecured nonrevolving line-of-credit with a bank for the purchase of real property, equipment, and other capital expenditures. The University may borrow at a variable or fixed rate based on the five year U.S. Government Treasury Note Index less 1.35%. The minimum interest rate is 5.0%, and interest is due semi-annually on any outstanding balance. The maximum available line is \$628,994 with \$816,518 in outstanding borrowings at June 30, 2001.

On July 18, 2001, the University purchased new computer hardware in the amount of \$984,159. A payment of \$282,232 was sent to the vendor, and a capital lease was entered into to finance the remainder of the amount. The lease has a three year term with annual payments of \$254,594 due in July.

On October 4, 2001, the University issued revenue bonds in the amount of \$40,930,000 for University Housing Improvement Projects. The bonds are Student Fee Revenue Bonds, Series 2001, consisting of serial bonds due in annual installments increasing periodically from \$250,000 to a maximum of \$2,125,000, plus interest from 3.50% to 5.40%, through the year 2031, collateralized by a pledge of certain student fees and certain other pledged revenue.

7. RETIREMENT PLANS

Public Employee Retirement System of Idaho - The Public Employee Retirement System of Idaho (PERSI), a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. 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. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other 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 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month 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, 2001, the required contribution rate for general employees was 9.77% and 5.86% of covered payroll for the University and its employees, respectively. The University contributions required and paid were \$2,964,034, \$4,993,312 and \$4,932,886 for the years ended June 30, 2001, 2000 and 1999, respectively. During 2001, PERSI implemented a gain sharing program, whereby, the University received \$2,158,422 that was used toward their contributions. This made actual contributions \$5,127,456.

Optional Retirement Plan - Effective July 1, 1990, the Idaho State Legislature authorized the Board of Regents to establish an Optional Retirement Plan (ORP), a defined contribution plan, for faculty and exempt employees. The employee contribution requirement for the ORP is based on a percentage of total payroll. Employer contributions are determined by the State of Idaho. The plan provisions were established by and may be amended 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 59½ years of age. The contribution requirement (and amount paid) for the year ended June 30, 2001 was \$7,335,255 which consisted of \$3,851,081 from the University and \$3,484,174 from employees. These contributions represented approximately 7.72% and 6.97% of covered payroll.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute to PERSI 3.03% of the annual covered payroll. These annual supplemental payments are required through July 1, 2015. During the year ended June 30, 2001, this supplemental funding payment made to PERSI was \$1,512,175. This amount is not included in the regular University PERSI contribution discussed previously.

Postretirement Benefits Other Than Pensions - In addition to the pension benefits described above, the University provides postretirement 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. Employees who do not qualify for this benefit, but who do qualify for retirement under PERSI or ORP are eligible to use 50% of the cash value of their unused sick leave to continue their insurance coverage through the University. The University partially funds these obligations by depositing .65% of employee gross payroll into a reserve. The University made expenditures totaling \$1,148,910 fiscal 2001 to purchase insurance for 637 retired employees receiving these benefits. As of June 30, 2001, approximately \$2,477,938 is available to fund these obligations. The GASB is studying a new accounting standard that would require the University to record these obligations on an actuarially determined basis. The University intends to hire actuaries to quantify the unrecorded obligations and is reviewing the provisions of its benefit plans. The actuarially determined obligations are expected to be significantly higher than the amount currently accrued.

8. ENCUMBRANCES

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenditures. Accordingly, \$7,102,687 of outstanding purchase orders and purchase commitments are not reported in the financial statements.

9. 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.

10. RELATED ORGANIZATIONS

The University of Idaho Foundation, Inc. (the "Foundation") was established for the purpose of soliciting donations and to hold and manage invested donations for the exclusive benefit of the University. Net assets of the Foundation at June 30, 2001 were \$171,681,707. Of this amount, \$77,067,896 are University net assets held and managed in trust by the Foundation and are included in the accompanying financial statements. The remaining net assets of \$94,613,811, of which \$88,189,777 are restricted to uses designated by the donors, are owned by the Foundation.

On January 18, 2000, the Foundation executed a promissory note with the University of Idaho for \$1,907,000 due January 19, 2003. Interest is due annually and is based on IRS Section 1274(d). The University has recorded this note as other assets in the unrestricted fund.

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, 2001 were \$104,827, of which \$18,763 are restricted to uses designated by the donors. Assets owned by the Boosters are not included in the accompanying financial statements.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Regents of the
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, 2001, and have issued our report thereon dated September 7, 2001 and October 4, 2001 as to Note 6 to the financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the University in a separate letter dated September 7, 2001.

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 assurance 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 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 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the University in a separate letter dated September 7, 2001.

Board of Regents of the
University of Idaho
Page 2

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

September 7, 2001