University of Idaho

CELEBRATING 125 YEARS

# FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 AND REPORT OF INDEPENDENT AUDITORS

University of Idaho

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

# REPORT OF INDEPENDENT AUDITORS

Idaho State Board of Education
University of Idaho
Moscow, Idaho

## Report on the Financial Statements

We have audited the accompanying financial statements of the University of Idaho (the University) and the discretely presented component unit, as of and for the years ended June 30, 2014 and 2013, and the aggregate remaining fund information of the University, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Idaho Foundation (the Foundation), which represent 100 percent of the assets, net position, and revenues of the discretely presented component unit, or the University of Idaho Health Benefits Trust, which represent 12 percent, 3 percent, and 89 percent, respectively, of the assets, net position and revenues of the aggregate remaining fund information. Those statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation and the University of Idaho Health Benefits Trust, are based solely on the reports of other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

MOSS ADAMS LLP

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University, and its discretely presented component unit, as of June 30, 2014 and 2013, and the aggregate remaining fund information of the University, as of December 31, 2013 and 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 and certain information in Note 13, *Postemployment Benefits (Other Than Pensions) and Retiree Benefits Trust,* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014 on our consideration of the University's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Moss Adams LLP

For Moss Adams LLP
Eugene, Oregon
September 25, 2014

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

The University of Idaho ("University") is a doctoral-research intensive land-grant institution, with the principal responsibility for research and granting Ph.D. degrees in Idaho. The University serves state, national and international communities by providing academic instruction and conducting research that advances fundamental knowledge. 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 easy to read 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 auditor's reports. The emphasis of this discussion of the financial performance of the University is for the current year, June 30, 2014.

The discussion and analysis that follows provides an overview of the University's financial activities for the fiscal year ended June 30, 2014 in comparison to 2013 and 2012. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; 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 Governmental Accounting Standards Board (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. ("Foundation") which qualifies as a component unit of the University.

In accordance with GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, the University has included financial statements for the Health Benefits (HBT) Trust and Retirement Benefits (RBT) Trust. The HBT was established to meet the requirements of the State of Idaho Department of Insurance in order to manage the University's self-insurance program. Separate audited financial statements are prepared for the HBT and may be obtained by contacting University of Idaho, Attn. General Accounting, 875 Perimeter Drive MS3166, Moscow, ID 83844-3166. The RBT was established to meet the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. These statements and related supplementary information are presented after the University's financial statements and preceding the notes to the financial statements.

## Statement of Net Position

The statement of net position outlines the University's financial condition at fiscal yearend. This is a point-in-time financial statement and presents end-of-year data concerning assets, liabilities and net position. 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 position (assets minus liabilities) and their availability for expenditure by the University.

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

1. Net Investment in Capital Assets - the University's investment in property, plant, and equipment - net of depreciation and outstanding debt obligations related to those capital assets.

2. Restricted Nonexpendable - the corpus of nonexpendable restricted resources is available only for investment purposes. These assets are held in perpetuity.

3. Restricted Expendable - subject to external donor or grantor stipulations regarding their use. The University may expend these assets for purposes as determined by donors and/or external entities.

4. Unrestricted - may be expended for any lawful purpose of the University.

**Condensed Statement of Net Position**
**Fiscal Years Ended June 30**
**(Dollars in Thousands)**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | $ 48,765 | $ 54,886 | $ 48,726 |
| Capital assets - net | 402,222 | 400,527 | 396,636 |
| Other noncurrent assets | 98,609 | 87,157 | 157,864 |
| Total assets | $ 549,596 | $ 542,570 | $ 603,226 |
| **LIABILITIES** | | | |
| Current liabilities | $ 52,952 | $ 55,772 | $ 47,026 |
| Noncurrent liabilities | 151,064 | 159,202 | 152,609 |
| Total Liabilities | $ 204,016 | $ 214,974 | $ 199,635 |
| **NET POSITION** | | | |
| Net investment in capital assets | $ 248,652 | $ 243,071 | $ 239,982 |
| Restricted nonexpendable | - | - | 74,859 |
| Restricted expendable | 31,913 | 28,851 | 24,796 |
| Unrestricted | 65,015 | 55,673 | 63,954 |
| Total net position | $ 345,580 | $ 327,596 | $ 403,591 |
| Total liabilities and net position | $ 549,596 | $ 542,570 | $ 603,226 |

Total assets for the University ended fiscal year 2014 at $549.6M, an increase of $7.0M when compared to prior year. Current assets decreased $6.1M, or 11%, to $48.8M, with the majority of the decrease being driven by transfer of $5M from cash and cash equivalents to non-current unrestricted investments. Cash and cash equivalents had an overall net decrease of $3.1M while prepaid expenses also decreased $2.5M, due to a prepayment of the Boise Water Center rent of $2.7M made as an early payment in June of FY13; however, properly paid on time in July of FY15.

Cash and cash equivalents have been materially influenced over the past 2 years by a planned strategic shift from low-interest bearing cash reserves into long-term higher yielding investments. Beginning in fiscal year 2012, the University has been actively involved in transferring its investment management oversight to two independent, professional firms who are tasked with investing targeted long-term cash reserves into higher yielding investments while minimizing investment principal risk, where possible. This strategy has proved very successful with current investment yields exceeding 2.5% and combined investment income and realized gains from strategic investment repositioning exceeding operational budgets by approximately $400K in FY14 and $500K in FY13.

Noncurrent assets increased $13.1M, or 2.7%, to $500.8M in FY14 primarily due to an $8.8M increase in unrestricted long-term investments. This increase is primarily due to an additional cash investment of $5.0M, reinvestment of $1.8M of net investment income, and the recovery of $2.1M of unrealized market value losses incurred during the last quarter of FY13 due to favorable market conditions in FY14.

Current liabilities decreased $2.8M, or 5.0%, to $53.0M in fiscal year 2014. The balance within accounts payable increased $1.8M and is highly dependent upon the timing of year-end capital project expenditures and invoicing transactions, and can vary significantly from year to year. Accrued salaries and benefits payable decreased by approximately $5.2M (20%) due largely in part to a $5.2M reduction in benefits-related liability reserves resulting from a year-long extensive review, with the assistance of external consultants, of the University's historical internal fringe benefit rate charging practices designed to properly administer and report its highly variable, self-funded benefit plans for both employee and retiree health plans, life insurance, and GASB 45 OPEB obligations. These practices, over the past several years, were found to have resulted in a consistent overly conservative estimation of annual benefits-related expenses resulting in an excessive accumulation of plan reserves reported in accrued salaries and benefits payable in the annual Statement of Net Position. In FY14, the special project analysis was completed and approximately $5.2M of excess liability reserves were eliminated and recognized as other sources revenue in the Non-Operating section of the Statement of Revenues, Expenses, and Changes in Net Position. Accordingly, new procedures have been implemented in FY14 to more accurately administer and annually report these highly variable, self-funded benefit plan costs.

Noncurrent liabilities decreased $8.1M, or 5.1%, to $151.1M over prior year numbers due to the scheduled payments of notes and bonds payable and capital lease obligations. No new debt was issued in FY14; however, as discussed in footnote 20, Subsequent Events, on July 10, 2014, the University issued $48.7M of general revenue bonds, Series 2014, to provide funds to finance the construction and equipping of a new 71,000 sq.ft. research center on the main campus in Moscow, Idaho, referred to as the Integrated Research and Innovation Center (IRIC) along with funds necessary to fully renovate the existing College of Education Building. After accounting for additional funds generated by selling the bonds with initial premium pricing and subtracting issuance costs, the University received $51.6 million in total project funds. These funds combined with state and private donor support will be used to cover the total planned costs of both projects of approximately $66.2 million ($49 million for the IRIC Building and $17.2 million for the College of Education Building). Both projects began construction in the summer of 2014 and are expected to be completed in the fall of 2016.

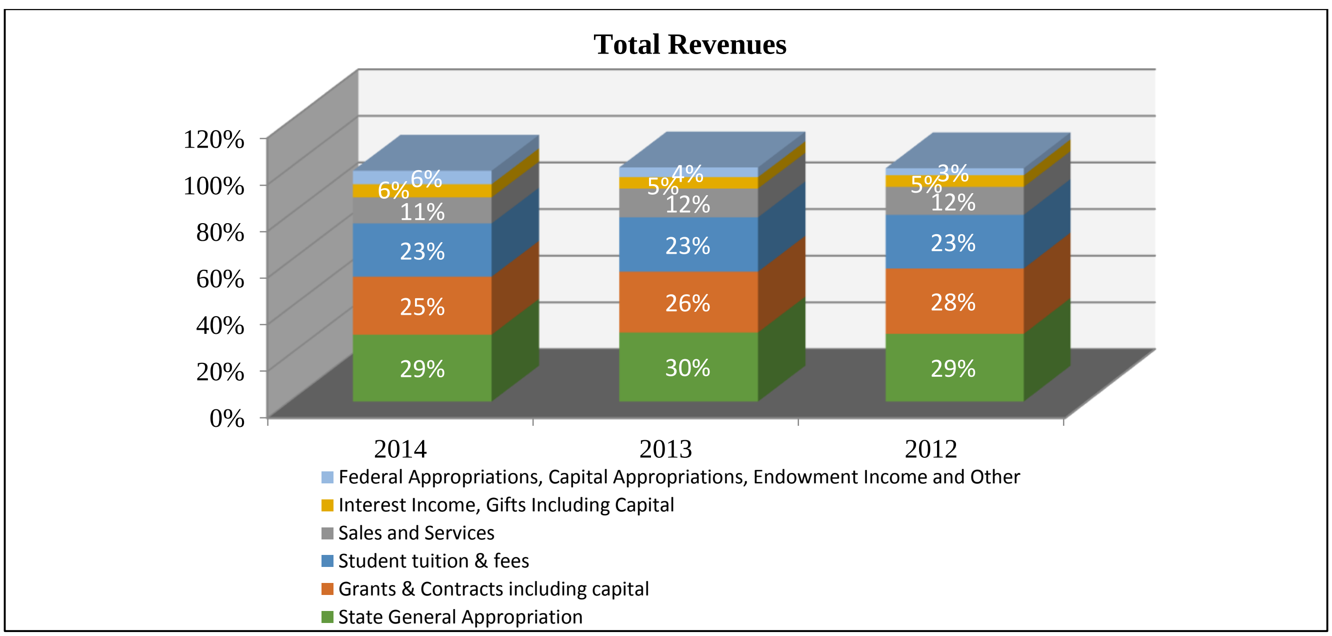
Overall total liabilities decreased $11.0M, or 5.1%, to $204.0M while the University's net position increased by $18.0M to $345.6M in fiscal year 2014 with the majority ($11.6M or 21%) being added to the key operational and strategic segment, unrestricted net position.

## Statement of Revenues, Expenses and Changes in Net Position

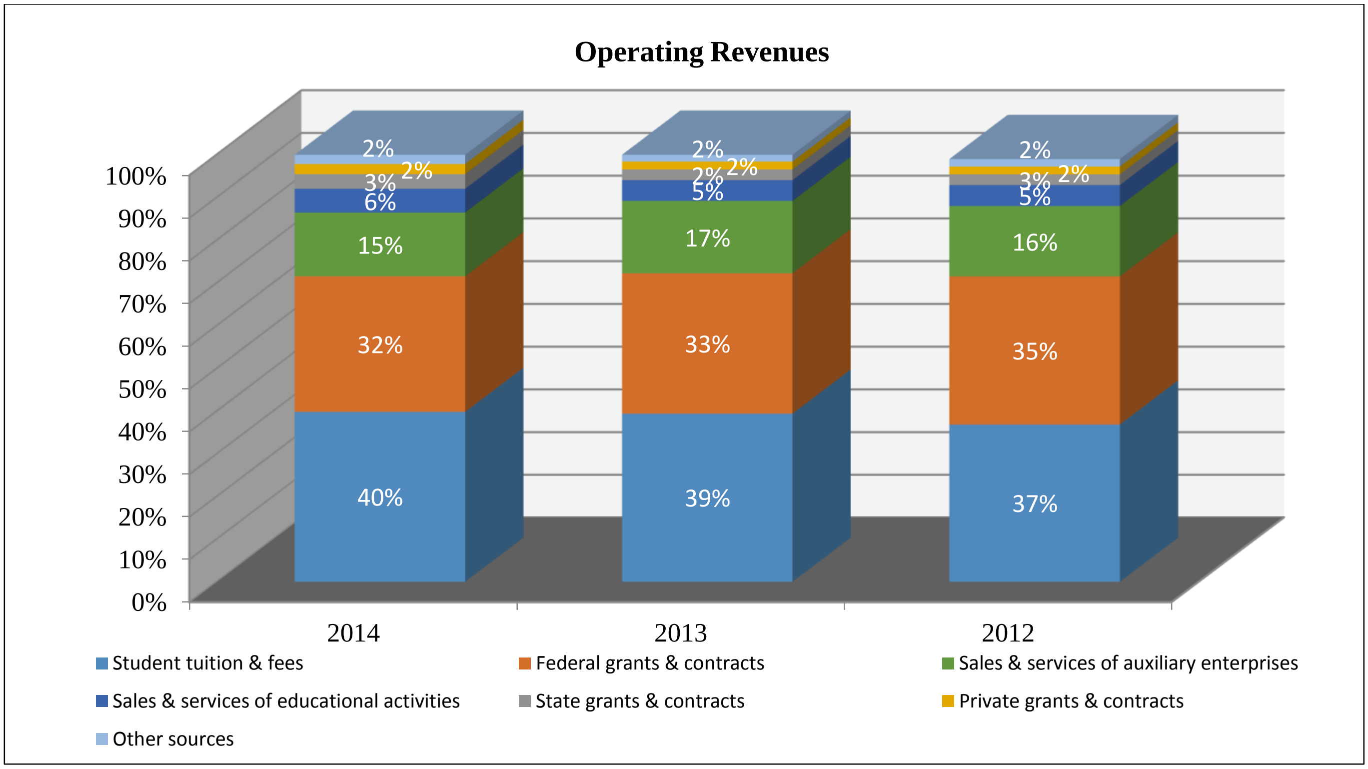
The statement of revenues, expenses and changes in net position presents the revenues earned and expenses incurred during the year, classifying activities as either operating or non-operating. The GASB 34 reporting model classifies state appropriations, gifts, federal appropriations, and investment income as non-operating revenue which results in a net operating loss.

Operating revenues are derived from exchange transaction activities associated with providing goods and services for instruction, research, public service or related support to entities separate from the university. Examples include student tuition and fees, sales and services, grants and contracts. Operating expenses are those expenses paid to acquire or produce the goods and services provided to carry out the functions of the University. Examples include salaries, benefits, scholarships, and purchases of supplies. Non-operating revenues are primarily derived from activities that are non-exchange transactions, e.g., gifts and contributions; and from sources defined as such by GASB Statement No. 9, e.g., investment income; and from sources defined as such by GASB Statement Nos. 33 and 34, e.g., state and federal appropriations.

When comparing all of the University's sources of revenue in 2014, as shown in the chart below, state appropriations account for 29% of the total revenue received while grants and contracts accounted for 25%, and student tuition and fees were 23% of the total.



When isolating the review to only operating revenues, as shown in the graph below, approximately 87% of total operating revenues in fiscal year 2014 were generated from three key revenue sources. Student tuition and fees accounted for 40% of total operating revenues while federal grants and contracts accounted for 32%, and sales and services of auxiliary enterprises covers 15%. All other categories account for 6% or less.




**Condensed Statement of Revenues, Expenses and Changes in Net Position**
**Fiscal Years Ended June 30**
**(Dollars in Thousands)**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Operating revenues | $ 209,184 | $ 209,555 | $ 206,726 |
| Operating expenses | 360,879 | 361,480 | 349,061 |
| Operating loss | (151,695) | (151,925) | (142,335) |
| Net nonoperating revenues | 162,077 | 151,052 | 139,310 |
| Loss before other revenues | 10,382 | (873) | (3,025) |
| Other revenues | 7,603 | 7,305 | 4,262 |
| Increase In Net Position Before Special Item | 17,985 | 6,432 | 1,237 |
| Special Item - see Note 20 | - | (80,990) | - |
| Increase In Net Position | 17,985 | (74,558) | 1,237 |
| Net Position - Beginning of year | 327,595 | 402,153 | 402,354 |
| Cumulative effect implementing GASB 65 | - | - | (1,438) |
| Net Position - End of year | $ 345,580 | $ 327,595 | $ 402,153 |

The statement of revenues, expenses and changes in net position details the $18.0M increase in net position for fiscal year 2014. This compares favorably to prior year's increase of $6.4M, excluding the financial impact of the Special Item transfer of $81.0M in CIT assets to the Foundation in FY13.

As shown in the chart above, operating revenues remained relatively flat with prior year, only decreasing by $372K, or -0.2%, to $209.2M in fiscal year 2014. Student tuition and fees, net of scholarship allowance increased $703K, or 0.9%, to $83.4M. This increase is accounted for in large part by the 4.0% increase in gross student fees combined with a 0.8% decrease in institutional waivers; however, offset by a 3.3% decrease in student FTE enrollments for the entire academic year. Overall net revenue per student increased due to a strategic move in fiscal year 2013 to begin reducing the overall amount of institutional tuition waivers offered to students, especially non-resident.

Total student headcount enrollments in both undergraduate and graduate levels, in the Fall of 2013, experienced a 4.9% decrease to approximately 11,900 students, while full-time student enrollments declined by 4.0% to approximately 10,000 due largely in part to a lower continuing/returning cohort class in Fall Term 2013 combined with recent changes supported by the Idaho State Board of Education which reduced the number of credits required for graduation thus resulting in a higher proportion of students graduating when compared to prior periods. We expect this negative impact to overall student full-time equivalent enrollment levels to be temporary and ultimately inconsequential as time passes.

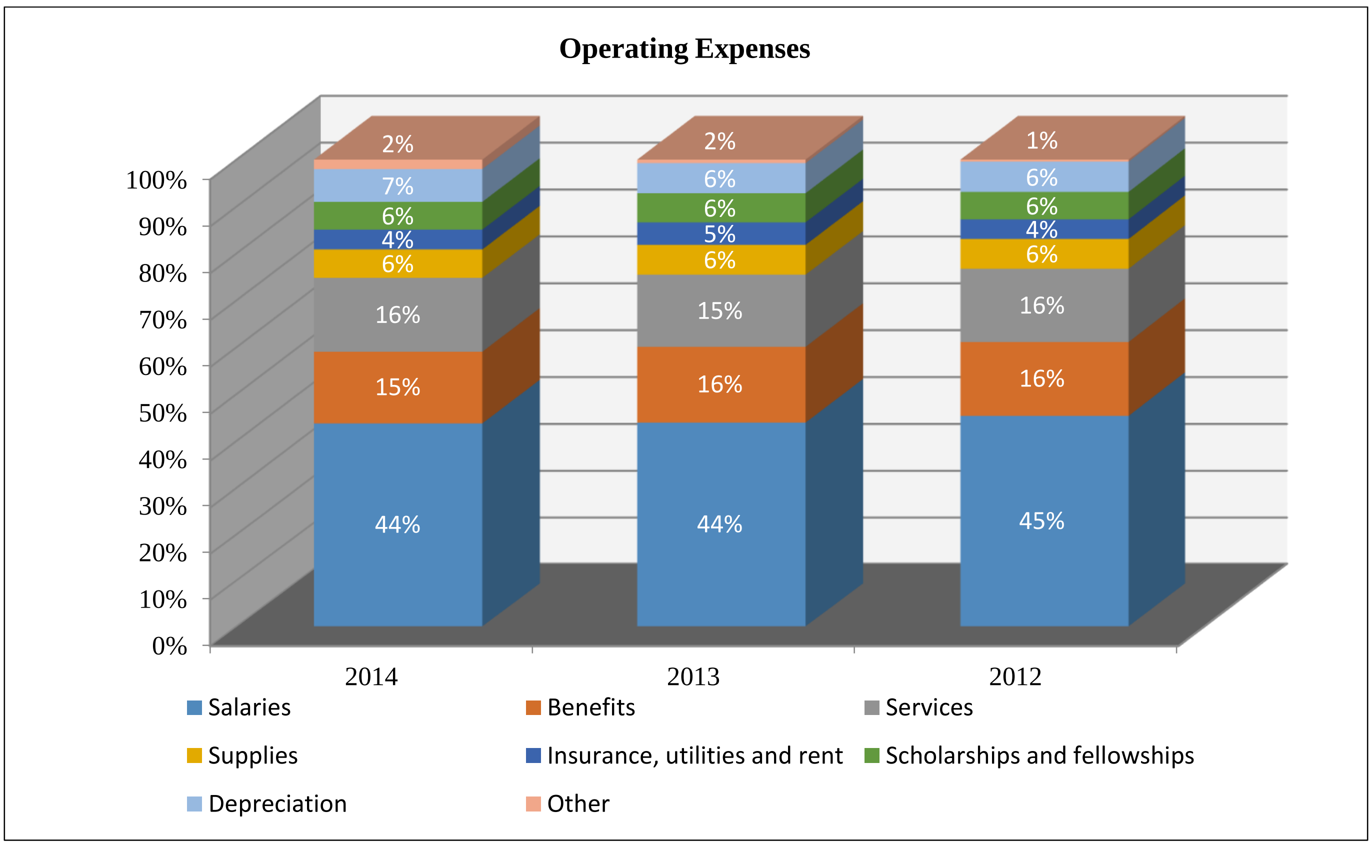
New and existing program fees contributed an additional $503K in revenues for fiscal year 2014 as compared to 2013 with continued success emanating from our national reputation in delivering high quality, professional degreed and non-degreed programs such as our Public Utilities Executive Course and Doctorate in Athletic Training Program.

Federal, state, and private grants and contracts revenue remained consistently strong at $78.4M in FY 2014, compared with $77.9M in the prior year while sales and services of educational activities contributed to operating revenues with an increase of $1.4M or 13.7% to $11.6M. This increase was primarily due to timber sales increasing by $560K, livestock sales increasing by $282K, and increases in other commodity based products and services. Increased sales of timber and livestock were the result of the University's ability to take advantage of a material rise in commodity prices in FY14 versus FY13.

Operating revenues in fiscal year 2014 were negatively affected in part by a $4.3M decrease in sales and services of auxiliary enterprises. Housing, dining, athletics, and the University's bookstore operations (VandalStore) all experienced decreased revenues in FY14. Housing and dining services saw a combined marginal decrease of $287K (-1.5%) to $19.2M in FY14. The VandalStore revenues decreased approximately $988K (-12.5%) to $6.9M, primarily due to lower textbook, general merchandise and technology sales. Some of the decline in VandalStore textbook sales were offset by an increase in textbook rentals in FY14 over FY13, a universal trend being seen across the entire higher education industry. Athletics experienced fluctuations in operating revenues in FY14 and FY13 primarily due to changes in athletic conference affiliations. In June 2013, Athletics received an unusually large distribution of more than $3M in conference revenue from the Western Athletic Conference (WAC) due to significant conference restructuring; however, in fiscal year 2014, the University chose to compete as an independent program for football, and as such did not receive any conference revenues. The FY14 decrease in conference revenues was partially offset by an increase in game guarantees of $854,000 brought in by scheduling football games with high profile teams across the county. Starting in FY15, more consistency should be realized in athletic revenues as the University has joined the Sun Belt Conference for football and Big Sky Conference for predominantly all other sports.

Other sources of operating revenues increased $1.2M (+40.8%) in FY14 as compared to FY13 driven mostly by a $378K increase in health plan prescription drug rebate incentives and subsidies along with a $319K increase in royalty income.

In fiscal year 2014, as shown in the graph below, approximately 75% of total operating expenses were generated from three key expenditure sources. Total personnel costs (salaries and benefits) accounted for 59% of total operating expenses while services expenditures accounted for 16%. All other categories account for 7% or less.




Operating expenses decreased by only a small amount, $601K, or -0.2%, to $360.9M in fiscal year 2014. Total personnel costs of $213.0M in fiscal year 2014 was $4.1M, or -1.9%, lower than 2013 levels of $217.1M. Salaries expense remained relatively steady at $157.8M due to a small drop in total FTE employment levels while benefits expense in FY14 decreased by $3.2M (5.5%) to $55.2M when compared to FY13. As mentioned in the section above related to changes in accrued salaries and benefits payable, this decrease is primarily attributed to the successful completion of an extensive review, with the assistance of external consultants, of the University's historical internal fringe benefit rate charging practices designed to properly administer and report its highly variable, self-funded benefit plans for employee and retiree health plans, life insurance, and GASB 45 OPEB obligations. This special project analysis, completed in FY14, resulted in a more accurate reporting of annual employee benefits-related expenses in FY14 as compared to FY13.

Total services costs in fiscal 2014 only increased by $1.2M, or 2.1%, to $56.8M while supplies costs decreased by $1.1M, or 4.8%, to $21.9M. These costs are closely tied to grants and contract related expenditures associated with the academic research arm of the University as well as other key operational areas including student services, enrollment management, athletics, auxiliaries, facilities management, academic support services, and institutional administration.

Insurance, utilities, and rent costs showed an increase $1.6M, or 11.3%, to $15.3M in fiscal year 2014. This increase is primarily due to an early buyout ($750K) of an operating lease for computer equipment coupled with increased heating costs of $113K due to a greater number of cold days during the winter and burner upgrades to the steam plant, and $44,000 of additional rent for new space associated with the Boise law school.

Depreciation expense increased $2.0M, or 8.8%, to $25.2M for FY14 as compared to FY13 and reflects the overall increase in annual depreciation levels relative to major capital asset additions placed into service in FY14 at the UI main campus, state-wide learning centers, and research facilities during the last twelve months along with $1.6M of additional depreciation resulting from a re-evaluation of the estimated useful lives for certain building improvement capital assets previously being depreciated over 40 years. Other expenses increased $950K, or 15.0%, to $7.3M for FY14, driven primarily by increases in partnership royalty payments and employment-related legal settlements.

Nonoperating revenues, net of interest expense, increased by $11.0M, or 7.3%, to $162.1M in FY14. State appropriation revenues, including land grant endowment income, increased by $4.3M, or 3.8%, to $116.6M, due to increased State funding targeted primarily for general education initiatives. Revenues generated from Federal appropriations and Federal grants and contracts remained strong at $20.9M. Gifts, including those provided by the University's Foundation, increased by $1.7M, or 9.9%, to $19.0M in fiscal year 2014 due to a combination of strong market returns for the endowment assets and continued successful efforts involved in the $225 million multi-year capital fund-raising campaign. Net investment income increased by $848K, or 69.8%, to $2.1M in fiscal year 2014 due to the timing effect of lower available investment balances to invest in higher yielding investments during the transition of the long-term investment portfolio management shift during fiscal year 2013. The change in fair value of investments increased to a $2.0M gain in 2014 as compared to a $2.2M loss in 2013 due to stronger bond market pricing conditions.

Interest expense on long-term debt remained steady at $7.2M in 2014 while other revenue sources increased by $7.7M over FY13. As mentioned in the section above related to changes in accrued salaries and benefits payable, $5.2M of one-time revenue was recognized during the process of eliminating excess benefits-related liability reserves in

FY14 along with $2.2M being reported due to the initial establishment of the accumulated excess overfunding in its net OPEB Asset as of June 30, 2014.

The Idaho Department of Public Works provided $5.0M of campus improvement capital project resources while the University's Foundation along with state and private grants & contracts also contributed $2.6M in capital funds. Major projects funded by these capital project revenues were the renovation of the Niccolls Building, purchase of the Legacy Crossing property, Student Union building second floor renovation, Central Administration building HVAC improvements, and campus power-plant steam tunnel system improvements.

Overall, the University's net position, before Special Item in FY 2013, increased by $18.0M (5.5%) to $345.6M. This compares favorably to only a $6.4M (2.0%) growth in 2013. Approximately $9.3M (16.7%) was added to the University's unrestricted net position, ending FY 2014 at $65M.

## Statement of Cash Flows

The statement of cash flows presents detailed information about the cash activities of the University during the year ended June 30, 2014. The statement is divided into five parts. The first part details operating cash flows and 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 non-operating, non-investing and non-capital financing purposes. The third section, cash flows from capital and related financing activities, shows 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 reflects the net change in cash position.

**Condensed Statement of Cash Flows**
**Fiscal Years Ended June 30**
**(Dollars in Thousands)**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Cash provided (used) by: | | | |
| Operating activities | $ (128,928) | $ (123,936) | $ (123,381) |
| Noncapital financing activities | 165,329 | 153,221 | 148,086 |
| Capital and related financing activities | (33,698) | (25,002) | (28,475) |
| Investing activities | (4,695) | 5,405 | (45,906) |
| Net change in cash | (1,992) | 9,688 | (49,676) |
| Cash beginning of the year | 25,298 | 15,610 | 65,286 |
| Cash end of the year | $ 23,306 | $ 25,298 | $ 15,610 |

Operating activities used $128.9M in cash during fiscal year 2014, resulting in an increase of $5.0M, or 4%, from fiscal year 2013 levels. Non-capital financing activities provided $165.3M in cash during fiscal year 2014, resulting in an increase of $12.1M, or 7.9%, from fiscal year 2013. This increase was caused primarily by the $3.6M increase in state appropriations for general educational initiatives and $7.4M in additional resources from the recognition of one-time revenues from eliminating excessive fringe benefit reserves and recognizing the overfunding of its net OPED asset. Capital and related financing activities used $33.7M of cash in fiscal year 2014, an increase of $8.7M, due mostly to no new debt proceeds acquired in FY14 vs FY13. Investing activities used $4.7M in cash in fiscal year 2014, as compared to providing $5.4M in fiscal year 2013 due to the University's continued commitment to strategically acquire higher yielding long-term investments to improve available financial resources.

## Capital Assets and Debt Management

The University had $788.9M and $765.4M of capital assets at June 30, 2014 and 2013 respectively, with accumulated depreciation of $386.6M and $364.9M respectively. The major categories and associated value of capital assets as well as accumulated depreciation at June 30, 2014, 2013 and 2012 are illustrated in the chart below.

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Capital Assets at Cost** | | | |
| Buildings and improvements | $ 573,540 | $ 562,775 | $ 548,132 |
| Equipment | 96,272 | 93,153 | 88,855 |
| Construction in progress | 6,488 | 2,651 | 7,763 |
| Library materials | 82,713 | 78,892 | 74,854 |
| Capitalized collections | 2,318 | 2,307 | 2,259 |
| Land | 27,490 | 25,624 | 19,375 |
| **Total Capital Assets** | $ 788,821 | $ 765,402 | $ 741,238 |
| **Accumulated Depreciation** | | | |
| Building and improvements | $ 241,539 | $ 226,362 | $ 212,857 |
| Equipment | 80,256 | 77,031 | 73,451 |
| Library materials | 64,805 | 61,482 | 58,294 |
| **Total Accumulated Depreciation** | $ 386,600 | $ 364,875 | $ 344,602 |
| **Total Capital Assets, Net** | $ 402,221 | $ 400,527 | $ 396,636 |

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Total Notes and Bonds Payable** | $ 158,200 | $ 165,643 | $ 163,843 |

At June 30, 2014 and 2013, the University had debt (or similar long-term obligations) of $158.2M and $165.6M respectively. No new debt was issued in FY14; however, as discussed in footnote 20, Subsequent Events, on July 10, 2014, the University issued $48.7M of general revenue bonds, Series 2014, to provide funds to finance the construction and equipping of a new 71,000 sq.ft. research center on the main campus in Moscow, Idaho, referred to as the Integrated Research and Innovation Center (IRIC) along with funds necessary to fully renovate the existing College of Education Building. Total bond proceeds received from the Series 2014 bond issuance was $51.6M.

## Economic Outlook

In 2014, Idaho's economy continues to experience positive growth and sustained recovery despite less than previously forecasted growth in employment, housing, and wages. As reported by the Idaho Division of Financial Management in the April 2014 Idaho Economic Forecast Report, the state's economy has been solidified by a continuing restoration of Idaho's labor market and the high demand for new home construction which not only fuels construction employment, but also retail and service jobs. This positive news in the nonfarm sector coupled with continued firm commodity pricing and robust crop yields from the agricultural sector contributes to higher tax revenues for the state's treasury.

On the national scene, the economy saw decelerated growth in the 1st quarter of 2014 due to the cold winter weather that dampened spending and investments. The impacts of this deceleration reverberated through the national economy, reshaping the near-term outlooks for retail sales, housing, and employment over the next few years. This had an effect of slowing the anticipated recovery in the State of Idaho but is expected to be more supportable in the long term.

As the positive economic growth trend for the State continues, the funding available to higher education has continued to rise, albeit in small measures. In fiscal year 2015, the State Board of Education approved an 8.2% increase (+$9.4M) in state funding to the University through a rise in general education appropriations of 7.1% (+$5.4M) and an additional 9.1% (+$2.8M) for research, extension and other specific programs, and a 16.6% increase (+$1.2M) in the land grant endowment distribution. This places total funding in FY15 from the State at approximately $125 million. This follows a 3.8% increase (+$4.3M) in funding in FY14 over FY13 levels.

The financial position of the University is stable and improving; however, leadership continues to proactively pursue other revenue streams while remaining diligent in monitoring costs. Senior leadership is also cognizant of the fact that the local, national, and international economic recoveries are not fully complete and that there will continue to exist many demands on limited state and federal financial resources. Fiscal efforts at the state and national level to sustain and potentially increase the funding levels for higher education continue to look promising; however, positive improvements in the local and state economy need to solidify further to provide much needed stable and predictable state tax revenues. In response to these continued fiscal challenges, the University's leadership has taken proactive measures over the past few years to mitigate the negative effects as well as reposition much needed fiscal resources to critical academic, student services, and administrative areas. Senior leadership continues to actively plan for future state funding scenarios, both positive and negative, and is well prepared to successfully address them as they materialize.

Increased investment in strategic enrollment efforts and financial aid management over the past three years continue to show meaningful results with Fall 2013 student FTE enrollments reflecting a manageable 4% decline to approximately 10,000 students across all 5 statewide campuses. New freshmen enrollments continue to show small but measureable positive trends; however, recent changes supported by the Idaho State Board of Education in reducing the number of credits required for graduation has resulted in a higher proportion of students graduating when compared to prior periods. We expect this negative impact to overall student full-time equivalent enrollment levels to be temporary and ultimately inconsequential as time passes. Significant efforts across all areas of the university continue to remain focused on student retention with promising results being seen at both the undergraduate and graduate levels.

The University continues to excel as a national leader in high quality academic research. Being recognized by the Carnegie Foundation as a high research activity institution, the University was actively engaged in approximately $76 million in sponsored program grant and contract expenditure activities in fiscal year 2014 with total expenditures toward research of $95.6 million. University efforts toward proactively pursuing new federal, state, industry, and other grants and contracts continue to show our commitment to remain a national leader in academic research. In fiscal year 2014, several key awards were granted to UI research faculty. A $3.1 million, five year grant from the National Science Foundation (NSF) Integrated Graduate and Research Traineeship (IGERT) will support 24 doctoral students on interdisciplinary teams, include faculty participation from seven colleges and 12 departments at UI and four institutions in Chile and Canada. The goal of this project is to study impacts of climate change and population dynamics on physical, ecological, and socio-economic systems, and integrate these to formulate proactive adaptation scenarios for the Columbia River Basin. The National Institutes of Health has renewed a five year grant up to $16.3 million to the University of Idaho led statewide biomedical research network.

Major capital improvements in FY 2014 continued to positively enhance the beauty, productivity, and safety on the main campus. The Niccolls building received $2.6 million in updates to building systems to support instruction. The Student Union Building received a $1.5 million facelift to modernize large meeting venues on the second floor. In August 2014, the University will break ground on the new Integrated Research and Innovation Center (IRIC). This new $49 million facility is designed specifically for highly complex and market-driven government and private sector research grants and will include advanced equipment and laboratories housed among 71,000 sq.ft. of space. The IRIC building represents the University's commitment and support to the national trend toward more interdisciplinary research efforts both within the various academic units at the University as well as key research and development partnership efforts with other major research universities in the region.

In spite of the economic challenges facing the State of Idaho and the nation, the University of Idaho continues to move forward with strategic academic, student services, and fiscal initiatives that will advance the mission and long-term goals of the University. We will continue to seek efforts to grow and enhance existing revenue sources, while also seeking out new opportunities. Efforts are in place to increase enrollment with help from outside consultants and the University has completed the 1st phase of a multi-year program prioritization study designed to strategically examine and restructure academic and administrative programs and services where prudent. Efforts continue to strategically monitor employment staffing levels, scrutinize capital improvement activities, and meticulously contain costs where possible. The leadership at the University of Idaho will continue to proactively address all challenges, financial and otherwise, by continuing to operate with a strong sense of integrity, accountability, and fiscal responsibility. Every member of the University's collective body: students, faculty, and staff are fully committed to playing an active role in the continued success of the State of Idaho's premier research and land-grant institution.

University of Idaho

## STATEMENT OF NET POSITION
## AS OF JUNE 30, 2014 AND 2013

| ASSETS | University of Idaho 2014 | University of Idaho 2013 | University of Idaho Foundation (note 17) 2014 | University of Idaho Foundation (note 17) 2013 |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | $ 12,226,597 | $ 15,323,493 | $ 14,965,612 | $ 11,605,647 |
| Due from state agencies | 192,441 | 190,986 | - | - |
| Prepaid expenses | 1,643,651 | 4,180,169 | - | - |
| Investments - Restricted | 601,282 | 601,940 | 12,757,435 | 11,338,302 |
| Interest receivable | 485,631 | 579,381 | 474,714 | 452,118 |
| Student loans receivable | 1,588,150 | 1,598,188 | - | - |
| Accounts receivable & unbilled charges - net | 30,060,995 | 29,782,066 | - | - |
| Inventories | 1,648,353 | 2,298,645 | - | - |
| Promises to give - net | - | - | 1,259,225 | 1,353,293 |
| Notes receivable | 318,022 | 330,753 | 59,135 | 66,500 |
| Total Current Assets | 48,765,124 | 54,885,620 | 29,516,121 | 24,815,860 |
| NONCURRENT ASSETS | | | | |
| Restricted cash and cash equivalents | 11,078,962 | 9,973,941 | 18,376,600 | 11,998,360 |
| Student loans receivable - net | 9,351,105 | 9,685,063 | - | - |
| Investments - Unrestricted | 71,539,011 | 62,760,654 | - | - |
| Investments - Restricted | - | - | 242,452,596 | 213,870,589 |
| Promises to give - net | - | - | 1,976,086 | 1,671,123 |
| Notes receivable | - | - | 296,894 | 388,311 |
| Capital assets - net | 402,221,498 | 400,527,308 | 5,545,157 | 5,832,157 |
| Net OPEB asset | 2,240,000 | - | - | - |
| Other noncurrent assets | - | - | 355,818 | 378,969 |
| Total Noncurrent Assets | 496,430,576 | 482,946,966 | 269,003,151 | 234,139,509 |
| TOTAL ASSETS | $ 545,195,700 | $ 537,832,586 | $ 298,519,272 | $ 258,955,369 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Amounts on Refunding | 4,400,291 | 4,737,207 | - | - |
| Total Deferred Outflows of Resources | 4,400,291 | 4,737,207 | - | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 549,595,991 | $ 542,569,793 | $ 298,519,272 | $ 258,955,369 |

See notes to financial statements

Continued

University of Idaho

## STATEMENT OF NET POSITION
## AS OF JUNE 30, 2014 AND 2013

| LIABILITIES | University of Idaho 2014 | University of Idaho 2013 | University of Idaho Foundation (note 17) 2014 | University of Idaho Foundation (note 17) 2013 |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Accounts payable | 4,898,768 | $ 3,041,758 | $ 70,922 | $ 159,899 |
| Accrued salaries and benefits payable | 21,488,099 | 26,678,613 | - | - |
| Compensated absences payable | 7,090,389 | 8,275,598 | - | - |
| Trust earnings payable to trust beneficiaries | - | - | 9,121,826 | 8,616,627 |
| Accrued interest payable | 1,875,807 | 1,867,078 | - | - |
| State teacher education loan advance | 250,620 | 247,444 | - | - |
| Deposits | 853,184 | 762,451 | - | - |
| Unearned revenue | 8,092,050 | 7,551,643 | - | - |
| Funds held in custody for others | 1,129,678 | 906,388 | - | - |
| Current portion long-term liabilities | 7,135,884 | 6,441,083 | - | - |
| Other liabilities | 137,356 | - | - | - |
| Split interest agreements | - | - | 926,831 | 1,004,212 |
| Total Current Liabilities | 52,951,834 | 55,772,056 | 10,119,579 | 9,780,738 |
| NONCURRENT LIABILITIES | | | | |
| Notes and bonds payable | 151,063,950 | 159,202,208 | - | - |
| Split interest agreements | - | - | 5,477,962 | 5,757,568 |
| Total Noncurrent Liabilities | 151,063,950 | 159,202,208 | 5,477,962 | 5,757,568 |
| TOTAL LIABILITIES | $ 204,015,783 | $ 214,974,263 | $ 15,597,541 | $ 15,538,306 |
| NET POSITION | | | | |
| Net investment in capital assets | 248,651,560 | 243,070,923 | - | - |
| Restricted for: | | | | |
| Nonexpendable | - | - | 202,560,453 | 189,040,430 |
| Expendable | 31,913,431 | 28,851,316 | 74,414,683 | 49,327,121 |
| Unrestricted | 65,015,217 | 55,673,290 | 5,946,595 | 5,049,512 |
| Total Net Position | 345,580,208 | 327,595,529 | 282,921,731 | 243,417,063 |
| TOTAL LIABILITIES AND NET POSITION | $ 549,595,991 | $ 542,569,793 | $ 298,519,272 | $ 258,955,369 |

See notes to financial statements

University of Idaho

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
## FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| OPERATING REVENUES | University of Idaho 2014 | University of Idaho 2013 | University of Idaho Foundation (note 17) 2014 | University of Idaho Foundation (note 17) 2013 |
|---|---|---|---|---|
| Student tuition and fees (net of scholarship allowance of $22,153,189 and $21,333,219) | $ 83,361,394 | $ 82,657,950 | $ - | $ - |
| Federal grants and contracts | 66,342,933 | 68,813,321 | - | - |
| State and local grants and contracts | 7,159,952 | 5,203,701 | - | - |
| Private grants and contracts | 4,937,125 | 3,881,344 | - | - |
| Sales and services of educational activities | 11,642,661 | 10,235,562 | - | - |
| Sales and services of auxiliary enterprises | 31,218,731 | 35,453,721 | - | - |
| Interest on loans receivable | 321,056 | 327,202 | - | - |
| Other sources | 4,200,739 | 2,983,307 | 438,281 | 192,422 |
| Gifts | - | - | 27,246,645 | 17,133,672 |
| Total operating revenue | 209,184,592 | 209,556,108 | 27,684,926 | 17,326,094 |
| OPERATING EXPENSES | | | | |
| Salaries | 157,799,066 | 158,684,035 | - | - |
| Benefits | 55,196,667 | 58,408,947 | - | - |
| Services | 56,820,725 | 55,629,647 | - | - |
| Supplies | 21,888,166 | 22,996,698 | - | - |
| Insurance, utilities and rent | 15,308,861 | 13,752,540 | - | - |
| Scholarships and fellowships | 21,352,287 | 22,489,009 | - | - |
| Depreciation | 25,223,503 | 23,179,119 | - | - |
| Other | 7,289,834 | 6,339,711 | 71,908 | 68,258 |
| Administrative expense | - | - | 2,324,487 | 2,047,881 |
| Total operating expenses | 360,879,109 | 361,479,708 | 2,396,395 | 2,116,139 |
| OPERATING (LOSS) INCOME | $ (151,694,518) | $ (151,923,599) | $ 25,288,531 | $ 15,209,955 |

See notes to financial statements

Continued

University of Idaho

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
## FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | University of Idaho 2014 | University of Idaho 2013 | University of Idaho Foundation (note 17) 2014 | University of Idaho Foundation (note 17) 2013 |
|---|---|---|---|---|
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State appropriations | $ 109,403,934 | $ 105,845,666 | $ - | $ - |
| Land grant endowment income | 7,166,400 | 6,466,800 | - | - |
| Federal appropriations | 4,399,634 | 5,386,942 | - | - |
| Federal grants and contracts | 16,462,397 | 17,136,217 | - | - |
| Gifts (including gifts from Foundation) | 18,989,071 | 17,275,225 | - | - |
| Net investment income | 2,063,988 | 1,215,985 | 6,706,439 | 5,564,399 |
| Net increase (decrease) in fair value of investments | 2,019,084 | (2,242,474) | 28,401,434 | 17,483,581 |
| Change in value of assets held in trust for University | - | 6,131,306 | - | (6,131,306) |
| Distribution of endowment income to University and trust beneficiaries | - | - | (9,158,572) | (8,616,627) |
| Distribution to University and affiliates | - | - | (11,780,663) | (9,059,759) |
| Distribution of trust income to life income beneficiaries | - | - | (708,350) | (702,154) |
| Lease and rental income | - | - | 64,472 | - |
| Property management | - | - | (51,101) | (2,776) |
| Change to split interest trusts | - | - | 742,478 | 507,458 |
| Interest expense (net of capitalized interest of $289,280 and $438,974 for FY 2014 and FY 2013 respectively) | (7,285,783) | (7,329,495) | - | - |
| Other sources | 8,857,653 | 1,164,693 | - | - |
| Net nonoperating revenues | 162,076,378 | 151,050,864 | 14,216,137 | (957,184) |
| GAIN (LOSS) BEFORE OTHER REVENUES | 10,381,861 | (872,735) | 39,504,668 | 14,252,771 |
| OTHER REVENUES | | | | |
| Capital grants and contracts | 46,586 | 1,353,360 | - | - |
| Projects with Idaho Department of Public Works | 5,023,343 | 5,185,086 | - | - |
| Capital gifts from Foundation | 2,532,889 | 766,963 | - | - |
| Total other revenues | 7,602,819 | 7,305,408 | - | - |
| INCREASE IN NET POSITION BEFORE SPECIAL ITEM | 17,984,680 | 6,432,673 | 39,504,668 | 14,252,771 |
| SPECIAL ITEM - see Note 20 | - | (80,990,338) | - | 80,990,338 |
| INCREASE IN NET POSITION | 17,984,680 | (74,557,665) | 39,504,668 | 95,243,109 |
| NET POSITION - Beginning of year (Previously reported) | 327,595,528 | 403,590,875 | - | - |
| Cumulative effect implementing GASBS 65 | - | (1,437,682) | - | - |
| NET POSITION - Beginning of year | 327,595,528 | 402,153,193 | 243,417,063 | 148,173,954 |
| NET POSITION - End of year | $ 345,580,208 | $ 327,595,528 | $ 282,921,731 | $ 243,417,063 |

See notes to financial statements

University of Idaho

# STATEMENTS OF CASH FLOWS
# FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | University of Idaho 2014 | University of Idaho 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash Receipts and disbursements | | |
| Tuition and fees | $ 83,583,614 | $ 82,588,940 |
| Grants and contracts | 75,462,060 | 80,963,993 |
| Sales of services - net | 46,389,897 | 43,270,591 |
| Payments to or for employees | (221,611,456) | (209,775,722) |
| Payments to suppliers | (96,124,038) | (100,961,447) |
| Scholarships disbursed | (21,352,287) | (22,489,009) |
| Funds held for others | 223,290 | 663,042 |
| Student loans collected | 2,696,927 | 2,485,437 |
| Student loans disbursed | (1,881,365) | (1,801,859) |
| Other receipts | 3,684,927 | 1,120,018 |
| Net cash used by operating activities | (128,928,431) | (123,936,016) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Appropriated general education revenues: | | |
| State general account | 109,403,934 | 105,791,467 |
| Land grant endowment income | 7,166,400 | 6,466,800 |
| Federal Appropriations | 4,449,948 | 5,386,942 |
| Federal Grants and Contracts | 16,462,397 | 17,136,217 |
| Gifts | 18,989,071 | 17,275,225 |
| Other receipts | 8,857,653 | 1,164,693 |
| Net cash provided by noncapital financing activities | 165,329,403 | 153,221,344 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| State appropriations, capital | 5,023,343 | 5,185,086 |
| Capital grants and gifts | 2,579,475 | 2,120,322 |
| Capital asset purchases | (26,917,693) | (27,070,074) |
| Proceeds from capital debt | - | 15,980,090 |
| Principal paid on capital debt | (7,106,290) | (13,825,320) |
| Interest paid on capital debt | (7,277,054) | (7,392,964) |
| Net cash used by capital & related financing activities | (33,698,219) | (25,002,860) |

See notes to financial statements.

University of Idaho

## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | University of Idaho 2014 | University of Idaho 2013 |
|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | 2,995,012 | 109,674,439 |
| Investment income | 2,063,988 | 1,215,985 |
| Purchase of investments | (9,753,628) | (105,486,060) |
| Net cash provided (used) by investing activities | (4,694,628) | 5,404,364 |
| **NET INCREASE IN CASH** | (1,991,875) | 9,686,832 |
| Cash - Beginning of year | 25,297,434 | 15,610,602 |
| Cash - End of year | $ 23,305,559 | $ 25,297,434 |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating loss | $ (151,694,518) | $ (151,923,599) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | | |
| Depreciation expense | 25,223,503 | 23,179,119 |
| Decrease (increase) in assets: | | |
| Receivables, net | 122,697 | (1,492,439) |
| Inventories and prepaids | 3,186,810 | (2,191,441) |
| Net OPEB assets | (2,240,000) | - |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 1,857,010 | 557,195 |
| Accrued payroll, benefits and compensated absences | (6,375,723) | 7,317,260 |
| Deposits and deferred revenues | 628,771 | 563,452 |
| Change in funds held for others | 223,290 | 663,042 |
| Other liabilities | 139,730 | (608,605) |
| Net cash used by operating activities | $ (128,928,431) | $ (123,936,016) |
| **NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES** | | |
| Capital asset write-offs | $ (126,872) | $ (425,137) |
| Donated assets | 101,497 | 204,179 |
| Change in fair value of investments | 2,141,865 | (2,912,610) |
| Change in fair value of assets held in trust | - | 6,131,306 |
| Special Item - see Note 20 | - | (80,990,338) |

See notes to financial statements

University of Idaho

## STATEMENTS OF BENEFIT PLAN NET POSITION
## AS OF DECEMBER 31, 2013 AND 2012

| | Retiree Benefits Trust 2013 | Retiree Benefits Trust 2012 | Health Benefits Trust 2013 | Health Benefits Trust As Restated 2012 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and short-term investments | $ 705,491 | $ 837,798 | $ 193,438 | $ 230,034 |
| Accounts receivable | - | - | 800,000 | 528,300 |
| Interest receivable | 6 | 52 | 17,697 | 17,610 |
| Investments, at fair value | | | | |
| Fixed income securities | 14,795,892 | 12,410,886 | 2,728,634 | 2,698,001 |
| Equity securities | 11,171,994 | 10,682,041 | - | - |
| Total investments | 25,967,886 | 23,092,927 | 2,728,634 | 2,698,001 |
| Total assets | $ 26,673,383 | $ 23,930,777 | $ 3,739,769 | $ 3,473,945 |
| **Liabilities** | | | | |
| Accounts payable | $ - | $ - | $ 733,964 | $ 682,718 |
| IBNR liability | - | - | 2,139,000 | 1,851,000 |
| Total liabilities | - | - | 2,872,964 | 2,533,718 |
| Net position held in trust for benefits | $ 26,673,383 | $ 23,930,777 | $ 866,805 | $ 940,227 |

See notes to financial statements

University of Idaho

**STATEMENTS OF CHANGES IN BENEFIT PLAN NET POSITION**
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

| | Retiree Benefits Trust 2013 | Retiree Benefits Trust 2012 | Health Benefits Trust 2013 | Health Benefits Trust As Restated 2012 |
|---|---|---|---|---|
| **Additions** | | | | |
| Contributions | | | | |
| Employer | $ - | $ 3,000,000 | $ 16,526,739 | $ 15,785,581 |
| Plan members | - | - | 5,189,034 | 4,646,405 |
| Total contributions | - | 3,000,000 | 21,715,773 | 20,431,986 |
| Net investment (loss) income | 2,795,289 | 2,280,294 | (31,215) | 79,780 |
| Total additions | 2,795,289 | 5,280,294 | 21,684,558 | 20,511,766 |
| **Deductions** | | | | |
| Insurance claim benefits | - | - | 18,447,461 | 17,924,363 |
| Change in IBNR | - | - | 288,000 | 161,000 |
| Administrative expenses | 52,683 | - | 3,022,519 | 2,894,260 |
| Total deductions | 52,683 | - | 21,757,980 | 20,979,623 |
| Net increase (decrease) in assets held in trust for benefits | 2,742,606 | 5,280,294 | (73,422) | (467,857) |
| Benefit plan net position, beginning of year | 23,930,777 | 18,650,483 | 940,227 | 1,408,084 |
| Benefit plan net position, end of year | $ 26,673,383 | $ 23,930,777 | $ 866,805 | $ 940,227 |

See notes to financial statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Reporting Entity*** — The University of Idaho ("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 State Board of Education, 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.

The University of Idaho Foundation, Inc. ("Foundation") is considered a component unit of the University as determined by GASB 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No.14, which requires reporting, as a component unit, an organization that raised and holds economic resources for the direct benefit of a governmental unit. The Foundation was established in 1970 to solicit financial support for the University of Idaho and to manage and invest the resulting charitable gifts. The Foundation is a separate 501(c)(3) corporation comprised of 25 members who serve as a self-perpetuating Board of Directors.

The Foundation receives all gifts to the University and transfers gifts to the donor-specified area within the University on a regular schedule. In addition, the Foundation manages the endowment funds in a pooled investment fund, Consolidated Investment Trust ("CIT"), and transfers a Board approved percentage of historical investment earnings to the University on an annual basis.

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.

The University of Idaho Health Benefits Trust ("HBT") was established in June, 2007 in accordance with the State of Idaho Department of Insurance ("DOI") requirements. The HBT receives the employer, employee and retiree contributions for the University's self-insured health plan, and pays the medical, dental, mental health and vision claims, and corresponding administrative processing fees, associated with the health plan. In addition, the HBT maintains a balance sufficient to cover the actuarially-determined incurred-but-not-paid ("IBNP") claims of the health plan, as well as DOI-required supplemental funding of 30% of the actuarially determined IBNP claims. The HBT is overseen by a group of four independent Trustees who are employed by the University. The Trustees are responsible for overseeing the investment of the Trust monies, and ensuring that the University adequately funds the HBT on an ongoing basis through the aforementioned contributions to allow payment of the ongoing claims. The HBT proceeds are managed on behalf of the Trustees by U.S. Bank.

The University of Idaho Retiree Benefits Trust ("RBT") was established in April, 2008 to fund the University's actuarially-determined projected liability for its self-insured retiree health plan. The RBT is overseen by University of Idaho Administration and the Trust proceeds are managed on behalf of the University by Wells Fargo Bank.

The HBT and RBT both have December 31 fiscal year ends. The difference in the fiscal year end from the University does not materially impact the net position of the University.

***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 is presenting its financial statements in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, an amendment of GASB Statement No. 34*.

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

***Student Loans Receivable*** — Loans receivable from students bear interest at rates ranging from 3% to 5% 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. 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*** — All inventories are valued at the lower of first-in-first-out 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 change in fair value of investments in the statement of revenues, expenses, and changes in net assets.

***Restricted Cash and Cash Equivalents*** — Cash and cash equivalents that are restricted to make debt service payments, maintain sinking or reserve funds, except for currently due payments, are classified as non-current assets in the statement of net assets.

***Capital Assets*** — Capital Assets are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair value at the date of gift. For equipment, the University's capitalization policy includes all tangible 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 20 to 40 years for buildings and building improvements, 20 years for improvements other than buildings, 10 years for library materials, and an average of 7 years for equipment. Depreciation is not computed on capitalized collections which include works of art, historical treasures, and various special collections comprising of anthropological, geological, entomological, musical, and wildlife subjects.

In fiscal year 2010, in accordance with the requirements and definitions of GASB No. 51, *Accounting and Financial Reporting for Intangible Assets*, the University adopted a policy of capitalizing any intangible assets $200,000 or greater in value that have an expected useful life of one year or longer. Depreciation on intangible assets is computed using the straight-line, composite method over the estimated useful lives of the assets, primarily consisting of computer software and licenses that generally have a useful life of 5 years. The University adopted this policy in compliance with the State of Idaho guidelines related to the requirements of implementation for GASB No. 51.

***Compensated Absences*** — Employee vacation and compensatory time pay is accrued at year-end for financial statement purposes. Compensated absence costs are included in benefits expense in the statement of revenues, expenses, and changes in net assets.

***Waivers*** — Tuition waivers, provided directly by the University for faculty and staff benefits, amounted $1,103,700 and $947,623 for the fiscal years ended 2014 and 2013, respectively.

***Unearned Revenue*** — Unearned 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. Unearned 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, and notes payable 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 Position*** — The University's net position is classified as follows:

Net Investment In Capital Assets: This represents the University's investment in capital assets, net of depreciation and 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 net investment in capital assets.

*Restricted—Nonexpendable*: Nonexpendable restricted net position consists 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 position includes resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Unrestricted*: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, investment income, 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 for any lawful purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then toward unrestricted resources.

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

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

*Operating Revenues:* Operating revenues include revenues from 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 (4) interest on institutional student loans.

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

***Scholarship Discounts and Allowances*** — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating 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. Scholarship allowances for FY2014 and FY2013 are $22,153,189 and $21,333,219 respectively.

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

***New Accounting Standards*** — In March, 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement provides guidance to the University in defining those transactions which qualify as deferred outflows and deferred inflows, the reporting of which the GASB had previously promulgated in Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 65 is required by the GASB to be applied retroactively to previous reporting periods. The University implemented Statement No. 65 for its fiscal year ending June 30, 2014. In compliance with this Statement, the University wrote off its previously reported deferred bond financing costs which appeared in the noncurrent assets section of the University's Statement of Net Position and also revised its financial statements for fiscal year 2013, for consistency purposes, as identified in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position. In addition, the University's deferred amounts on refunding of bonds are now reported separately as deferred outflows in the Statement of Net Position. Prior to the adoption of Statement No. 65, these deferred amounts were previously reported as a component of the University's noncurrent notes and bonds payable.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This statement requires a governmental entity to disclose as a liability any obligation which that entity has guaranteed in a nonexchange transaction. Nonexchange transactions are those in which a governmental agency has extended financial guarantees for the obligation of another governmental agency, not-for-profit entity, or private entity without receiving equal or approximately equal value in exchange. The University has reviewed the requirements of Statement No. 70 and has found no transactions or exchanges in which this Statement would be applicable.

***Reclassification*** — Certain items previously reported in the financial statements have been reclassified to conform to the current financial statement presentation.

## 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are deposited with various financial institutions. Custodial credit risk on deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. At June 30, 2014, $13,720,006 of the University's bank balance of $23,305,558 was exposed to custodial credit risk because it was uninsured and uncollateralized. At June 30, 2013, $12,940,188 of the University's bank balance of $25,297,434 was exposed to custodial credit risk because it was uninsured and uncollateralized.

## 3. INVESTMENTS

The general investment policy of the University as adopted by the State Board of Education 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. Investment of cash shall be restricted to:

- FDIC passbook savings accounts.
- Certificates of deposit.
- U.S. securities.
- Federal funds repurchase agreements.
- Reverse repurchase agreements.
- Federal agency securities.
- Large money market funds.
- Banker's acceptances.
- Corporate bonds of Aa grade or better.
- Mortgage backed securities of Aa grade or better.
- Commercial paper of prime or equivalent grade.

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.

The following table represents the fair value of investments by type at June 30, 2014 and June 30, 2013 respectively:

| | Total Fair Value | |
|---|---|---|
| **Investment Type** | **As of June 30, 2014** | **As of June 30, 2013** |
| Corporate bonds | $ 48,700,203 | $ 39,205,568 |
| U.S. government agency securities | 14,094,825 | 15,701,774 |
| Mortgage/asset-backed securities | 7,640,833 | 7,766,928 |
| Money market mutual funds | 697,017 | 688,324 |
| U.S. government securities | 1,007,415 | - |
| Total | $ 72,140,293 | $ 63,362,594 |

### Interest Rate Risk

Interest rate risk is defined by GASB Statement No. 40, Deposit and Investment Risk Disclosure, as the risk a government may face should interest rate variances affect the fair value of investments. The University does not presently have a formal policy that addresses interest rate risk; however, it does incorporate weighted average maturity methodology in selecting and reporting its investments. As of June 30, 2014 and June 30, 2013 respectively, the University had the following investments subject to interest rate risk:

**Investment Securities Subject to Interest Rate Risk at June 30, 2014**

| Investment Maturities in Years<br>Investment Type | Total Fair Value | <1 | 1-5 | 6-10 | 11-15 | >15 |
|---|---|---|---|---|---|---|
| Corporate bonds | $ 48,700,203 | $ - | $ 2,241,760 | $ 45,925,102 | $ 533,341 | $ - |
| U.S. government agency securities | 14,094,825 | - | 1,791,898 | 12,302,926 | - | - |
| Mortgage/asset-backed securities | 7,640,833 | 1,729,064 | 5,911,769 | - | - | - |
| Money market mutual funds | 697,017 | 697,017 | - | - | - | - |
| U.S. government securities | 1,007,415 | 601,282 | - | 406,132 | - | - |
| Total | $ 72,140,293 | $ 3,027,364 | $ 9,945,428 | $ 58,634,161 | $ 533,341 | $ - |

**Investment Securities Subject to Interest Rate Risk at June 30, 2013**

| Investment Maturities in Years<br>Investment Type | Total Fair Value | <1 | 1-5 | 6-10 | 11-15 | >15 |
|---|---|---|---|---|---|---|
| Corporate bonds | $ 39,205,568 | $ - | $ 1,156,379 | $ 37,517,189 | $ 532,000 | $ - |
| U.S. government agency securities | 15,701,774 | 601,940 | 6,365,906 | 8,733,928 | - | - |
| Mortgage/asset-backed securities | 7,766,928 | - | 7,766,928 | - | - | - |
| Money market mutual funds | 688,324 | 688,324 | - | - | - | - |
| Total | $ 63,362,594 | $ 1,290,264 | $ 15,289,213 | $ 46,251,117 | $ 532,000 | $ - |

### Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. Statement No. 40 requires disclosure of credit quality ratings for investments in debt securities. The University does not presently have a formal policy that addresses credit risk. (The credit risk ratings listed below are issued by standards set by Standard and Poor's.) As of June 30, 2014 and June 30, 2013 respectively, the University had the following investment credit risk:

**Investment Securities Subject to Credit Risk at June 30, 2014**

| Credit Rating | Corporate Bonds | U.S. Government Agency Securities | Mortgage/ Asset-Backed Securities | Money Market Mutual Funds | U.S. Government Securities | Total Investments |
|---|---|---|---|---|---|---|
| AAA | $ 1,443,068 | $ - | $ 1,729,064 | $ 697,017 | $ 601,282 | $ 4,470,432 |
| AA | 18,396,639 | 14,094,825 | 4,439,325 | - | 406,132 | 37,336,920 |
| A | 28,860,497 | - | 1,472,444 | - | - | 30,332,941 |
| Total | $ 48,700,203 | $ 14,094,825 | $ 7,640,833 | $ 697,017 | $ 1,007,415 | $ 72,140,293 |

**Investment Securities Subject to Credit Risk at June 30, 2013**

| Credit Rating | Corporate Bonds | U.S. Government Agency Securities | Mortgage/ Asset-Backed Securities | Money Market Mutual Funds | U.S. Government Securities | Total Investments |
|---|---|---|---|---|---|---|
| AAA | $ 1,365,990 | $ 601,940 | $ 1,764,479 | $ 688,324 | $ - | $ 4,420,733 |
| AA | 10,389,075 | 15,099,834 | 4,518,438 | - | - | 30,007,347 |
| A | 27,450,503 | - | 1,484,011 | - | - | 28,934,514 |
| Total | $ 39,205,568 | $ 15,701,774 | $ 7,766,928 | $ 688,324 | $ - | $ 63,362,594 |

## Concentration of Credit Risk

Per Statement No. 40, Concentration of Credit Risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Governmental Accounting Standards Board has adopted a principle that governments should provide note disclosure when 5 percent of investments are concentrated in any one issuer. The University does not presently have a formal policy that addresses concentration of credit risk. As of June 30, 2014 and June 30, 2013, the University had the following concentration of credit risk:

**Investment Securities Subject to Concentration of Credit Risk**

| | At June 30, 2014 | | At June 30, 2013 | |
|---|---|---|---|---|
| | Total Fair Value | Percentage of Total Investments | Total Fair Value | Percentage of Total Investments |
| Federal National Mortgage Association (FNMA) | $ 6,754,714 | 9.44% | $ 9,499,085 | 14.99% |
| Federal Home Loan Mortgage Corporation (FGLMC) | 5,760,687 | 8.05% | 6,202,689 | 9.79% |
| General Electric Company | 5,096,429 | 7.12% | 5,014,423 | 7.91% |
| Total | $ 17,611,830 | 24.61% | $ 20,716,197 | 32.69% |

## Custodial Credit Risk

Custodial credit risk on investments is the risk that in the event of a failure of the counterparty, the University will not be able to recover the value of its investments that are in the possession of an outside party. The University does not presently have an investment policy that addresses custodial credit risk. At June 30, 2014 and June 30, 2013, all investments were held by the University or its counterparty in the University's name.

### Risk and Uncertainties

Per Regents of University of Idaho policy, the University invests in various types of investment securities rated Aa or better. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, changes in the values of investments securities may occur in the near term and such changes could affect the amounts reported in the statement of financial position.

There is always existent risk and volatility in the domestic and internation investment markets. Consequently, the fair value of the University's investments may be exposed to higher than typical price volatility which could result in a subsequent reduction in fair value of certain investments from the amounts reported as of June 30, 2014.

## 4. ACCOUNTS RECEIVABLE AND UNBILLED CHARGES

Receivables and unbilled charges consisted of the following at June 30, 2014 and June 30, 2013, respectively:

| | 2014 | 2013 |
|---|---|---|
| Student tuition and fees, including Federal financial aid funds | $ 5,301,661 | $ 4,783,666 |
| Auxiliary enterprises | 1,112,727 | 1,112,274 |
| Educational activities | 918,493 | 782,960 |
| Federal appropriations | 8,514 | 58,828 |
| Grants and contracts | 14,044,283 | 14,872,267 |
| Due from Foundation | 9,034,117 | 8,503,853 |
| | $ 30,419,795 | $ 30,113,848 |
| Less allowance for doubtful accounts | (358,800) | (331,782) |
| Net accounts receivable and unbilled charges | $ 30,060,995 | $ 29,782,066 |

## 5. STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program ("Program") comprise substantially all of the loans receivable at June 30, 2014 and June 30, 2013. Under this Program, the federal government provides approximately 67% of the funding for the Program with the University providing the balance. The Program provides for the cancellation of a loan at rates of 12.5% 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.

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 allowance for uncollectible loans was $1,945,568 for June 30, 2014 and $1,918,382 at June 30, 2013.

## 6. CAPITAL ASSETS

Capital assets at June 30, 2014 and 2013 consisted of the following:

| | Year ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Balance July 1, 2013 | Additions | Transfers | Retirements | Balance June 30, 2014 |
| Capital assets not being depreciated: | | | | | |
| Land | $ 25,623,540 | $ 1,863,907 | $ 2,750 | $ - | $ 27,490,197 |
| Capitalized collections | 2,306,524 | 17,930 | - | (6,866) | 2,317,588 |
| Equipment construction in progress | 724,149 | 1,398,738 | (1,351,158) | (27,699) | 744,030 |
| Construction in progress | 2,651,414 | 4,941,105 | (1,084,662) | (19,991) | 6,487,866 |
| Total capital assets not being depreciated | $ 31,305,627 | $ 8,221,680 | $ (2,433,070) | $ (54,556) | $ 37,039,681 |
| Capital assets being depreciated: | | | | | |
| Buildings | $ 506,766,999 | $ 9,021,599 | $ 939,978 | $ (1,236,326) | $ 515,492,250 |
| Other improvements | 56,008,687 | 1,896,979 | 141,934 | - | 58,047,600 |
| Furniture and equipment | 92,428,979 | 3,824,521 | 1,351,158 | (2,076,511) | 95,528,147 |
| Library materials | 78,891,878 | 4,177,431 | - | (355,972) | 82,713,337 |
| Total capital assets being depreciated | 734,096,543 | 18,920,530 | 2,433,070 | (3,668,809) | 751,781,334 |
| Less accumulated depreciation: | | | | | |
| Buildings | (192,764,000) | (13,955,582) | - | 1,153,636 | (205,565,946) |
| Other improvements | (33,598,580) | (2,375,002) | - | - | (35,973,582) |
| Furniture and equipment | (77,031,059) | (5,213,710) | - | 1,989,240 | (80,255,529) |
| Library materials | (61,481,223) | (3,679,209) | - | 355,972 | (64,804,460) |
| Total accumulated depreciation | (364,874,862) | (25,223,503) | - | 3,498,848 | (386,599,517) |
| Capital assets being depreciated—net | $ 369,221,681 | $ (6,302,973) | $ 2,433,070 | $ (169,961) | $ 365,181,817 |
| Capital assets summary: | | | | | |
| Capital assets not being depreciated | $ 31,305,627 | $ 8,221,680 | $ (2,433,070) | $ (54,556) | $ 37,039,681 |
| Capital assets being depreciated | 734,096,543 | 18,920,530 | 2,433,070 | (3,668,809) | 751,781,334 |
| Total cost of capital assets | 765,402,170 | 27,142,210 | - | (3,723,365) | 788,821,015 |
| Less accumulated depreciation | (364,874,862) | (25,223,503) | - | 3,498,848 | (386,599,517) |
| Capital assets—net | $ 400,527,308 | $ 1,918,707 | $ - | $ (224,517) | $ 402,221,498 |

In addition to accounts payable for construction in progress, the estimated cost to complete property authorized or under construction at June 30, 2014 is approximately $57,676,000 including capitalized bond interest costs of $289,280. These CIP costs will be borne by the University and supplemented with additional funds provided by state appropriations, gifts, grants and contracts, and/or long-term borrowings.

| | Year ended June 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Balance July 1, 2012 | Additions | Transfers | Retirements | Balance June 30, 2013 |
| Capital assets not being depreciated: | | | | | |
| Land | $ 19,375,352 | $ 6,247,488 | $ 700 | $ - | $ 25,623,540 |
| Capitalized collections | 2,258,593 | 47,931 | - | - | 2,306,524 |
| Equipment construction in progress | 258,546 | 889,911 | (413,297) | (11,011) | 724,149 |
| Construction in progress | 7,762,746 | 1,483,071 | (6,236,761) | (357,642) | 2,651,414 |
| Total capital assets not being depreciated | $ 29,655,237 | $ 8,668,401 | $ (6,649,358) | $ (368,653) | $ 31,305,627 |
| Capital assets being depreciated: | | | | | |
| Buildings | $ 493,913,741 | $ 7,974,594 | $ 5,430,549 | $ (551,885) | $ 506,766,999 |
| Other improvements | 54,219,158 | 992,547 | 796,982 | - | 56,008,687 |
| Furniture and equipment | 88,596,424 | 5,603,534 | 421,827 | (2,192,806) | 92,428,979 |
| Library materials | 74,853,611 | 4,371,485 | - | (333,218) | 78,891,878 |
| Total capital assets being depreciated | 711,582,934 | 18,942,160 | 6,649,358 | (3,077,909) | 734,096,543 |
| Less accumulated depreciation: | | | | | |
| Buildings | (181,539,860) | (11,771,242) | - | 547,102 | (192,764,000) |
| Other improvements | (31,316,855) | (2,281,725) | - | - | (33,598,580) |
| Furniture and equipment | (73,451,043) | (5,605,772) | - | 2,025,756 | (77,031,059) |
| Library materials | (58,294,061) | (3,520,380) | - | 333,218 | (61,481,223) |
| Total accumulated depreciation | (344,601,819) | (23,179,119) | - | 2,906,076 | (364,874,862) |
| Capital assets being depreciated—net | $ 366,981,115 | $ (4,236,959) | $ 6,649,358 | $ (171,833) | $ 369,221,681 |
| Capital assets summary: | | | | | |
| Capital assets not being depreciated | $ 29,655,237 | $ 8,668,401 | $ (6,649,358) | $ (368,653) | $ 31,305,627 |
| Capital assets being depreciated | 711,582,934 | 18,942,160 | 6,649,358 | (3,077,909) | 734,096,543 |
| Total cost of capital assets | 741,238,171 | 27,610,561 | - | (3,446,562) | 765,402,170 |
| Less accumulated depreciation | (344,601,819) | (23,179,119) | - | 2,906,076 | (364,874,862) |
| Capital assets—net | $ 396,636,352 | $ 4,431,442 | $ - | $ (540,486) | $ 400,527,308 |

## 7. ACCOUNTS PAYABLE

Accounts payable consisted of the following at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Operating activities | $4,885,213 | $3,014,493 |
| Taxes payable | 13,555 | 27,265 |
| Total accounts payable and accrued liabilities | $4,898,768 | $3,041,758 |

## 8. OPERATING LEASES

The University has entered into various non-cancellable operating lease agreements covering certain equipment. The lease terms range from one to five years. The expense for operating leases was $4,002,800 for the year ended June 30, 2014 and $3,577,693 for the year ended June 30, 2013.

Future minimum lease payments on noncancellable leases at June 30, 2014 are as follows:

| | |
|---|---|
| FY2015 | $ 3,245,737 |
| FY2016 | 32,289 |
| FY2017 | 28,623 |
| FY2018 | 18,476 |
| FY2019 | 1,892 |
| Total future minimum obligation | $ 3,327,017 |

## 9. LONG-TERM LIABILITIES

Long-term liability activity for years ended June 30, 2014 and 2013 is as follows:

| | Ending Balance June 30, 2013 | Additions | Reductions | Ending Balance June 30, 2014 | Amounts Due within One Year |
|---|---|---|---|---|---|
| Bonds, Notes and Capital Lease Obligations: | | | | | |
| Bonds Payable | $ 160,365,000 | $ - | $ 5,325,000 | $ 155,040,000 | $ 6,195,000 |
| Notes Payable | 2,458,461 | - | 1,727,905 | 730,556 | 697,859 |
| Capital Lease Obligations | 147,531 | 125,847 | 273,378 | - | - |
| | 162,970,992 | 125,847 | 7,326,283 | 155,770,556 | 6,892,859 |
| Premium on Bonds | 2,672,553 | - | 243,275 | 2,429,278 | 243,025 |
| Totals | $ 165,643,545 | $ 125,847 | $ 7,569,558 | $ 158,199,834 | $ 7,135,884 |

| | Ending Balance June 30, 2012 | Additions | Reductions | Ending Balance June 30, 2013 | Amounts Due within One Year |
|---|---|---|---|---|---|
| Bonds, Notes and Capital Lease Obligations: | | | | | |
| Bonds Payable | $ 155,795,000 | $ 15,070,000 | $ 10,500,000 | $ 160,365,000 | $ 5,325,000 |
| Notes Payable | 5,301,487 | - | 2,843,276 | 2,458,210 | 725,527 |
| Capital Lease Obligations | 287,702 | - | 140,171 | 147,531 | 147,530 |
| | 161,384,189 | 15,070,000 | 13,483,447 | 162,970,741 | 6,198,057 |
| Premium on Bonds | 2,746,197 | 653,624 | 727,267 | 2,672,553 | 243,026 |
| Totals | $ 164,130,386 | $ 15,723,624 | $ 14,210,714 | $ 165,643,294 | $ 6,441,083 |

## 10. NOTES AND BONDS PAYABLE

Notes and bonds payable consisted of the following at June 30, 2014 and 2013:

| Description | Balance Outstanding 2014 | Balance Outstanding 2013 |
|---|---|---|
| General Revenue Refunding Bonds, Series 2005A, (original balance of $30,740,000), consisting of bonds due in annual installments commencing in 2005 and fluctuating periodically from $790,000 to a maximum of $2,265,000, plus interest from 4.00% to 5.00% through the year 2026, collateralized by a pledge of all revenues of the University with the exception of general account appropriated funds of the State of Idaho and restricted gift and grant revenues. Revenues pledged to the Recreation Center Bonds and to the Activity Center Bonds are pledged to the 2005A bonds on a subordinate basis until the retirement of the Recreation Center Bonds and Activity Center Bonds. The Series 2005A bonds were issued to advance refund the Series 1996 Student Fee Revenue Bonds (Telecommunications Infrastructure Facilities Project) in the principal amount of $2,700,000, to advance refund the Series 1997 Student Fee Revenue Bonds (University Commons Project) in the principal amount of $12,965,000, to advance refund the Series 1997 Student Fee Revenue Bonds (University Commons Supplemental Project) in the principal amount of $4,120,000, to advance refund the Series 1999C Student Fee Revenue Bonds (University Infrastructure and Facilities Improvement Projects) in the principal amount of $4,065,000, to advance refund all of the outstanding Series 1999D Student Fee Revenue Bonds (Kibbie and Enrollment Services Centers Improvement Projects) in the principal amount of $6,020,000, to fund the debt service reserve account, and to pay bond issuance expenses. | 22,285,000 | 24,060,000 |
| General Revenue Bonds, Series 2007B, (original balance of $35,035,000), consisting of bonds due in annual installments, commencing in 2015 and fluctuating periodically from $200,000 to a maximum of $34,235,000 plus interest from 4.25% to 4.50% through the year 2041, collateralized by a pledge of all revenues of the University with the exception of general account appropriated funds of the State of Idaho and restricted gift and grant revenues. The Series 2007B bonds were issued to finance certain electrical upgrades and to fund capital maintenance and replacement of the University's utility corridor, central steam plant and central chiller, and related improvements located on the University's main campus. | 35,035,000 | 35,035,000 |

| Description | Balance Outstanding 2014 | Balance Outstanding 2013 |
|---|---|---|
| General Revenue Refunding Bonds, Series 2010A, (original balance of $10,230,000), consisting of serial bonds due in annual installments commencing in 2011 and fluctuating periodically from $585,000 to a maximum of $2,075,000, plus interest from 2.25% to 5.00% through the year 2016, collateralized by a pledge of all revenues of the University with the exception of general account appropriated funds of the State of Idaho and restricted gift and grant revenues. The Series 2010A bonds were issued to refund the Series 1996 Student Fee Refunding Revenue Bonds in the principal amount of $3,125,000 and to refund the Series 1997B Student Fee Refunding Revenue Bonds in the principal amount of $7,290,000. | 2,700,000 | 3,975,000 |
| General Revenue Refunding Bonds, Series 2010B, (original balance of $10,150,000), consisting of term bonds due beginning in 2024 and fluctuating periodically from $1,660,000 to a maximum of $2,430,000, plus interest from 4.01% to 4.65% through the year 2032, collateralized by a pledge of all revenues of the University with the exception of general account appropriated funds of the State of Idaho and restricted gift and grant revenues. The Series 2010B bonds were issued to pay off an interim loan from Wells Fargo Bank, N.A. which funded improvements to the University’s Kibbie Dome. | 10,150,000 | 10,150,000 |
| General Revenue Refunding Bonds, Series 2010C, (original balance of $13,145,000), consisting of term bonds due beginning in 2037 with two payments of $6,390,000 and $6,755,000, plus interest from 6.42% to 6.52% through the year 2041, collateralized by a pledge of all revenues of the University with the exception of general account appropriated funds of the State of Idaho and restricted gift and grant revenues. The Series 2010C bonds were issued to finance and reimburse costs incurred by the University for certain capital improvements to the University’s Kibbie Dome. The 2010C bonds are subject to interest subsidy payments thru the U.S. Federal Government's program called Build America Bonds (BAB). The University received BAB interest subsidy payments of $274,063 in FY14 and $297,732 in FY13. | 13,145,000 | 13,145,000 |
| Adjustable Rate General Revenue Refunding Bonds, Series 2011, (original balance of $60,765,000), consisting of term bonds carrying interest at 5.25% through March 31st, 2021, at which time the bonds are subject to mandatory tender for purchase. The bonds may be converted to another term interest period through 2041. The bonds are collateralized by a pledge of all revenues of the University with the exception of general account appropriated funds of the State of Idaho and restricted gift and grant revenues. The Series 2011 bonds were issued to refund the University’s Series 2007A General Revenue Refunding Bonds and to pay the costs of issuance of the Series 2011 bonds. | 57,940,000 | 58,930,000 |

| Description | Balance Outstanding 2014 | Balance Outstanding 2013 |
|---|---|---|
| General Revenue and Refunding Bonds, Series 2013A, (original balance of $8,745,000), consisting of serial bonds commencing in 2014, plus interest from 2.00% to 5.00% through 2028, and term bonds due 2033, plus interest at 3.375%. The bonds are collateralized by a pledge of all revenues of the University with the exception of general account appropriated funds of the State of Idaho and restricted gift and grant revenues. The Series 2013A bonds were issued to provide funds to finance certain improvements at the Moscow Campus of the University, to refund all outstanding Series 2003 Student Fee Refunding and Revenue Bonds, to refund the University's 2010 Wells Fargo note payable issued to fund the University's prior track and field renovations, and to pay costs of issuance associated with the Series 2013A Bonds. | 7,720,000 | 8,745,000 |
| Taxable General Revenue Bonds, Series 2013B, (original balance of $6,325,,000), consisting of serial bonds commencing in 2014, plus interest from 0.70% to 4.00% through 2030, and term bonds due 2033, plus interest at 4.30%. The bonds are collateralized by a pledge of all revenues of the University with the exception of general account appropriated funds of the State of Idaho and restricted gift and grant revenues. The Series 2013B were issued to provide funds to finance and reimburse costs incurred by the University to acquire land for an outdoor science center in McCall, Idaho and to pay costs associated with the issuance of the Series 2013B Bonds. | 6,065,000 | 6,325,000 |
| Other indebtedness, consisting of notes payable with interest rates ranging from 3.245% to 5.00% due through the year 2019. | 730,556 | 2,458,210 |
| Sub-total | 155,770,556 | 162,823,210 |
| Premium on Bonds | 2,429,278 | 2,672,551 |
| **TOTAL BONDS & NOTES PAYABLE** | **$ 158,199,834** | **$ 165,495,761** |

Principal and interest maturities on bonds and notes payable, excluding amortization of bond premium and principal and interest on bonds subject to an in-substance debt defeasance are as follows for the years ending June 30:

| | Bonds Payable | | Notes Payable | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| 2015 | 6,195,000 | 7,236,000 | 697,859 | 20,048 |
| 2016 | 6,460,000 | 6,964,000 | 9,658 | 1,592 |
| 2017 | 4,445,000 | 6,679,000 | 10,141 | 1,109 |
| 2018 | 4,620,000 | 6,488,000 | 10,648 | 602 |
| 2019 | 4,635,000 | 6,037,000 | 2,250 | 70 |
| 2020-2024 | 19,080,000 | 27,143,000 | - | - |
| 2025-2029 | 20,300,000 | 21,877,000 | - | - |
| 2030-2034 | 18,995,000 | 15,669,000 | - | - |
| 2035-2039 | 21,950,000 | 8,559,000 | - | - |
| 2040-2044 | 48,360,000 | 1,120,000 | - | - |
| | $ 155,040,000 | $ 107,772,000 | $ 730,556 | $ 23,421 |

In August 2010, the University entered into a line of credit agreement with Wells Fargo Bank to finance improvements to the Dan O'Brien Outdoor Track and Field Complex. The total available line of credit extended to the University under this agreement was $2,500,000. This note was refinanced with the Series 2013A bond issuance.

***Pledged Revenues*** – As stated in the bond descriptions above, the University has pledged certain revenues as collateral for debt instruments comprised of all outstanding University bond issuances. The pledged revenue amounts for the year ended June 30, 2014 and 2013 are as follows:

| | FY14 | FY13 |
|---|---|---|
| **Source of Pledged Revenues** | | |
| Student Fees | 83,361,394 | $ 82,657,950 |
| Sales and Services of Educational Activities | 11,642,661 | 10,235,562 |
| Sales and Services of Auxiliary Enterprises | 31,218,731 | 35,453,722 |
| Other Operating Revenues | 4,200,739 | 2,983,307 |
| Investment Income | 1,832,991 | 1,218,954 |
| F&A Recovery Revenues | 9,815,977 | 10,408,306 |
| **Total Pledged Revenues** | $ 142,072,494 | $ 142,957,801 |
| Debt Service on the Recreation Center Bonds and Activity Center Bonds | 125,003 | 170,317 |
| **Revenues Available for Debt Service** | $ 141,947,491 | $ 142,787,483 |
| Debt Service on Bonds | 12,909,568 | 12,720,128 |
| Debt Service Coverage | 11.0 | 11.2 |

***Debt Defeased Through Advance Refunding* –** The University has defeased certain debt obligations through advanced refunding. These advance refundings are comprised of the University's Series 2005A, Series 2007A, 2010A, 2011 and 2013A bond issuances. The specific debt, principal payments, refunded amounts and remaining balances for the refunded bonds are as follows:

| Refunded Issue | Original Issue Amount | Principal Payments | Refunded Amount | Balance 6/30/2014 |
|---|---|---|---|---|
| Student Fee Refunding Revenue Bonds, Series 1996 | $ 9,285,000 | $ 6,160,000 | $ 3,125,000 | $ - |
| Student Fee Refunding Revenue Bonds, Series 1997B | 12,380,000 | 5,090,000 | 7,290,000 | - |
| Student Fee Revenue Bonds (Recreation Center Project), Series 1999 | 20,115,000 | 795,000 | 19,320,000 | - |
| Student Fee Revenue Bonds, Series 1999A | 1,470,000 | 295,000 | 1,175,000 | - |
| Student Fee Revenue Bonds, Series 1999B | 6,150,000 | 1,180,000 | 4,970,000 | - |
| Student Fee Revenue Bonds, Series 1999C | 6,305,000 | 2,240,000 | 4,065,000 | - |
| Student Fee Revenue Bonds, Series 2001 | 40,930,000 | 2,895,000 | 38,035,000 | - |
| Student Fee Refunding and Revenue Bonds, Series 2003 | 17,585,000 | 12,040,000 | 5,545,000 | - |
| General Revenue Refunding Bonds, Series 2007A | 62,445,000 | 2,945,000 | 59,500,000 | - |
| Totals | $ 176,665,000 | $ 33,640,000 | $ 143,025,000 | $ - |

During the year ended June 30, 2013, the University issued the Series 2013A bonds in the total amount of $8,745,000 consisting of serial bonds due in annual installments commencing in 2014 and one term bond due in 2033 with interest rates ranging from 2.00% to 5.00% through fiscal year 2033. The Series 2013A bonds were issued, in part, to advance refund 100% of the outstanding balance of $5,545,000 of the Series 2003 bonds. For this purpose, the Series 2013A bonds totaled $5,270,000 in par amount. The refunded Series 2003 bonds had interest rates ranging from 4.00% to 5.25% through fiscal year 2022. All bond premium, accrued interest and certain closing costs in the amount of $131,877 were refinanced in the issuance of the Series 2013A bonds.

The Series 2013A bond issuance was undertaken by the University to restructure the existing Series 2003 bond's total debt service (principal and interest) payment terms and to secure new fixed interest rates of 2.00% to 5.00% for the succeeding nine year period. Due to an upfront savings strategy, in fiscal year 2014, the refunding of the Series 2003 bonds will result in cash flow savings of $488,041 based on the reduced debt service payments during that period.

## 11. HEALTH INSURANCE PLAN AND HEALTH BENEFITS TRUST

The University of Idaho ("University") is self-insured for the health insurance benefits it provides to employees and retirees. In June, 2007, the University established an affiliated but independent trust for the purpose of funding and paying its medical, mental health, dental and vision claims and their associated administrative costs under its health insurance plan for both active and retired employees. This trust, known as the University of Idaho Health Benefits Trust ("HBT"), was established as a tax-exempt entity under Section 115(1) of the Internal Revenue Code of 1986, as amended. The HBT is administered by a board of four trustees who are members of the University's active staff and faculty. The HBT is maintained in an independent trust account established with U.S. Bank. This trust account is maintained under the sole control of the HBT board of trustees.

The HBT receives its funding for the payment of University health plan claims through a combination of employer, employee and retiree contributions. These contribution amounts are established in advance of the health plan year based upon independent actuarial valuation which takes into account health plan participant demographics, health plan design, expected health claim costs, and expected investment returns on HBT reserves.

Employer and employee contributions are made to the HBT on a bi-weekly basis corresponding to the University's payroll schedule. Retiree contributions are billed, collected, and remitted to the University by a third-party administrator on a monthly basis and are submitted to the HBT when received. Additional employer funding may be provided by the University to the HBT as necessary to ensure the solvency of the HBT. Deposits into the HBT are irrevocable and may only be utilized for the payment of participating employee and retiree health plan claims, the associated administrative costs of such claims, and other necessary incidental costs attributable to the administration of the HBT.

Payments under the HBT are initiated via electronic request by University personnel on a weekly basis based upon processed claim information provided to the University by its contracted health plan claim administrators. All retiree-related costs incurred on an annual basis within the HBT apply toward the calculation of the University's Annual Required Contribution ("ARC") as determined under the requirements of Governmental Accounting Standard Board Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The funding of the University's liability under GASB 45 is recorded separately from the HBT under a second trust, the "University of Idaho Retiree Benefits Trust" as disclosed in Footnote 14 of these financial statements.

The financial statements of the HBT are audited annually on a calendar-year basis, and are publicly available via public records request by writing to: University of Idaho, Attn. General Accounting, 875 Perimeter Drive MS3166, Moscow, ID 83844-3166.

## 12. 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. PERSI provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability or death, and for 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 sent to Public Employee Retirement System of Idaho, P.O. Box 83720, Boise, Idaho 83720-0078. Alternatively, financial reports may also be viewed from the PERSI website (http://www.persi.idaho.gov/investments/annual_financial_report.cfm).

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 2% of the average monthly salary for the highest consecutive 42 months.

For the three years ended June 30, 2014, 2013 and 2012, the required contribution rate as determined by PERSI was 11.32% and 6.79% of covered payroll for the University and employees, respectively. The University's contributions required and paid were $5,627,928, $5,262,492, and $5,217,910 for the years ended June 30, 2014, 2013 and 2012, 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. 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 55 years of age. The contribution requirements (and amounts paid) for the three years ended June 30, 2014, 2013 and 2012 were $13,820,699, $13,718,868, and $13,299,794, respectively, that consisted of $7,884,035 from the University and $5,936,664 from employees for 2014, $7,829,148 from the University and $5,889,720 from employees for 2013, and $7,593,175 from the University and $5,706,619 from employees for 2012.

Although enrollees in the ORP no longer belong to PERSI, the University is required by the State of Idaho to contribute supplemental payments to PERSI for these enrollees in the amount of 1.49% of the annual covered payroll. The University will be required to make these annual supplemental payments through July 1, 2025. During the three years ended June 30, 2014, 2013 and 2012, these supplemental funding payments made to PERSI were $1,269,127, $1,250,386, and $1,223,679 respectively. These supplemental amounts are not included in the regular University PERSI contribution discussed previously.

In addition to the University's Optional Retirement Program, the University has a disability benefit for ORP participants and makes payments to Standard Insurance on behalf of these ORP participants. Should an employee become unable to work and is transitioned into long-term disability (LTD), the insurance will continue to pay into their retirement account. The amounts paid for the three years ended June 30, 2014, 2013 and 2012 were $79,791, $67,554, and $65,043, respectively.

The University also contributes to the federal Civil Service and Thrift Savings retirement programs on behalf of its federal employees. The contribution requirements (and amounts paid) for the three years ended June 30, 2014, 2013 and 2012 were $260,373, $279,951 and $188,674 respectively, that consisted of $168,338 from the University and $92,035 from employees for 2014, $177,585 from the University and $102,366 from employees for 2013, and $143,208 from the University and $45,466 from employees for 2012.

The University also sponsors 401(k), 403(b) and 457(b) supplemental retirement plans for its employees. Contributions to these plans are strictly voluntary for employees and such contributions are subject to the applicable plan limitations. The University does not provide any matching contributions for these plans.

## 13. POSTEMPLOYMENT BENEFITS (OTHER THAN PENSIONS) AND RETIREE BENEFITS TRUST

### A. PLAN DESCRIPTION

The University of Idaho ("University") provides medical and dental benefits to eligible retirees, disabled employees, spouses, and survivors. The University also provides life insurance benefits to eligible retirees. Long-term disabled employees are treated as retirees and eligible for these same retiree benefits. These benefits represent a single-employer defined benefit plan administered by the University. The University has established a trust to fund the medical and dental portions of these post-employment benefits as described below in Section B.

Under certain conditions the University pays a portion of the coverage for retirees and disabled employees and the retiree or disabled employee pays the remainder. Spouses and survivors are always required to pay 100% of the cost for these benefits. 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 were hired on or after January 1, 2002 are not eligible for this benefit. Employees hired after January 1, 2002 are eligible to participate in the University's health insurance plan, but the University does not cover any portion of their premiums, deductibles, or coinsurance; those costs are the sole responsibility of the employee. All University post-employment benefits may be further established or amended by the University or the State Board of Education.

Funding for these benefits is comprised of both University and retiree contributions, combined with appropriated funding by the State of Idaho. The University determines the defined contribution costs that will be borne by its retiree plan participants, and the State of Idaho Legislature determines the amount of annual state appropriations that will be granted to the University for employee and retiree benefits, provided to the University as a fixed annual amount per full-time equivalent employee. The University allocates this appropriated sum to its various employee and retiree benefits, including the retiree health insurance program. The University solely bears the risk for adverse financial performance within the retiree health insurance program, subject to a cap of $200,000 per retiree per year, after which the University is reinsured. Retiree contribution rates through calendar year 2014 range from $23.10 to $2,417.57 per month, depending upon the retiree's status and number of dependents including spouse. Retiree health plan performance is reviewed annually and contribution rates are then annually adjusted by the University as necessary.

## B. TRUST DESCRIPTION

The University of Idaho established the Retiree Benefits Trust ("RBT") in 2008 to fund the future payments required to provide post-employment benefits other than pension ("OPEB") as described in Section A. above. The RBT is an independent, irrevocable trust administered on behalf of the University by Wells Fargo Bank as trustee. Funding and payment of the annual, ongoing retiree medical and dental benefits under the University's Health Benefits Trust ("HBT"), as described in Footnote 12 to these financial statements, do apply toward the funding of the RBT to meet the requirements of the Annual Contribution Rate ("ARC").

The RBT financial statements are audited annually on a calendar-year basis as an integral part of the University's annual audit as represented in these statements.

## C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Accounting*** — Financial statements for the RBT are prepared using the accrual basis of accounting. University contributions are recorded and recognized in the period in which they are paid into the RBT.

***Valuation of Investments*** – Investments are reported at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of the net change in fair value of investments in the statement of changes in plan assets.

## D. PLAN MEMBERSHIP, CONTRIBUTION AND FUNDING STATUS

The number and class of retirees and employees are disclosed in the following table. These retiree and disabled counts do not include spouses or surviving spouses. These counts are as follows:

| | Medical | Dental | Life | Sick Pay |
|---|---|---|---|---|
| Active | 763 | 763 | 63 | 1,544 |
| Retirees | 840 | 210 | 714 | N/A |
| Disableds | 8 | N/A | N/A | - |
| Retirees (Sick Leave) | N/A | N/A | N/A | 15 |
| Total Inactive | 848 | 210 | 714 | 15 |
| Total Combined | 1,611 | 973 | 777 | 1,559 |

The University's ongoing obligations and liabilities are actuarially determined. These actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and are subject to continual revision based upon actual results. Actuarial projections of benefits are based upon the types of benefits provided under the University's retiree health plan and the pattern of cost sharing between the University and retirees at the time of valuation. The University's actuarial calculations are based upon long-term expectations and include techniques that are designed to reduce short-term volatility in the actuarial accrued liabilities and corresponding asset values.

The Entry Age Normal cost method and the Level Dollar amortization method have been utilized to actuarially calculate the University's Present Value of Benefits ("PVB"), Actuarial Accrued Liability ("AAL"), Annual Required Contribution ("ARC") and Annual OPEB Cost ("AOC") for the retiree health plan. Due to the University's establishment of the RBT to hold the funds required to finance its unfunded OPEB liability, the Unfunded Accrued Liability ("UAL") is amortized with interest over a 30-year period. All expected amortization payments are discounted to the end of the year. These actuarial calculations utilize an estimated discount rate of 6.25% and an estimated salary inflation rate of 3.00%. The discount rate of 6.25% is based upon the University's historical and long-term expected investment returns on the trust that has been established to fund these future benefits. All retiree medical, prescription drug, dental, sick pay conversion and life insurance benefits are included in the University's actuarial calculations. The results of these calculations for fiscal year ending June 30, 2014 are summarized as follows:

| | Entry Age Normal Level Dollar Cost Method |
|---|---|
| Present Value of Benefits (PVB) | $65,833,000 |
| Actuarial Accrued Liability (AAL) | 61,476,000 |
| Annual Required Contribution (ARC)[1] | 3,368,000 |
| Estimated Pay-As-You-Go Contributions[2] | 2,712,000 |
| Contributions to Qualifying Trust | 466,000 |
| Total Actual Annual Contributions | 3,178,000 |
| Net Annual OPEB Cost (AOC) - Funding Excess for Fiscal Year Ending June 30, 2014 | (232,000) |
| Total Actual Annual Contributions as % of ARC | 94.4% |

[1]The ARC reflects a 30-year level dollar amortization of the unfunded AAL. The amortization also reflects interest at the discount rate.

**Annual OPEB Cost (AOC)**

The University's Annual OPEB cost at June 30, 2014 is as calculated as follows:

| | Fiscal Year Ending June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Medical | Dental | Life | Sick Pay | Total |
| ARC | $ 2,721,000 | $ 14,000 | $ 192,000 | $ 441,000 | $ 3,368,000 |
| Adjustment to ARC | 196,000 | - | - | - | 196,000 |
| Interest on the Net Obligation | (154,000) | - | - | - | (154,000) |
| Annual OPEB Cost | $ 2,763,000 | $ 14,000 | $ 192,000 | $ 441,000 | $ 3,410,000 |

**Net OPEB Asset**

The University's Net OPEB Asset as of June 30, 2014 is calculated as follows:

| | Fiscal Year Ending June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Medical | Dental | Life | Sick Pay | Total |
| AOC Needed | $ 2,763,000 | $ 14,000 | $ 192,000 | $ 441,000 | $ 3,410,000 |
| AOC Contributed | 2,531,000 | 14,000 | 192,000 | 441,000 | 3,178,000 |
| % of AOC Contributed | 92% | 100% | 100% | 100% | 93% |
| | | | | | |
| Net OPEB (Assets) at June 30, 2013 | (2,472,000) | - | - | - | (2,472,000) |
| Change in Net OPEB (Assets) | 232,000 | - | - | - | 232,000 |
| Net OPEB (Assets) at June 30, 2014 | $ (2,240,000) | $ - | $ - | $ - | $ (2,240,000) |

**Funded Status, Utilizing Entry Age Normal Cost Method and Level Dollar Amortization Method of UAAL – As of June 30, 2014:**

| | Medical | Dental | Life | Sick Pay | Total |
|---|---|---|---|---|---|
| Present Value of Benefits (PVB) | | | | | |
| Retirees | $35,642,000 | $124,000 | $4,075,000 | $192,000 | $40,033,000 |
| Actives | 21,374,000 | 154,000 | 222,000 | 4,050,000 | 25,800,000 |
| Total | $57,016,000 | $278,000 | $4,297,000 | $4,242,000 | $65,833,000 |
| Actuarial Accrued Liability (AAL) | | | | | |
| Retirees | $35,642,000 | $124,000 | $4,075,000 | $192,000 | $40,033,000 |
| Actives | 19,503,000 | 143,000 | 219,000 | 1,578,000 | 21,443,000 |
| Total | $55,145,000 | $267,000 | $4,294,000 | $1,770,000 | $61,476,000 |
| Assets | $22,203,000 | $108,000 | $1,729,000 | $713,000 | $24,753,000 |
| Unfunded AAL (UAAL) | $32,942,000 | $159,000 | $2,565,000 | $1,057,000 | $36,723,000 |
| Assets as % of AAL (Funded Ratio) | 40.3% | 40.4% | 40.3% | 40.3% | 40.3% |
| UAAL as % of Annual Covered Payroll | 65.9% | 0.3% | 5.1% | 1.3% | 27.7% |
| **Annual Required Contribution (ARC)** | | | | | |
| Normal Cost[1] | $263,000 | $2,000 | $1,000 | $362,000 | $628,000 |
| Amortization of Unfunded AAL[2] | $2,458,000 | $12,000 | $191,000 | $79,000 | $2,740,000 |
| Total ARC | $2,721,000 | $14,000 | $192,000 | $441,000 | $3,368,000 |
| Estimated Benefit Payments (pay-as-you-go)[3] | $2,245,000 | $48,000 | $354,000 | $65,000 | $2,712,000 |
| Covered Payroll | $50,018,000 | $50,018,000 | $50,018,000 | $82,759,000 | $132,777,000 |

[1]Includes interest to year end.

[2]Level dollar basis for 30 years. Interest charged at the discount rate and paid at the end of the year.

The accompanying schedule of University contributions presents trend information about the amounts contributed to the plan by the University in comparison to the ARC, an amount that is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the University and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the University and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation is as follows:

| | Retiree Benefits Trust ("RBT") |
|---|---|
| Valuation Date | 7/1/2013 |
| Reporting Date | 6/30/2014 |
| Measurement Date | 4/1/2014 |
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Amortization Method | Level Dollar to decrement age |
| Remaining Amortization Period | 30 Years, Open |
| Asset Valuation Method | Fair Market Value |
| | |
| Actuarial Assumptions: | |
| Investment Rate of Return | 6.25% |
| Healthcare Cost Trend Rates: | |
| Medical and drug initial | 8.5% |
| Medical and drug ultimate | 5% |
| Dental initial | 5% |
| Dental ultimate | 5% |
| Inflation Rate - All Other | N/A |
| Administrative Costs - Medical & Dental | Included in Claim Costs |
| - Life Insurance | 10% |

**Retiree Benefits Trust**
**Required Supplementary Information**
**Schedule of Funding Progress**

| Fiscal Year End Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c ) | UAAL as a Percent of Covered Payroll (b-a)/(c ) |
|---|---|---|---|---|---|---|
| 6/26/2008 | 4,325,000 | 83,011,000 | 78,686,000 | 5.21% | 120,560,000 | 65.27% |
| 6/27/2009 | 8,333,000 | 77,141,000 | 68,808,000 | 10.80% | 129,435,000 | 53.16% |
| 6/28/2010 | 13,768,000 | 75,973,000 | 62,205,000 | 18.12% | 124,584,000 | 49.93% |
| 6/29/2011 | 19,159,000 | 74,563,000 | 55,404,000 | 25.70% | 121,834,000 | 45.47% |
| 6/30/2012 | 21,774,000 | 73,240,000 | 51,466,000 | 29.73% | 123,237,000 | 41.76% |
| 6/30/2013 | 24,753,000 | 63,465,000 | 38,712,000 | 39.00% | 123,592,000 | 31.32% |
| 6/30/2014 | 28,271,000 | 61,476,000 | 33,205,000 | 45.99% | 132,777,000 | 25.01% |

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2008 | $ 7,157,000 | 101% |
| 2009 | 6,362,000 | 101% |
| 2010 | 5,863,000 | 116% |
| 2011 | 5,250,000 | 107% |
| 2012 | 4,806,000 | 108% |
| 2013 | 3,723,000 | 110% |
| 2014 | 3,368,000 | 94% |

University of Idaho



## 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

The following table shows the University's operating expenses by natural classifications within their functional classifications for the years ending June 30, 2014 and 2013:

| Expenses 2014 | Salaries | Benefits | Services | Supplies | Ins, utilities & rent | Scholarships & Fellowships | Depreciation | Other | Totals |
|---|---|---|---|---|---|---|---|---|---|
| Instruction | $ 57,104,137 | $ 22,386,379 | $ 6,526,544 | $ 4,294,338 | $ 663,123 | $ 3,481,756 | $ - | $ 2,143,431 | $ 96,599,708 |
| Research | 35,178,826 | 9,906,207 | 16,518,551 | 6,324,518 | 1,082,335 | 2,513,508 | - | (974,163) | 70,549,782 |
| Public Service | 15,413,872 | 5,175,502 | 6,032,692 | 1,346,807 | 385,231 | 254,600 | - | 2,322,719 | 30,931,423 |
| Academic Support | 8,450,613 | 2,644,064 | 1,535,321 | 1,291,072 | 677,932 | (34,086) | - | 292,783 | 14,857,699 |
| Libraries | 2,364,388 | 901,726 | 420,497 | 1,024,544 | 40 | 46,672 | - | 18,620 | 4,776,487 |
| Student Services | 7,078,213 | 2,438,822 | 1,288,471 | 459,367 | 389,729 | 585 | - | 1,029,187 | 12,684,374 |
| Insititutional Support | 15,040,573 | 5,543,842 | 8,271,316 | (817,525) | 669,803 | (506,291) | - | 1,229,563 | 29,431,281 |
| Plant Operations | 6,593,052 | 3,005,791 | 2,416,137 | 2,579,320 | 9,143,497 | 4,450 | 25,223,503 | 33,800 | 48,999,550 |
| Scholarships & Fellowships | 492,808 | 340 | 122,970 | 39,919 | - | 14,185,199 | - | 285,155 | 15,126,391 |
| Auxiliary Enterprises | 10,082,584 | 3,193,994 | 13,688,226 | 5,345,806 | 2,297,171 | 1,405,894 | - | 908,739 | 36,922,414 |
| | $ 157,799,066 | $ 55,196,667 | $ 56,820,725 | $ 21,888,166 | $ 15,308,861 | $ 21,352,287 | $ 25,223,503 | $ 7,289,834 | $ 360,879,109 |

| Expenses 2013 | Salaries | Benefits | Services | Supplies | Ins, utilities & rent | Scholarships & Fellowships | Depreciation | Other | Totals |
|---|---|---|---|---|---|---|---|---|---|
| Instruction | $ 57,159,825 | $ 23,198,312 | $ 7,541,385 | $ 4,489,388 | $ 592,285 | $ 4,668,742 | $ - | $ 2,247,741 | $ 99,897,678 |
| Research | 36,359,095 | 10,635,316 | 16,338,299 | 6,736,976 | 810,367 | 2,761,645 | - | (1,589,888) | 72,051,811 |
| Public Service | 14,559,354 | 5,226,852 | 4,997,666 | 1,130,164 | 340,221 | 1,008,118 | - | 2,476,168 | 29,738,543 |
| Academic Support | 8,074,917 | 2,688,957 | 1,734,763 | 944,656 | 168,195 | 67,292 | - | 253,356 | 13,932,134 |
| Libraries | 2,422,268 | 970,845 | 550,187 | 617,824 | 4,195 | 71,145 | - | 9,385 | 4,645,849 |
| Student Services | 7,496,087 | 2,717,716 | 1,424,774 | 512,215 | 299,275 | 59,747 | - | 896,812 | 13,406,627 |
| Insititutional Support | 14,976,417 | 6,447,412 | 6,368,888 | (1,385,548) | 341,471 | (916,025) | - | 735,495 | 26,568,110 |
| Plant Operations | 6,838,115 | 3,081,940 | 2,773,625 | 2,628,075 | 8,942,665 | 24,680 | 23,179,119 | 108,534 | 47,576,754 |
| Scholarships & Fellowships | 619,712 | 6,213 | 160,548 | 19,238 | - | 13,381,810 | - | 202,359 | 14,389,880 |
| Auxiliary Enterprises | 10,178,246 | 3,435,384 | 13,739,512 | 7,303,710 | 2,253,865 | 1,361,855 | - | 999,751 | 39,272,322 |
| | $ 158,684,035 | $ 58,408,947 | $ 55,629,647 | $ 22,996,698 | $ 13,752,540 | $ 22,489,009 | $ 23,179,119 | $ 6,339,711 | $ 361,479,708 |

## 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. The University considers any such potential refunds likely to be immaterial.

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 legal matters will not materially affect the financial position of the University.

## 16. RISK MANAGEMENT

The University participates in the State of Idaho's risk and insurance program, which includes liability and property coverage. The State of Idaho's Retained Risk Fund has a $500,000 cap for tort claims. The University's premiums are based on the State's actuarial calculations and are weighted for losses sustained by the University. Deductibles for the programs include $2,000 for property losses, $500 for auto physical damage, $5,000 for boiler and machinery losses, $500 for fine art losses and $50 for inland marine losses. There are no casualty deductibles.

The State Fund of Idaho, a competitive state fund, writes the University's Worker's Compensation coverage. The University's premiums and the State Fund loss experience modifications are based on the loss experience of all State agencies.

## 17. COMPONENT UNIT

The University of Idaho Foundation, Inc. (Foundation) is a legally separate, 501(c)(3) component unit of the University of Idaho (University) which was established in 1970. The mission of the University of Idaho Foundation, Inc. Moscow, Idaho is to secure, manage, and distribute private support to enhance the growth and development of the University of Idaho. A Board of Directors comprised of up to 25 members governs and conducts the business of the Foundation, meeting three to four times each fiscal year. The officers of the Foundation are Chairman, Vice-Chairman, Treasurer, Secretary, and Past Chairman. Committees include: the Executive Committee, Committee on Directors, Operations and Finance Committee, Investment Committee, Audit Committee, Gift Acceptance Committee, and other committees appointed by the Chairman as necessary to carry out the business of the Foundation. An Executive Director manages the operations of the Foundation. The Foundation professional staff also includes the Director of Finance; Director, Endowment and Gift Administration; Assistant Director, Finance; a Financial Specialist and support staff. The Foundation strategically partners with the leadership team at the University of Idaho including the President, the Vice President of University Advancement, the Vice President for Finance and Administration, and the Executive Director of Planning and Budget. Separate audited financial statements are prepared by the Foundation and may be obtained by contacting University of Idaho Foundation, PO Box 443143, Moscow, Idaho 83844-3143.

The majority of the resources, or income earned from those resources, that the Foundation holds and invests are restricted to the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University and because these resources provide a significant amount of support to the University, the Foundation has been determined to be a component unit of the University and is discretely presented in the University's financial statements. Significant accounting policies associated with the University, described in Note 1, apply to the Foundation, when applicable. Significant disclosures at June 30, 2014 and 2013 are as follows:

***INVESTMENTS***—Investments in marketable securities are recorded at fair value as determined by quoted market prices. At June 30, 2014, the fair value of restricted and unrestricted investments was $250,947,165 and $4,262,866 respectively. At June 30, 2013, the fair value of restricted and unrestricted investments was $221,713,115 and $3,495,776 respectively.

The majority of investments held by the Foundation are part of the pooled endowment fund referred to as the Consolidated Investment Trust (CIT). The CIT was established by the Regents of the University of Idaho to pool endowment funds received by the University and the Foundation. The CIT utilizes the market value share method of accounting. The fair value of the CIT's portfolio is divided by the number of outstanding unit participation shares owned by the individual endowments to determine the value of a share when additional contributions are added.

The following table represents the fair value of investments by type at June 30, 2014 and 2013 respectively:

| Investment Type | 2014 | 2013 |
|---|---|---|
| U.S. Government Agency Obligations | $ 3,986,172 | $ 3,651,648 |
| Corporate Debt | 40,639,833 | 40,650,686 |
| Preferred Stock | 567,335 | 1,122,907 |
| Municipal Securities | 191,082 | 359,871 |
| U.S. Treasuries | 16,269,715 | 15,951,065 |
| Common Stock | 119,061,688 | 112,328,151 |
| International Equity Funds | 18,284,068 | 15,664,067 |
| Mutual Funds | 32,311,363 | 17,486,019 |
| Private Equity | 12,017,435 | 7,718,833 |
| Real Assets | 11,881,340 | 10,274,933 |
| Foreign Currency | - | 711 |
| | $ 255,210,031 | $ 225,208,891 |

## Interest Rate Risk

Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Foundation does not have a formal policy that addresses interest rate risk.

As of June 30, 2014, the Foundation had the following investments subject to interest rate risk:

| | | Investment Maturities (in years) | | | |
|---|---|---|---|---|---|
| Investment Type | Fair Value | Less than 1 | 1-5 | 6-10 | More than 10 |
| Corporate debt | $ 40,639,833 | $ 3,406,621 | $ 25,559,229 | $ 10,263,501 | $ 1,410,482 |
| U.S. government agency obligations | 3,986,172 | 21 | 3,159,394 | 82,489 | 744,268 |
| U.S. treasuries | 16,269,715 | - | 8,924,586 | 7,345,129 | - |
| Municipal securities | 191,082 | 75,374 | - | 5,009 | 110,699 |
| | $ 61,086,802 | $ 3,482,016 | $ 37,643,209 | $ 17,696,128 | $ 2,265,449 |

As of June 30, 2013, the Foundation had the following investments subject to interest rate risk:

| | | Investment Maturities (in years) | | | |
|---|---|---|---|---|---|
| Investment Type | Fair Value | Less than 1 | 1-5 | 6-10 | More than 10 |
| Corporate debt | $ 40,650,686 | $ 3,045,324 | $ 26,631,899 | $ 9,410,238 | $ 1,563,225 |
| U.S. government agency obligations | 3,651,648 | 5,045 | 3,043,262 | 316,964 | 286,377 |
| U.S. treasuries | 15,951,065 | 45,855 | 9,415,063 | 6,490,147 | - |
| Municipal securities | 359,871 | - | 150,730 | 5,007 | 204,134 |
| | $ 60,613,270 | $ 3,096,224 | $ 39,240,954 | $ 16,222,356 | $ 2,053,736 |

## Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires disclosure of credit quality ratings for investments in debt securities. The Foundation does not have a formal policy that addresses credit risk. (The credit risk ratings listed below are issued upon standards set by Standard and Poor's.) As of June 30, 2014 and 2013 respectively, the Foundation had the following investment credit risk:

**Investment Securities Subject to Credit Risk at June 30, 2014**

| Credit Rating | U.S. Government Agency Obligations | Corporate Debt | Municipal Securities | Total |
|---|---|---|---|---|
| AAA | $ - | $ 496,265 | $ - | $ 496,265 |
| AA | 3,441,590 | 6,760,458 | 20,570 | 10,222,618 |
| A | - | 15,420,000 | 75,374 | 15,495,374 |
| BBB | - | 16,569,591 | - | 16,569,591 |
| BB | - | 600,225 | 40,024 | 640,249 |
| CCC | - | 29,486 | - | 29,486 |
| D | - | 30,949 | - | 30,949 |
| Not Rated | 544,582 | 732,859 | 55,114 | 1,332,555 |
| Total | $ 3,986,172 | $ 40,639,833 | $ 191,082 | $ 44,817,087 |

**Investment Securities Subject to Credit Risk at June 30, 2013**

| Credit Rating | U.S. Government Agency Obligations | Corporate Debt | Municipal Securities | Total |
|---|---|---|---|---|
| AAA | $ - | $ 485,540 | $ - | $ 485,540 |
| AA | 3,638,980 | 9,591,151 | - | 13,230,131 |
| A | - | 15,346,277 | 275,065 | 15,621,342 |
| BBB | - | 11,155,465 | - | 11,155,465 |
| BB | - | 1,990,609 | 39,999 | 2,030,608 |
| B | - | 1,591,550 | - | 1,591,550 |
| CCC | - | 36,040 | - | 36,040 |
| D | - | 33,639 | - | 33,639 |
| Not Rated | 12,668 | 420,415 | 44,807 | 477,890 |
| Total | $ 3,651,648 | $ 40,650,686 | $ 359,871 | $ 44,662,205 |

**Concentration of Credit Risk**

Per GASB Statement No. 40, Concentration of Credit Risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation has a formal policy addressing concentration of credit risk. Investments shall be diversified with the intent to minimize the risk of large realized and unrealized losses to the invested assets. The total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holding in individual issues, corporations, or industries.

- Not more than 5% of the total equity portfolio valued at market may be invested in the common stock of any one corporation.
- Debt securities of any one issuer shall not exceed 5% of the market value of the total bond portfolio at the time of purchase (except U.S. Treasury or other federal agencies).
- With the exception of passively managed portfolios, not more than 20% of the total portfolio may be invested in any one investment manager, fund, or pool.

As of June 30, 2014 and 2013 respectively, the Foundation had not invested more than 5 percent of their investments in any one issuer.

**Custodial Credit Risk**

The Foundation minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to Foundation ownership and further to the extent possible, be held in the Foundation's name**.** At June 30, 2014 and 2013 all Foundation funds were held in the name of the counterparty for benefit of the Foundation.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Foundation does not have a policy that addresses foreign currency risk. The Foundation is exposed to foreign currency risk in foreign stocks that it holds as follows for June 30, 2014 and 2013 respectively:

**Investment Securities Subject to Foreign Currency Risk**

| Currency Type | | June 30, 2014 Fair Value | June 30, 2013 Fair Value |
|---|---|---|---|
| AUD | Australia | $ 2,364,593 | $ 2,604,069 |
| BRL | Brazil | 1,409,974 | 1,194,298 |
| CHF | Switzerland | 2,576,109 | 2,408,312 |
| CLP | Chile | 193,569 | 138,639 |
| CNY | China | 2,111,802 | 1,982,860 |
| EUR | Euro | 4,456,680 | 2,794,562 |
| GBP | Great Britain | 8,440,281 | 7,778,163 |
| HKD | Hong Kong | 3,478,470 | 2,998,233 |
| IDR | Indonesia | 342,617 | 308,957 |
| INR | India | 1,117,329 | 779,082 |
| JPY | Japan | 2,853,215 | 2,785,957 |
| KRW | Korea | 2,063,711 | 1,875,246 |
| MXN | Mexico | 870,845 | 739,088 |
| MYR | Malaysia | 530,543 | 405,936 |
| NOK | Norway | 100,081 | - |
| PHP | Philippines | 99,221 | 184,277 |
| PLN | Poland | 244,747 | 256,125 |
| RUB | Russia | 522,633 | 674,618 |
| SEK | Sweden | 777,938 | 563,831 |
| SGD | Singapore | 1,608,727 | 1,607,754 |
| THB | Thailand | 348,936 | 439,768 |
| TRY | Turkey | 291,150 | 411,701 |
| TWD | Taiwan | 1,916,110 | 1,615,660 |
| ZAR | South Africa | 1,010,246 | 665,825 |
| Various | Various | 403,557 | 232,147 |
| | | $ 40,133,084 | $ 35,445,108 |

## DISTRIBUTIONS TO UNIVERSITY OF IDAHO AND AFFILIATES

During fiscal years 2014 and 2013, earnings from endowments invested in the CIT, direct gifts and other revenues to the Foundation were distributed as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | CIT Endowment Income | Gifts and Other Revenues | CIT Endowment Income | Gifts and Other Revenues |
| Scholarships | $ 5,489,757 | $ 2,843,656 | $ 5,232,748 | $ 2,080,691 |
| Student loans | 183,394 | - | 177,382 | - |
| Building funds | - | 2,743,143 | - | 692,905 |
| University of Idaho College and Dept Operating Accounts | | | | |
| Academic Excellence | 472,866 | 13,700 | 464,204 | 15,541 |
| Agricultural and Life Sciences | 388,728 | 1,426,014 | 336,937 | 1,389,860 |
| Art and Architecture | 14,220 | 101,141 | 13,673 | 67,244 |
| Athletics | 57,349 | 479,670 | 55,088 | 674,604 |
| Business and Economics | 377,452 | 794,586 | 351,404 | 555,799 |
| Education | 47,986 | 337,248 | 42,604 | 453,014 |
| Engineering | 138,277 | 699,029 | 120,720 | 885,543 |
| Law | 226,504 | 270,377 | 218,633 | 243,529 |
| Letters, Art and Social Science | 537,419 | 300,670 | 489,016 | 259,101 |
| Library | 171,563 | 3,831 | 161,539 | 373 |
| Natural Resources | 335,998 | 319,541 | 263,729 | 393,604 |
| Science | 184,528 | 224,383 | 156,223 | 174,991 |
| Other departments | 424,987 | 1,113,935 | 423,444 | 1,018,369 |
| Life beneficiaries | 107,143 | - | 108,895 | - |
| University of Idaho affiliates | 401 | 109,739 | 388 | 154,591 |
| TOTAL DISTRIBUTIONS | $ 9,158,572 | $ 11,780,663 | $ 8,616,627 | $ 9,059,759 |

### DONOR RESTRICTED ENDOWMENTS

The Foundation receives certain gift assets that are restricted for endowment purposes, and by definition the original gift amount will be held in perpetuity for the benefit of the University. Restriction requirement for principal preservation is addressed by Idaho statute, and is applicable lacking any further guidance from the individual gift agreement. During the fiscal years ended June 30, 2014 and 2013, $13,520,023 and $6,752,809 was contributed to endowments, respectively.

The Foundation Board of Directors establishes a spending rate annually for endowments. The approved fiscal year 2014 and 2013 spending rate was set at 4.5% of the three-year rolling average of the CIT's monthly fair market value.

During the fiscal year ended June 30, 2014 and 2013, the endowments held by the Foundation had net appreciation on donor-restricted endowments of $27,458,773 and $17,497,040 respectively. Unrealized appreciation is included with the "Restricted–Expendable" fund balance.

## 18. RELATED ORGANIZATIONS

The Idaho Research Foundation, Inc. ("Research Foundation") is a separate legal entity that until 2008 provided technology transfer services to the University. In 2008 an agreement was reached between the University and Research Foundation to integrate some of the services into the University. The new role of the Research Foundation is to hold equity from licensing transactions on behalf of the University. The Research Foundation is a legally separate organization which provides a valuable service to the University. It does not provide financial resources to the University and is not reported as a component unit.

The Vandal Boosters, Inc. ("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. It does not provide significant financial resources to the University and is not reported as a component unit.

The University of Idaho Alumni Association ("Association") was established to develop and maintain a positive relationship with alumni, parents, and friends of the University. The Association is a legally separate organization which provides a valuable service to the University. It does not provide significant financial resources to the University and is not reported as a component unit.

## 19. SPECIAL ITEM

In 1974, the Idaho Board of Regents ("Regents") authorized the University to transfer the Consolidated Investment Trust ("CIT") to the University of Idaho Foundation ("Foundation") in trust under the terms and conditions of an Indenture Agreement. The CIT was established by the University to allow pooling of endowment assets for investment purposes.

On December 13, 2012, the Regents took action to modify the Indenture Agreement to release the assets transferred to the Foundation from the in-trust designation. On February 8, 2013, the University and the Foundation executed a Release and Waiver of Rights and Restrictions Agreement that permanently eliminates any and all revocation privileges associated with the Indenture Assets.

$80,990,338 represents the fair value of the Indenture Assets that was transferred from the University to the Foundation.

## 20. SUBSEQUENT EVENTS

On July 10, 2014, the University issued $48.66 million of general revenue bonds, Series 2014, to provide funds to finance the construction and equipping of a new 71,000 sq.ft. research center on the main campus in Moscow, Idaho referred to as the Integrated Research and Innovation Center (IRIC) along with funds necessary to fully renovate the existing College of Education Building. After accounting for additional funds generated by selling the bonds with initial premium pricing and subtracting issuance costs, the University received $51.6 million in total project funds. These funds combined with state and private donor support will be used to cover the total planned costs of both projects of approximately $66.2 million ($49 million for the IRIC Building and $17.2 million for the College of Education Building). Both projects began construction in the summer of 2014 and are expected to be completed in the fall of 2016.

In its 2015 fiscal year, the University will be required to adopt GASB Standard No. 68, *Accounting and Financial Reporting for Pensions,* issued in June, 2012. This Standard is an amendment of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers.* GASBS No. 68 will require the University to record in its financial statements the liability for its defined benefit pension obligations for active and retired employees receiving retirement benefits under the Public Employee Retirement System of Idaho ("PERSI"). This liability, as with all pension liabilities associated with PERSI, has previously been reported by PERSI as a consolidated liability in its independently audited and issued financial statements. This aggregate PERSI liability will be required, under Statement No. 68, to be allocated to all State of Idaho entities participating in PERSI. While the amount of the specific liability attributable to the University is currently unknown, University management anticipates this liability will have a material financial impact on both the University's Statement of Net Position and its Statement of Revenues, Expenses and Changes in Net Position.

**REPORT OF INDEPENDENT AUDITORS 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***

Idaho State Board of Education
University of Idaho
Moscow, Idaho

We have audited, in accordance with the 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, the financial statements of the University of Idaho (the University), and its discretely presented component units, and the aggregate remaining fund information of the University, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise University of Idaho's basic financial statements, and have issued our report thereon dated September 25, 2014. Our report includes reference to other auditors who audited the financial statements of the University of Idaho Foundation, a discretely presented component unit, and the University of Idaho Health Benefits Trust, a fiduciary fund, as described in our report of the University of Idaho's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

MOSS ADAMS LLP

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Eugene, Oregon
September 25, 2014