

UNIVERSITY OF WYOMING

FINANCIAL REPORT

JUNE 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
University of Wyoming
Laramie, Wyoming

We have audited the accompanying statement of net assets of the University of Wyoming, a component unit of the State of Wyoming, as of June 30, 2005, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Wyoming Foundation, which is shown as a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Wyoming Foundation component unit, is based on the report of the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Wyoming as of June 30, 2005, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2005, on our consideration of the University of Wyoming's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 through 16, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University of Wyoming's basic financial statements. The other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cheyenne, Wyoming
October 5, 2005

UNIVERSITY OF WYOMING

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

INTRODUCTION

The following discussion and analysis is designed to assist readers in understanding the accompanying financial statements and provide an overview of the University of Wyoming's financial position and activities for the fiscal year ended June 30, 2005, with selected comparative information for the year ended June 30, 2004. It has been prepared by management to be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University of Wyoming, founded in 1886, is a public land-grant, doctoral/research extensive institution and is the only four-year school in a state of nearly one-half million people. The university is dedicated to providing quality instruction to students, conducting valuable research programs, and serving Wyoming through a wide variety of educational and cultural programs. The university has more than 2,800 benefited faculty and staff dedicated to educating more than 13,000 students. Approximately 77 undergraduate and 85 graduate programs of study are offered with seven accredited colleges: Agriculture, Arts and Sciences, Business, Education, Engineering, Health Sciences, and Law, plus a School of Environmental and Natural Resources. Major research facilities provide unique opportunities for teaching, research, and service for students and faculty members, as well as for individuals throughout the world.

The financial statements and this discussion include the financial activities of the University of Wyoming and its component unit, the Cowboy Joe Club. Cowboy Joe Club financial activities are incorporated in the university's financial statements as a whole; discrete presentation is not required. The University of Wyoming Foundation is also reported as a component unit based on the nature and significance of its relationship with the University. Governmental Accounting Standards Board (GASB) Statement No. 39 generally requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of the University. The foundation's financial statements are presented with the university's financial statements and a total column combining both entities is presented. Activity between the university and the foundation has been eliminated in the Financial Report.

Accountability is the paramount objective of institutional financial reporting. It is the university's duty to be accountable to the public and to provide information that responds to the needs of three groups of primary users of general-purpose financial reports:

- the citizenry
- the governing board, the legislature and oversight bodies
- and investors and creditors

Meaningful financial reports and accompanying notes provide information useful for assessing financial condition and results of operations, assisting in determining compliance with finance-related laws, rules, and regulations, and evaluating efficiency and effectiveness of operations.

FINANCIAL HIGHLIGHTS

- The assets of the university exceeded liabilities as of June 30, 2005, by \$505.9 million. These **net assets** represent the residual interest in the university's assets after liabilities are deducted, and are one indicator of the current financial condition of the university. Of the \$505.9 million in total net assets, \$232.1 million (net of related debt) is invested in capital assets, \$254 million is restricted as to use (\$98 million is nonexpendable – endowments required to be retained in perpetuity – and \$156 million is expendable for scholarships, research, instruction, loans or capital projects), while \$19.8 million is unrestricted and may be used to meet ongoing obligations.
- The university's net assets increased by \$99.4 million this fiscal year: a 24.4% increase. An **increase in net assets** over time is one indicator of an institution's improving financial health. State appropriations restricted for capital purposes account for 83.5% or \$83 million of the increase and are discussed in detail in the Capital Activity section below. Additions to permanent endowments contribute 10.2% or \$10.1 million and net income adds 6.3% or \$6.3 million to the total. See the Statement of Net Assets section below for more information.

FINANCIAL STATEMENTS OVERVIEW

Financial statement readers do not always have the same specific objectives; therefore, in order to address the needs of as many parties as reasonably possible, the university's annual report consists of three components in accordance with required reporting standards: 1) This section - Management's Discussion and Analysis (MD&A); 2) institution-wide financial statements; and 3) notes to the basic financial statements.

The university's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

GASB principles establish standards for financial reporting for public colleges and universities and are intended to enhance the understandability and usefulness of these financial reports. The financial statement presentation required by GASB Statement No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows. Together with GASB 39, which requires inclusion of the University of Wyoming Foundation's financial information, the focus is on the university's resources as a whole.

For comparison purposes, the MD&A discusses fiscal years 2004 and 2005. The accompanying financial statements however, contain fiscal year 2005 information only. Comparative financial statements are presented as supplementary schedules following the notes to the financial statements.

Significant Financial Reporting Components

Revenues and expenses are categorized as either operating or nonoperating and a net income or loss from operations is displayed. Significant recurring sources of the university's revenues, including state appropriations, gifts, and investment income (loss) expended for operations are considered nonoperating revenues according to definitions prescribed by GASB. These diversified revenue streams are critically important sources of funds used to supplement tuition and fee revenue, federal and state grants and contracts, sales and services of university educational departments, and auxiliary enterprise charges in the delivery of University of Wyoming programs and services. In fiscal year 2005, revenues categorized as nonoperating funded nearly 51% of the university's regular operating expenses.

Under this required reporting format, operating expenses will always exceed operating revenues and the Statement of Revenues, Expenses and Changes in Net Assets will reflect a loss from operations every year. For the fiscal year ended June 30, 2005, operating revenues totaled \$154.1 million, operating expenses were \$305.6 million, resulting in a loss from operations of \$151.5 million. Nonoperating revenues totaled \$160.1 million, while nonoperating expenses, consisting primarily of interest expense, totaled \$2.3 million. As a result, income before other revenues (state appropriations restricted for capital purposes and additions to permanent endowments) is \$6.3 million.

Scholarships and fellowships applied to student accounts are shown as a reduction of student tuition and auxiliary service revenues, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses. For the year ended June 30, 2005, scholarships and fellowships totaled \$24 million, of which \$16.3 million represents amounts applied to student accounts, while \$7.7 million was paid directly to students.

Instead of reflecting expenditures for purchases of capital assets, the recognition of **depreciation expense** on capital assets is recorded. A detailed schedule of changes in capital assets can be found in Note 4 to the Financial Statements. For the year ended June 30, 2005, capital assets (net of depreciation) increased by 5.3% or \$13.4 million to a total of \$266.3 million. Depreciation expense totaled \$15 million.

Deferred revenue consists primarily of unexpended cash advances received from contract and grant sponsors, which have not yet been earned under the terms of the agreements. It also includes amounts received in advance, including student tuition and advance ticket sales. Deferred revenue as of June 30, 2005, was \$7.9 million, an increase of 16.3% or \$1.1 million from the 2004 level.

STATEMENT OF NET ASSETS

The Statement of Net Assets reflects the university's financial and capital resources. This statement presents the financial position of the University at the end of the fiscal year, includes all assets and liabilities of the university, and segregates the assets and liabilities into current and noncurrent components. As noted above, the difference between assets and liabilities – net assets – is displayed in three components: invested in capital assets (net of related debt); restricted; and unrestricted.

- **Invested in capital assets (net of related debt)** represents the university's total investment in capital assets, at historical costs, in property, plant, equipment, and infrastructure, net of accumulated depreciation and outstanding debt obligations related to those capital assets.
- **Restricted net assets (nonexpendable)** consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be either expended or added to principal. **Restricted net assets (expendable)** include resources which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external parties and/or donors.
- **Unrestricted net assets** represent all other funds available to the institution, which may be used for the operation of the university at the discretion of the governing board.

Net assets are one indicator of the current financial condition of the university, while the change in net assets is an indicator of whether the overall financial condition has improved or deteriorated during the year.

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector institutions. All of the current year's revenues and expenses are taken into account, regardless of when cash is actually received or paid. Assets and liabilities are generally measured using current values; one notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

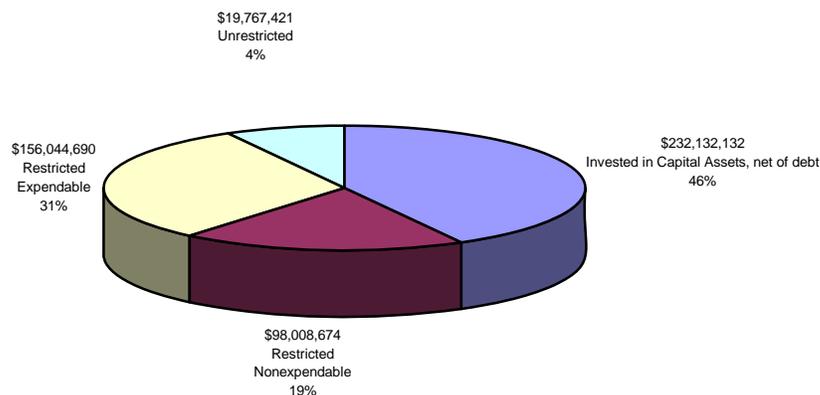
A condensed Statement of Net Assets at June 30, 2004 and 2005, as well as a graphic display of the net asset categories as of June 30, 2005, is presented below.

Statement of Net Assets
(in millions)

	<u>2005</u>	<u>2004</u>
Current assets	\$139.0	\$124.3
Noncurrent assets:		
Investments	135.1	114.4
Capital assets, net of accumulated depreciation	266.3	252.8
Other assets	<u>96.7</u>	<u>24.4</u>
Total Assets	<u>637.1</u>	<u>515.9</u>
Current liabilities	54.1	46.7
Noncurrent liabilities	<u>77.1</u>	<u>62.7</u>
Total Liabilities	<u>131.2</u>	<u>109.4</u>
Net Assets:		
Invested in capital assets, net of related debt	232.1	212.6
Restricted:		
Nonexpendable	98.0	84.9
Expendable	156.0	65.4
Unrestricted	<u>19.8</u>	<u>43.6</u>
Total Net Assets	<u>\$505.9</u>	<u>\$406.5</u>

Net Assets - June 30, 2005

\$505,952,917



The Statement of Net Assets shows that the university continues to build upon its strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, sensible management of its endowments and investments, and conservative utilization of debt.

Total Assets

Total assets increased 23.5% or \$121.2 million during fiscal year 2005 to a total of \$637.1 million. In fiscal year 2004, they increased 8.6% or \$41.1 million to \$515.9 million. Total assets include both current assets (generally considered to be convertible to cash within one year) and noncurrent assets. Current assets increased 11.8%, or \$14.7 million between 2004 (\$124.3 million) and 2005 (\$139 million), while noncurrent assets increased 27.2% or \$106.5 million from \$391.6 million to \$498.1 million.

Cash and Cash Equivalents

A large portion of the increase in total assets is reflected in the Statement of Cash Flows. Current and restricted cash balances increased by a total of \$75.5 million from the 2004 level of \$43.7 million to \$119.3 million at June 30, 2005. See the Statement of Cash Flows section below for a detailed discussion of the increase in cash.

Investments

Contributing to the 2005 total asset increase was a \$20.6 million dollar increase in noncurrent investments, due in part to the DISTINCTION Campaign and Athletic Challenge state matching gifts, and unexpended 2005 bond proceeds. Additions to permanent endowments in 2005 totaled \$10.1 million versus \$7.1 million in 2004 and investment income moderated from \$12.4 million in 2004 to \$10.7 million in 2005.

Current, or short-term, investments also increased \$5.8 million compared to the June 30, 2004 level to a total of \$72.1 million. Current investments and cash balances fluctuate as liquidity needs change throughout the business cycle.

Capital Assets

A \$13.4 million net increase in capital assets added to the 2005 increase in total assets. Buildings and Construction in Progress (CIP) accounted for \$17.4 million of the 2005 increase, while furniture, fixtures, equipment, library materials and land improvements account for \$7.6 million. This total increase of \$25 million is reduced by net depreciation (new depreciation less depreciation on retired assets) of \$11.6 million, resulting in the 2005 net increase in capital assets of \$13.4 million. Capital Assets, net of accumulated depreciation, total \$266.3 million at June 30, 2005.

Components of the Buildings and CIP increase include:

- The College of Health Sciences project is nearing completion as an additional \$6.2 million has been expended this fiscal year, bringing total project expenditures to \$13.8 million as of June 30, 2005.
- Replacement of the upper west stands at War Memorial Stadium was completed, adding \$1.2 million to the increase in capital assets. And work continues on other Capital Facilities Plan projects, including renovation of McIntyre Hall (\$4.4 million), and construction of the new Early Care and Education Center (\$2.1 million).

- Other CIP expenditures of \$2.7 million include work on Orr Hall, the new Archaeological and Anthropological Research Facility, the Classroom Building and the Wyoming Technology Business Center. Miscellaneous projects add \$1.8 million and retirement of College of Agriculture Research and Extension Centers of \$1 million bring the total Buildings and CIP increase to \$17.4 million.

See the Capital Activity section below for additional information. A detailed schedule of changes in capital assets can be found in Note 4 to the Financial Statements.

Other Assets

Other current and noncurrent assets such as accounts receivable, receivables from the State of Wyoming, inventories and prepaid expenses, increased \$5.9 million in 2005 to complete the \$121.2 million increase in total assets.

Total Liabilities

Total liabilities are also categorized as current and noncurrent. Total liabilities increased 19.9% or \$21.8 million during fiscal year 2005 to a total of \$131.2 million. In fiscal year 2004, they increased 12.4% or \$12.1 million to \$109.4 million. University liabilities include payroll and deposit liabilities, accounts payable, deferred revenue, accrued compensated absences (vacation pay), deposits held in custody for others, U.S. government loans refundable (which represents amounts provided by the U.S. Department of Education which would be refundable should the University of Wyoming cease to participate in the campus-based revolving loan program), capital lease obligations and revenue bonds payable. A major contributor to this year's increase in liabilities is a \$14.1 million net increase in revenue bonds payable. See the Noncurrent Liabilities section below for additional information.

Current Liabilities

Current liabilities (amounts which become due and payable in cash or services within the 12 months following June 30) increased 15.8% or \$7.4 million in 2005 to \$54.1 million and 13.1% or \$5.4 million in 2004 to \$46.7 million. Current payroll and related liabilities account for \$1.4 million of the increase, while deposits held in custody for others, for example student apartment and residence hall deposits, increased by \$2.4 million. Accounts payable (\$1.8 million) and deferred revenue (\$1.1 million) also increased. The current portion of revenue bonds payable and capital lease obligations account for less than one million of the increase in current liabilities.

Noncurrent Liabilities

In 2004, noncurrent liabilities increased 11.9% or \$6.7 million to a total of \$62.7 million, and in 2005 a net increase of 23% or \$14.4 million resulted in total noncurrent liabilities of \$77.1 million. The above-mentioned net increase in revenue bonds payable (\$14.1 million) is a result of issuing \$16 million in Facilities Improvement Revenue Bonds in May 2005 for the Archaeological and Anthropological Research Facility to be built north of campus over the next two years.

More detailed information is contained in the Capital and Debt Activity sections of this discussion and in Note 5 to the Financial Statements.

Net Assets

In 2004, total assets of the University of Wyoming (\$515.9 million) exceeded total liabilities (\$109.4 million) by \$406.5 million, indicating a strong financial position at June 30, 2004. Fiscal year 2005's total assets of \$637.1 million exceed total liabilities of \$131.2 million by \$505.9 million. The increase in net assets this year of \$99.4 million, together with last year's increase of \$29 million, speaks to the existence of strong fundamental financial conditions at the state level, record-setting external funding sources, generous private gifts and donations, and sound financial management practices.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the university's results of operations and supports the total change in net assets for the year. Taken together, the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets will help answer the question, "Is the University of Wyoming as a whole financially stronger or weaker as a result of the year's activities?" When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, a decrease in net assets results. The relationship between revenues and expenses may be thought of as the university's operating results. It is important to keep in mind that many non-financial factors are relevant to the university's financial health as well: the trend and quality of applicants, freshman class size, student retention, capital facilities condition and physical plant capacity, and campus safety all contribute to the overall health of the institution.

One of the university's greatest strengths is its diverse stream of revenue sources, which supplement its student tuition and fees. State appropriations; voluntary private support from individuals, foundations and corporations; government and other sponsored programs; and investment income, all contribute to the university's ability to keep tuition costs low. Seventy-nine percent (79%) of UW's 2004 and 2005 revenue is attributed to state appropriations; federal, state, local and nongovernmental grants and contracts; mineral royalties; and tuition and fees.

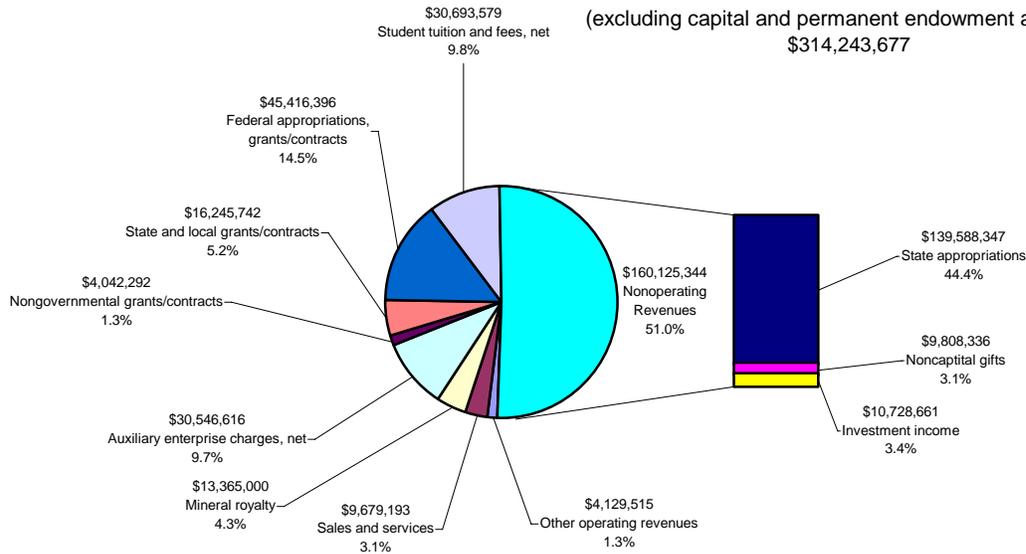
The university will continue to aggressively seek funding from all possible sources consistent with its mission, to supplement student tuition, and to manage prudently the financial resources realized from these efforts to fund operating activities.

Statement of Revenues, Expenses and Changes in Net Assets (in millions)

	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 154.1	\$ 144.3
Operating expenses	(305.6)	(287.8)
Loss from operations	(151.5)	(143.5)
Net nonoperating revenues (expenses)	157.8	149.0
Income (loss) before other revenue, expenses, gains/(losses)	6.3	5.5
Net other revenue, expenses, gains and (losses)	93.1	23.5
Increase (Decrease) in Net Assets	99.4	29.0
Net assets - beginning of year	406.5	377.5
Net Assets - End of Year	\$ 505.9	\$ 406.5

Total Revenues - 2005

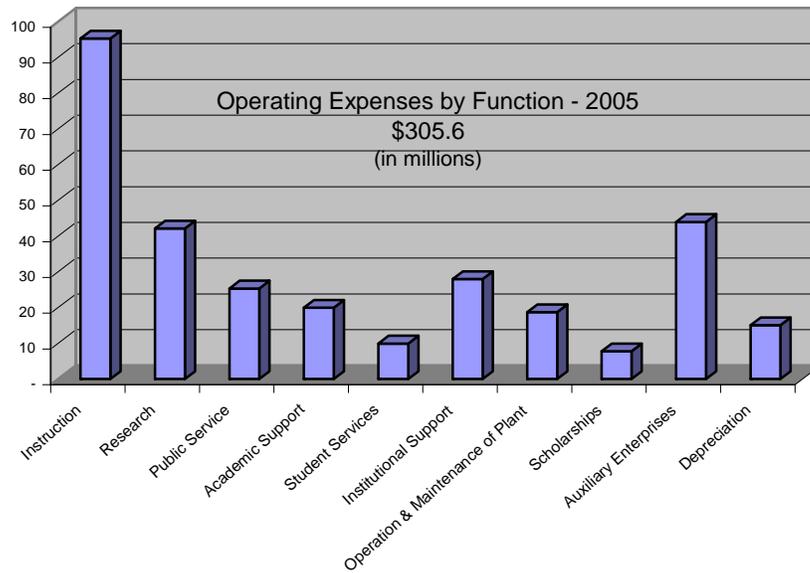
(excluding capital and permanent endowment additions)
\$314,243,677



The chart above reflects operating and nonoperating revenues; it does not include capital appropriations, additions to permanent endowments or nonoperating expenses. The table below incorporates all of these elements to reflect total resources available to the university of \$405 million in 2005. Operating expenses in 2005 totaled \$305.6 million, resulting in the increase in net assets of \$99.4 million. In 2004, total resources were \$316.8 million and operating expenses were \$287.8 million, increasing net assets by \$29 million. For the two year period, net assets increased 34% from \$377.5 million at June 30, 2003 to \$505.9 million at June 30, 2005.

Revenues, Capital Appropriations, and Additions to Permanent Endowments net of nonoperating expenses (in millions)

	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 154.1	\$ 144.3
Nonoperating revenues	160.1	150.9
Total revenue	314.2	295.2
(excl. capital and permanent endowment additions)		
Nonoperating expenses	(2.3)	(1.9)
Additions to permanent endowments	10.1	7.1
State appropriations restricted for capital purposes	83.0	16.4
Total Revenues and Additions to Permanent Endowment (net of nonoperating expenses)	\$ 405.0	\$ 316.8



The table below reflects 2004 and 2005 total operating expenses by their natural (object) classification and the following chart shows 2005 expenditures according to their function.

Operating Expenses by Natural Classification
(in millions)

	<u>2005</u>	<u>2004</u>
Compensation and benefits	\$ 202.0	\$ 189.5
Supplies and support services	80.9	75.9
Scholarships	7.7	8.4
Depreciation	15.0	14.0
Total Operating Expenses	<u>\$ 305.6</u>	<u>\$ 287.8</u>

STATEMENT OF CASH FLOWS

The Statement of Cash Flows is another way to assess the financial health of the University of Wyoming. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the institution during the fiscal year. This statement helps financial statement readers assess:

- the institution's ability to generate future net cash flows,
- its ability to meet its obligations as they come due, and
- its needs for external financing.

Statement of Cash Flows
(in millions)

	2005	2004
Cash provided (used) by:		
Operating activities	\$ (135.4)	\$ (127.1)
Noncapital financing activities	159.1	146.4
Investing activities	(17.7)	(7.3)
Capital and related financing activities	69.6	(0.7)
Net increase (decrease) in cash	75.6	11.3
Cash, beginning of the year	43.7	32.4
Cash, End of the Year	\$ 119.3	\$ 43.7

Cash flows from operating activities will always be different than the operating loss shown in the Statement of Revenues, Expenses and Changes in Net Assets because of noncash items, such as depreciation expense, and because the latter statement is prepared on the accrual basis of accounting, meaning that it shows revenues earned and expenses incurred, without regard to when cash is actually received or paid.

Cash flows from operating activities include cash received from customers for tuition and fees, room and board, bookstore and other auxiliary services sales, and collection of student loans, as well as cash receipts for federal, state, local, and nongovernmental grants and contracts. Mineral royalties from the State of Wyoming are also included in this category. Cash outflows include salaries and benefits paid to faculty and staff and payments to vendors for goods and services. Net cash used in operating activities increased in 2004 by \$8.8 million to \$127.1 million, as increased payments to employees, vendors, suppliers, and students (in the form of scholarships) totaling approximately \$20.4 million were offset by increased payments from customers and other receipts of \$11.6 million.

In 2005, net cash used in operations increased again by \$8.3 million to \$135.4 million. Payments from customers and other receipts increased by \$9.3 million to provide \$170 million in cash, while payments to employees, vendors, suppliers and students increased \$17.6 million to a total of \$305.4 million.

Noncapital financing activities include state appropriations and grants or gifts received for other than capital purposes. The 2004 increase in cash from these activities was \$5.6 million, with state appropriations increasing \$5.9 million to provide \$128.9 million and noncapital gifts and grants decreasing \$300,000 to add \$17.3 million. Total cash provided by these activities in fiscal year 2004 was \$146.4 million.

The 2005 increase in cash from these activities is \$12.7 million, with state appropriations increasing \$10.3 million to provide \$139.3 million and noncapital gifts and grants increasing \$2.4 million to a total of \$19.8 million. Total cash provided by noncapital financing activities in fiscal year 2005 is \$159.1 million.

Cash flows from investing activities reflect all uses of cash and cash equivalents to purchase investments and all increases in cash and cash equivalents as a result of selling investments or earning income on cash and investments. In 2004, purchases of investments (\$393.9 million) outweighed sales and interest received (\$386.6 million), using \$7.3 million in cash for investing activities. The same situation occurred in 2005, with purchases of \$385.4 million exceeding proceeds and interest received of \$367.7 million, using \$17.7 million in cash for investing activities.

Cash flows from capital financing activities include the proceeds received from short-term and long-term debt obligations, the repayment of capital debt and leases, including interest paid, capital appropriations received, and the acquisition and sale of capital assets.

Relatively little net cash (\$697,000) was used in 2004, in comparison to 2005 when \$69.5 million net cash was provided by capital financing activities. The components of this category are significant and are discussed in detail in the following Capital Activity section. They include state appropriations totaling \$69 million and \$16.8 million of revenue bonds issued for construction.

In summary, the cash provided by capital and noncapital financing activities exceeded the cash used in operating and investing activities in 2005 by \$75.5 million.

CAPITAL AND DEBT ACTIVITY

Capital Activity

The University of Wyoming has long recognized that one of the critical factors in continuing the quality of academic and research programs and improving students' experience and environment, is a commitment to the development and renewal of its capital assets.

Extraordinary funding by the Wyoming State Legislature, coupled with generous private donations during the University of Wyoming's DISTINCTION campaign have provided the opportunity for UW to make great strides toward the fulfillment of its 2002-2007 Capital Facilities Plan (CFP).

The university's CFP was developed as the third element of UW's planning process, following the Academic Plan (1999) and the Support Services Plan (2000), and preceding the Strategic Plan for Intercollegiate Athletics (2003). The goal was to develop a comprehensive capital facilities plan that would outline the university's building and construction goals for the next 10-15 years. The basic concept behind the plan utilizes a land-use plan (vision map) to outline future campus developments. Construction at UW generally falls into a series of six land-use zones: Academics/Research, Housing, Student Services, General Services, Athletics and Recreation.

Much has been accomplished over the past few years: renovations to Half Acre Gym, the Wyoming Union, and Washakie Dining Center; construction of the Rochelle Athletics Center and the Health Sciences Complex; and the first phase of remodeling Prexy's Pasture. And there is more to come.

Groundbreaking ceremonies took place in fall 2004 for the new Early Care and Education Center and this fall, the \$2.1 million, 9,220-foot facility opened its doors to approximately 95 children. Designed as a training and research laboratory for the colleges of Agriculture and Education, it consolidates the current UW Child Care Center, Child Development Center, School-Age Care Program and the College of Education Pre-K program. The Center offers university-level preparation for students in nursing, kinesiology and health, developmental psychology, and communication disorders.

War Memorial Stadium structural repairs and replacement of the upper west stands is complete at a cost of \$4.2 million. State-of-the-art artificial turf was installed over the summer and additional stadium enhancements are planned to ensure public safety and continued long-term use of the facility.

Renovations to residence halls in the Washakie Complex continue as expenditures on McIntyre Hall top \$5 million. Renovation of Orr Hall is scheduled for 2005-2006, followed by White Hall in 2006-2007 and finally, Downey Hall in 2007-2008. The 2005 Wyoming State Legislature provided \$2.1 million to upgrade the fire-suppression systems (sprinklers) in the residence halls. That appropriation marked the beginning of a very successful capital construction budget approval process with the State of Wyoming.

The Legislature provided \$12.9 million for renovation of the Classroom Building, as well as \$4 million to renovate other university classrooms. The Classroom Building renovation began in the summer of 2005 and will continue through 2006, to be ready for students to enter a new era of technology-assisted education at the beginning of spring semester 2007.

The Legislature also appropriated \$45 million for construction of the Information, Library and Learning Center (IL²C). This expansion of the existing Coe Library is scheduled to begin in summer 2007 and will contribute to the beginning of a student services complex that includes the Wyoming Union, Half Acre Gymnasium, and a future Student Services Building.

Creation of the Wyoming Technology Business Center, a business incubator on campus that will assist new businesses arising primarily from university research, is moving forward. The university's leadership in this initiative and the creation of the funding package that allowed UW to break ground recently is a fine example of the spirit of the Capital Facilities Plan. The \$10 million funding package includes a \$5 million appropriation from the State of Wyoming, with additional funding provided by the Economic Development Administration of the U.S. Department of Commerce, a congressional appropriation through the Department of Housing and Urban Development, and a generous gift from a private benefactor. Construction has begun and is scheduled for completion in summer 2006.

The university received authority from the Legislature to issue revenue bonds in 2005 to construct a new \$16 million building to house the Anthropology Department and the archaeological collections it oversees on behalf of the federal and state government. Construction of the Archaeological and Anthropological Research Facility (A²RF) will be the university's first academic expansion north of the main campus. Construction is scheduled to begin this fall (2005), with completion in winter 2006. See the Debt Activity section below for more information.

The 2005 Wyoming State Legislature approved the university's entire capital construction budget request of \$85 million. The improved financial condition of the university can be attributed in large part, to the extraordinary support received from our state legislators, the governor, and the people of Wyoming.

To summarize, the following changes in capital assets took place during the year ended June 30, 2005:

- \$18.4 million addition to Buildings and Construction-in-Progress (CIP): \$6.2 million related to the Health Sciences Center, \$4.4 million to McIntyre Hall, \$2.1 million to the Early Care and Education Center, and \$1.2 million to War Memorial Stadium repairs. Preliminary work on all other projects (including Orr Hall, A²RF, Classroom Building, Wyoming Technology Business Center) account for the remaining \$4.5 million in buildings and CIP additions. Retirement of Farm Buildings, including Agriculture Research and Extension Centers in Afton, Archer and Torrington, Wyoming totaled \$1 million, resulting in a net increase to Buildings and CIP of \$17.4 million. As of June 30, 2005 construction in progress totaled \$28.2 million. The cost of Buildings increased from \$315.9 million to \$320.3 million.
- \$7.6 million net addition to other capital assets including infrastructure; land improvements; furniture, fixtures and equipment; and library materials. Together with the \$17.4 million net increase above total, capital assets (before accumulated depreciation) at June 30, 2005, totaled \$517.6 million: a net increase of \$25 million from the June 30, 2004 balance of \$492.6 million.
- In fiscal year 2005, \$15 million of depreciation was recorded and \$3.4 million was removed due to asset retirements, for a net change in depreciation of \$11.6 million. Accumulated depreciation increased from \$239.7 million at June 30, 2004 to \$251.3 million at June 30, 2005.

The following table summarizes Capital Asset Activity during fiscal year 2005.

	Capital Assets (in millions)	
	<u>2005</u>	<u>2004</u>
Total cost of capital assets	\$ 517.6	\$ 492.6
Less accumulated depreciation	(251.3)	(239.7)
Capital Assets, net of depreciation	<u>\$ 266.3</u>	<u>\$ 252.9</u>

Debt Activity

In May 2004, Facilities Improvement Revenue Bonds in the amount of \$11.1 million were issued to finance a portion of the construction and renovation of the Health Sciences Complex and for the first phase of renovation of UW residence halls: \$2.5 million of the bond proceeds were used in the former project, \$8.6 million in the latter. Revenue bonds payable at June 30, 2004 totaled \$38 million.

In the University's first-ever attempt to receive an underlying rating, Standard & Poor's assigned the 2004 Series bonds a 'AA-'. This rating not only reflects an outstanding financial condition, it is the culmination of strong leadership and financial stewardship by the senior management of the university. The University of Wyoming joins the universities of Iowa, Kansas, Nebraska, Utah State and Clemson University in enjoying this excellent bond rating.

In May 2005, Facilities Improvement Revenue Bonds in the amount of \$16 million were issued to construct the new Archaeological and Anthropological Research Facility. Standard & Poor's Rating Services again assigned its 'AA-' rating to the Series 2005 bonds, and affirmed its 'AA-' underlying rating on the university's outstanding debt. This rating reflects the University of Wyoming's:

- Position as the only four-year public institution in the state, with a wide array of program offerings;
- Continued strong support from the state of Wyoming ('AA/Stable' issuer credit rating), including a fully funded deferred maintenance formula;
- Very low debt burden, with fairly limited additional debt plans;
- Historically strong debt service coverage from pledged revenues;
- Good levels of annual fund raising and successful completion of a \$125 million capital campaign; and
- Balanced financial operations, with a fairly diverse revenue stream.

Total Revenue Bonds Payable at June 30, 2005 were \$52.7 million.

ECONOMIC OUTLOOK

It is apparent from the above discussion and analysis that the University of Wyoming continues to enjoy a strong and stable financial position. It is expected that student demand will remain steady, financial operations will be balanced, and additional debt needs will be minimal for the foreseeable future.

The university's revenue stream is fairly diverse, with state appropriations accounting for 44% of total revenues, followed by grants and contracts at 21%, and net tuition and fees contributing 10%. The university received a general fund appropriation of \$276 million for the 2005-2006 biennium, reflecting a 10% increase over the \$249 million received for the 2003-2004 biennium.

The 2007-2008 budget proposal, approved by the University of Wyoming Board of Trustees on August 19, 2005, anticipates that the state executive branch will increase UW salary funding by 3.5% for each year of the biennium and sustain the 85% employer contribution for employee health insurance in light of anticipated premium increases. Building these increases into the base budget allows UW to request general fund appropriation for its highest priorities: medical education; sustaining academic quality and capacity, through faculty positions in strategic areas and retention of top-performing senior faculty; enhanced research excellence in wildlife/livestock disease; information technology infrastructure and support; library collections; core operating and critical maintenance needs; capital construction projects; and continuation of the highly successful endowment matching program.

The State of Wyoming's support has been extraordinary and is expected to continue. The state's Consensus Revenue Estimating Group (CREG) revised its forecast for general fund revenue in October 2005 to show substantial increases in mineral revenues. Prices for natural gas and oil are at all-time highs, and the future prices on the major commodity exchanges show little sign of weakening in the near future. Additionally, coal prices have increased as energy demands remain strong. Wyoming has access to unparalleled revenues and is one of a handful of states with a projected budget surplus.

Two other legislative initiatives are expected to have significant financial impact on the university in the coming years. The Hathaway Scholarship program would provide scholarships for Wyoming high school graduates beginning with the fall 2006 semester. An endowment of \$400 million would be created, with transitional funding available until earnings grow to a level sufficient to support the program. The second initiative would create a \$70 million Higher Education Endowment intended to allow the university to undertake creative initiatives that will have a substantial impact on the quality of instruction and research at UW. This endowment would strengthen UW faculty to the benefit of all Wyoming citizens by providing Wyoming's employers, both public and private, with a means to address workforce needs and economic development and diversification challenges facing the state.

Grant and contract revenues continue to grow, up \$2.1 million in 2005 to a total of \$65.7 million, representing a record amount of external funding for the nineteenth consecutive year.

These diverse and robust funding sources allow the University of Wyoming to keep tuition and fee costs low with only modest increases in rates. The rate charged is lower than the rate at most flagship institutions and below the average of the 25 Western Undergraduate Exchange (WUE) comparator institutions. Undergraduate in-state tuition rose by 5.7% for fiscal year 2006. With the Hathaway Scholarship Program on the horizon, the university is poised to meet its constitutional charge to "make undergraduate postsecondary education in Wyoming as free as possible to Wyoming high school graduates."

The University of Wyoming Foundation provides exceptional support which has continued to grow as a result of "DISTINCTION: The Campaign for Wyoming's University." The Foundation recently announced that \$204 million dollars have been raised to bolster university academic and athletic programs and facilities. The five-year campaign, which officially ended June 30, 2005, far exceeded its original goal of \$125 million, and will provide the campus community with benefits for many years to come.

Finally, the university welcomed a new president on July 1, 2005. Thomas Buchanan, former vice president for Academic Affairs, will serve the university during the time the Board of Trustees conduct a national search. President Buchanan's priorities center on the excellence, success, and stability of a strong faculty – the core of any great university. In his 2005 Fall Convocation speech, President Buchanan put it this way, "Our priority today must be to strengthen our faculty and staff and to build on the extraordinary decade that has brought us to this point. Our roofs don't leak (or soon won't), our campus is well cared for. Our attention now must be directed to what goes on in the classroom – during the lecture, in the studio, at the seminar, on the stage, and in the laboratory. We have an opportunity to transform UW from a good university to a great one. Our Governor expects it, our Legislature expects it, our Trustees expect it, our students expect it, and the citizens of Wyoming expect it. We can do it."

UNIVERSITY OF WYOMING

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS	University of Wyoming	University of Wyoming Foundation	Reclassifications/ Eliminations	Total
Current Assets				
Cash and cash equivalents (Note 2)	\$ 40,363,881	\$ 63,685	\$ (3,953,448)	\$ 36,474,118
Accounts receivable, net (Note 3)	15,956,073	715,702	(387,873)	16,283,902
Current portion of pledges receivable (Note 3)	234,206	4,467,530	-	4,701,736
Receivable from the State of Wyoming	309,553	-	-	309,553
Investments (Note 2)	72,100,373	215,201,650	(87,590,266)	199,711,757
Interest receivable	279,334	-	-	279,334
Current portion of student loans receivable, net (Note 3)	4,001,386	1,567,793	(1,567,793)	4,001,386
Inventories	4,379,804	-	-	4,379,804
Prepaid expenses	1,361,888	-	-	1,361,888
Total current assets	138,986,498	222,016,360	(93,499,380)	267,503,478
Noncurrent Assets				
Restricted cash and cash equivalents (Note 2)	78,943,114	-	-	78,943,114
Investments (Note 2)	135,108,658	4,647,117	-	139,755,775
Prepaid expenses	788,998	-	-	788,998
Receivable from State of Wyoming	254,186	-	-	254,186
Pledges receivable, net (Note 3)	-	20,094,475	-	20,094,475
Loans to students, net (Note 3)	15,186,068	-	-	15,186,068
Other investments	1,566,832	12,308,141	-	13,874,973
Capital assets, net of accumulated depreciation (Note 4)	266,300,479	138,064	-	266,438,543
Total noncurrent assets	498,148,335	37,187,797	-	535,336,132
Total assets	637,134,833	259,204,157	(93,499,380)	802,839,610
LIABILITIES				
Current Liabilities				
Payroll and related liabilities	17,677,924	-	-	17,677,924
Accounts payable and accrued liabilities	8,786,583	645,037	(546,215)	8,885,405
Deferred revenue	7,910,648	-	-	7,910,648
Deposits held in custody for others (Note 5)	10,879,106	91,543,714	(93,111,507)	9,311,313
Accrued compensated absences (Note 5)	5,216,524	-	-	5,216,524
Other post-employment benefits (Notes 5 and 9)	752,174	-	-	752,174
Current portion of revenue bonds payable (Note 5)	2,632,660	-	-	2,632,660
Current portion of capital lease obligations (Note 5)	256,600	-	-	256,600
Total current liabilities	54,112,219	92,188,751	(93,657,722)	52,643,248
Noncurrent Liabilities (Note 5)				
Deposits held in custody for others	6,027,288	5,498,071	-	11,525,359
Accrued compensated absences	5,216,525	-	-	5,216,525
Other post-employment benefits (Note 9)	7,022,574	-	-	7,022,574
Revenue bonds payable	50,122,012	-	-	50,122,012
Capital lease obligations	1,744,775	-	-	1,744,775
U.S. Government loans refundable	6,936,523	-	-	6,936,523
Total noncurrent liabilities	77,069,697	5,498,071	-	82,567,768
Total liabilities	131,181,916	97,686,822	(93,657,722)	135,211,016
NET ASSETS				
Invested in capital assets, net of related debt	232,132,132	-	-	232,132,132
Restricted for:				
Nonexpendable	98,008,674	123,723,537	-	221,732,211
Expendable:				
Scholarships, research, instruction and other	39,492,807	28,439,350	-	67,932,157
Loans	17,292,325	-	-	17,292,325
Capital projects	99,259,558	-	-	99,259,558
Unrestricted (Note 8)	19,767,421	9,354,448	158,342	29,280,211
Total net assets	\$ 505,952,917	\$ 161,517,335	\$ 158,342	\$ 667,628,594

See Notes to Financial Statements.

UNIVERSITY OF WYOMING

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2005

	University of Wyoming	University of Wyoming Foundation	Reclassifications/ Eliminations	Total
Operating Revenues (Note 11)				
Tuition and fees (net of scholarship allowances \$12,873,439)	\$ 30,693,579	\$ -	\$ -	\$ 30,693,579
Federal appropriations	3,592,295	-	-	3,592,295
Federal grants and contracts	41,824,101	-	-	41,824,101
State and local grants and contracts	16,245,742	-	-	16,245,742
Nongovernmental grants and contracts	4,042,292	-	-	4,042,292
Mineral royalty	13,365,000	-	-	13,365,000
Sales and services of educational departments	9,679,193	-	-	9,679,193
Auxiliary enterprise charges (net of scholarship allowances \$3,427,093)	30,546,616	-	-	30,546,616
Interest earned on loans to students	149,822	-	-	149,822
Investment income	-	14,005,833	(14,005,833)	-
Contributions	-	16,419,814	-	16,419,814
Other operating revenues	3,979,693	2,553,522	(2,652,737)	3,880,478
Total operating revenues	154,118,333	32,979,169	(16,658,570)	170,438,932
Operating Expenses (Note 10)				
Instruction	95,189,297	1,817,876	(1,397,577)	95,609,596
Research	42,144,553	420,792	(456,647)	42,108,698
Public service	25,285,185	293,075	(281,100)	25,297,160
Academic support	19,910,903	1,389,550	(1,179,588)	20,120,865
Student services	9,889,220	71,158	(63,658)	9,896,720
Institutional support	27,868,234	7,091,029	(3,226,879)	31,732,384
Operation and maintenance of plant	18,690,753	995,002	(800,502)	18,885,253
Scholarships	7,765,006	1,707,507	(1,598,913)	7,873,600
Auxiliary enterprises	43,922,060	73,875	(64,141)	43,931,794
Depreciation	14,958,331	29,465	-	14,987,796
Total operating expenses	305,623,542	13,889,329	(9,069,005)	310,443,866
Operating income (loss)	(151,505,209)	19,089,840	(7,589,565)	(140,004,934)
Nonoperating Revenues (Expenses)				
State appropriations	139,588,347	-	-	139,588,347
Gifts	9,808,336	-	(6,257,926)	3,550,410
Investment income	10,728,661	-	14,005,833	24,734,494
Interest expense	(1,856,899)	-	-	(1,856,899)
Other nonoperating revenues (expenses)	(431,000)	-	-	(431,000)
Net nonoperating revenues	157,837,445	-	7,747,907	165,585,352
Gain before other revenues, expenses, gains and losses	6,332,236	19,089,840	158,342	25,580,418
State Appropriations Restricted for Capital Purposes	82,946,161	-	-	82,946,161
Additions to Permanent Endowments	10,096,977	6,679,099	-	16,776,076
Net increase in net assets	99,375,374	25,768,939	158,342	125,302,655
Net Assets				
Beginning of year	406,577,543	135,748,396	-	542,325,939
End of year	\$ 505,952,917	\$ 161,517,335	\$ 158,342	\$ 667,628,594

See Notes to Financial Statements.

UNIVERSITY OF WYOMING

STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

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Cash Flows from Operating Activities	
Tuition, fees and grants received	\$ 153,120,912
Payments to employees and fringe benefits	(198,073,630)
Payments to vendors and suppliers	(80,543,057)
Payments for scholarships	(7,765,006)
Loans issued to students	(3,786,087)
Collection of loans to students	2,924,891
Other receipts	16,906,394
Other payments	(18,186,063)
Net cash (used in) operating activities	<u>(135,401,646)</u>
Cash Flows from Noncapital Financing Activities	
State appropriations	139,278,794
Grants for other than capital purposes	3,839
Gifts for other than capital purposes	19,768,497
Net cash provided by noncapital financing activities	<u>159,051,130</u>
Cash Flows from Investing Activities	
Purchases of investments	(385,414,702)
Proceeds from sales and maturities of investments	365,714,195
Interest received on investments	2,020,056
Net cash (used in) investing activities	<u>(17,680,451)</u>
Cash Flows from Capital and Related Financing Activities	
Cash paid for capital assets	(28,621,986)
Proceeds from sale of capital assets	2,030,135
Capital appropriations received	83,451,975
Proceeds of capital debt	16,769,678
Repayments of capital debt and leases	(2,221,766)
Interest paid on capital debt and leases	(1,856,899)
Net cash provided by capital and related financing activities	<u>69,551,137</u>
Net increase in cash and cash equivalents	75,520,170
Cash and Cash Equivalents	
Beginning of year	<u>43,786,825</u>
End of year	<u>\$ 119,306,995</u>

UNIVERSITY OF WYOMING

STATEMENT OF CASH FLOWS (Continued)
Year Ended June 30, 2005

Reconciliation of Operating (Loss) to Net Cash (Used in) Operating Activities	
Operating (loss)	<u>\$ (151,505,209)</u>
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation expense	14,958,331
Provision for uncollectable loans and write-offs	794,679
Miscellaneous nonoperating income	(2,167,800)
Changes in assets and liabilities:	
Receivables, net	(2,801,233)
Inventories	(567,965)
Prepaid expenses	(213,442)
Notes receivable, net	(861,196)
Accounts payable and accrued liabilities	3,893,531
Deferred revenue	1,123,962
Deposits held in custody for others	889,641
U.S. Government loans refundable	(1,509)
Accrued compensated absences	1,056,564
Total adjustments	<u>16,103,563</u>
Net cash (used in) operating activities	<u><u>\$ (135,401,646)</u></u>
Noncash Investing, Capital, and Financing Activities	
Change in fair value of investments	\$ 10,984,559

See Notes to Financial Statements.

UNIVERSITY OF WYOMING

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of operations: The University of Wyoming (the “University”) is a public land grant research university dedicated to serving as a statewide resource for accessible and affordable higher education of the highest quality, rigorous scholarship, technology transfer, economic and community development, and responsible stewardship of the State’s cultural, historical, and natural resources. The University is committed to outreach and service that extend our human talent and technological capacity to serve the people in our communities, our state, the nation, and the world.

Reporting entity: The University is a component unit of the State of Wyoming and is included in the basic financial statements of the State of Wyoming.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The University implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University. As defined by accounting principles generally accepted in the United States of America established by GASB, the financial reporting entity consists of the primary government, as well as its component unit, the University of Wyoming Foundation (the “Foundation”). The Foundation is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The 36-member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University financial statements.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standard Board (FASB) Standards. Most significant to the Foundation’s operations and reporting model are FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit-Organizations*. As such, certain revenue recognition criteria and presentation features may be different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation’s financial information in the University’s financial reporting entity for these differences.

The University has elected to present the Foundation on a combining basis including eliminating intra-activity because the University is included as a component unit of the State of Wyoming.

UNIVERSITY OF WYOMING

NOTES TO FINANCIAL STATEMENTS

Financial statements for the Foundation can be obtained by contacting the Foundation at 1200 East Iverson Avenue, Laramie, Wyoming 82070.

The Cowboy Joe Club is a component unit of the University because it is organized for the purpose of supporting University athletic programs and is managed by the University Athletic Department. Although it is a legally separate organization, it is reported as a blended component unit of the University.

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

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

Cash equivalents: For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments: The University accounts for its investments at fair value, as determined by quoted market prices, 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 investment income in the statement of revenues, expenses, and changes in net assets. All investments with original maturities of 12 months or less are accounted for at amortized cost.

The Foundation accounts for its investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values. Unrealized gains and losses are included in the change in net assets.

Other investments: Other investments consist of land not used in the operation of the University, the cash surrender value of life insurance policies, and other property held for investment. Other investments are accounted for at the lower of cost or fair value.

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 presented net of estimated uncollectable amounts.

Inventories: Inventories of merchandise and supplies are carried at the lower of cost (first-in, first-out) or market. Livestock inventory is stated at estimated net realizable value.

Noncurrent cash and investments: Cash and investments, that are externally restricted to make debt service payments (for the noncurrent portion of debt), to make Advanced Payments of Higher Education Costs (for the noncurrent portion of the APHEC liability) or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the statement of net assets.

UNIVERSITY OF WYOMING

NOTES TO FINANCIAL STATEMENTS

Capital assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. At management's discretion, certain bulk purchases of items that individually do not exceed \$5,000 may be capitalized and depreciated over an estimated blended life of the items. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 10 to 30 years for infrastructure and land improvements, 10 years for library materials, and 3 to 10 years for equipment.

The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Deferred revenue: Deferred revenue consists primarily of amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreement. Deferred revenue also includes amounts received in advance of an event, such as student tuition and advance ticket sales related to future fiscal years.

Compensated absences: Employee compensated absences are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense within the operating expenses in the statement of revenues, expenses, and changes in net assets.

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

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

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

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

UNIVERSITY OF WYOMING

NOTES TO FINANCIAL STATEMENTS

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

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

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

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, such as state appropriations and investment income.

Scholarship allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for the goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance.

Contributions to the Foundation: The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the donor's restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Promises to give to the Foundation: Promises to give, less an allowance for uncollectable amounts, are recognized as revenue in the period received, and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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 and liabilities and disclosure of contingent assets

UNIVERSITY OF WYOMING

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and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Deposits with Financial Institutions and Investments

In March 2003, the Governmental Accounting Standards Board issued Statement No. 40, *Deposit and Investment Risk Disclosures*, effective for financial statement periods beginning after June 15, 2004. Deposit and investment risks were previously addressed in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Risk disclosures in Statement No. 3 focused on credit risk, including custodial credit risk. Statement No. 40 updates the custodial credit risk disclosures requirements of Statement No. 3 and establishes more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments.

Wyoming Statute 9-4-817 authorizes agencies of the State to deposit public funds in financial institutions authorized to do business in the State of Wyoming. These deposits must be fully insured by Federal Deposit Insurance Corporation (FDIC) or secured by a pledge of assets including bonds, debentures and other securities in which the State Treasurer may by law invest. Alternatively, a depository may pledge conventional real estate mortgages and notes connected with mortgages at a ratio of one and one-half to one (1½:1) of the value of public funds secured by the securities.

University investment policy specifies that internally invested funds may be invested in a combination of fixed-income, minimal risk instruments and money market funds. Investment goals for internally invested funds are designed to achieve a return to provide income, protect assets from risk and maintain liquidity to meet spending requirements. Investments are limited to collateralized bank certificates of deposit, money market funds or federally guaranteed or insured securities that mature in less than one year. Custodial services are utilized to safeguard the assets and provide monthly reports.

It is the policy of the University to invest endowment funds through the use of externally contracted, professional investment managers selected by the Board of Trustees. These portfolios will include investment instruments appropriate to the style of each manager. Investment goals for these funds are designed to achieve donor objectives, protect assets from excessive risk, provide program income and growth of the endowment and preserve the purchasing power of both the principal and the income. The endowments are currently being invested through the Foundation. The Foundation Board of Directors reviews and establishes limits on market segment investment concentration, maximum investment in any company, and maximum share of portfolio per manager.

The University oversees the investment of funds for the Advanced Payment of Higher Education Costs (APHEC) program. The investment policy for APHEC is the same as for the endowments.

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The University's participation in mutual funds may indirectly expose it to risks associated with using, holding or writing derivatives. However, specific information about any such transactions is not available to the University.

The University has funds on deposit with the Wyoming State Treasurer's pooled investments. Deposits with the State Treasurer's pooled investments are not insured or otherwise guaranteed by the State of Wyoming, and participants share proportionally in any realized gains or losses on investments. The University's participation in the pooled investments may indirectly expose it to risks associated with using, holding or writing derivatives. However, specific information about any such transactions is not available to the University. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

Deposits:

At June 30, 2005, the carrying amount of the University's demand deposits in financial institutions was \$19,942,779 and the bank balances were \$21,288,263. The demand deposits were fully insured with a combination of FDIC insurance and pledged collateral held in the name of the University. All deposits were held by a qualified depository as outlined in the state statutes.

At June 30, 2005, the University had \$95,425,416 on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

At June 30, 2005, the University had \$3,953,448 on deposit with the Foundation. Detailed information on the Foundation's pooled cash and investments is available from the Foundation.

Investments:

As of June 30, 2005, the University had investments with weighted average maturities as shown in the following table.

Investment Type	Carrying Amount	Fair Value	Weighted Average Maturity in Years
U.S. Government Sponsored			
Enterprise Discount Notes	\$ 88,739,915	\$ 87,869,700	0.44
Certificate of Deposit	2,400,000	2,400,000	0.25
U.S. Treasury Strip	170,676	817,675	0.13
U.S. Government Sponsored			
Enterprise Notes	2,313,000	2,303,400	0.51
Wyoming State Treasurer's			
Pooled Investments	20,663,114	20,663,114	n/a
Exchange Traded Funds	5,814,397	5,814,397	n/a
Foreign Equity Securities	1,917,663	1,917,663	n/a
	<u>\$ 122,018,765</u>	<u>\$ 121,785,949</u>	

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Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from interest rate changes on internally invested funds is to limit the maturity of all securities to less than one year.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The table below shows quality ratings of investments that are rated.

Investment Type	Fair Value	Quality Rating AAA
U.S. Government Sponsored		
Enterprise Discount Notes	\$ 87,869,700	\$ 87,869,700
U.S. Treasury Strip	817,675	817,675
U.S. Government Sponsored		
Enterprise Notes	2,303,400	2,303,400
	\$ 90,990,775	\$ 90,990,775

Custodial credit risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the University will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The University does not have a formal investment policy for custodial credit risk. Investments are held in safekeeping by external custodians in the University's name.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Concentration of risk is not addressed in the internal investment policy. At June 30, 2005, the University held securities from the following issuers in excess of 5% of the total portfolio: Federal Home Loan Bank 10.63%, Federal Home Loan Mortgage Corporation 21.43% and Federal National Mortgage Corporation 10.66%.

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. A portion of the externally managed investments of the APHEC funds are made in stocks and bonds of foreign corporations. All investments are converted to U.S. dollars for reporting purposes, but are subject to changes in value due to fluctuations in the worldwide currency markets. The total amount of foreign investments at June 30, 2005 was \$1,917,663, representing .91% of the total investments of the University.

On August 9, 2005, all of the Exchange Traded Funds and the Foreign Equity Securities were redeemed. The funds were transferred to a new custodian and invested in the Multi-Strategy Equity Fund, Multi-Strategy Bond Fund and Absolute Return Investors Company with the Commonfund.

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NOTES TO FINANCIAL STATEMENTS

University of Wyoming Investments Held by the Foundation:

University owned endowment funds are held by the Foundation for investment purposes. The investment committee, following the Prudent Expert Rule, carries out the Foundation's investment policy. The Prudent Expert Rule states that a fiduciary shall manage the portfolio "with the care, skill, prudence and diligence, under circumstances then prevailing, and that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and like aims." External managers have been hired to invest in the following asset classes: equities, fixed income, absolute return, private equity/venture capital, hedged equity and real estate. A long-term target asset allocation strategy has been implemented to achieve required returns while minimizing risk. All investment vehicles selected must be in compliance with the laws of the State of Wyoming, Internal Revenue Code prohibitions on self-dealing or vehicles that would jeopardize the carrying out of the exempt purpose of the Foundation and restrictions on Unrelated Business Taxable Income.

As of June 30, 2005, the University of Wyoming investments held by the Foundation, primarily in mutual funds, had weighted average maturities, where applicable, as shown in the following table.

Investment Type	Historical Cost	Fair Value	Weighted Average Maturity in Years
Cash funds	\$ 140,218	\$ 140,218	2.95
Real assets	228,614	332,631	n/a
Private equity	667,794	971,631	n/a
Absolute return	9,493,506	13,812,905	n/a
High yield	2,749,387	4,000,315	3.50
Fixed income	6,112,422	8,893,480	1.81
Hedged equity	7,171,267	10,434,082	n/a
International equity	8,970,100	13,051,356	n/a
Small cap	5,949,986	8,657,138	n/a
Large cap	18,734,333	27,296,510	n/a
	<u>\$ 60,217,627</u>	<u>\$ 87,590,266</u>	

Interest rate risk: The Foundation has no formal policy addressing interest rate risk.

Credit risk: The high yield and fixed income bond mutual fund investments are not rated.

Custodial credit risk: The Foundation does not have a formal investment policy for custodial credit risk. Investments are held in safekeeping by external custodians in the Foundation's name.

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Concentration of credit risk: The Foundation's investment policy limits concentrations as follows:

1. The initial investment in any one issuer should not exceed 10% of a manager's portfolio (with the exception of U.S. Government securities);
2. The investment with any one issuer should not exceed 15% of a manager's portfolio (with the exception of U.S. Government securities);
3. No purchases of securities of the portfolio manager's organization or of any firm with controlling interest in said organization are to be made.

At June 30, 2005, there were no single issuer investments that exceeded 5% of the total holdings of the Foundation.

The summarized investments of the Foundation at June 30, 2005 are as follows:

	Carrying Value	Market Value
Money market funds	\$ 3,282,326	\$ 3,282,326
Corporate stocks	149,597,631	169,478,738
Corporate bonds and notes	41,257,052	40,822,123
Real estate	12,273,498	12,308,141
Government obligations	1,618,463	1,618,463
Cash value of life insurance policies	293,355	293,355
Other investments	4,354,600	4,353,762
	<u>\$ 212,676,925</u>	<u>\$ 232,156,908</u>

Note 3. Loans, Accounts Receivable and Pledges Receivable

Loans receivable: Approximately 60% of the University's loans receivable are loans made under medical school contracts. These are loans made to students for the completion of medical school and contain special clauses regarding repayment. The standard repayment terms under these medical school contracts are as follows:

Contracts prior to the 1993-1994 school year: Payments consist of 96 equal monthly installments with no interest accruing unless a scheduled payment is missed, and then the interest accrues at the maximum rate allowed by law.

Contracts for the 1993-1994 school year through the 2003-2004 school year: Payments consist of 96 equal monthly installments with interest accruing at an annual rate equal to the effective interest rate for Federal Stafford loans, with a maximum of 8% starting four years after the student enters into an agreement. If any scheduled payment is missed, the interest accrues at the maximum rate allowed by law.

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NOTES TO FINANCIAL STATEMENTS

The outstanding principal balance of loans made under medical school contracts is canceled upon practicing full-time medicine in the State of Wyoming. The balance is canceled at a rate of one-third of original principal balance plus accrued interest per year for each year of practicing full-time medicine in the State of Wyoming.

Contracts for the 2004-2005 school year and thereafter: Payments consist of 96 equal monthly installments with interest accruing at an annual rate equal to the effective interest rate for Federal Stafford loans, with a maximum of 8% beginning the earlier of completion of the residency program or eight years after the student enters into an agreement. If any scheduled payment is missed, the interest accrues at the maximum rate allowed by law.

The outstanding principal balance of loans made under medical school contracts is canceled upon practicing full-time medicine in the State of Wyoming. The balance is canceled at a rate of one-third of original principal balance plus accrued interest per year for each year of practicing full-time medicine in the State of Wyoming. Three years of residency in the State of Wyoming will count as one year of practice.

Under all contracts, repayment is to begin one year subsequent to the student failing to be enrolled in a fully accredited medical school, a qualifying internship, or a residency program.

Medical student loan cancellations are considered a reduction in the net assets when the student completes the contractual responsibilities for in-state service.

The balance of loans receivable also include other types of student loans which may contain similar repayment and cancellation features.

An allowance for doubtful accounts is provided for the estimated amount of loans which the University will be unable to collect, excluding any cancellation under programs noted above.

Accounts receivable and pledges receivable: The University accounts receivable and pledges receivable are shown net of allowances for doubtful accounts in the accompanying statement of net assets at June 30, 2005 as follows:

	Accounts Receivable	Pledges Receivable
Accounts receivable	\$ 16,576,222	\$ 295,878
Less allowance for doubtful accounts	(620,149)	(61,672)
Accounts receivable, net	<u>\$ 15,956,073</u>	<u>\$ 234,206</u>

Included in the amounts above is \$6,742,153, which is due from the U.S. Government at June 30, 2005.

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NOTES TO FINANCIAL STATEMENTS

Foundation pledges receivable represent promises to give which have been made by donors but have not yet been received. Pledges which will not be received in the subsequent year have been discounted using an estimated rate of return which could be earned if such contributions had been made in the current year.

Due to the nature of these pledges, significant increases and decreases in net assets may occur. These significant fluctuations can arise as contributions are recognized as support in the fiscal period in which they are pledged, but the expenses incurred with such contributions occur in a different fiscal period.

Total promises to give were as follows at June 30, 2005:

Due within 1 year	\$ 4,467,530
Due 1 to 5 years	22,602,376
Due 5 years and later	<u>1,741,347</u>
	28,811,253
Less allowance for uncollectable pledges	1,440,563
Less discount to present value	<u>2,808,685</u>
Total pledges receivable	<u><u>\$ 24,562,005</u></u>

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Note 4. Capital Assets

Following are the changes in capital assets for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Transfers	Retirements	Balance June 30, 2005
Capital assets not being depreciated:					
Land	\$ 5,679,646	\$ 44,434	\$ -	\$ (94,620)	\$ 5,629,460
Land improvements	2,310,209	-	-	(1,450)	2,308,759
Construction in progress	15,253,180	20,554,565	(7,581,100)	(36,742)	28,189,903
Total capital assets not being depreciated	\$ 23,243,035	\$20,598,999	\$ (7,581,100)	\$ (132,812)	\$ 36,128,122
Other capital assets:					
Infrastructure	\$ 12,161,943	\$ -	\$ 26,623	\$ (58,128)	\$ 12,130,438
Land improvements	4,392,134	57,253	1,991,742	(109,384)	6,331,745
Buildings	315,860,395	390,906	5,050,348	(1,012,311)	320,289,338
Furniture, fixtures and equipment	76,246,261	6,276,475	512,387	(2,971,089)	80,064,034
Library materials	60,710,371	1,996,302	-	-	62,706,673
Total other capital assets	469,371,104	8,720,936	7,581,100	(4,150,912)	481,522,228
Less accumulated depreciation for:					
Infrastructure	(9,552,347)	(190,665)	-	48,951	(9,694,061)
Land improvements	(2,612,863)	(270,903)	-	109,384	(2,774,382)
Buildings	(121,771,525)	(6,473,107)	-	560,994	(127,683,638)
Furniture, fixtures and equipment	(57,166,552)	(5,515,620)	-	2,637,727	(60,044,445)
Library materials	(48,645,309)	(2,508,036)	-	-	(51,153,345)
Total accumulated depreciation	(239,748,596)	(14,958,331)	-	3,357,056	(251,349,871)
Other capital assets, net	\$ 229,622,508	\$(6,237,395)	\$ 7,581,100	\$ (793,856)	\$230,172,357
Capital asset summary:					
Capital assets not being depreciated	\$ 23,243,035	\$20,598,999	\$ (7,581,100)	\$ (132,812)	\$ 36,128,122
Other capital assets, at cost	469,371,104	8,720,936	7,581,100	(4,150,912)	481,522,228
Total cost of capital assets	492,614,139	29,319,935	-	(4,283,724)	517,650,350
Less accumulated depreciation	(239,748,596)	(14,958,331)	-	3,357,056	(251,349,871)
Capital assets, net	\$ 252,865,543	\$14,361,604	\$ -	\$ (926,668)	\$266,300,479

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NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Liabilities, Bonds Payable and Capital Leases

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Bonds and capital lease obligations:					
Revenue bonds payable	\$ 37,999,513	\$16,769,678	\$ 2,014,519	\$ 52,754,672	\$ 2,632,660
Capital lease obligations	2,208,622	-	207,247	2,001,375	256,600
Total bonds and capital leases	40,208,135	16,769,678	2,221,766	54,756,047	2,889,260
Other liabilities:					
Accrued compensated absences	9,376,484	7,389,492	6,332,927	10,433,049	5,216,524
Deposits held in custody for others	16,016,753	889,641	-	16,906,394	10,879,106
Other post-employment benefits	5,593,188	2,965,662	784,102	7,774,748	752,174
Due to State of Wyoming	425,292	-	425,292	-	-
U.S. Government loans refundable	6,938,032	-	1,509	6,936,523	-
Total other liabilities	38,349,749	11,244,795	7,543,830	42,050,714	16,847,804
Total long-term liabilities	\$ 78,557,884	\$28,014,473	\$ 9,765,596	\$ 96,806,761	\$ 19,737,064

Revenue bonds payable represent the remaining principal payments on bonds used for construction of facilities. Revenue from the operations of residence halls, apartments, cafeterias, dining halls, other food service facilities, bookstore and telecommunications; income from other sales and services; income from the University Permanent Land Fund and mineral royalties from the University Government Royalty Fund are pledged for the retirement of the Facilities Improvement and Refunding Revenue Bonds Series 1999, the Facilities Improvement Revenue Bonds Series 2001, the Facilities Refunding Revenue Bonds Series 2003, the Facilities Improvement Revenue Bond Series 2004, and the Facilities Improvement Revenue Bond Series 2005.

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Revenue bonds payable consist of the following at June 30, 2005:

	Authorized and Issued	Interest Rates	Bonds Outstanding at June 30, 2005
Facilities Improvement and Refunding Revenue Bonds: Series 1999	\$ 18,760,000	4.75-5.5%	\$ 12,380,000
Facilities Improvement Revenue Bonds: Series 2001	9,120,000	4.0-5.5%	8,055,000
Facilities Refunding Revenue Bonds: Series 2003	4,340,000	2.0-3.5%	4,225,000
Facilities Improvement Revenue Bonds: Series 2004	11,100,000	3.25-5.0%	11,100,000
Facilities Improvement Revenue Bonds: Series 2005	16,000,000	3.5-5.0%	16,000,000
	<u>\$ 59,320,000</u>		<u>51,760,000</u>
Original issue discount/premium			994,672
			<u>\$ 52,754,672</u>

Maturities and interest on bonds payable for the next five years and thereafter is as follows:

	Principal	Interest
2006	\$ 2,565,000	\$ 2,472,883
2007	3,155,000	2,301,809
2008	3,315,000	2,168,626
2009	3,430,000	2,048,544
2010	3,545,000	1,914,774
2011-2015	12,260,000	7,761,725
2016-2020	14,745,000	4,397,492
2021-2025	8,745,000	1,266,000
	<u>\$ 51,760,000</u>	<u>\$ 24,331,853</u>

The University leases an airplane under a capital lease. The asset and related liability were recorded at the present value of the future payments due under the lease as determined using a 5.6% interest rate. The University is leasing scoreboards for the football and basketball venues. The assets and related liabilities were recorded at the present value of the future payments due under the lease as determined using a 5.75% interest rate. The University is also leasing other physical plant equipment under capital lease agreements. The assets and related liabilities of the other equipment were recorded at the present value of future payments due under the lease as determined using a 7% interest rate.

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The following is a schedule of future minimum lease payments due under the capital leases, together with the net present value of the minimum lease payments, as of June 30, 2005:

	Airplane	Scoreboards	Other Equipment	Total
2006	\$ 144,920	\$ 215,247	\$ 9,285	\$ 369,452
2007	144,920	215,247	-	360,167
2008	144,920	215,247	-	360,167
2009	144,920	215,247	-	360,167
2010	144,920	161,224	-	306,144
2011-2015	720,877	-	-	720,877
Total minimum lease payments	1,445,477	1,022,212	9,285	2,476,974
Less amount representing interest	(339,890)	(135,457)	(252)	(475,599)
Net present value of minimum lease payments	\$ 1,105,587	\$ 886,755	\$ 9,033	\$ 2,001,375

The cost of assets acquired under capital lease is \$3,186,681. Accumulated amortization as of June 30, 2005 is \$2,222,229. Amortization of leased assets is included in depreciation expense.

Note 6. Risk Management

The University is exposed to various risks of loss including torts, theft of, damage to, or destruction of assets, and teachers' liability. The University has purchased commercial insurance for these risks that include insurance for property and liability. Settlements have not exceeded insurance coverage in any of the last three fiscal years. The uninsured risk retention per occurrence/aggregate is \$100,000/\$200,000 for property and ranges from \$100,000/\$1,000,000 for various liability risks.

A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

Following is a reconciliation of the unpaid claims liability for the years ended June 30, 2005 and 2004:

	2005	2004
Unpaid claims, beginning of fiscal year	\$ 325,000	\$ 255,000
Claims incurred	348,178	914,316
Claims paid	(348,178)	(844,316)
Unpaid claims liability, end of fiscal year	\$ 325,000	\$ 325,000

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The University participates in the State of Wyoming employee medical, life and dental insurance program that is co-administered with a third-party health provider/claim service company. The State self-insures medical and dental costs and assumes all the risk for claims incurred by plan participants. The State does not retain any risk of loss for the life insurance plan as the insurance provider assumes all the risk for claims incurred by participants.

The State contributes \$372 per month for a single participant, \$726 for a participant plus his/her spouse or children, \$828 per participating family or \$414 for married couples both of which are employed by the University for insurance premiums for covered participants towards these plans. Participants are responsible for paying premium charges in excess of this amount.

The University participates in a long-term disability program and contributes 100% of the premium per month for each eligible employee at the rate of \$0.32 per \$100 of payroll. The University does not retain any risk of loss for the long-term disability program as the insurance carrier assumes all the risk for claims incurred by participants.

The University also participates in two State of Wyoming risk management programs: Workers' Compensation Act and Unemployment Compensation Act.

Wyoming Statute §27-14-101 created the Wyoming Workers' Compensation Act which is administered as an enterprise fund by the State of Wyoming. This Act requires the University to obtain liability coverage for payment of benefits to employees for job-related injuries and diseases through the Workers' Compensation Fund. Amounts paid by the University to the State for workers' compensation during fiscal year 2005 were \$1,767,749.

Wyoming Statute §27-3-101 created the Unemployment Compensation Act. The University pays the State expense reimbursement for unemployment claims brought against the University. Changes in the balance of claims liability during fiscal years 2005 and 2004 are as follows for the University's participation in the Unemployment Compensation Act program:

	<u>2005</u>	<u>2004</u>
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Claims incurred	120,744	121,558
Claims paid	(120,744)	(121,558)
Unpaid claims liability, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>

Note 7. Related Organization

The Board of Trustees is responsible for appointing the members of the Board of Directors of The University of Wyoming Research Corporation d/b/a Western Research Institute (WRI), but as the University's accountability does not extend beyond making these appointments, WRI is not included in these financial statements.

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Note 8. Commitments and Contingencies

The University has contracted and/or appropriated funds for the planning and construction or maintenance of several facilities with an aggregate cost of approximately \$86,716,000. As of June 30, 2005, the remaining commitment to complete these projects totaled approximately \$58,738,000. These completion costs will be financed by a combination of State appropriations, bond proceeds, Federal grants, and private gifts and grants.

Amounts expended under the terms of certain grants and contracts are subject to audit and possible adjustment by governmental agencies. In the opinion of University management, any adjustments will not have a material effect on the accompanying financial statements.

The University is a defendant in several lawsuits including various claims related to its normal operations. The University believes that final settlement of matters not covered by insurance will not materially affect its financial condition.

The Foundation Board of Directors has designated Unrestricted Net Assets for the following purposes:

Unrestricted:	
Investment in property and equipment	\$ 138,064
Investments for which the income will be used to cover Foundation operating expenses	7,542,742
Investments for which the income will be used for special Foundation projects	1,275,764
Other amounts held for special requests	397,878
	<u>\$ 9,354,448</u>

Note 9. Retirement and Pension Plans

Eligible University employees have the option of participating in either the Wyoming Retirement System (WRS) or Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). WRS is a cost-sharing, multiple-employer public employee defined benefit, contributory retirement plan. TIAA-CREF is a defined contribution plan.

Participants in WRS who retire at age 60 with four years of credited service are entitled to a retirement benefit according to predetermined formulas and are allowed to select one of five optional methods for receiving benefits. Early retirement is allowed provided the employee has completed four years of service and attained the age of 50, but will result in a reduction of benefits based on the length of time remaining to normal retirement age. WRS also provides death and disability benefits. Benefits are established by State statutes. The WRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Wyoming Retirement System, Herschler Building, Cheyenne, Wyoming 82002 or by calling (307) 777-7691.

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NOTES TO FINANCIAL STATEMENTS

Statutes require that 11.25% of the covered employee's salary be contributed to the plan, one-half by the employee and the other half by the employer. The University contributes both the employee and employer portions funded primarily through appropriations from the State Legislature. For the years ended June 30, 2003, 2004 and 2005, the University's contributions to the WRS were \$5,191,412, \$5,265,857 and \$5,390,233, respectively, which equals the required contribution for the years then ended.

As previously noted, some employees opt to participate in TIAA-CREF, which is a defined contribution plan. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. TIAA-CREF also requires contributions of 11.25% of participating employees' salaries. Like WRS, statutes require that contributions be funded by both the employer and employee, and the University has elected to fund both portions. Contributions are funded as accrued and are immediately vested. The contributions for the years ended June 30, 2003, 2004 and 2005 were \$8,210,546, \$8,600,589 and \$9,458,500, respectively.

The Wyoming Legislature enacted legislation allowing certain State employees to elect early retirement. The early retirement option was available to employees making the election between April 1, 1995 and June 30, 1995 with up to a two-year delay in the effective retirement date. All retiring eligible employees under the legislation who were not yet age 61 receive 20% of their salary until they reach age 62. All retiring eligible employees were entitled to a medical benefit not to exceed \$215 per month until they reach age 65. To participate in the early retirement option under the legislation, the employee had to make the election to retire between April 1, and June 30, 1995 and be approved by the President of the University. The liability for the installment distributions is an amount equal to the present value of the future payments discounted at 8%. The total liability as of June 30, 2005 is \$51,029.

Presented below is a summary of installment distributions due former employees:

	Termination Benefits Due Former Employees
Fiscal year ending:	
2006	\$ 36,294
2007	10,960
2008	3,775
	<u>\$ 51,029</u>

The University has a post-employment retirement program called "Board Retirees." To qualify for the program, an employee must meet one of the following two criteria at the time of retirement:

1. Be age 60 or over and have 15 years or more of immediately preceding service, or
2. 25 years of cumulative service.

UNIVERSITY OF WYOMING

NOTES TO FINANCIAL STATEMENTS

Board retiree status allows an individual with unused sick leave at the time of retirement to convert up to 120 days of unused accrued sick leave to be applied toward the State contribution for group health insurance if elected. The conversion is at a rate of 1.5 months of coverage for each five days of sick leave (a maximum of 36 months of premiums). The maximum per month premium currently is \$372 a month for individuals and \$828 a month for family participants in the plan. The premium is paid by the University as it is incurred on a monthly basis. The total amount charged to expense for the year ended June 30, 2005 was \$1,017,407. The total accrued liability at June 30, 2005 is \$6,841,832.

Board retiree status also allows an individual who has been enrolled in the State life insurance plan to have the University pay one-half the premium for the remainder of the time the individual holds the policy. The share of the premium is paid by the University as it is incurred on a monthly basis. The total amount charged to expense for the year ended June 30, 2005 was \$37,251. The total accrued liability at June 30, 2005 is \$881,887.

Note 10. Natural Classifications with Functional Classifications

The University's operating expenses by natural classification were as follows:

Functional Classification	Natural Classification				Total
	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships	
Instruction	\$ 82,706,993	\$12,482,304	\$ -	\$ -	\$ 95,189,297
Research	28,785,890	13,358,663	-	-	42,144,553
Public service	18,318,915	6,966,270	-	-	25,285,185
Academic support	15,137,336	4,773,567	-	-	19,910,903
Student services	6,573,034	3,316,186	-	-	9,889,220
Institutional support	20,770,362	7,097,872	-	-	27,868,234
Operation of plant	9,582,803	9,107,950	-	-	18,690,753
Scholarships	-	-	-	7,765,006	7,765,006
Auxiliary enterprises	20,088,090	23,833,970	-	-	43,922,060
Depreciation	-	-	14,958,331	-	14,958,331
Total expenses	\$ 201,963,423	\$80,936,782	\$ 14,958,331	\$ 7,765,006	\$305,623,542

UNIVERSITY OF WYOMING

NOTES TO FINANCIAL STATEMENTS

Note 11. Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirements of GASB Statement No. 35. Included in this segment, are operations of residence halls, apartments, cafeterias, dining halls, other food service facilities, bookstore and telecommunications in addition to revenues from other sales and services, University Permanent Fund, and mineral royalties.

Condensed Statement of Net Assets

Assets:

Current assets	\$ 47,529,999
Noncurrent assets	<u>2,272,779</u>
Total assets	<u><u>\$ 49,802,778</u></u>

Liabilities:

Current liabilities	\$ 23,443,296
Noncurrent liabilities	<u>401,299</u>
Total liabilities	<u><u>\$ 23,844,595</u></u>

Net assets:

Invested in equipment	\$ 1,419,621
Restricted for maintenance required by bond resolution	500,000
Restricted for capital projects	1,091,287
Unrestricted	<u>22,947,275</u>
Total net assets	<u><u>\$ 25,958,183</u></u>

UNIVERSITY OF WYOMING

NOTES TO FINANCIAL STATEMENTS

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues:

Sales	\$ 15,800,520
Rents and fees	14,474,232
Nonenterprise revenue	14,265,000
Miscellaneous	282,297
Total operating revenues	<u>44,822,049</u>

Operating expenses:

Operating expenses	26,028,830
Depreciation	387,523
Total operating expenses	<u>26,416,353</u>

Operating income

18,405,696

Nonoperating revenues, investment income

2,744,857

Nonoperating expenses and other items:

Interest on indebtedness	1,952,699
Retirement of indebtedness	1,985,000
Expanded for plant facilities	5,998,537
Mandatory transfers	859,875
Nonmandatory transfers	13,967,047
Total nonoperating expenses and other items	<u>24,763,158</u>

(Decrease) in net assets

(3,612,605)

Net assets, beginning of year

29,570,788

Net assets, end of year

\$ 25,958,183

Condensed Statement of Cash Flows

Net cash provided by operating activities	\$ 18,659,557
Net cash (used in) capital financing activities	(42,899)
Net cash (used in) noncapital financing activities	(14,826,922)
Net cash (used in) investing activities	(5,728,329)
Net (decrease) in cash	<u>(1,938,593)</u>

Cash and cash equivalents, beginning of year

26,349,187

Cash and cash equivalents, end of year

\$ 24,410,594

UNIVERSITY OF WYOMING

COMPARATIVE SCHEDULES OF NET ASSETS - UNIVERSITY OF WYOMING

June 30, 2005 and 2004

ASSETS	2005	2004
Current Assets		
Cash and cash equivalents	\$ 40,363,881	\$ 35,881,206
Accounts receivable, net	15,956,073	12,408,092
Current portion of pledges receivable, net	234,206	210,804
Receivable from the State of Wyoming	309,553	-
Investments	72,100,373	66,254,423
Interest receivable	279,334	365,691
Current portion of student loans receivable, net	4,001,386	4,059,562
Inventories	4,379,804	3,811,839
Prepaid expenses	1,361,888	1,294,417
Total current assets	138,986,498	124,286,034
Noncurrent Assets		
Restricted cash and cash equivalents	78,943,114	7,905,619
Investments	135,108,658	112,869,166
Prepaid expenses	788,998	643,027
Receivable from State of Wyoming	254,186	760,000
Loans to students, net	15,186,068	15,061,375
Other investments	1,566,832	1,582,094
Capital assets, net of accumulated depreciation	266,300,479	252,865,543
Total noncurrent assets	498,148,335	391,686,824
Total assets	637,134,833	515,972,858
LIABILITIES		
Current Liabilities		
Payroll and related liabilities	17,677,924	17,032,374
Accounts payable and accrued liabilities	8,786,583	7,022,210
Deferred revenue	7,910,648	6,782,847
Deposits held in custody for others	10,879,106	8,455,675
Accrued compensated absences	5,216,524	4,688,242
Other post-employment benefits	752,174	531,449
Current portion of revenue bonds payable	2,632,660	2,014,500
Current portion of capital lease obligations	256,600	207,247
Total current liabilities	54,112,219	46,734,544
Noncurrent Liabilities		
Deposits held in custody for others	6,027,288	7,561,078
Accrued compensated absences	5,216,525	4,688,242
Other post-employment benefits	7,022,574	5,061,739
Due to State of Wyoming	-	425,292
Revenue bonds payable	50,122,012	35,985,013
Capital lease obligations	1,744,775	2,001,375
U.S. Government loans refundable	6,936,523	6,938,032
Total noncurrent liabilities	77,069,697	62,660,771
Total liabilities	131,181,916	109,395,315
NET ASSETS		
Invested in capital assets, net of related debt	232,132,132	222,966,465
Restricted for:		
Nonexpendable	98,008,674	84,905,995
Expendable:		
Scholarships, research, instruction and other	39,492,807	28,445,878
Loans	17,292,325	17,166,145
Capital projects	99,259,558	19,763,894
Unrestricted	19,767,421	33,329,166
Total net assets	\$ 505,952,917	\$ 406,577,543

UNIVERSITY OF WYOMING

COMPARATIVE SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
UNIVERSITY OF WYOMING
Years Ended June 30, 2005 and 2004

	2005	2004
Operating Revenues		
Tuition and fees (net of scholarship allowances 2005 \$12,873,439; 2004 \$11,588,811)	\$ 30,693,579	\$ 29,184,411
Federal appropriations	3,592,295	3,274,724
Federal grants and contracts	41,824,101	39,859,014
State and local grants and contracts	16,245,742	16,030,476
Nongovernmental grants and contracts	4,042,292	4,426,679
Mineral royalty	13,365,000	13,365,000
Sales and services of educational departments	9,679,193	8,308,162
Auxiliary enterprise charges (net of scholarship allowances 2005 \$3,427,093; 2004 \$3,091,956)	30,546,616	27,362,852
Interest earned on loans to students	149,822	227,600
Other operating revenues	3,979,693	2,305,090
Total operating revenues	154,118,333	144,344,008
Operating Expenses		
Instruction	95,189,297	89,404,267
Research	42,144,553	37,626,318
Public service	25,285,185	24,227,333
Academic support	19,910,903	17,517,190
Student services	9,889,220	10,101,707
Institutional support	27,868,234	24,476,374
Operation and maintenance of plant	18,690,753	19,688,579
Scholarships	7,765,006	8,369,806
Auxiliary enterprises	43,922,060	42,371,961
Depreciation	14,958,331	14,034,769
Total operating expenses	305,623,542	287,818,304
Operating (loss)	(151,505,209)	(143,474,296)
Nonoperating Revenues (Expenses)		
State appropriations	139,588,347	128,302,542
Gifts	9,808,336	10,190,537
Investment income	10,728,661	12,403,475
Interest expense	(1,856,899)	(1,393,426)
Other nonoperating revenues (expenses)	(431,000)	(482,731)
Net nonoperating revenues	157,837,445	149,020,397
Gain before other revenues, expenses, gains and losses	6,332,236	5,546,101
State Appropriations Restricted for Capital Purposes	82,946,161	16,389,128
Additions to Permanent Endowments	10,096,977	7,145,947
Net increase in net assets	99,375,374	29,081,176
Net Assets		
Beginning of year	406,577,543	377,496,367
End of year	\$ 505,952,917	\$ 406,577,543

UNIVERSITY OF WYOMING

COMPARATIVE SCHEDULES OF CASH FLOWS - UNIVERSITY OF WYOMING
Year Ended June 30, 2005

	2005	2004
Cash Flows from Operating Activities		
Tuition, fees and grants received	\$ 153,120,912	\$ 144,417,772
Payments to employees and fringe benefits	(198,073,630)	(187,223,759)
Payments to vendors and suppliers	(80,543,057)	(75,832,095)
Payments for scholarships	(7,765,006)	(8,369,806)
Loans issued to students	(3,786,087)	(3,762,944)
Collection of loans to students	2,924,891	3,009,276
Other receipts	16,906,394	16,302,350
Other payments	(18,186,063)	(15,599,516)
Net cash (used in) operating activities	(135,401,646)	(127,058,722)
Cash Flows from Noncapital Financing Activities		
State appropriations	139,278,794	128,938,447
Grants for other than capital purposes	3,839	98,038
Gifts for other than capital purposes	19,768,497	17,340,574
Net cash provided by noncapital financing activities	159,051,130	146,377,059
Cash Flows from Investing Activities		
Purchases of investments	(385,414,702)	(393,890,652)
Proceeds from sales and maturities of investments	365,714,195	381,434,499
Interest received on investments	2,020,056	5,177,510
Net cash (used in) investing activities	(17,680,451)	(7,278,643)
Cash Flows from Capital and Related Financing Activities		
Cash paid for capital assets	(28,621,986)	(24,494,958)
Proceeds from sale of capital assets	2,030,135	561,550
Capital appropriations received	83,451,975	15,629,128
Proceeds of capital debt	16,769,678	11,132,595
Repayments of capital debt and leases	(2,221,766)	(2,131,900)
Interest paid on capital debt and leases	(1,856,899)	(1,393,427)
Net cash provided by capital and related financing activities	69,551,137	(697,012)
Net increase in cash and cash equivalents	75,520,170	11,342,682
Cash and Cash Equivalents		
Beginning of year	43,786,825	32,444,143
End of year	\$ 119,306,995	\$ 43,786,825

UNIVERSITY OF WYOMING

COMPARATIVE SCHEDULES OF CASH FLOWS - UNIVERSITY OF WYOMING (Continued)
Year Ended June 30, 2005

	2005	2004
<hr/>		
Reconciliation of Operating (Loss) to Net Cash (Used in) Operating Activities		
Operating (loss)	<u>\$ (151,505,209)</u>	<u>\$ (143,474,296)</u>
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation expense	14,958,331	14,034,769
Provision for uncollectable loans and write-offs	794,679	973,913
Miscellaneous nonoperating income	(2,167,800)	(428,497)
Changes in assets and liabilities:		
Receivables, net	(2,801,233)	404,402
Inventories	(567,965)	216,472
Prepaid expenses	(213,442)	(302,519)
Notes receivable, net	(861,196)	(753,668)
Accounts payable and accrued liabilities	3,893,531	1,592,519
Deferred revenue	1,123,962	(1,320,711)
Deposits held in custody for others	889,641	845,736
U.S. Government loans refundable	(1,509)	285,597
Accrued compensated absences	1,056,564	867,561
Total adjustments	<u>16,103,563</u>	<u>16,415,574</u>
Net cash (used in) operating activities	<u>\$ (135,401,646)</u>	<u>\$ (127,058,722)</u>
Noncash Investing, Capital, and Financing Activities		
Change in fair value of investments	\$ 10,984,559	\$ (1,079,689)