Boise State University

Independent Auditor's Report

and Financial Statements

June 30, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

Idaho State Board of Education
Boise State University
Boise, Idaho

We have audited the accompanying financial statements of Boise State University (University) as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of Boise State 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 Boise State University's discretely presented component units as described in Note 13. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of other auditors.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Boise State University and its discretely presented component units as of June 30, 2006 and 2005, and the changes in its financial position and cash flows for the years 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 September 22, 2006, on our consideration of Boise State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MOSS-ADAMS LLP

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by 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.

Moss Adams LLP

Eugene, Oregon
September 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

Management's Discussion and Analysis ("MD&A") presents an overview of the financial performance of Boise State University (the "University") based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements. The MD&A discusses financial performance during the current year in comparison to prior years with emphasis on the current year.

Overview of the Financial Statements and Financial Analysis

The financial statements for the fiscal years ended June 30, 2006 and June 30, 2005 are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles. There are three financial statements presented: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

The University discloses, as a component unit, any significant organizations that raise and hold economic resources for the direct benefit of the University. Organizations that are legally separate, tax-exempt entities that satisfy the criteria of GASB Statement No. 39, "*Determining Whether Certain Organizations are Component Units an amendment of GASB 14",* should be discretely presented as component units. The Boise State University Foundation, Inc. and the Bronco Athletic Association, Inc. are considered component units of the University.

Statement of Net Assets

The statement of net assets presents the assets, liabilities and net assets of the University as of the current fiscal year-end in comparative format with the prior fiscal year-end. The purpose of the statement of net assets is to present to the readers of the financial statements a point-in-time fiscal snapshot of the University. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent) and net assets (assets minus liabilities). The difference between current and noncurrent classification is discussed in the footnotes to the financial statements.

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

Net assets are divided into four major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in capital assets. The second net asset category is restricted, nonexpendable net assets. Restricted nonexpendable net assets are those that are required to be retained in perpetuity. The next net asset category is restricted expendable net assets. Restricted expendable net assets are available for expenditures by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the institution.

Summary Statements of Net Assets Fiscal Years Ended June 30 (Dollars in Thousands)	2006	2005 (restated)	2004
ASSETS:			
Current assets	$ 68,271	$ 60,760	$ 58,530
Capital assets, net	260,602	241,693	230,152
Other assets	60,245	75,444	73,285
Total assets	$ 389,118	$ 377,897	$ 361,967
LIABILITIES:			
Current liabilities	$ 29,467	$ 30,004	$ 28,345
Noncurrent liabilities	137,556	141,153	133,866
Total liabilities	167,023	171,157	162,211
NET ASSETS:			
Invested in capital assets, net of related debt	142,498	134,909	131,954
Restricted, expendable	18,347	16,280	15,107
Restricted, nonexpendable			
Unrestricted	61,250	55,551	52,695
Total net assets	222,095	206,740	199,756
Total liabilities and net assets	$ 389,118	$ 377,897	$ 361,967

The University's total assets increased during fiscal year 2006 by $11,221,742 to $389,118,274. The University continues to invest heavily in facilities, converting investments into capital assets. Current assets have also grown during the last three years. Student growth has created larger receivables and unspent appropriations deposited with the State Treasurer. Current initiatives, including salary equity and operating expenses for new facilities, are expected to reverse this trend during fiscal year 07.

Liabilities decreased during the year by $4,133,425 to $167,023,037. The decrease is primarily due to principle payments on long-term debt.

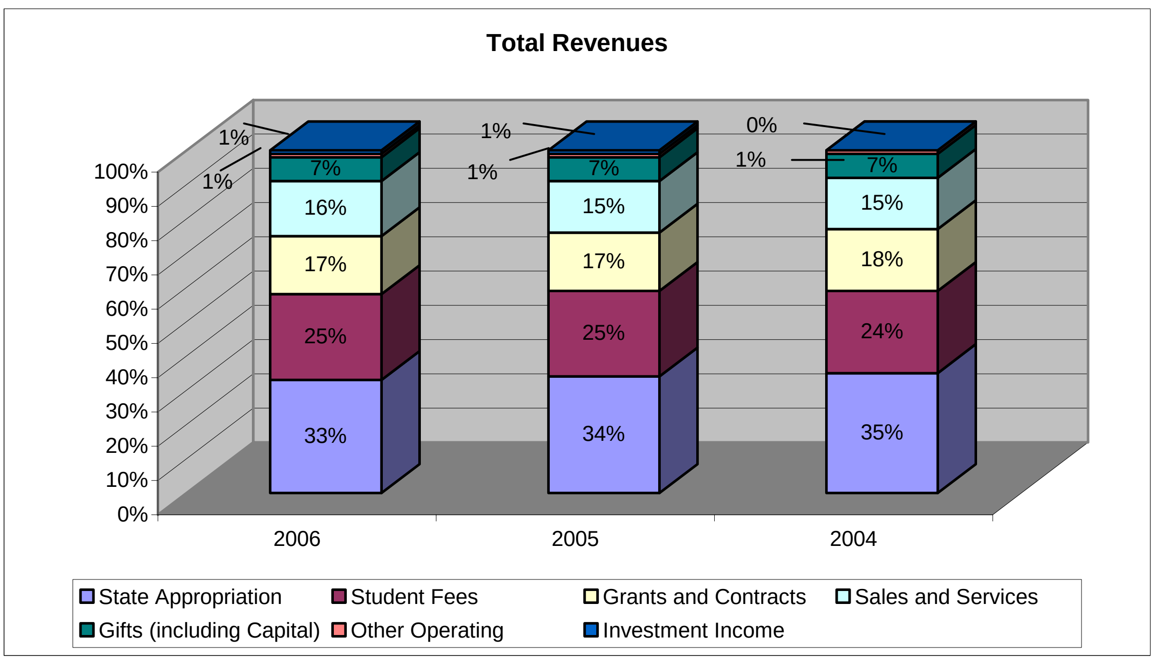
Net assets, by definition, increased by $15,355,167 to $222,095,237 at June 30, 2006. Growth continued in all categories. The University plans to continue to invest incremental resources in capital assets, net of related debt.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets, as presented on the statement of net assets, are based on the activity presented in the statement of revenues, expenses and changes in net assets. The purpose of the statement is to present the revenues (operating and nonoperating) received by the University, and its component units, and the expenses (operating and nonoperating) paid by the institution and its component units and any other revenues, expenses, gains and losses received or spent by the University and its component units. The University will always reflect a net operating loss because state general fund appropriations are not reported as operating revenues.

Generally speaking, operating revenues are generated by providing services to the various customers, students and constituencies of the University.

Operating expenses are those expenses paid to acquire or produce the services provided in return for operating revenues and to carry out the functions of the University. Nonoperating revenues are revenues received for which services are not provided. For example, state general funds are nonoperating because the Idaho State Legislative process provides them to the University without the Legislature directly receiving services for those revenues. GASB No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*" and GASB No. 35, "*Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*" defines those revenues to be nonoperating.

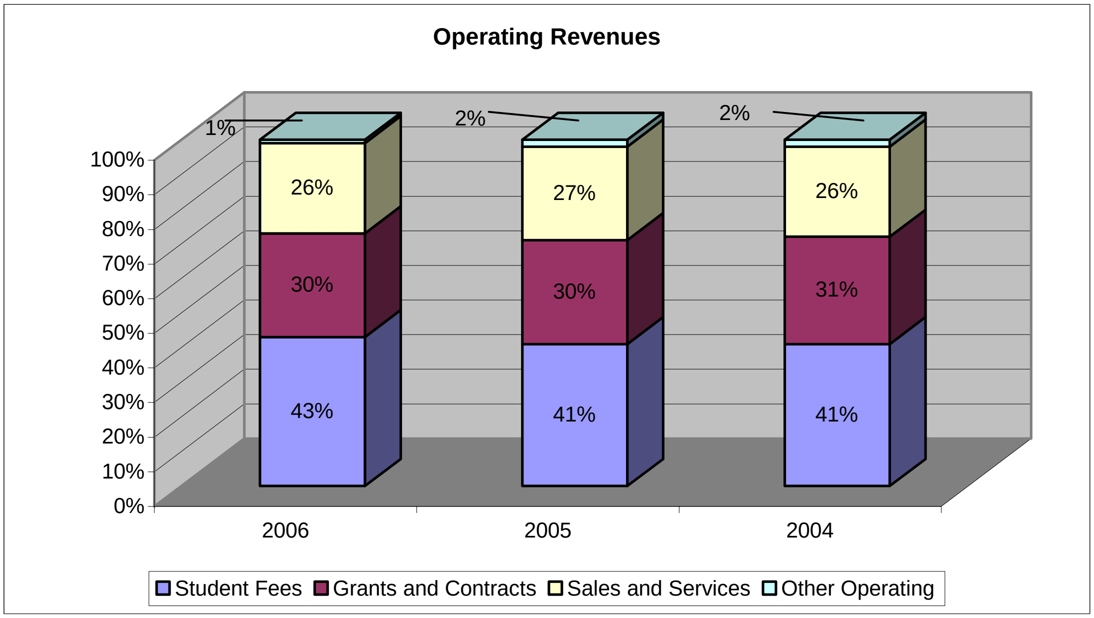


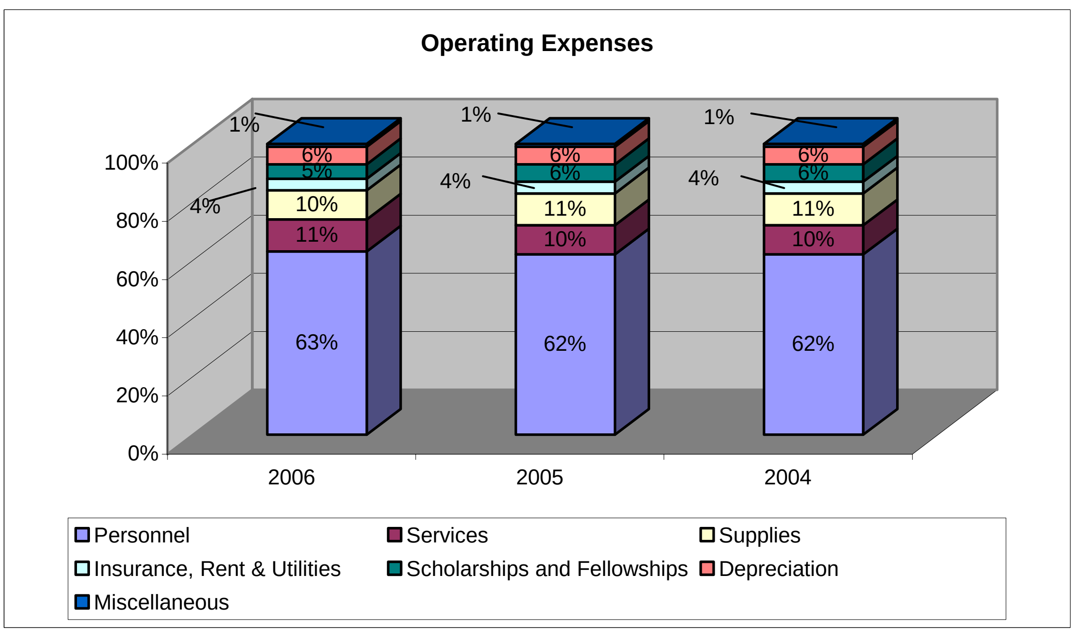
Summary Statements of Revenues, Expenses, and Changes in Net Assets Fiscal Years Ended June 30 (Dollars in Thousands)	2006	2005 (restated)	2004
Operating revenues	$ 139,574	$ 129,136	$ 122,259
Operating expenses	217,897	208,578	194,334
Operating loss	(78,323)	(79,442)	(72,075)
Nonoperating revenues and expenses	87,815	79,644	77,165
Income before other revenues, expenses, gains or losses	9,492	202	5,090
Other revenues and expenses	5,863	6,782	4,626
Increase in net assets	15,355	6,984	9,716
Net assets—Beginning of year	206,740	199,756	190,040
Net assets—End of year	$ 222,095	$ 206,740	$ 199,756

The statement of revenues, expenses, and changes in net assets reflects an overall increase in net assets during fiscal year 2006. Operating revenues increased by $10,437,804 to $139,573,651 from $129,135,847 in fiscal years 2006 and 2005, respectively. The increase in operating revenue is principally due to student fees, net of allowances. The increase was driven by a 10% increase in fees charged and a .8% increase in enrollment. Auxiliary sales and grant and contract revenues also increased.

Operating expenses increased by $9,319,021 to $217,896,554 from $208,577,533 in fiscal years 2006 and 2005, respectively. Ninety-one percent of this increase relates to personnel costs. Of the total increase, $6.3 million relates to salary. The University has focused on salary equity as a critical initiative with respect to improving programs. Starting salaries for new hires have been raised while at the same time equity adjustments for existing employees have been provided. This trend is expected to continue as funding becomes available.

The largest portions of operating revenues continue to come from student fees at 43% and grants and contracts comprising 30% of operating revenues.


Operating Revenues
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2006
2005
2004
1%
26%
30%
43%
2%
27%
30%
41%
2%
26%
31%
41%
Student Fees
Grants and Contracts
Sales and Services
Other Operating


Operating Expenses
100%
80%
60%
40%
20%
0%
2006
2005
2004
1%
6%
5%
4%
10%
11%
63%
1%
6%
6%
4%
11%
10%
62%
1%
6%
6%
4%
11%
10%
62%
Personnel
Services
Supplies
Insurance, Rent & Utilities
Scholarships and Fellowships
Depreciation
Miscellaneous

The resulting net loss of $78,322,903 is offset by $87,815,054 of net nonoperating revenues, and $5,863,016 of capital grants and gifts. In addition to the state general fund appropriation of approximately $80 million, gifts of $12,645,127 were received and used primarily for scholarships. Capital grants and capital gifts consisted primarily of $4 million in donations for the new indoor practice facility and $1.4 million of capital investment by the State of Idaho.

Statement of Cash Flows

The final statement presented by the University is the statement of cash flows. The statement of cash flows presents detailed information about the cash activity of the University during the year. The statement of cash flows is not presented for component units. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used in operating activities to operating income or loss reflected on the statement of revenues, expenses and changes in net assets.

Summary Statements of Cash Flows
Fiscal Years Ended June 30
(Dollars in Thousands)

	2006	2005	2004
Cash provided (used) by:			
Operating activities	$ (69,444)	$ (66,630)	$ (58,851)
Noncapital financing activities	92,212	84,672	83,078
Capital and related financing activities	(36,713)	(17,926)	(23,838)
Investing activities	11,602	6,132	279
Net change in cash, cash equivalents and cash with treasurer	(2,343)	6,248	668
Cash, cash equivalents, and cash with treasurer—Beginning of year	31,992	25,744	25,076
Cash, cash equivalents, and cash with treasurer—End of year	$ 29,649	$ 31,992	$ 25,744

Overall cash, cash equivalents and cash with treasurer decreased by $2,342,918 during fiscal year 2006 and increased by $6,247,704 during fiscal year 2005. Proceeds from issuance of debt offset outflows to create the increase during 2005. The University continued the implementation of the Campus Master Plan, driving the decrease in cash. These activities included property purchases, the construction and furnishing of new facilities, as well as the remodeling of older buildings.

Capital Asset and Debt Administration

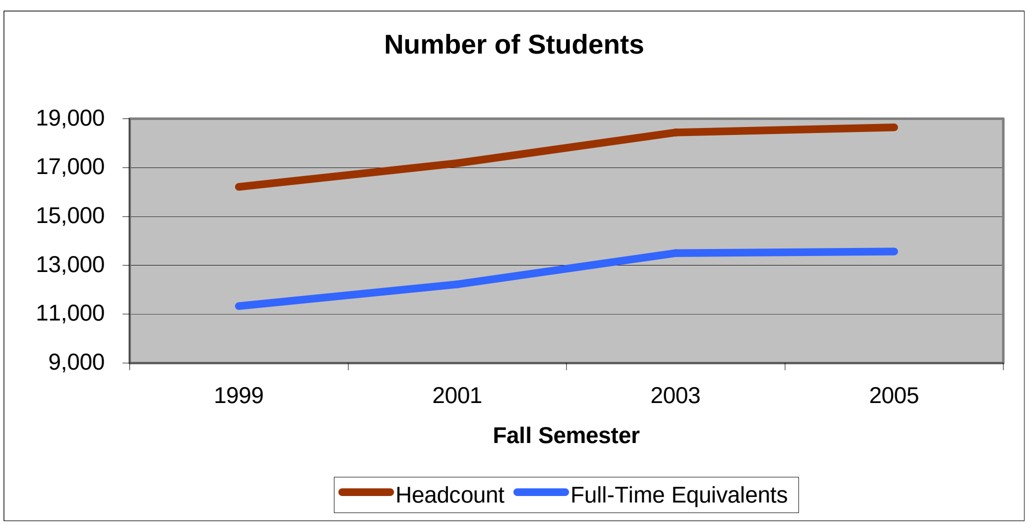
The University's capital assets, prior to depreciation, increased $27,427,834 while total notes, bonds and capital leases decreased by $4,273,678. The University continued to purchase property, consistent with the Campus Master Plan, using approximately $6.4 million of reserve cash balances. Construction was completed on a $9.4 million indoor athletic practice facility and approximately $2.1 million was spent on space remodels for academic, advancement and research space. Construction in progress includes $3.7 million expended on the Interactive Learning Center, which will be a $13 million four-story academic building located in the west academic core area of the main campus, and $6.2 million invested in an energy savings project, which will total approximately $8 million, upgrading utility infrastructure in several older campus buildings. Funding for the building activity included primarily bonded proceeds supplemented with cash reserves.

University debt decreased due to payments of principle amounts. The 1996 note payable related to stadium expansion matured and was replaced with a new ten-year note.

Economic Outlook

The State of Idaho concluded the fiscal year with a $298 million surplus in the general fund. Revenues exceeded projections by $203 million, adding to the planned surplus of $95 million. Due to the strength of the financial performance, higher education in Idaho received, for fiscal year 07, a 4.3% increase from fiscal year 06 levels in appropriation from the state general fund. This was distributed across all institutions and is reflected in Boise State University's fiscal year 07 budget as an increase of $6,592,200 or 5.9%.

In addition to increased state funding, Boise State University received permission to increase student fees by 7.3%. This increase represents a 4% increase in tuition and 3.3% increase in facility and activity fees.



Boise State University has experienced record-breaking enrollments for nine out of the last ten years. Enrollments have grown 25% over that period and have put pressure on infrastructure. As a result, increases in funding are primarily channeled to faculty salaries, as well as increasing square footage of facilities available to meet current student demand. In Fall of 2003, the University began to raise admission standards, which has helped slow growth to a manageable pace. Information available as of the date of the financial statements indicate that enrollments for Fall of 2006 have matched the Fall of 2005 levels.

STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND JUNE 30, 2005

	2006 University	2005 University (restated)	2006 Component Units	2005 Component Units
ASSETS				
CURRENT ASSETS:				
Cash with treasurer	$ 14,916,194	$ 19,990,405		
Cash and cash equivalents	14,732,342	12,001,049	$ 4,067,469	$ 5,643,392
Student loans receivable	2,085,025	1,936,782		
Accounts receivable and unbilled charges, net	14,563,043	11,549,191	1,995,650	1,404,569
Prepaid expense	675,950	1,001,635		
Inventories	2,524,489	2,111,524		
Investments	17,689,028	11,641,114	1,700,000	1,400,000
Due from component units	807,364	259,060		
Other current assets	277,880	268,933	776,482	646,047
Total current assets	68,271,315	60,759,693	8,539,601	9,094,008
NONCURRENT ASSETS:				
Restricted cash			7,499,889	6,112,618
Accounts receivable			3,075,285	3,294,641
Student loans receivable, net	7,906,701	8,005,591		
Investments	43,444,935	58,109,616	68,529,417	55,082,305
Investments held in trust	4,839,307	4,704,965	782,187	807,720
Investment in lease			3,451,063	3,723,174
Deferred bond financing costs	3,540,666	3,951,554		
Capital assets, net	260,602,009	241,692,716	10,329,940	11,798,787
Other assets	513,341	672,397	727,677	733,314
Total noncurrent assets	320,846,959	317,136,839	94,395,458	81,552,559
TOTAL ASSETS	$ 389,118,274	$ 377,896,532	$ 102,935,059	$ 90,646,567

See notes to financial statements.

STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2006 AND JUNE 30, 2005

	2006 University	2005 University (restated)	2006 Component Units	2005 Component Units
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	$ 4,195,990	$ 4,862,441	$ 828,024	$ 579,465
Accrued salaries and benefits payable	5,522,315	8,952,609		
Compensated absences payable	4,783,813	4,357,616		
Interest payable	1,556,329	1,604,959	48,309	49,874
Unearned revenue	6,401,313	5,060,056	1,806,651	1,613,524
Notes and bonds payable	5,100,589	4,458,124	250,000	235,000
Obligations under capital lease	332,088	187,354		
Obligations under capital lease - component unit	250,000	235,000		
Other liabilities	1,324,548	285,352	62,931	62,889
Total current liabilities	29,466,985	30,003,511	2,995,915	2,540,752
NONCURRENT LIABILITIES:				
Unearned revenue			1,167,780	753,560
Due to state agencies	4,019,214	2,527,444		
Notes and bonds payable	129,123,861	134,257,012	3,615,000	4,632,523
Amounts held in custody for others			1,031,719	716,583
Obligations under capital lease	1,241,179	933,906		
Obligations under capital lease - component unit	3,171,798	3,421,797		
Other liabilities		12,792	544,188	565,623
Total noncurrent liabilities	137,556,052	141,152,951	6,358,687	6,668,289
TOTAL LIABILITIES	167,023,037	171,156,462	9,354,602	9,209,041
NET ASSETS:				
Invested in capital assets, net of related debt	142,498,300	134,908,680	10,329,940	11,023,787
Restricted, expendable	18,346,964	16,279,783	30,500,232	24,734,541
Restricted, nonexpendable			47,935,302	42,735,000
Unrestricted	61,249,973	55,551,607	4,814,983	2,944,198
TOTAL NET ASSETS	222,095,237	206,740,070	93,580,457	81,437,526
TOTAL LIABILITIES AND NET ASSETS	$ 389,118,274	$ 377,896,532	$ 102,935,059	$ 90,646,567

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005

	2006 University	2005 University (restated)	2006 Component Units	2005 Component Units
OPERATING REVENUES:				
Student fees, pledged for bonds	$ 72,756,952	$ 64,406,773		
Scholarship allowance	(12,856,268)	(11,802,241)		
Student fees, net	59,900,684	52,604,532		
Federal grants and contracts (including $1,542,940 and $1,422,176 of revenues pledged for bonds in 2006 2005, respectively)	27,570,850	27,011,662		
State and local grants and contracts (including $697,630 and $271,271 of revenues pledged for bonds in 2006 and 2005, respectively)	9,461,769	8,265,231		
Private grants and contracts (including $322,860 and $147,069 of revenues pledged for bonds in 2006 and 2005, respectively)	4,099,202	3,238,594		
Sales and services of educational activities, pledged for bonds	1,240,029	1,179,787		
Sales and services of auxiliary enterprises, pledged for bonds	35,322,445	34,003,966		
Gifts			$ 16,161,645	$ 17,243,919
Other, pledged for bonds	1,978,672	2,832,075		
Other			643,046	629,039
Total operating revenues	139,573,651	129,135,847	16,804,691	17,872,958
OPERATING EXPENSES:				
Personnel cost	137,007,242	128,467,171	1,282,215	1,019,080
Services	24,841,260	21,755,771	343,001	457,775
Supplies	21,930,940	23,677,965	262,712	63,925
Insurance, utilities and rent	8,336,159	7,766,499	39,654	23,822
Scholarships and fellowships	10,803,144	12,103,385		
Depreciation	13,173,204	12,851,153	300,309	258,515
Miscellaneous	1,804,605	1,955,589	112,710	154,329
Total operating expenses	217,896,554	208,577,533	2,340,601	1,977,446
OPERATING (LOSS) INCOME	(78,322,903)	(79,441,686)	14,464,090	15,895,512

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)
FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005

	2006 University	2005 University (restated)	2006 Component Units	2005 Component Units
NONOPERATING REVENUES (EXPENSES):				
State appropriations	80,115,513	75,965,550	589,713	429,643
Gifts (includes gifts from component units equal to $11,329,872 and $6,375,986 for 2006 and 2005, respectively	12,645,127	8,648,326		
Payments to Boise State University			(11,329,872)	(6,375,986)
Net investment income (including $2,344,585 and $1,441,572 of revenues pledged by the University for bonds in 2006 and 2005, respectively)	2,930,379	2,153,739	2,822,105	2,021,371
Change in fair value of investments (including $194,707 and $198,976 of revenues pledged by the University for bonds in 2006 and 2005, respectively)	197,760	432,974	3,268,666	2,493,070
Interest (net of capitalized interest by the University of $51,839 and $24,784 in 2006 and 2005, respectively)	(6,675,076)	(6,606,812)	(210,097)	(222,296)
Gain (loss) on retirement of capital assets	(1,214,263)	(865,545)	2,551,996	549,755
Other	(184,386)	(84,730)	(13,670)	(49,696)
Net nonoperating revenues (expenses)	87,815,054	79,643,502	(2,321,159)	(1,154,139)
INCOME BEFORE OTHER REVENUES AND EXPENSES	9,492,151	201,816	12,142,931	14,741,373
OTHER REVENUES AND EXPENSES:				
Capital grants and gifts	5,863,016	6,782,333		
Total other revenue	5,863,016	6,782,333		
INCREASE (DECREASE) IN NET ASSETS	15,355,167	6,984,149	12,142,931	14,741,373
NET ASSETS—Beginning of year	206,740,070	199,755,921	81,437,526	66,696,153
NET ASSETS—End of year	$ 222,095,237	$ 206,740,070	$ 93,580,457	$ 81,437,526

See notes to financial statements.

STATEMENTS OF CASH FLOWS
FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student fees	$ 60,438,904	$ 53,340,756
Grants and contracts	39,179,546	38,885,968
Sales and services of educational activities	813,669	1,179,787
Sales and services of auxiliary enterprises	36,038,133	34,037,296
Other operating receipts	1,918,296	2,802,853
Payments to employees	(139,510,327)	(127,969,786)
Payments for services	(25,209,042)	(21,377,370)
Payments to suppliers	(22,280,657)	(23,607,654)
Payments for insurance, utilities and rent	(8,220,672)	(7,587,189)
Payments for scholarships and fellowships	(10,817,934)	(12,039,588)
Loans issued to students	(2,222,886)	(4,550,401)
Collections of loans to students	2,072,778	1,919,047
Other payments	(1,643,822)	(1,663,909)
Net cash used in operating activities	(69,444,014)	(66,630,190)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	80,115,513	75,965,550
Gifts	12,096,823	8,706,522
Direct lending receipts	45,262,589	43,236,138
Direct lending payments	(45,262,589)	(43,236,138)
Net cash provided by noncapital financing activities	92,212,336	84,672,072
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and gifts	5,628,016	6,782,333
Purchases of capital assets	(31,187,579)	(24,106,389)
Proceeds from notes and bonds payable		23,137,003
Principal paid on notes and bonds payable and capital leases	(4,394,580)	(16,348,865)
Interest paid on notes and bonds payable and capital leases	(6,777,566)	(6,624,985)
Payments for bond issuance costs	(3,100)	(853,059)
Other	21,950	88,247
Net cash used in capital and related financing activities	(36,712,859)	(17,925,715)

See notes to financial statements.

STATEMENTS OF CASH FLOWS (CONTINUED)
FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005

	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(207,772,185)	(176,249,653)
Proceeds from sales and maturities of investments	216,118,135	180,109,643
Investment income	3,255,669	2,271,547
Net cash provided by investing activities	11,601,619	6,131,537
NET CHANGE IN CASH AND CASH EQUIVALENTS, AND CASH WITH TREASURER	(2,342,918)	6,247,704
CASH AND CASH EQUIVALENTS, AND CASH WITH TREASURER—Beginning of year	31,991,454	25,743,750
CASH AND CASH EQUIVALENTS, AND CASH WITH TREASURER—End of year	$ 29,648,536	$ 31,991,454
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES:		
Operating loss	$ (78,322,903)	$ (79,441,686)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	13,231,360	12,851,153
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(3,013,852)	1,980,773
Student loans receivable, net	(49,353)	(2,498,354)
Inventories	(412,965)	255,591
Other assets	426,586	(735,244)
Accounts payable and accrued liabilities	(666,451)	192,210
Accrued salaries and benefits payable	(3,430,294)	199,029
Compensated absences payable	438,988	387,543
Unearned revenue	1,341,257	22,907
Other liabilities	1,013,613	155,888
Net cash used in operating activities	$ (69,444,014)	$ (66,630,190)
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:		
Defeasance of debt		$ 12,035,716
Donated assets	$ 605,807	$ 5,582,001

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — The University is part of the public system of higher education in the State of Idaho. The system is considered part of the State of Idaho reporting entity, and is directed by the State Board of Education ("SBOE"), a body that is appointed by the Governor and confirmed by the legislature. The University is part of the primary government of the State of Idaho and is included in the State's Comprehensive Annual Financial Report (CAFR) within the Business-Type Activities—Enterprise Funds. The University's financial statements are prepared in accordance with pronouncements of the Governmental Accounting Standards Board ("GASB") and in accordance with Generally Accepted Accounting Principles ("GAAP").

Financial Statement Presentation — The University has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3* for the year ended June 30, 2005. The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments.

The University considers component units with net assets greater than five percent of the University's net assets to be significant. As such, The Boise State University Foundation, Inc. (The "Foundation") and the Bronco Athletic Association, Inc. (The "Association") are combined and discretely presented on the face of the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets as required by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* The Foundation was established for the purpose of soliciting donations and to hold and manage invested donations for the exclusive benefit of the University. The Association is a fund raising organization that provides financial assistance and services to the University intercollegiate athletic department. Financial statements of the component units may be obtained from the Vice President for Finance and Administration at the University. Component unit's financial statements are prepared in accordance with GASB pronouncements and in accordance with GAAP.

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 in accordance with GAAP. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

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

Cash with Treasurer — Balances classified as cash with treasurer are amounts that are required to be remitted to the State of Idaho as a result of the student fee collection process and, once remitted, these balances are under the control of the State Treasurer. The University is not entitled to any interest earnings on these balances.

Cash and Cash Equivalents — The University considers all liquid investments with a remaining maturity of three months or less at the date of acquisition to be cash equivalents. Cash balances that are restricted and not expected to be expended within the subsequent fiscal year are classified as noncurrent assets.

Inventories — Inventories, consisting primarily of bookstore inventories, are valued at the lower of first-in, first-out (“FIFO”) cost or market.

Investments — The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gains or losses on the carrying value of investments are reported as a component of change in fair value of investments in the statement of revenues, expenses, and changes in net assets.

Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets as well as investment amounts with maturities that exceed one year, are classified as noncurrent assets in the statement of net assets.

Capital Assets, net — Capital assets are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair value at the date of gift. The University’s capitalization policy includes all items with a unit cost of $5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 10 to 25 years for land and infrastructure improvements, 10 years for library books, and 5 to 13 years for equipment.

The University has certain collections that it did not capitalize, including the Nell Shipman Film collection and Albertson’s Library Special Collections. These collections adhere to the University’s policy to (a) maintain them for public exhibition, education or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at the time purchased rather than capitalized.

Noncurrent Liabilities — Noncurrent liabilities include principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, other liabilities that will not be paid within the next fiscal year and other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

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

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

Unrestricted — Unrestricted net assets represent resources derived from student fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions related to the educational and general operations of the University, and may be used to meet current expenses for any lawful purpose, and in accordance with SBOE policy.

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

Income and Unrelated Business Income Taxes — The University, as a political subdivision of the State of Idaho, is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The University is liable for tax on its unrelated business income. Defined by the IRS, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the performance by the organization of its exempt purpose or function except that the organization needs the profits derived from this activity. The University did not incur unrelated business income taxes in the fiscal years ended June 30, 2006 or 2005.

Classification of Revenues and Expenses — The University classifies its revenues and expenses as operating or nonoperating according to the following criteria. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most federal, state and local grants and contracts that are essentially contracts for services, and (4) interest earned on institutional student loans.

Nonoperating revenues and expenses include activities that have characteristics of nonexchange transactions, such as transactions related to capital financing activities or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.* Revenues from state general appropriations are classified as nonoperating as defined by GASB Statement No. 34.

Scholarship Discounts and Allowances — Student fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or other 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 student fees and related charges, the University has recorded a scholarship discount or allowance.

Use of Accounting Estimates — The preparation of financial statements in accordance 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 disclosures of contingent liabilities at the date of the financial statements, and revenues and expenses during the year. Actual results could differ from those estimates.

Reclassifications — Certain prior year balances have been reclassified to conform to the current year presentation.

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

2. CASH WITH TREASURER, CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS

Deposits — Cash with treasurer is under the control of the State Treasurer and is carried at cost. Cash and cash equivalents are deposited with US Bank and are carried at cost. Custodial risk is the risk that in the event of a financial institution failure, the State's deposits may not be returned. The State's policy for managing custodial risk can be found in the Idaho Code, Section 67-2739. Management believes the University is in compliance with the policy.

Cash that is restricted in purpose from an external source and is not expected to be utilized within the next fiscal year is reported on the financial statements as restricted cash and as a noncurrent asset.

Basis of Custodial Credit Risk as of June 30	**2006**	**2005**
Insured	$ 100,000	$ 100,000
Uncollateralized	134,813	159,476
Collateralized by Securities held by the pledging financial institution	14,497,529	11,741,573
Total	$ 14,732,342	$ 12,001,049

Investments — Idaho Code, Section 67-1210, limits credit risk by restricting the investment activities of the Local Government Investment Pool (LGIP) and state agencies. Idaho Code gives the SBOE the authority to establish investment policies for the Colleges and Universities. Section V Subsection D of the Idaho State Board of Education Governing Policies and Procedures authorizes investments among some, but not all, of the investment types authorized for the State Treasurer.

Objectives of the University's investment policy are, in order of priority, safety of principal, ensuring necessary liquidity and achieving a maximum return. Covenants of certain bond resolutions also restrict investment of related funds to U.S. Government or government guaranteed securities.

Investments include U.S. Treasury strips. The University invests in interest-only strips (a derivative) to maximize yields. These investments are based on cash flows from interest payments on underlying U.S. Treasury Securities. The underlying securities are guaranteed by the U.S. Government. Therefore, these investments do not present the same level of risk, as do other forms of derivatives.

The University invests in external investment pools managed by the State of Idaho. The pools are managed by the State Treasurers

Office in compliance with Idaho Code, Sections 67-1201 through 67-1222. The University had $22,484,269 and $28,144,774 invested in these external pools as of June 30, 2006 and 2005, respectively.

Investments Held in Trust represent government securities held in the University's name. The entire amount of these investments is restricted by bond indentures or other contractual agreements.

Credit Risk of Debt Securities — The risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard and Poor's, and Fitch's.

Ratings, as of June 30, are presented below using the Moody's scale (dollars in thousands).

June 30, 2006					
Investment Type	**Fair Value**	**AAA**	**Aaa**	**Aa1**	**Aa3**
Cash in Investment Balances	$ 769	$ 769			
External Investment Pools	22,440	22,440			
Investments Held in Trust	4,365	4,365			
Commercial Paper	823	475	$ 46	$ 107	$ 195
US Treasury Notes	4,337	4,337			
Federal Farm Credit Bank	3,862	3,862			
Federal Home Loan Bank	8,651	8,651			
Federal Home Loan Mtg. Corp.	1,955	1,955			
Federal National Mtg. Assoc.	18,771	18,771			
Total Rated Debt Securities	$ 65,973	$ 65,625	$ 46	$ 107	$ 195

June 30, 2005								
Investment Type	**Fair Value**	**AAA**	**A1**	**A2**	**A3**	**Aaa**	**Aa1**	**Aa3**
Cash in Investment Balances	$ 3,980	$ 3,980						
External Investment Pools	28,145	28,145						
Investments Held in Trust	4,231	4,231						
Commercial Paper	1,253	474	$ 191	$ 163	$ 49	$ 105	$ 114	$ 157
US Treasury Notes	7,874	7,874						
Federal Farm Credit Bank	3,910	3,910						
Federal Home Loan Bank	7,503	7,503						
Federal Home Loan Mtg. Corp.	1,439	1,439						
Federal National Mtg. Assoc.	16,121	16,121						
Total Rated Debt Securities	$ 74,456	$ 73,677	$ 191	$ 163	$ 49	$ 105	$ 114	$ 157

Interest Rate Risk — Investments in debt securities that are fixed for longer periods are likely to experience greater variability in their fair values due to future changes in interest rates.

June 30, 2006 (Dollars in Thousands)				
		Investment Maturities In Years		
Investment Type	**Fair Value**	**Less Than 1**	**1 to 5**	**6 to 10**
Cash in Investment Balances	$ 769	$ 769		
External Investment Pools	22,440	22,440		
Investments Held in Trust	4,365	4,365		
Commercial Paper	823		$ 302	$ 521
US Treasury Notes	4,337	2,239	1,624	474
Federal Farm Credit Bank	3,862		3,862	
Federal Home Loan Bank	8,651	7,189	1,415	47
Federal Home Loan Mortgage Corp.	1,955	1,382	100	473
Federal National Mortgage Assoc.	18,771	16,848	1,824	99
Total Rated Debt Securities	$ 65,973	$ 55,232	$ 9,127	$ 1,614

June 30, 2005 (Dollars in Thousands)				
		Investment Maturities In Years		
Investment Type	**Fair Value**	**Less Than 1**	**1 to 5**	**6 to 10**
Cash in Investment Balances	$ 3,980	$ 3,980		
External Investment Pools	28,145	28,145		
Investments Held in Trust	4,231	4,231		
Commercial Paper	1,253		$ 580	$ 673
US Treasury Notes	7,874	651	5,010	2,213
Federal Farm Credit Bank	3,910		3,910	
Federal Home Loan Bank	7,503	299	7,153	51
Federal Home Loan Mortgage Corp.	1,439	399	503	537
Federal National Mortgage Assoc.	16,121	12,601	3,387	133
Total Rated Debt Securities	$ 74,456	$ 50,306	$ 20,543	$ 3,607

Concentration of Credit Risk — When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration of risk is present. The Governmental Accounting Standards Board has adopted a principle that governments should provide note disclosure when five percent of the total government investments are concentrated in any one issuer. AAA rated securities represented ninety-nine percent and ninety-eight percent of the portfolio as of June 30, 2006 and June 30, 2005, respectively, mitigating the risk of concentration.

Investment Type as of June 30	2006 Fair Value	2006 Percentage of Total Investments	2005 Fair Value	2005 Percentage of Total Investments
	(Dollars in Thousands)			
Cash in Investment Balances	$ 769	1.17%	$ 3,980	5.35%
External Investment Pools	22,440	34.02%	28,145	37.80%
Investments Held in Trust	4,365	6.62%	4,231	5.68%
Commercial Paper	823	1.25%	1,253	1.68%
US Treasury Notes	4,337	6.57%	7,874	10.58%
Federal Farm Credit Bank	3,862	5.85%	3,910	5.25%
Federal Home Loan Bank	8,651	13.11%	7,503	10.08%
Federal Home Loan Mortgage Corp.	1,955	2.96%	1,439	1.93%
Federal National Mortgage Assoc.	18,771	28.45%	16,121	21.65%
Total Rated Debt Securities	$ 65,973	100.00%	$ 74,456	100.00%

The University is subject to policies as defined by the State of Idaho with respect to investments. The University has not adopted a formal policy addressing interest rate and concentration of credit risk.

3. ACCOUNTS RECEIVABLE AND UNBILLED CHARGES, NET

Accounts receivable and unbilled charges refer to the portions due to the University, as of June 30, by various customers, students and constituencies of the University as a result of providing services to said groups.

	2006	2005
Student fees	$ 7,208,375	$ 6,980,854
Auxiliary enterprises and other operating activities	2,798,895	1,720,195
Federal, state, and private grants and contracts	1,720,700	677,949
Unbilled charges	5,336,851	4,202,327
Accounts receivable and unbilled charges	17,064,821	13,581,325
Less allowance for doubtful accounts	(2,501,778)	(2,032,134)
Accounts receivable and unbilled charges, net	$ 14,563,043	$ 11,549,191

4. STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the “Program”) comprise substantially all of the loans receivable at June 30, 2006 and 2005. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

Loans receivable from students bear interest at rates ranging from 5% to 10% and are generally repayable in installments to the University over a 5 to 10 year period commencing 6 or 9 months after the date of separation from the University. The University outsources the loan servicing to a third party vendor.

As the University determines that loans are noncollectible and not eligible for reimbursements by the Federal Government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for noncollectible loans, which, in management’s opinion, is sufficient to absorb loans that will ultimately be written off. The allowance for noncollectible loans was $39,625 and $42,086 for fiscal years ending June 30, 2006 and 2005, respectively.

In the event the University should withdraw from the Program or the Federal Government were to cancel the Program, the University would be required to repay $8,209,463 as of June 30, 2006.

5. CAPITAL ASSETS, NET

Following are the changes in capital assets for the years ended June 30, 2006 and 2005 (dollars in thousands):

	2006				
	Balance July 1, 2005	Additions	Transfers	Retirements	Balance June 30, 2006
Capital assets not being depreciated:					
Land	$ 23,307	$ 6,476		$ (67)	$ 29,716
Construction in progress	7,269	21,141	$ (13,993)		14,417
Total assets not being depreciated	30,576	27,617	(13,993)	(67)	44,133
Other capital assets:					
Buildings and improvements	255,472		13,881	(1,429)	267,924
Furniture and equipment	53,346	3,639	112	(3,638)	53,459
Library materials	29,637	2,669		(1,363)	30,943
Total other capital assets	338,455	6,308	13,993	(6,430)	352,326
Less accumulated depreciation:					
Buildings and improvements	(76,165)	(6,731)		232	(82,664)
Furniture and equipment	(30,795)	(4,629)		3,461	(31,963)
Library materials	(20,378)	(1,813)		961	(21,230)
Total accumulated depreciation	(127,338)	(13,173)		4,654	(135,857)
Other capital assets, net	211,117	(6,865)	13,993	(1,776)	216,469
Capital assets summary:					
Capital assets not being depreciated	30,576	27,617	(13,993)	(67)	44,133
Other capital assets at cost	338,455	6,308	13,993	(6,430)	352,326
Total cost of capital assets	369,031	33,925		(6,497)	396,459
Less accumulated depreciation	(127,338)	(13,173)		4,654	(135,857)
Capital assets, net	$ 241,693	$ 20,752	$ -	$ (1,843)	$ 260,602

In addition to accounts payable for construction costs, the estimated cost to complete property authorized or under construction at June 30, 2006 is $16,749,527. These costs will be paid from available reserves and construction proceeds from outstanding debt.

	2005				
	Balance July 1, 2004	Additions	Transfers	Retirements	Balance June 30, 2005
Capital assets not being depreciated:					
Land	$ 21,105	$ 2,202			$ 23,307
Construction in progress	29,713	15,894	$ (38,338)		7,269
Total assets not being depreciated	50,818	18,096	(38,338)		30,576
Other capital assets:					
Buildings and improvements	216,714	420	38,338		255,472
Furniture and equipment	50,579	4,181		$ (1,414)	53,346
Library materials	28,324	2,573		(1,260)	29,637
Total other capital assets	295,617	7,174	38,338	(2,674)	338,455
Less accumulated depreciation:					
Buildings and improvements	(69,703)	(6,462)			(76,165)
Furniture and equipment	(27,048)	(4,660)		913	(30,795)
Library materials	(19,532)	(1,729)		883	(20,378)
Total accumulated depreciation	(116,283)	(12,851)		1,796	(127,338)
Other capital assets, net	179,334	(5,677)	38,338	(878)	211,117
Capital assets summary:					
Capital assets not being depreciated	50,818	18,096	(38,338)		30,576
Other capital assets at cost	295,617	7,174	38,338	(2,674)	338,455
Total cost of capital assets	346,435	25,270		(2,674)	369,031
Less accumulated depreciation	(116,283)	(12,851)		1,796	(127,338)
Capital assets, net	$ 230,152	$ 12,419	$ -	$ (878)	$ 241,693

6. UNEARNED REVENUE

Unearned revenues include amounts received for fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period, the portion of summer school revenues related to the number of days of instruction in the subsequent fiscal year and prepaid Fall semester fees. Unearned revenue consists of the following at June 30:

	2006	2005
Student Fees	$ 2,718,254	$ 2,393,007
Prepaid ticket sales	3,683,059	2,667,049
Unearned revenue	$ 6,401,313	$ 5,060,056

7. LONG-TERM LIABILITIES

Following are the changes in due to state agencies (related to capital projects), notes and bonds payable, capital leases and other liabilities for the fiscal years ended June 30, 2006 and 2005 (dollars in thousands):

	2006				
	Beginning Balance July 1, 2005	Additions	Reductions	Ending Balance June 30, 2006	Amounts due within one year
Long-term debt:					
Revenue bonds payable	$ 128,845		$ (3,615)	$ 125,230	$ 4,245
Premium on revenue bonds	2,417		(96)	2,321	
Notes payable	7,453		(780)	6,673	856
Capital lease obligations	1,121	$ 639	(187)	1,573	332
Capital lease obligations - component unit	3,657		(235)	3,422	250
Total long-term debt	143,493	639	(4,913)	139,219	5,683
Other liabilities:					
Compensated absences	13		(13)		4,784
Due to state agencies	2,527	3,845	(2,353)	4,019	
Total other liabilities	2,540	3,845	(2,366)	4,019	4,784
Long-term liabilities	$ 146,033	$ 4,484	$ (7,279)	$ 143,238	$ 10,467

	2005				
	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Amounts due within one year
Long-term debt:					
Revenue bonds payable	$ 121,840	$ 21,925	$ (14,920)	$ 128,845	$ 3,615
Premium on revenue bonds	1,357	1,212	(152)	2,417	
Notes payable	8,394		(941)	7,453	843
Capital lease obligations	1,293		(172)	1,121	187
Capital lease obligations - component unit	3,887		(230)	3,657	235
Total long-term debt	136,771	23,137	(16,415)	143,493	4,880
Other liabilities:					
Compensated absences		13		13	4,358
Due to state agencies	1,340	2,571	(1,384)	2,527	
Total other liabilities	1,340	2,584	(1,384)	2,540	4,358
Long-term liabilities	$ 138,111	$ 25,721	$ (17,799)	$ 146,033	$ 9,238

8. NOTES AND BONDS PAYABLE

The University is required by bonding resolution to establish a Rebate Fund to be held and administered by the University, separate and apart from other funds and accounts of the University. The University shall make deposits into the Rebate Fund of all amounts necessary to make payments of rebatable arbitrage to the United States.

There was no arbitrage liability in fiscal years ending June 30, 2006 and 2005. Management believes the University is in compliance with all bond covenants as of June 30, 2006 and 2005.

Pledged Revenue — As stated in the bond descriptions below, the University has pledged certain revenues as collateral for debt instruments. The pledged revenue amounts and coverage requirements are as follows for the year ended June 30, 2006:

	Series				
	2004 (A) 2005 (A)	**1998, 2002, 2003**	**1996, 1998, 2001**	**1999**	**Total**
Pledged revenues:					
Student fees	$ 62,508,203	$ 4,636,739	$ 5,008,530	$ 603,480	$ 72,756,952
Rentals	1,544,366	5,786,646			7,331,012
Meal plans		1,710,160			1,710,160
Other	1,317,504	205,016	456,152		1,978,672
Sales & service	26,566,659	954,643			27,521,302
F&A recovery	2,563,430				2,563,430
Investment income	1,588,422	416,681	465,075	69,114	2,539,292
Total pledged revenue	96,088,584	13,709,885	5,929,757	672,594	116,400,820
Less operations and maintenance	(38,144,446)	(9,484,969)			(47,629,415)
Pledged revenues, net	$ 57,944,138	$ 4,224,916	$ 5,929,757	$ 672,594	$ 68,771,405
Debt service	$ 2,946,717	$ 3,492,193	$ 2,758,939	$ 453,355	$ 9,651,204
Debt service coverage	1966%	121%	215%	148%	713%
Coverage requirement	110%	120%	120%	125%	

Bonds payable, at June 30, consisted of the following:

	(Dollars in Thousands)									
Bond Issue		Original Face Value	Range of Annual Principal Amounts	Range of Semi Annual Interest Percentages	Maturity Date	Pledged Revenues		Outstanding Balance 2006		Outstanding Balance 2005
Student Union and Housing System Refunding and Improvement Bonds, Series 2002	$	38,255	$30 - $3,355	4.00% - 5.375%	2031	*1*	$	36,060	$	36,815
General Revenue Bonds, Series 2004A	$	31,480	$690 - $2,205	2.50% - 5.00%	2033	*2*		30,470		31,115
General Revenue Bonds, Series 2005A	$	21,925	$420 - $2,695	3.25% - 5.00%	2034	*2*		21,865		21,925
Student Fee Refunding and Improvement Revenue Bonds, Series 1998	$	24,060	$360 - $2,105	4.50% - 5.15%	2023	*3*		14,055		14,400
Student Union and Housing System Refunding Bonds, Series 1998	$	7,860	$50 - $1,170	4.60% - 5.125%	2015	*1*		7,515		7,565
Student Union and Housing System Refunding Revenue Bonds, Series 2003	$	6,620	$255 - $1,715	2.50% - 5.00%	2017	*1*		6,010		6,155
Student Fee Refunding Revenue Bonds, Series 1996	$	14,115	$1,235 - $1,500	5.05% - 5.35%	2009	*3*		3,900		5,075
Student Fee Refunding Revenue Bonds, Series 1999	$	4,480	$270 - $420	4.60% - 5.20%	2017	*3*		3,635		3,895
Student Building Fee Refunding Revenue Bonds, Series 2001	$	4,455	$185 - $360	4.00% - 5.10%	2021	*3*		1,720		1,900
Bonds before premium								125,230		128,845
Premium on bonds								2,321		2,417
Total bonds outstanding							$	127,551	$	131,262

(1) *pledged net revenues of Student Union and Housing System and certain student fees*
(2) *pledge of student fees, enterprise revenues, and funds and accounts held under Resolution*
(3) *pledge of the net revenues of the Student Building System and certain student fees*

Notes payable, at June 30, consisted of the following:

Notes Payable	Original Face Value	Terms	Interest Rate	Maturity Date	Collateralized by	Outstanding Balance 2006	Outstanding Balance 2005
	(Dollars in Thousands)						
1996 bank note payable	$ 5,000	20 year monthly amortization	4.32%	2006	*1*		$ 3,480
2006 bank note payable	$ 3,381	11 year monthly amortization	4.77%	2016	*1*	$ 3,303	
Line of credit	$ 5,000	8 year quarterly amortization	49% of lender's prime rate	2011	*2*	3,370	3,973
Total notes payable						$ 6,673	$ 7,453

(1) *Bronco Athletic Association guarantee, subordinate to bonds*

(2) *Unsecured*

Principal and interest maturities on notes and bonds payable are as follows for the year ending June 30, 2006:

	Bonds Payable		
	Principal	**Interest**	**Total**
2007	$ 4,245,000	$ 5,985,076	$ 10,230,076
2008	4,465,000	5,804,409	10,269,409
2009	4,690,000	5,613,859	10,303,859
2010	4,925,000	5,411,236	10,336,236
2011	4,395,000	5,220,153	9,615,153
2012-2016	25,865,000	22,788,139	48,653,139
2017-2021	31,745,000	15,739,519	47,484,519
2022-2026	22,805,000	8,383,969	31,188,969
2027-2031	19,760,000	3,380,138	23,140,138
2032-2034	2,335,000	170,324	2,505,324
Total	$ 125,230,000	$ 78,496,822	$ 203,726,822

At June 30, 2006, debt in the amount of $11,950,000 is considered extinguished through refunding of prior issues by a portion of the current issues. Escrowed funds are held in trust in the amount of $12,401,549 for the payment of maturities on refunded bonds. Neither the debt nor the escrowed assets are reflected in the University's financial statements.

	Notes Payable		
	Principal	Interest	Total
2007	$ 855,589	$ 276,774	$ 1,132,363
2008	891,385	241,430	1,132,815
2009	930,049	202,766	1,132,815
2010	970,397	162,419	1,132,816
2011	1,012,504	120,312	1,132,816
2012-2016	1,769,531	270,103	2,039,634
2017-2021	243,612	4,098	247,710
Total	$ 6,673,067	$ 1,277,902	$ 7,950,969

9. CAPITAL LEASE OBLIGATIONS

The University has entered into various capital lease agreements covering buildings and equipment. Assets under capital lease are included in capital assets, net of depreciation. Amortization of assets under capital lease is included in depreciation expense. These amounts are included in capital assets. The University leases a building from the Foundation.

Future minimum lease obligations under these agreements are as follows for the year ending June 30, 2006:

	2006		
	Building	Equipment	Total
2007	$ 430,548	$ 416,139	$ 846,687
2008	425,696	416,139	841,835
2009	424,901	416,140	841,041
2010	423,014	416,140	839,154
2011	429,899	127,873	557,772
2012-2016	2,150,851		2,150,851
2017-2019	404,500		404,500
Total minimum obligations	4,689,409	1,792,431	6,481,840
Less interest	(1,267,611)	(219,164)	(1,486,775)
Present value of minimum obligations	$ 3,421,798	$ 1,573,267	$ 4,995,065

Following are the changes in assets under capital lease for the years ended June 30, 2006 and 2005.

	2006			
	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
	(Dollars in Thousands)			
Assets under capital lease				
Buildings and Improvements	$ 6,733			$ 6,733
Equipment	1,850	$ 639		2,489
Total being amortized	8,583	639		9,222
Less accumulated amortization:				
Buildings and improvements	(2,423)	(178)		(2,601)
Equipment	(1,758)	(92)		(1,850)
Total accumulated amortization	(4,181)	(270)		(4,451)
Assets under capital lease, net	$ 4,402	$ 369	$ -	$ 4,771

	2005			
	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
	(Dollars in Thousands)			
Assets under capital lease				
Buildings and Improvements	$ 6,717	$ 16		$ 6,733
Equipment	1,850			1,850
Total being amortized	8,567	16		8,583
Less accumulated amortization:				
Buildings and improvements	(2,230)	(193)		(2,423)
Equipment	(1,388)	(370)		(1,758)
Total accumulated amortization	(3,618)	(563)		(4,181)
Assets under capital lease, net	$ 4,949	$ (547)	$ -	$ 4,402

10. RETIREMENT PLANS AND TERMINATION BENEFITS

Public Employee Retirement System of Idaho — The Public Employee Retirement System of Idaho (PERSI), a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. The benefits and obligations to contribute to the plan were established and may be amended by the Idaho State Legislature. Financial reports for the plan are available from PERSI upon request.

After 60 months of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.00% of the average monthly salary for the highest consecutive 42 months.

Contributions, for the three years ended June 30, are as follows:

	2006	**2005**	**2004**
University required contribution rate	10.39%	10.39%	9.77%
Percentage of covered payroll for employees	6.23%	6.23%	5.86%
University contributions required and paid	$ 3,154,078	$ 3,052,342	$ 2,799,452

Optional Retirement Plan — Effective July 1, 1990, the Idaho State Legislature authorized the SBOE to establish an Optional Retirement Plan (ORP), a defined contribution plan, for faculty and exempt employees. The employee contribution requirement for the ORP is based on a percentage of total payroll. Employer contributions are determined by the State of Idaho. The plan provisions were established by and may be amended by the State of Idaho.

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

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or any portion thereof upon attaining 55 years of age.

Contributions, for the three years ended June 30, are as follows:

	2006	2005	2004
University contribution	$ 4,599,225	$ 4,049,101	$ 3,627,648
Employee contribution	$ 4,153,486	$ 3,656,676	$ 3,276,056
Total contribution	$ 8,752,711	$ 7,705,777	$ 6,903,704
University contribution rate	7.72%	7.72%	7.72%
Employee contribution rate	6.97%	6.97%	6.97%

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute to PERSI 3.03% of the annual covered payroll. These annual supplemental payments are required through July 1, 2015. During the years ended June 30, 2006, 2005 and 2004, this supplemental funding payment to PERSI was $1,801,480, $1,583,547 and $1,424,342, respectively. This amount is not included in the regular University PERSI contribution discussed previously.

Postretirement Benefits Other Than Pensions —The University also offers a life insurance plan for retired employees. During the years ended June 30, 2006, 2005 and 2004, the University incurred expenditures totaling $175,207, $147,540 and $145,127, respectively, to purchase life insurance for approximately 261 retired employees. All eligible employees are receiving these benefits. The University accounts for this program on a pay-as-you-go basis; however, the GASB has issued a new accounting standard (GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*") that will, when adopted, require the University to record this obligation on an actuarially determined basis. An actuarially determined valuation of this obligation would likely be significantly higher than the amount currently accrued.

Termination Benefits — Employees who qualify for retirement under PERSI or ORP are eligible to use 50% of the cash value of their unused sick leave, with limits based on years of service, to continue their medical insurance coverage through the University. This benefit is classified as a termination benefit under GASB Statement No. 16, *Accounting for Compensated Absences*. The University partially funds these obligations by depositing 0.65% of employee gross payroll with PERSI, who administers the plan as a cost-sharing, multiple-employer plan. The total contributions for the years ended June 30, 2006, 2005 and 2004 were $583,791, $531,596 and $491,809, respectively.

PERSI issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employee Retirement System of Idaho, P.O. Box 83720, Boise, ID 83720-0078.

11. RISK MANAGEMENT

The University participates in the State of Idaho risk management and group insurance programs. Payments are made to the risk management fund based on rates determined by a five-year trend of experience modification factors, which are determined by a combination of loss experience, exposure, and asset value covered. Payments made to the group insurance fund are based on actuarial estimates of the amounts needed to pay for negotiated coverage and projected claims experience. Premiums are billed on a calendar year beginning January 1. Premiums are then adjusted as necessary within the first quarter of the subsequent calendar year. The University billed premiums are projected to be $723,467 for calendar year 2006, and were $749,223 and $685,930 for calendar years 2005 and 2004, respectively.

12. RESTATEMENT AND RECLASSIFICATION OF NET ASSETS

Subsequent to the issuance of the University's June 30, 2005 financial statements, it came to the attention of University management that certain revenues related to future semesters had been reflected in student fees receivable and student fee revenues in the June 30, 2005 financial statements. As a result, unrestricted net assets as of the year ended June 30, 2005 have been restated to present the appropriate accounts receivable balance. The amount of the adjustment reduces unrestricted net assets by $4,889,519. In addition, during a review of net assets classifications, it was determined that a portion of bonds and notes payable and related accounts related to construction-in-progress were classified with restricted net assets rather than capital assets, net of related debt as of June 30, 2005.

The University has restated net assets to correct accounts receivable and reclassified net assets, for the year ended June 30, 2005, as follows:

	2005			
	Invested in capital assets, net of related debt	**Restricted, expendable**	**Unrestricted**	**Total**
Net Assets, June 30, 2005 as previously reported	$ 141,293,657	$ 9,894,806	$ 60,441,126	$ 211,629,589
Restated			(4,889,519)	(4,889,519)
Reclassification	(6,384,977)	6,384,977		
Net Assets, June 30, 2005 as reclassified	$ 134,908,680	$ 16,279,783	$ 55,551,607	$ 206,740,070

13. COMPONENT UNITS

Boise State University Foundation, Inc — The net assets of the Foundation represent 82% of the combined component unit as presented in the financial statements and, as such, the Foundation has been determined by management to be a major component unit as defined by GASB Statement No. 39. Condensed financial statement data is as follows:

BOISE STATE UNIVERSITY FOUNDATION, INC.

CONDENSED STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND JUNE 30, 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,899,413	$ 5,336,707
Short term investments		
Accounts receivable and other	2,353,572	1,395,465
Total current assets	6,252,985	6,732,172
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	7,499,889	6,112,618
Investments	68,529,417	55,082,305
Capital assets	8,746,419	10,168,528
Investment in lease	3,451,063	3,723,174
Accounts receivable and other	2,994,964	2,811,334
Total noncurrent assets	91,221,752	77,897,959
TOTAL ASSETS	$ 97,474,737	$ 84,630,131
LIABILITIES		
CURRENT LIABILITIES	$ 1,153,862	$ 996,286
NONCURRENT LIABILITIES:		
Bonds and certificates payable	3,615,000	4,632,523
Amounts held in custody for others	14,432,349	14,193,269
Other	1,221,140	1,319,183
Total noncurrent liabilities	19,268,489	20,144,975
TOTAL LIABILITIES	20,422,351	21,141,261
NET ASSETS:		
Invested in capital assets - net of related debt	8,746,419	9,393,528
Restricted - nonexpendable	39,224,822	34,861,921
Restricted - expendable	24,359,589	16,391,539
Unrestricted	4,721,556	2,841,882
Total net assets	77,052,386	63,488,870
TOTAL LIABILITIES AND NET ASSETS	$ 97,474,737	$ 84,630,131

BOISE STATE UNIVERSITY FOUNDATION, INC.		
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005		
	2006	**2005**
OPERATING REVENUES:		
Gifts	$ 8,456,976	$ 8,072,015
Miscellaneous income	643,046	629,039
Total operating revenues	9,100,022	8,701,054
OPERATING EXPENSES	1,613,364	1,317,934
OPERATING INCOME (LOSS)	7,486,658	7,383,120
NONOPERATING REVENUES (EXPENSES):		
Payments to Boise State University	(3,096,426)	(3,540,727)
Investment income	2,443,910	1,710,881
Change in fair value of investments	2,693,458	1,958,921
Gain on sale of property	3,848,715	549,755
Other	828,490	200,739
Net nonoperating revenues	6,718,147	879,569
INCREASE IN NET ASSETS	14,204,805	8,262,689
NET ASSETS—Beginning of year	63,488,870	55,226,181
NET ASSETS—End of year	$ 77,693,675	$ 63,488,870

(a) Cash, Cash Equivalents, and Other Deposits and Investment

The Foundation, through its Board of Directors (the “Board”), appoints an investment committee that determines investment guidelines, sets the spending rules, and engages the investment manager(s) and custodian(s). The Board oversees and approves all investment and asset allocation policies proposed by the Investment Committee. Furthermore, the Board and the Investment Committee acknowledge and understand their fiduciary roles and will always seek to act prudently in the best interests of the Foundation.

The Investment Committee is also to monitor and review the actions of the investment manager(s) and custodian(s), make recommendations on investment policy, and oversee the management of all other assets of the Foundation. The Investment Committee reports regularly to the Board of Directors.

The overall investment policy is to maximize the return on investments within an acceptable range of risks. Appropriate levels of investment risk will be determined by guidelines and influenced by spending rules. The principal of the Endowment should be protected over time with a spending rule set to maintain the purchasing power of returns from the assets. The component units invest in investments that are allowed by State of Idaho law.

Basis of Custodial Credit Risk as of June 30	2006	2005
Uninsured and uncollateralized	$ 3,409,546	$ 6,099,937

Credit Risk — The risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard and Poor's, and Fitch's.

The ratings, as of June 30, 2006, are presented below using the Moody's scale.

Rating	US Treasury Bonds	Corporate Bonds	Bond Mutual Funds	Fair Value
Aaa	$ 456,892		$ 4,698,794	$ 5,155,686
Aa1		$ 597,594		597,594
Aa2		648,769	328,935	977,704
Aa3		2,599,526		2,599,526
A1		639,472	491,666	1,131,138
A3		1,251,367		1,251,367
Baa1			478,939	478,939
Ba3			7,073	7,073
B1			2,840	2,840
Unrated			157,333	157,333
Total	$ 456,892	$ 5,736,728	$ 6,165,580	$ 12,359,200

Interest Rate Risk — Investments in debt securities that are fixed for a longer period of time are likely to experience greater variability in their fair values due to future changes in interest rates. Maturities by investment type, as of June 30, 2006, are as follows:

Investment Type	Fair Value	< 1 yr	1-3 yr	3-10 yr	>10 yr
Rated Securities:					
US Treasury Bonds	$ 456,892				$ 456,892
Corporate Bonds	5,736,727	$ 5,736,727			
Bond Mutual Funds	6,165,583	7,399	$ 1,263,944	$ 4,169,167	725,073
Total Rated Securities	12,359,202	5,744,126	1,263,944	4,169,167	1,181,965

Concentration of Credit Risk — When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration of risk is present. The Governmental Accounting Standards Board has adopted a principle that governments should provide note disclosure when five percent of the total government investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. The Foundation has not invested more than 5 percent of their investments in any one issuer.

(b) Amounts Held in Custody for Others

The Bronco Athletic Association, Inc. (the "Association") transferred assets to the Foundation for investment and management, which are included in amounts held in custody for others. Included in amounts held in custody for others on behalf of the Association are $13,400,630 and $13,476,686 at June 30, 2006 and 2005, respectively.

(c) Donated Services

The University provided staffing and other general office support of the Foundation totaling $589,713 and $429,643 in fiscal years ending June 30, 2006 and 2005, respectively. Additionally, volunteers make substantial contributions of time to support the Foundation for which no value is assigned. The value of volunteer services is not reflected in the accompanying financial statements since they are not susceptible to objective measurement or valuation.

Other Component Unit — Contributions, recorded as gifts, received by the University from the Association totaled $7,694,178 and $2,835,259 as of June 30, 2006 and 2005, respectively. The University also recorded a receivable from the Association of $250,309 at June 30, 2006 to cover certain operating expenses of the Athletics department. Net assets of the Association at June 30, were as follows:

Association				
		2006		**2005**
Net assets:				
Restricted by donors - nonexpendable	$	8,273,362	$	7,873,079
Restricted by donors - expendable		6,577,761		8,343,002
Invested in Capital Assets		1,583,521		1,630,259
Unrestricted		93,427		102,316
Total net assets	$	16,528,071	$	17,948,656

14. OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATIONS (DOLLARS IN THOUSANDS):

Functional Categories	2006 Personnel Cost	Services, Supplies and Other	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 69,711	$ 9,330	$ 780		$ 79,821
Research	7,622	3,812	273		11,707
Public service	5,211	3,811	121		9,143
Libraries	3,530	454			3,984
Student services	5,820	1,430			7,250
Plant operations	5,044	9,238			14,282
Institutional support	9,372	1,850	8		11,230
Academic support	9,433	2,661	14		12,108
Auxiliary enterprises	20,024	24,241	2,867		47,132
Scholarships	1,240	87	6,740		8,067
Depreciation				$ 13,173	13,173
Total operating expenses	$ 137,007	$ 56,914	$ 10,803	$ 13,173	$ 217,897

Functional Categories	2005 Personnel Cost	Services, Supplies and Other	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 64,639	$ 8,760	$ 893		$ 74,292
Research	6,711	3,461	160		10,332
Public service	6,079	3,849	154		10,082
Libraries	3,328	459			3,787
Student services	5,525	1,529			7,054
Plant operations	4,831	5,650			10,481
Institutional support	8,586	4,807	5		13,398
Academic support	8,563	3,064	6		11,633
Auxiliary enterprises	19,037	23,514	2,825		45,376
Scholarships	1,168	64	8,060		9,292
Depreciation				$ 12,851	12,851
Total operating expenses	$ 128,467	$ 55,157	$ 12,103	$ 12,851	$ 208,578

15. CONTINGENCIES AND LEGAL MATTERS

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

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

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Idaho State Board of Education
Boise State University
Boise, Idaho

We have audited the financial statements of Boise State University (University) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to initiate, record, process, and record financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the schedule of findings and questioned costs as item 2006-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated September 22, 2006.

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

Moss Adams LLP

Eugene, Oregon
September 22, 2006