IDAHO
STATE
UNIVERSITY

Idaho State University

FINANCIAL STATEMENTS FOR THE
YEARS ENDED JUNE 30, 2005 AND 2004
AND INDEPENDENT AUDITOR'S
REPORT

IDAHO STATE UNIVERSITY

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Management's Discussion and Analysis
For the year ended June 30, 2005

INTRODUCTION

Management has prepared this discussion and analysis to provide a comprehensive overview of the financial position and activities of Idaho State University (the University) for the fiscal year (FY) ended June 30, 2005. It should be read in conjunction with the financial statements and related footnote disclosures that appear in the sections of this report that follow the discussion.

As a comprehensive public institution of higher learning, Idaho State University, located in Pocatello, Idaho, has served the citizens of the State since 1901, when it was first established as the Academy of Idaho. The University provides both general education and specialized programs in arts, humanities, sciences, the professions, and technologies and contributes to the State and nation through related research and public service programs. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels through the Colleges of Arts and Sciences, Business, Education, Engineering, Health Professions, Pharmacy, Technology and the Graduate School. Through its programs in Pharmacy, Health Professions, the Family Practice Medical Residency and the Idaho Dental Education Program, the University is the hub for education in the health professions in Idaho.

2005 IN BRIEF

Like many other institutions of higher education, the past decade has provided years of changing financial circumstance for Idaho State University. Even though this pattern continued through fiscal year 2005, and funding was once again a major issue, the University continued its long history of fiscal responsibility and solvency. During the fiscal year, the State's economy and related revenue status continued to improve. Even though a sizeable portion of the increased revenues will be needed to offset the demise of the one percent sales tax increase, employees of the University were granted a temporary, one percent pay increase, resulting from surplus revenues earned by the State. Despite fluctuations in State funding, the University continues to accommodate its role and mission by carefully managing expenditures, exercising necessary cost-cutting efforts, and improving the viability of non-state supported activities.

FINANCIAL STATEMENT OVERVIEW

The University's financial report is prepared in accordance with the Governmental Accounting Standards Board (GASB) for public colleges and universities and includes three basic financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. Each of these statements is discussed in more detail in the sections that follow.

Among others, the University reports the results of operations according to GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* which is the current standard for financial reporting for public colleges and universities. This statement requires that financial statements be presented on a consolidated basis to focus on the University as a whole.

In fiscal year 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement, which amends GASB Statement No. 14, *The Financial Reporting Entity,* provides guidance to determine whether certain organizations for which the primary unit is not financially accountable should be reported as component units, based on the nature and significance of their relationship with the primary unit. Based on GASB 39, the Idaho State University Foundation, Inc. (Foundation) is the only affiliated organization that meets the criteria for component unit presentation. Accordingly, the Foundation is discretely presented on the face of the University financial statements as a component unit. The GASB classification of the Foundation for the University's financial reporting purposes does not affect its legal or organizational relationship to the University.

STATEMENT OF NET ASSETS

The *Statement of Net Assets* is the University's financial balance sheet. It reflects the total assets, liabilities, and net assets (equity) of the University as of June 30, 2005. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Investment assets are carried at market value. Capital assets, which include the University's land, buildings, improvements, and equipment, are shown net of accumulated depreciation.

The *Statement of Net Assets* is one indicator of the current financial condition of the University. Over time, and when considered with non-financial facts such as enrollment levels or the condition of facilities, changes in net assets provide information pertinent to the improvement or erosion of the University's financial condition. The *Statement of Net Assets* also discloses information about the nature of the assets and their availability for use by the University.

Net Assets

Net assets represent the residual interest or equity in the University's assets after liabilities are deducted. They are divided into three major categories on the *Statement of Net Assets*. The first category, *Invested in Capital Assets Net of Debt*, consists of the University's capital assets net of accumulated depreciation and the outstanding debt attributable to the acquisition, construction, or improvement of those assets. The second net asset category is *Restricted Net Assets.* These include assets available for expenditure by the University, but only in harmony with the time or purpose restrictions placed on the assets by the donors and/or external funding entities. The final category is *Unrestricted Net Assets*, which consist of assets available for expenditure by the institution for any lawful purpose.

A summarized report of the University's assets, liabilities and net assets at June 30, 2005 follows.

Summary Statement of Net Assets

	June 30, 2005	June 30, 2004
Assets:		
Current Assets	$ 55,741,725	$ 61,731,702
Noncurrent Assets	161,310,552	147,328,610
Total Assets	217,052,277	209,060,312
Liabilities:		
Current Liabilities	24,803,491	27,575,418
Noncurrent Liabilities	55,338,273	47,171,157
Total Liabilities	80,141,764	74,746,575
Net Assets:		
Invested in capital assets, net of related debt	81,347,825	75,255,243
Restricted, expendable	24,701,888	30,552,475
Unrestricted	30,860,800	28,506,019
Total Net Assets	$136,910,513	$134,313,737

The University's *Statement of Net Assets* at June 30, 2005, continues to maintain a strong overall financial position. This financial health is reflected in an overall increase in net assets during FY 2005 of 1.9 percent.

Current assets, consisting primarily of cash and cash equivalents; accounts and loans receivable; and investments and inventory, totaled $55.7 million at June 30, 2005, as compared to $61.7 million at June 30, 2004, a decrease of $6.0 million. Cash and cash equivalents accounted for $5.0 million of this decrease, which is primarily attributed to bond proceeds for the energy conservation project received in FY 2004 and used in FY 2005. Noncurrent assets increased by $13.9 million, due primarily to construction of the virtually completed L.E. and Thelma E. Stephens Performing Arts Center and the Rendezvous Building, which is still under construction.

Capital and Debt Activities

University liabilities totaled $80.1 million at June 30, 2005, compared to $74.7 million at June 30, 2004. The overall increase of $5.4 million is primarily attributable to bonding activity related to on-going construction projects, coupled with one additional day of salary accrual in FY 2005 over FY 2004. This increase is partially offset by a reduction in payables to the Idaho State Department of Public Works due to completion of the L.E. and Thelma E. Stephens Performing Arts Center of $3.1 million, and a decrease in deferred revenue of $1.5 million from separation of the Partners for Prosperity grant from the University during the fiscal year.

The University continues to effectively manage its capital and debt activities to sustain the renewal and continued development of essential capital assets. One outcome of this is the University's favorable municipal bond credit rating of "A2", or equivalent, from Moody's Investors Service, Inc. and Standards & Poor's Rating Services.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The *Statement of Revenues, Expenses, and Changes in Net Assets* is the University's income statement and presents the results of operations for the current fiscal year. This statement details how net assets have increased or decreased during the year and shows comparisons to the prior year.

GASB requires subtotals for operating income or loss and income or loss before other revenue and expense. It should be noted that the required subtotal for operating income or loss will generally reflect a "loss" for state-supported colleges and universities. This is primarily due to the way operating and non-operating items are defined under GASB Statement No. 35 *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34.* Operating expenses include virtually all university expenses, except for interest on long-term debt. Operating revenues, however, exclude certain significant revenue streams that ISU and other public higher education institutions have traditionally relied upon to fund current operations, including State appropriations, gifts, and investment income.

Taken together, the *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* provide information that help answer the question "As a whole, is Idaho State University financially stronger or weaker as a result of the year's activities?"

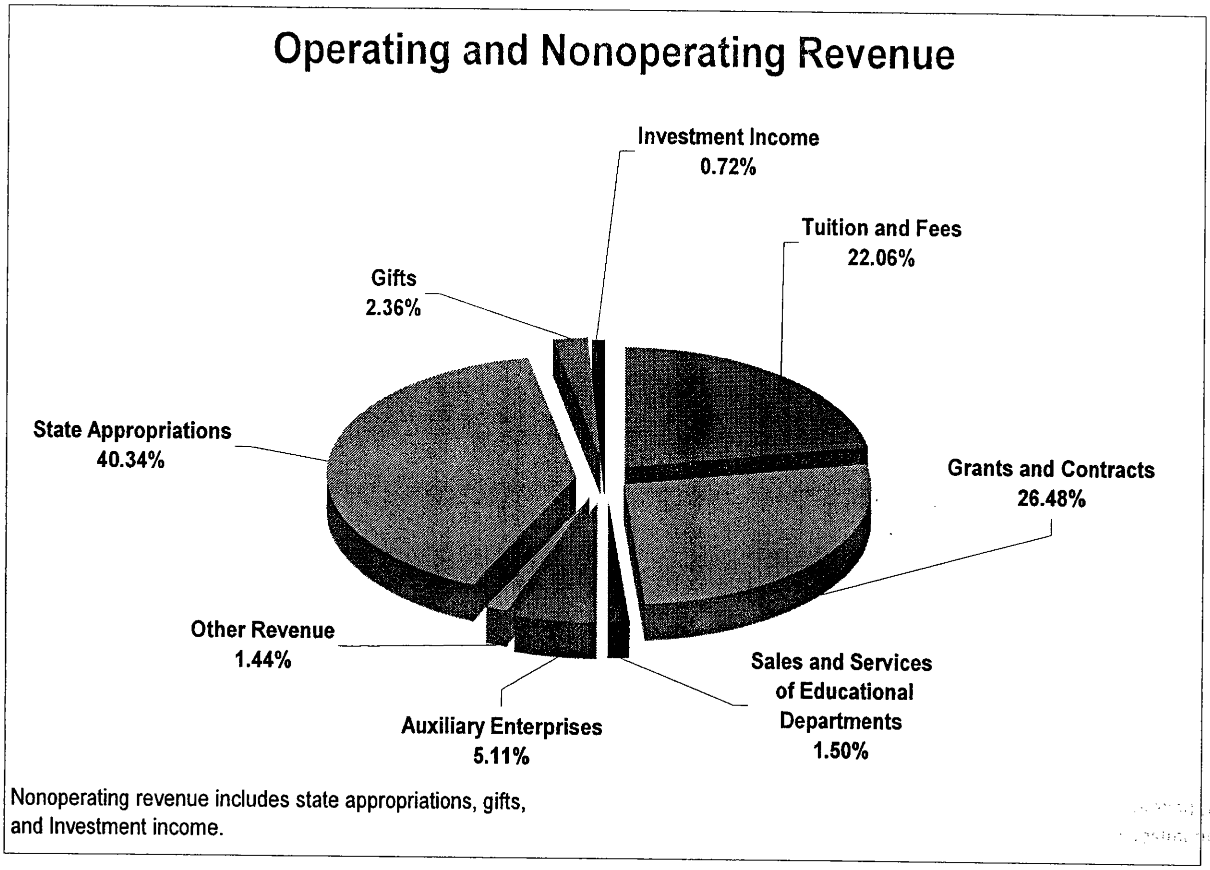
A summarized statement of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2005 and 2004 is presented on the next page.

Summary Statement of Revenues, Expenses, & Changes in Net Assets

	FY 2005	FY 2004
Operating Revenues		
Student tuition and fees (net of scholarship discounts and allowances)	$ 40,519,023	$ 38,868,197
Federal grants and contracts	32,515,851	29,925,270
State and local grants and contracts	10,223,913	7,591,353
Nongovernment grants and contracts	5,893,573	5,079,596
Sales and services of educational departments	2,748,009	2,642,914
Auxiliary enterprises sales and services	9,381,793	9,368,162
Other operating revenue	2,639,333	2,444,625
Total operating revenues	103,921,495	95,920,117
Operating Expenses	185,748,953	169,216,829
Operating Income (Loss)	(81,827,458)	(73,296,712)
Nonoperating Revenues (Expenses)		
State appropriations	74,092,216	72,761,641
Gifts	4,325,901	4,970,084
Net investment income	1,315,037	725,021
Interest on capital asset related debt	(2,221,214)	(1,887,785)
Net nonoperating revenues (expenses)	77,511,940	76,568,961
Other Revenue and Expenses		
Capital appropriations	1,069,624	1,583,546
Capital gifts and grants	5,891,531	10,277,131
Gain (loss on disposal of fixed assets)	(48,861)	(80,875)
Net other revenues and expenses	6,912,294	11,779,802
Increase in Net Assets	2,596,776	15,052,051
Net assets - beginning of year	134,313,737	119,261,686
Net assets - end of year	$ 136,910,513	$ 134,313,737

Revenue

In addition to appropriations from the state of Idaho, the University obtains funding from the Foundation, research-related grants and contracts, governments, gifts, and other programs that help support the important mission of the University. These diverse revenue streams continue to be a strength of the University and we continue to seek and develop these funding resources to augment student fees and minimize the rising costs of education. The following graphic illustrates revenues by source (both operating and non-operating) for the fiscal year ended June 30, 2005. It is important to note that State appropriations, which are a significant and recurring source of revenue to the University, are considered non-operating revenue, as defined by GASB Statement No. 35.



State appropriations and student tuition and fees continue as the primary sources of funding for the University's academic programs. While increases were not dramatic, total State appropriations grew in fiscal year 2005 by $1.3 million to $74.1 million, or 1.8 percent over FY 2004. Student tuition and fee revenue experienced a 4.2 percent increase to $40.5 million over FY 2004 (net of scholarship discounts and allowances.)

Grant and contract revenues from government and private sources not only provide learning and educational opportunities, but also facilitate the recovery of a portion of the indirect costs associated with the grants. Revenue from grants and contracts increased by $6.0 million over FY 2004, to $48.6 million, representing a 14.2 percent increase. This growth is the result of increased efforts campus-wide to seek out and obtain research funding opportunities. Over half of the increase in FY 2005 is attributable to four federal and state grants.

Capital appropriations from the State of Idaho diminished slightly from $1.6 million in FY 2004 to $1.1 million in FY 2005. Capital gifts and grants decreased by to $4.4 million or 42.7%. This is the second year of declining revenue in this area due to the completion of the University's major capital campaign.

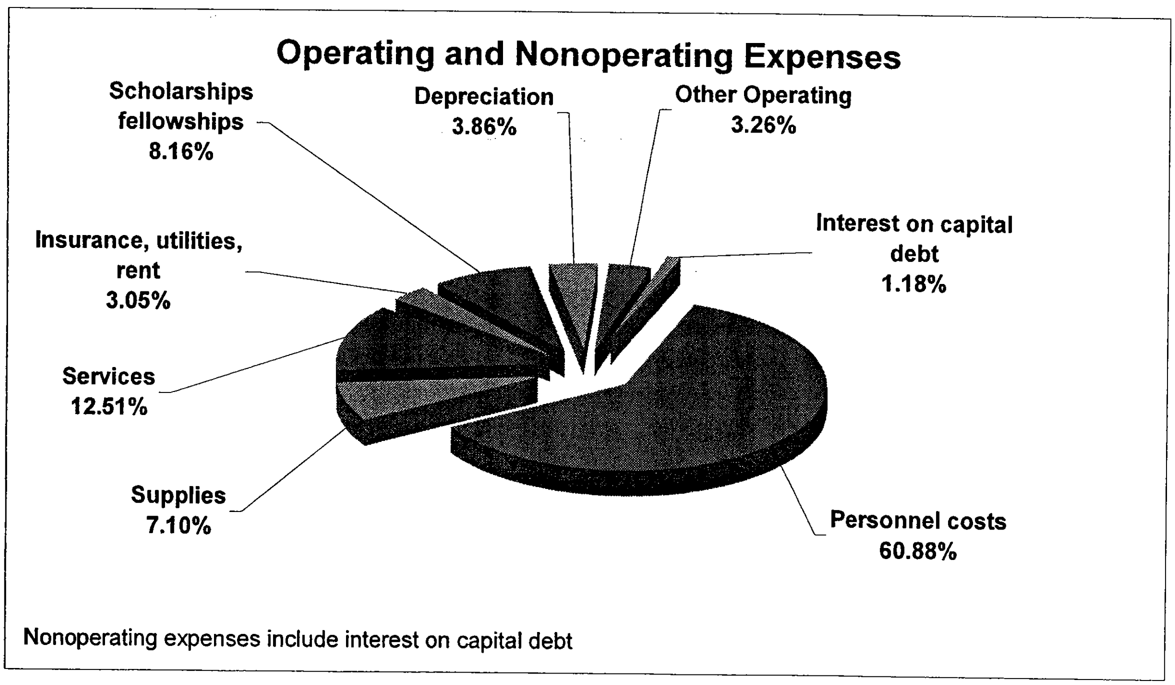
Expenses

A summary of the University's expenses for the year ended June 30, 2005 and 2004 follows:

Summary Statement of Expenses

		2005		2004
Operating				
Personnel costs	$	114,434,088	$	105,499,440
Supplies		13,349,246		12,849,716
Services		23,509,815		17,590,190
Insurance, utilities and rent		5,726,706		5,512,291
Scholarships and fellowships		15,342,720		15,731,492
Depreciation Expense		7,262,462		6,888,948
Other Operating Expenses		6,123,916		5,144,752
Total operating expenses		185,748,953		169,216,829
Nonoperating				
Interest on capital asset related debt		2,221,214		1,887,785
Total expenses	$	187,970,167	$	171,104,614

The graphic illustration below identifies total expenses by natural classification:



Overall operating expenses were up $16.5 million to $185.7 million in fiscal 2005. This 9.8 percent increase stems primarily from increased personnel costs and services. Personnel costs were up due to a 2 percent raise in salaries, coupled with one additional work day in the fiscal year and additional costs related to the 14.2 percent growth in grant activity, which includes a number of employees fully funded by grants. The cost of services increased by $5.9 million, most of which is attributable to costs associated with the University's energy conservation project. This project was funded by bond proceeds that are being used to increase the energy efficiency of numerous buildings across campus.

In addition to their natural (object) classification, it is sometimes useful and informative to review operating expenses by function. A comparative summary of the University's expenses by functional classification for the years ended June 30, 2005 and 2004 follows:

	2005	2004
Instruction	$75,445,854	$69,407,823
Research	15,286,600	12,274,164
Public Service	5,671,367	4,392,164
Academic Support	7,669,927	8,144,778
Libraries	2,573,803	2,304,074
Student Services	7,847,947	7,220,555
Institutional Support	12,124,776	11,148,924
Maintenance and Operations	12,705,875	11,736,644
Auxilary Enterprises	23,817,622	19,967,263
Scholarships and Fellowships	15,342,720	15,731,492
Depreciation	7,262,462	6,888,948
Total Functional Expenses	$185,748,953	$169,216,829

STATEMENT OF CASH FLOWS

The *Statement of Cash Flows* presents information that facilitates evaluation of the University's ability to meet its financial obligations as they mature. The statement permits in-depth assessment of the major sources and uses of cash through the following four categories.

- Operating activities - Displays the net cash flow required to conduct the day-to-day operating activities of the institution.
- Noncapital financing activities - Reflects the net cash flow of non-operating transactions not related to investing or capital financing activities.
- Capital and related financing activities - Includes payments for the acquisition of capital assets, proceeds from long-term debt, and debt repayment.
- Investing activities – Details the funds involved in the purchase and sale of investments.

At the bottom of the statement the net cash flow is reconciled to the operating income or loss reflected on the *Statement of Revenues, Expenses and Changes in Net Assets.*

A summary of the *Statement of Cash Flows* for the year ended June 30, 2005 and 2004 follows:

Summary Statement of Cash Flows

	2005	2004
Cash (used in) or provided by:		
Operating activities	$ (75,936,159)	$ (65,169,475)
Noncapital financing activities	79,352,195	77,218,250
Capital and related financing activities	(9,247,627)	(260,144)
Investing activities	840,287	329,728
Net increase (decrease) in cash	(4,991,304)	12,118,359
Cash and cash equivalents, beginning of year	50,012,140	37,893,781
Cash and cash equivalents, end of year	$ 45,020,836	$ 50,012,140

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.

COMPONENT UNIT

As previously noted, the University has determined that the Foundation is the only affiliated organization that meets the criteria for component unit presentation and is discretely presented on the face of the University financial statements. Approximately 86.7 percent of the Foundation's net assets are restricted and are largely used to fund scholarships to students and support capital improvement projects at the University. At June 30, 2005, total net assets of the Foundation were $12.5 million, representing a decrease of $1.4 million from FY 2004. This decrease is primarily the result of funding construction on the Performing Arts Center.

The Foundation's liabilities totaled $ 27.7 million and have decreased by $1.1 million from FY 2004. This change is principally the result of a reduction of $1.27 million in the amount owed the University. The Foundation incurred no new debt in FY 2005.

The Foundation generates operating revenue from private gifts and grants, as well as investment income and related gains. Nonoperating expenses consist primarily of payments to Idaho State University. In FY 2005, the Foundation's operating income of $7.1 million was offset by payments to the University and other nonoperating expenses of $8.5 million, resulting in a decrease in net assets of $1.4 million.

THE COMING YEARS

As a state-owned public institution, Idaho State University received approximately 40.3 percent of its overall revenue through State appropriations (down from 41.7 percent in FY 2004.) The State has experienced revenue shortfalls during the past several years due to a general decline in the State's economy. These shortfalls have resulted in flat or slightly higher revenue appropriations to the University and a corresponding decrease in the percentage of the University's total funding derived from the State. This trend is not unique to public institutions in Idaho. Nationwide, many higher education institutions have been coping with a decline in State funding and the need to shift to other funding sources. While FY 2005 saw the beginnings of a turnaround in the Idaho economy, the temporary one percent sales tax increase ended on June 30, 2005, offsetting to some degree the funding available to the State and, potentially, to Idaho higher education. There is a direct correlation between State appropriations and the University's ability to control student fee growth. As appropriations are the single largest revenue source for the University, declines in appropriations often result in increases in student fees. Nevertheless, the University will continue to deliver quality education opportunities, concurrent with prudent management of student fees and other revenue sources.

As with most institutions of higher education, salaries and benefits make a significant portion of the total costs of University expenditures (60.9 percent in FY 2005.) The University faces increasingly competitive pressures related to attracting and retaining qualified faculty and staff and providing them with competitive compensation and benefits. The University's success in meeting these and other fiscal challenges will largely depend upon the ability of the State of Idaho to continue to provide adequate financial support through State appropriations. The appropriation declines, as a percentage of total revenue, have created economic issues at the University that will require significant time to remedy. However, and on a brighter note, current revenue projections indicate the economic situation in Idaho is improving, and the economic outlook is certainly more optimistic than in the past.

Looking forward to FY 2006, there continue to be many encouraging and positive activities at Idaho State University. Student enrollment continues to be stable. Research activity through sponsored programs and external funding continues to set new records at the University. The grand opening of the L.E. and Thelma E. Stephens Performing Arts Center was substantially completed during FY 2005. Since its opening the Center has become a focal point for teaching and the arts. In addition to the superior teaching facilities, the Center contains three versatile performance venues and supporting spaces for campus and community enjoyment, all of which are being utilized extensively.

Construction continues on the $38.8 million Rendezvous Building, a unique multipurpose educational, residential, and social complex that will become a gathering place for the campus community. The complex will promote an enhanced collegial atmosphere that integrates upper and lower campuses in a facility where students and faculty can meet both in the classroom and in a social setting. In addition to apartments and a dining hall, the Rendezvous will include a large computer center, a large meeting room with partitions for conversion into three small meeting rooms, and retail space housing an ISU Spirit Shop, an adjunct operation of the University Bookstore.

The Center for Higher Education in Idaho Falls continues to be an energetic part of the University's activities. The University recently completed negotiations for the purchase of the Fred H. Tingey Administration Building from the University of Idaho. This building, in which the University previously leased space, is located on 22 acres of land adjacent to the Idaho State University campus at University Place in Idaho Falls.

Recently, Dr. Richard L. Bowen announced his retirement as President of Idaho State University. Dr. Bowen has served as President of the University for over 20 years. During his tenure, Dr. Bowen helped to significantly strengthen the University's financial health and promoted the growth of the institution's health sciences mission. During Dr. Bowen's two decades of service, enrollment at Idaho State University has nearly doubled to almost 14,000 students, including 2,500 students in Idaho Falls. In addition, the University now offers more than 500 courses statewide through the Distance Learning Network. The Idaho State University Boise Center is helping Idaho meet the growing demand for health-professions education, while the Twin Falls Center offers University programs to Magic Valley residents. Dr. Bowen also led efforts to construct the Idaho Accelerator Center, and has led the University into numerous partnerships with the Idaho National Laboratory.

Most recently, Dr. Bowen oversaw the grand opening of the L.E. and Thelma E. Stephens Performing Arts Center, built solely with funds raised through a $152 million capital campaign conducted by the University and its supporters. In addition, the new Rendezvous residential and instructional facility for students and professors is under construction and scheduled for completion in 2007. Idaho State University has truly become a statewide institution under Dr. Bowen's tenure as President.

In conclusion, Management believes the University's financial condition is strong. The institution has a long history and will continue to accommodate and promote its academic mission and goals and provide quality education opportunities to its students.

The audited financial statements included in this report, along with the accompanying notes to the financial statements, provide pertinent information and details related to the financial activities discussed here.

INDEPENDENT AUDITOR'S REPORT

Idaho State Board of Education
Idaho State University
Pocatello, Idaho

We have audited the accompanying statement of net assets of Idaho State University (University) as of and for the year ended 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 Idaho 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 Idaho State University Foundation, a discretely presented component unit, as described in Note 1. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of other auditors. The financial statements of the University as of June 30, 2004, were audited by other auditors whose report dated November 4, 2004 expressed an unqualified opinion on those statements based on their audit and the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

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 Idaho State University and its discretely presented component unit, as of June 30, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures* for the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005 on our consideration of Idaho 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 supplementary information. However we did not audit the information and express no opinion on it.

Moss Adams LLP

Eugene, Oregon
September 9, 2005

IDAHO STATE UNIVERSITY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	University		Component Unit	
	2005	2004	2005	2004
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 45,020,836	$ 50,012,140	$ 3,361,569	$ 8,729,397
Student loans receivable	422,764	508,248		
Accounts receivable and unbilled charges, less allowance for doubtful accounts of $549,265 and $539,438	5,529,313	6,016,145	625,479	
Gifts and Pledges receivable			3,986,225	2,311,552
Due from state agencies	3,224,830	3,807,340		
Interest receivable	28,202	10,833		717
Inventories	264,085	257,958		
Investments	649,920	643,451		
Deferred expenses	601,775	475,587	24,240	280,542
Total current assets	55,741,725	61,731,702	7,997,513	11,322,208
NONCURRENT ASSETS:				
Investments	666,944	666,944	31,056,432	30,238,929
Student loans receivable, less allowance for doubtful loans of $389,892 and $381,794	1,687,255	1,516,948		
Investments held in trust	20,630,492	21,800,829		
Property held for resale			1,125,372	1,125,372
Property, plant, and equipment, net	138,325,861	123,343,889		
Total noncurrent assets	161,310,552	147,328,610	32,181,804	31,364,301
TOTAL ASSETS	$217,052,277	$ 209,060,312	$40,179,317	$ 42,686,509
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	$ 3,851,392	$ 6,367,525	$ 70,811	$ 211,420
Due to Idaho State University			35,852	1,286,614
Accrued salaries and benefits payable	13,316,285	12,965,624		
Deposits	111,975	110,465		
Funds held in custody for others	561,977	407,209	5,444,331	5,154,176
Deferred revenue	4,269,783	5,821,438		
Accrued interest payable	652,079	558,749		
Notes and bonds payable	2,040,000	1,344,408	1,385,000	
Total current liabilities	24,803,491	27,575,418	6,935,994	6,652,210
NONCURRENT LIABILITIES--Notes and bonds payable	55,338,273	47,171,157	20,785,000	22,170,000
TOTAL LIABILITIES	80,141,764	74,746,575	27,720,994	28,822,210
NET ASSETS:				
Invested in capital assets, net of related debt	81,347,825	75,255,243		
Restricted, expendable	24,701,888	30,552,475	5,482,689	4,922,213
Restricted, unexpendable			25,110,824	24,121,325
Unrestricted	30,860,800	28,506,019	(18,135,190)	(15,179,239)
Total net assets	136,910,513	134,313,737	12,458,323	13,864,299
TOTAL LIABILITIES AND NET ASSETS	$217,052,277	$ 209,060,312	$40,179,317	$ 42,686,509

See Accompanying Notes to Financial Statements

IDAHO STATE UNIVERSITY

STATEMENT OF REVENUES EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	University		Component Unit	
	2005	2004	2005	2004
OPERATING REVENUES				
Student tuition and fees (net of scholarship discounts and allowances of $14,566,807 and $14,524,341, respectively)	$ 40,519,023	$ 38,868,197	$	$
Federal grants and contracts	32,515,851	29,925,270		
State and local grants and contracts	10,223,913	7,591,353		
Private grants and contracts	5,893,573	5,079,596		
Sales and services of educational activities	2,748,009	2,642,914		
Sales and services of auxiliary enterprises	9,381,793	9,368,162		
Other	2,639,333	2,444,625		
Gifts and contributions			6,240,191	3,706,103
Total operating revenues	103,921,495	95,920,117	6,240,191	3,706,103
OPERATING EXPENSES				
Personnel costs	114,434,088	105,499,440		
Services	23,509,815	17,590,190	402,171	128,496
Supplies	13,349,246	12,849,716	50,000	461
Insurance, utilities and rent	5,726,706	5,512,291	76,621	176,610
Scholarships and fellowships	15,342,720	15,731,492		
Depreciation	7,262,462	6,888,948		
Miscellaneous	6,123,916	5,144,752	149,529	282,768
Total operating expenses	185,748,953	169,216,829	678,321	588,335
OPERATING INCOME (LOSS)	(81,827,458)	(73,296,712)	5,561,870	3,117,768
NONOPERATING REVENUES (EXPENSES)				
State appropriations:				
State general account - general education	61,409,300	59,034,400		
Endowment income	1,864,078	2,518,547		
Other state appropriations Idaho dental education program	1,963,750	1,832,080		
Professional technical education	8,855,088	9,376,614		
Gifts (including $2,192,133 and $2,448,142 respectively, from Idaho State University Foundation)	4,325,901	4,970,084		
Net investment income	1,315,037	725,021	584,572	851,227
Interest on capital asset related debt	(2,221,214)	(1,887,785)	(409,127)	(226,418)
Net increase in fair value of investments			905,465	2,033,691
Payments to Idaho State University			(8,035,313)	(12,656,773)
Other distributions			(13,443)	(13,587)
Net nonoperating revenues (expenses)	77,511,940	76,568,961	(6,967,846)	(10,011,860)
GAIN (LOSS) BEFORE OTHER REVENUES AND EXPENSES	(4,315,518)	3,272,249	(1,405,976)	(6,894,092)
OTHER REVENUES AND EXPENSES:				
Capital appropriations	1,069,624	1,583,546		
Capital gifts (including $5,843,181 and $10,208,631 respectively from Idaho State University Foundation	5,891,531	10,277,131		
Loss on disposal of fixed assets	(48,861)	(80,875)		
Net other revenues and expenses	6,912,294	11,779,802		
INCREASE IN NET ASSETS	2,596,776	15,052,051	(1,405,976)	(6,894,092)
NET ASSETS, BEGINNING OF YEAR	134,313,737	119,261,686	13,864,299	20,758,391
NET ASSETS, END OF YEAR	$ 136,910,513	$ 134,313,737	$ 12,458,323	$ 13,864,299

See Accompanying Notes to Financial Statements

IDAHO STATE UNIVERSITY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Student fees	$ 33,231,971	$ 29,738,186
Grants and contracts	46,658,399	41,902,744
Sales and services of educational activities	2,930,287	2,746,236
Sales and services from auxiliary enterprises	9,714,920	9,761,872
Other operating revenue	3,951,479	3,516,764
Collection on loans to students	623,391	677,678
Payments to and on behalf of employees	(114,424,330)	(104,860,729)
Payments for services	(17,598,656)	(12,625,963)
Payments for supplies	(16,697,877)	(14,717,756)
Payments for insurance, utilities, rent	(5,403,993)	(5,032,552)
Payments for scholarships and fellowships	(9,770,895)	(9,945,453)
Other operating payments	(8,339,375)	(5,705,226)
Loans issued to students	(811,480)	(625,276)
Net cash provided (used) by operating activities	(75,936,159)	(65,169,475)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	74,759,329	72,249,553
Gifts	4,368,050	4,714,411
Agency account receipts	38,414,708	37,144,720
Agency account payments	(38,195,430)	(36,877,860)
Direct lending receipts	44,485,034	44,078,436
Direct lending payments	(44,479,496)	(44,091,010)
Net cash provided (used) by non-capital financing activities	79,352,195	77,218,250
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital gifts and grants	7,604,204	5,683,888
Capital Purchases	(13,293,389)	(11,976,036)
Bond proceeds	282,016	7,265,452
Principal paid on capital debt	(1,407,087)	(1,233,198)
Interest paid on capital debt	(2,433,371)	(250)
Net cash provided (used) by financing activities	(9,247,627)	(260,144)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	643,451	1,259,784
Purchase of investments	(649,920)	(1,310,395)
Investment income	846,756	380,339
Net cash provided (used) by investing activities	840,287	329,728
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,991,304)	12,118,359
CASH AND CASH EQUIVALENTS--Beginning of year	50,012,140	37,893,781
CASH AND CASH EQUIVALENTS--End of year	$ 45,020,836	$ 50,012,140
RECONCILIATION OF NET OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES		
Operating Loss	$ (81,827,458)	$ (73,296,712)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation	7,262,462	6,888,948
Maintenance costs paid by Department of Public Works and other	765,583	1,404,767
Change in assets and liabilities		
Accounts receivable, net	(887,586)	(2,651,709)
Deferred expenses	(201,539)	
Student loans receivable, net	(84,823)	64,182
Inventory	(6,128)	5,365
Accounts payable and accrued liabilities	243,895	63,475
Accrued salaries and benefits payable	344,667	993,812
Deposits	1,510	6,253
Deferred revenue	(1,546,742)	1,352,144
Net cash used in operating activities	$ (75,936,159)	$ (65,169,475)
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:		
Property, plant and equipment acquired through DPW appropriations	350,000	337,583

See Accompanying Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Idaho State University (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 financial reporting entity. The State Board of Education, appointed by the Governor and affirmed by the legislature, directs the system. The University is located in Pocatello, Idaho. Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Reporting Entity—In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units.* Statement No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity,* to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting as a discretely presented component unit. The provisions of Statement 39 are effective for financial statement periods beginning after June 15, 2003. The University implemented this statement for the fiscal year ended June 30, 2004 and made the determination that the Idaho State University Foundation, Inc. (Foundation) is an affiliated organization that meets the criteria for discrete component unit presentation.

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

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.

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

Accounts Receivable—Accounts receivable consists of fees charged to students as well as auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Idaho. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories—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 gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets. The total unrealized gain or loss was not significant for the years ended June 30, 2005 and 2004.

Effective July 1, 2004, the University adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures.* Statement No. 40 amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Purchase Agreements.* The objective of this statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The application of these requirements for the University and the Foundation are presented in Notes 2 and 13.

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 are classified as noncurrent assets in the statement of net assets

Noncurrent Cash and Investments—Cash and 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, are classified as noncurrent assets in the statement of net assets.

Property, Plant and Equipment—Capital assets are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair value at 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 50 years for buildings, 12-25 years for land improvements, 10 years for library books, and 5 to 13 years for equipment.

The University houses collections at the Idaho Museum of Natural History that it does not capitalize. 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. The University charges these collections to operations at the time of purchase, in accordance with generally accepted accounting principles.

Deferred Revenues—Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences—Employee vacation pay that is earned but unused is accrued at year-end for financial statement purposes. Included in accrued salaries and benefits payable in the statement of net assets is $3,592,321 and $3,221,347 at June 30, 2005 and 2004, respectively.

Noncurrent Liabilities—Noncurrent liabilities include the principal portions of revenue bonds payable, notes payable with contractual maturities greater than one year, and retainages payable on the Performing Arts Center.

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 resources in accordance with restrictions imposed by external third parties.

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 at the discretion of the institution to meet current expenses for any purpose.

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.

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 fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

Nonoperating Revenues—Nonoperating *revenues* include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue resources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances—Student fee revenues 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 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 and allowance.

New Accounting Standards— In November of 2003, the GASB issued Statement No. 42, *Impairment of Capital Assets and Insurance Recovery.* This Statement establishes accounting and financial reporting standards for impairment of capital assets. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The University has not completed the process of evaluating the impact that will result from adopting this Statement. The requirements of this Statement are effective for the fiscal year ending June 30, 2006.

In June of 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEBs). This statement establishes standards of accounting and financial reporting for OPEB expense/expenditures and related OPEB liabilities. The University has not completed the process of evaluating the impact that will result from adopting this Statement. The requirements of this statement are effective for the fiscal year ending June 30, 2007.

In June of 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are terminated. The University has not completed the process of evaluating the impact that will result from adopting this Statement. The requirements of this statement are effective for the fiscal year ending June 30, 2006.

Reclassification—Certain amounts reported in the June 30, 2004 financial statements have been reclassified to conform to the June 30, 2005 financial statement presentation.

2. DEPOSITS AND INVESTMENTS

Deposits–The University accounts for its cash on a pooled basis whereby each fund has a positive or negative equity in cash depending upon the net effect of its cash receipts and disbursements activity. The University's deposits are maintained in commercial checking accounts which, as of June 30, 2005 and 2004, were insured for $100,000 by the Federal Deposit Insurance Corporation (FDIC). At times, deposits in commercial checking accounts exceed the insured limit of the FDIC, which potentially subjects the University to credit risk. After all debit and credit transactions have posted at the end of each business day, excess balances are automatically moved to the Automated Repurchase Investment Sweep account overnight in order to maximize the use of idle funds, including the cash float from outstanding checks. This account automatically invests excess funds at competitive market rates. The investments of this account consist of direct obligations or those that are fully guaranteed as to the principal and interest by the U.S. Government or its agency and are collateralized at 100% of market value.

Balances classified as Cash Equity with the State 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 accruing on these balances.

At June 30, 2005 and June 30, 2004, deposits consisted of the following:

	2005	2004
Cash	$ 1,522,951	$ 613,764
Non-negotiable certificates of deposit	1,316,864	1,310,395
Obligations of the U.S. Government and its agencies	37,962,636	42,790,647
Cash equity with the Treasurer	9,055,888	8,731,675
Total deposits	$ 49,858,339	$ 53,446,481

The deposit amounts subject to custodial credit risk at June 30, 2005 and June 30, 2004 were $1,422,951 and $513,764, respectively, which were uncollateralized and uninsured.

At June 30, 2005 and June 30, 2004, the University had $103,476 and $85,535 respectively, of cash on hand in various change funds. The carrying amount of the University's cash and cash equivalents at June 30, 2005 and June 30, 2004 was $45,020,836 and $50,012,140 respectively. The net difference between deposits and the carrying amount of cash and cash equivalents is due to the fact that, for purposes of this note disclosure, GASB has defined Deposits to include non-negotiable certificates of deposit which appear as investments on the Statement of Net Assets. The remaining difference is primarily a reflection of investment of the daily float.

Investments— The Idaho State Board of Education defines, in its Governing Policies and Procedures, Section V Subsection D, the types of securities authorized as appropriate investments for the University. Funds within the control of the institution may be invested in FDIC passbook savings accounts, certificates of deposit, U.S. securities, federal funds repurchase agreements, reverse repurchase agreements, federal agency securities, large money market funds, bankers acceptances, corporate bonds of Aa grade or better, mortgage backed securities of Aa grade or better and commercial paper of prime or equivalent grade without prior Board approval. Authority to make investments in any other form requires prior Board approval. Such Board approval may be in the form of general authority to invest or reinvest cash, securities and other assets.

Investments Held in Trust—As of June 30, 2005 and June 30, 2004, the only investments meeting the criteria for disclosure in GASB 40 consisted of investments held in trust. The entire amounts of these investments are restricted by bond indentures.

	Fair Value			Rating Must Exceed	
Investment Type	2005	2004	Investment Maturity	Standard & Poors	Moody's
Repurchase Agreement	$ 20,630,492	$ 21,800,829	1/1/2007	AA-	Aa3

Interest rate risk: Interest rate risk for investments is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not currently have a formal investment policy to address interest rate risk.

Custodial Credit Risk Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of the investments in the possession of an outside party. The University does not currently have a formal investment policy related to custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk for investments is the risk of loss attributable to the magnitude of an investment in a single issuer. The University does not currently have a formal investment policy related to concentration of credit risk.

3. ACCOUNTS RECEIVABLE AND DUE FROM STATE AGENCIES

Accounts receivable and due from state agencies consisted of the following at June 30:

	2005	2004
Operating:		
Student tuition fees	$ 17,776	$ 24,110
Federal grants and contracts	4,138,164	3,409,873
State and local grants and contracts	456,295	526,326
Nongovernment grants and contracts	1,462,860	969,090
Sales and services of educational departments	210,238	267,208
Auxiliary enterprises sales and services	467,553	456,037
Other operating revenue	570,724	557,137
Services and supplies	12,652	18,375
Perkins	115,988	111,623
Revolving	1,307,349	1,522,408
Less allowance for doubtful accounts	(549,265)	(539,438)
Net operating accounts receivable and due from state agencies	8,210,334	7,322,749
Nonoperating:		
State appropriations	92,878	645,991
Gifts	6,622	128,790
Capital appropriations		
Capital gifts and grants		1,212,681
Agency	444,309	513,274
Net nonoperating accounts receivable	543,809	2,500,736
Total accounts receivable and due from state agencies	$ 8,754,143	$ 9,823,485

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, 2005 and 2004. Under this Program, the federal government provides approximately 75% of the funding for the Program with the University providing the balance. A borrower may have all or part of their loan (including interest) canceled for engaging in teaching, public service, service in the Peace Corps or ACTION, or service in the military. The Department of Education reimburses the University each year for the principal and interest canceled in its Perkins Loan Fund for all of the cancellation provisions except death, total and permanent disability, and bankruptcy. The school must deposit this reimbursement into its Perkins loan fund. Schools are not required to deposit reimbursements for loans made prior to July 1, 1972 into the Perkins Fund as these reimbursements are considered institutional funds. In the event the University should withdraw from the Federal Perkins Loan Program or the government was to cancel the Program, the amount the University would be liable for as of June 30, 2005 and 2004 is $2,129,599 and $2,183,255, respectively.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2005 and 2004, the allowance for uncollectible loans was approximately $389,892 and $381,794.

5. PROPERTY, PLANT AND EQUIPMENT

Following are the changes in property, plant and equipment for the year ended June 30:

		2004			2005		
Property, Plant and Equipment Summary	Balance at June 30, 2003	Additions	Retirements	Balance at June 30, 2004	Additions	Retirements	Balance at June 30, 2005
Property, plant and equipment:							
Land	$ 2,524,093	$	$	$ 2,524,093	$ 767,900		$ 3,291,993
Construction in progress	18,686,871	14,146,949		32,833,820	10,928,655	(1,713,092)	42,049,383
Total property, plant and equipment not being depreciated	$ 21,210,964	$ 14,146,949	$	$ 35,357,913	$ 11,696,555	$ (1,713,092)	$ 45,341,376
Other property, plant and equipment:							
Buildings and improvements	$119,526,461	$ 337,582	$ (388,826)	$119,475,217	$ 6,992,932	$	$126,468,149
Furniture, fixtures and equipment	27,429,913	2,381,695	(540,196)	29,271,412	3,090,810	(1,772,700)	30,589,522
Library materials	28,955,517	1,945,544		30,901,061	2,227,090		33,128,151
Total other property, plant and equipment	175,911,891	4,664,821	(929,022)	179,647,690	12,310,832	(1,772,700)	190,185,822
Less accumulated depreciation:							
Buildings and improvements	(45,802,728)	(3,248,106)	312,082	(48,738,752)	(3,306,066)		(52,044,818)
Furniture, fixtures and equipment	(18,013,528)	(2,119,569)	506,455	(19,626,642)	(2,316,015)	1,722,839	(20,219,818)
Library materials	(21,775,047)	(1,521,273)		(23,296,320)	(1,640,381)		(24,936,701)
Total accumulated depreciation	(85,591,303)	(6,888,948)	818,537	(91,661,714)	(7,262,462)	1,722,839	(97,201,337)
Other property, plant and equipment net of accumulated depreciation	$ 90,320,588	$ (2,224,127)	$ (110,485)	$ 87,985,976	$ 5,048,370	$ (49,861)	$ 92,984,485
Property, Plant and Equipment Summary:							
Property, plant and equipment not being depreciated	$ 21,210,964	$ 14,146,949	$	$ 35,357,913	$ 11,696,555	$ (1,713,092)	$ 45,341,376
Other property, plant and equipment at cost	175,911,891	4,664,821	(929,022)	179,647,690	12,310,832	(1,772,700)	190,185,822
Total property, plant and equipment	197,122,855	18,811,770	(929,022)	215,005,603	24,007,387	(3,485,792)	235,527,198
Less accumulated depreciation	(85,591,303)	(6,888,948)	818,537	(91,661,714)	(7,262,462)	1,722,839	(97,201,337)
Property, plant and equipment—net	$111,531,552	$ 11,922,822	$ (110,485)	$123,343,889	$ 16,744,925	$ (1,762,953)	$138,325,861

Construction in progress includes $33,854,336 for the L.E. and Thelma Stephens Performing Arts Center. The Performing Arts Center is being constructed by the Foundation with contributions and the proceeds of the Foundation's Multi-Mode Variable Rate Revenue Bond, issued in 2001. The facility was constructed on land leased by the Foundation from the University for $1 a year for a 20 year term. The land and improvements were, in turn, leased back to the University for $1 a year for 20 years, with a provision that title to the improvements transfers to the University at the earlier of the end of the lease or retirement of the bonds. A security interest in the land and improvements is held through a Deed of Trust issued by the Foundation to Wells Fargo Bank, N.A. The excess of the fair value of the improvements (i.e., cost) over the gross rents payable by the University were recorded as an asset of the University in recognition of the permanent transfer of rights of use to the University for only nominal consideration.

The University also has a collection of historical artifacts located at the Museum of Natural History whose value is uncertain.

In addition to accounts payable for construction in progress, the estimated cost to complete property authorized or under construction at June 30, 2005 is approximately $31,000,000. These costs will be financed by available resources of Idaho State University through General Refunding and Improvement Revenue Bonds, Series 2003 and 2004A.

6. DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	2005	2004
Prepaid fees	$ 2,716,142	$ 2,752,788
Auxiliary enterprises	57,191	47,240
Grants and contracts	1,485,287	3,021,410
Other ticket sales	11,163	
	$ 4,269,783	$ 5,821,438

7. NONCURRENT LIABILITIES

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

Description	Balance Outstanding 6/30/2003	Additions	Reductions	Balance Outstanding 6/30/2004	Additions	Reductions	Balance Outstanding 6/30/2005	Amounts Due Within One Year
Student Facilities Fee Revenue Bonds, Series 1993 (original balance of $3,000,000), consisting of serial and term bonds (either directly or through sinking funds) in annual amounts increasing periodically from $145,000 to a maximum of $245,000 plus interest from 5.00% to 5.40% through the year 2014. All bonds are collateralized by certain student fees and other revenues.	$ 2,080,000	$	$ 2,080,000	$	$	$	$	$
Student Facilities Fee Revenue Bonds, Series 1995 (original balance of $6,250,000), consisting of serial and term bonds (either directly or through sinking funds) in annual amounts increasing periodically from $190,000 to a maximum of $455,000 plus interest from 4.95% to 5.80% through the year 2020. All bonds are collateralized by certain student fees and other revenues.	5,145,000		5,145,000					
Student Facilities Fee Revenue Bonds, Series 1998, (original balance of $12,400,000), consisting of serial and term bonds (either directly or through sinking funds) in annual amounts increasing periodically from $585,000 to a maximum of $920,000 plus interest from 4.875% to 5.00% through the year 2022. All bonds are collateralized by certain student fees and other revenues.	11,385,000		585,000	10,800,000		(620,000)	10,180,000	645,000
General Refunding and Improvement Revenue Bonds, Series 2003 (original balance of $35,895,000), consisting of serial bonds payable in annual amounts increasing periodically from $715,000 to a maximum of $3,115,000 plus interest from 3.00% to 5.00% through the year 2023. All bonds are collateralized by certain student fees and other revenues.		35,895,000	730,000	35,165,000		(715,000)	34,450,000	1,090,000
General Revenue Bonds, Series 2004A (original balance of $4,980,000), consisting of serial bonds payable in annual amounts increasing periodically from $210,000 to a maximum of $375,000 plus interest from 2.00% to 4.375% through the year 2023. All bonds are collateralized by certain student fees and other revenues					4,980,000		4,980,000	210,000
General Revenue Bonds, Series 2004B (original balance of $3.305,000), consisting of serial and term bonds payable in annual amounts increasing periodically from $55,000 commencing in 2022 to a maximum of $345,000 plus interest from 4.50% to 4.75% through the year 2034. All bonds are collateralized by certain student fees and other revenues.					3,305,000		3,305,000	
General Revenue Bonds, Series 2004C (original balance of $2.305,000), consisting of term bonds payable in annual amounts increasing periodically from $95,000 to a maximum of $190,000 plus interest of 4.880% through the year 2022. All bonds are collateralized by certain student fees and other revenues.					2,305,000		2,305,000	95,000
Note payable to City of Pocatello, due in annual installments of $11,570 through 2010, interest at 3.00%, unsecured.	81,221		9,134	72,087		(72,087)		
Note payable to a bank, due in monthly installments of $5,950 through 2004, interest at 5.43%, collateralized by certain student fees and other revenues.	97,039		97,039					
Note payable to a bank, due in semi-annual amounts increasing periodically from $40,000 to a maximum of $695,000 through 2009, interest at 4.99%, collateralized by revenue from the West Campus apartments and other housing revenue.	1,225,000		1,225,000					
	20,013,260	35,895,000	9,871,173	46,037,087	10,590,000	(1,407,087)	55,220,000	2,040,000
Premium on bonds				2,617,551	44,832	(344,623)	2,317,760	
Discount on bonds				(139,073)	(29,930)	9,516	(159,487)	
Totals	$ 20,013,260	$ 35,895,000	$ 9,871,173	$ 48,515,565	$ 10,604,902	$ (1,742,194)	$ 57,378,273	$ 2,040,000

There are a number of limitations and restrictions contained in the various bond indentures. Management is not aware of any terms of noncompliance with debt covenants.

Principal and interest maturities on notes and bonds payable in future periods for the year ending June 30, 2005 are as follows:

	Bonds	
	Principal	Interest
2006	$ 2,040,000	$ 2,608,321
2007	2,115,000	2,528,473
2008	2,205,000	2,433,112
2009	2,315,000	2,329,732
2010	2,420,000	2,222,651
2011-2015	13,850,000	9,273,203
2016-2020	16,590,000	5,607,768
2021-2025	11,095,000	1,703,168
2026-2030	1,305,000	490,175
2031-2034	1,285,000	156,038
	$55,220,000	$29,352,641

Pledged Revenue—As disclosed, the University currently has two bond issues outstanding: the Student Facilities Fee Revenue Bond ("Series 1998") and the General Refunding and Improvement Revenue Bonds, Series 2003, which include 2004A, 2004B, and 2004C. The University has pledged certain revenues as collateral for these bonds. The pledged revenue amounts as of June 30 are as follows:

	2005		
	Student Facilities Fee Revenue Bond	Student Facility Fee Revenue Bond	Total
Pledged Revenues	**Series 1998**	**Series 2003, 2004C, 2004A, 2004B,**	
Matriculation Fee	$	$ 25,083,589	$ 25,083,589
Student facilities fee	3,385,134	465,455	3,850,589
Net revenue of student housing system		(588,890)	(588,890)
Investment income	123	284	407
	$ 3,385,257	$ 24,960,438	$ 28,345,695

	2004		
	Student Facilities Fee Revenue Bond	Student Facility Fee Revenue Bond	Total
Pledged Revenues	**Series 1998**	**Series 2003, 2004C, 2004A, 2004B,**	
Matriculation Fee	$ -	$ 24,022,563	$ 24,022,563
Student facilities fee	2,975,366	479,898	3,455,264
Net revenue of student housing system		(254,094)	(254,094)
Investment income	5,000	1,003	6,003
	$ 2,980,366	$ 24,249,370	$ 27,229,736

As indicated, the Student Facilities Fee is pledged for Series 1998, Series 2003, Series 2004A, Series 2004B, and Series 2004C bonds. The Net Revenue of the Housing System is pledged for the Series 2003 bond.

8. OPERATING LEASE OBLIGATIONS

The University is a lessor under a ground lease agreement with Portneuf Medical Center (lessee). The lease is for 20 years with a renewal option for an additional 20 years, exercisable in the final year of the original lease term. The lease allows for the construction of a sports medicine facility (the Facility) on the premises, which was completed in September 1994. The lessee pays rent of $1 per year for the ground lease, payable on the date of the execution of the lease and annually thereafter on the anniversary date of such execution. The rental agreement provides for use of the weight/training room and common areas by the University. The lessee pays its pro-rata share of utilities and custodial care based upon space occupied, including 50 percent of utilities and custodial costs for common areas.

The University leases a weight/training room and associated common areas from Portneuf Medical Center (lessor). The lease term is 20 years, with a renewal option for an additional 20 years, exercisable if the lessor exercises its option to renew, as provided in the ground lease agreement. Rent for the weight/training room portion of the lease is $1 per year. Rent for shared use of the common areas is $14,000 per year. Rents for the initial term and optional lease term are payable on the date of the execution of the lease and annually thereafter on the anniversary date of such execution. Upon expiration of the lease term, the Facility shall become the property of the University. All fixtures, equipment, and personal property installed within the Facility during the lease term remain the property of Portneuf Medical Center and will be removed upon expiration of the lease term. The lease requires the University to fund repairs and maintenance on the weight/training room and 50% of the common areas. The repair and maintenance of weight training equipment is the sole responsibility of the University. For financial reporting purposes, this transaction has been treated as an operating lease.

The University leases space at 12301 West Explorer Drive in Boise, ID from Wild Shamrock LLP, commencing January 2002, for a term of 36 months. Two subsequent amendments extended the lease to August 2007, with DBSI Genesis LLC, the successor in interest to Wild Shamrock LLP. The rent expense for the facility for the years ended June 30, 2005 and 2004 was $457,521 and $391,163, respectively. The University may, at expiration of the lease and without renewing the lease, continue its occupancy on a month-to-month basis upon the terms set forth in the lease agreement for a period not to exceed one year. The lessor may terminate month to month occupancy upon ninety days prior written notice to the University.

In 2005, the University entered into a lease agreement for space at 12438 West Bridger Street, Suite 100, in Boise, ID with Griffin Trust, commencing in May 2005 and ending in August 2007. The total annual lease payment upon election by the University is subject to a two percent (2%) discount if paid a year in advance. It is the University's intention to take advantage of this discount. The rent expense for this facility for the year ended June 30, 2005, was $40,308. The University may, at expiration of the lease and without renewing the lease, continue its occupancy on a month-to-month basis upon the terms set forth in this lease agreement for a period not to exceed one year. The lessor may terminate the month-to-month occupancy upon ninety days prior written notice to the University.

In April 2004, the University entered into a lease agreement for space, located at 1001 North Seventy Street in Pocatello, ID, ending in March 2007. Payment is computed at a rate of $2.82 per square foot on 50,000 square feet for the term of the lease. The rent expense for the facility for the years ended June 30, 2005 and 2004 was $141,000 and $35,520, respectively. The University may, at the expiration of the lease and without renewing the lease, continue its occupancy on a month-to-month basis upon the terms and conditions set forth in the lease agreement for a period not to exceed one year. The lessor may terminate the month-to-month occupancy upon ninety days prior written notice to the University.

Future minimum lease payments at June 30, 2005 are as follows:

Fiscal Years	Payments
2006	$ 870,298
2007	857,809
2008	139,565
2009	14,001
2010	14,001
2011-2014	56,004
Totals	$ 1,951,678

9. RETIREMENT PLANS

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

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% or 2.3% (depending upon employee classification) of the average monthly salary for the highest consecutive 42 months.

For the years ended June 30, 2005 and 2004, the required contribution rates, as a percentage of covered payroll, were 10.39% and 9.77% for the University, and 6.23% and 5.86% for employees, respectively. The University contributions required and paid were $2,671,378, $2,510,855, and $2,910,200 for the years ended June 30, 2005, 2004, and 2003, respectively.

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

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

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or any portion thereof upon attaining 55 years of age. The contribution requirement (and amounts paid) for the years ended June 30, 2005 and 2004 were $6,728,188 and $5,974,907, respectively. These contributions consisted of $3,535,418 and $3,139,593 from the University and $3,192,770 and $2,835,315 from employees and represented approximately 7.72% and 6.97% of covered payroll, respectively.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute 3.03% of the annual covered payroll to PERSI. These annual supplemental payments are required through July 1, 2015. During the years ended June 30, 2005 and 2004, supplemental funding payments to PERSI were $1,387,974 and $1,232,575. These amounts are not included in the regular University PERSI contribution discussed previously.

Postretirement Benefits Other Than Pensions—Employees who qualify for retirement under PERSI or ORP are eligible to use 50% of the cash value of their unused sick leave to continue their medical insurance coverage through the University. The University partially funds these obligations by depositing .65% of employee gross payroll to PERSI, who administers the plan as a cost-sharing, multiple-employer plan. The total contributions for the years ended June 30, 2005 and 2004 were $465,639 and $431,691.

The University also offers a life insurance plan for retired employees. During the years ended June 30, 2005 and 2004, the University made expenditures totaling $146,241 and $135,101 to purchase life insurance for 263 and 249 retired employees receiving these benefits. This program is accounted for by the University on a pay-as-you-go basis. See Note 1 for discussion of a new accounting standard related to these types of benefits.

10. RECLASSIFICATION OF NET ASSETS

During a review of net asset classifications, it was determined that certain net assets from bond proceeds which were classified as unrestricted should have been classified as restricted-expendable net assets. These bond proceeds were for construction of the Rendezvous Center and an energy improvement project. This requires a reclassification of previously stated net assets. The effect of the reclassification is to decrease unrestricted net assets and increase restricted-expendable net assets. There is no impact on total net assets or on the change in net assets of previous years.

The University has corrected the amounts between unrestricted and restricted-expendable net assets as of June 30, 2004 as follows:

	Invested in capital assets--net of related debt	Restricted--expendable	Unrestricted	Total
Net assets , June 30, 2004 as previously classified	$ 75,255,243	$ 3,303,211	$ 55,755,283	$ 134,313,737
Reclassification		27,249,264	(27,249,264)	-
Net assets, June 30, 2004 as reclassified	$ 75,255,243	$ 30,552,475	$ 28,506,019	$ 134,313,737

11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

2005	Personnel Costs	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expenses Totals
Instruction	$ 63,831,765	$ 5,378,475	$ 4,757,556	$ 190,032	$	$	$ 1,288,026	$ 75,445,854
Research	9,814,314	2,789,867	2,015,769	194,151			472,499	15,286,600
Public services	3,659,875	583,653	568,023	28,422			831,394	5,671,367
Academic support	5,507,313	1,012,175	968,113	13,377			168,949	7,669,927
Libraries	2,255,873	218,603	62,572	1,232			35,523	2,573,803
Student services	6,241,698	721,084	452,855	14,006			418,304	7,847,947
Institutional support	8,331,620	1,947,016	943,418	44,050			858,672	12,124,776
Maintenance and operations	5,077,796	2,845,137	551,217	4,302,881			(71,156)	12,705,875
Auxiliary enterprises	9,713,834	8,013,805	3,029,723	938,555			2,121,705	23,817,622
Scholarships and fellowships					15,342,720			15,342,720
Depreciation						7,262,462		7,262,462
Total expenses	$ 114,434,088	$ 23,509,815	$ 13,349,246	$ 5,726,706	$ 15,342,720	$ 7,262,462	$ 6,123,916	$ 185,748,953

2004	Personnel Costs	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expenses Totals
Instruction	$ 58,538,244	$ 5,079,746	$ 4,390,763	$ 212,132	$	$	$ 1,186,938	$ 69,407,823
Research	8,257,443	2,025,726	1,488,360	133,999			368,636	12,274,164
Public services	3,104,264	291,470	512,463	15,417			468,550	4,392,164
Academic support	5,869,794	893,099	1,170,485	60,917			150,483	8,144,778
Libraries	2,005,772	175,781	88,338	554			33,629	2,304,074
Student services	5,823,366	670,792	457,832	10,003			258,562	7,220,555
Institutional support	8,141,608	1,669,381	1,061,818	(192,467)			468,584	11,148,924
Maintenance and operations	4,614,433	2,433,065	661,007	4,045,668			(17,529)	11,736,644
Auxiliary enterprises	9,144,516	4,351,130	3,018,650	1,226,068			2,226,899	19,967,263
Scholarships and fellowships					15,731,492			15,731,492
Depreciation						6,888,948		6,888,948
Total expenses	$ 105,499,440	$ 17,590,190	$ 12,849,716	$ 5,512,291	$ 15,731,492	$ 6,888,948	$ 5,144,752	$ 169,216,829

12. CONTINGENCIES AND LEGAL MATTERS

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

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

13. COMPONENT UNIT DISCLOSURE

The Idaho State University Foundation, Inc. (the Foundation), is discretely presented on the face of the financial statements as a component unit, as prescribed by the Governmental Accounting Board (GASB) Statement 14, The Reporting Entity, as amended by Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Separate audited financial statements are prepared for the Foundation and may be obtained by contacting Idaho State University Financial Services, Campus Box 8219, Pocatello, Idaho 83209.

The information disclosed hereafter is related to Foundation items that are determined to be significant to the reporting entity as a whole.

Pledges Receivable—The Foundation has outstanding pledges of all types of approximately $85 million, which will be received over an extended period of years. Pledges receivable at June 30, 2005 and 2004, in the amount of $3,986,225 and $2,311,552, are recorded in accordance with GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*. Recorded pledges have not been discounted nor is there an allowance for uncollectible pledges, as all amounts are expected to be collected. The remaining pledges are not included in the financial statements because they do not meet all the criteria in GASB Statement No. 33 for revenue recognition. Approximately $22.1 million of the total outstanding pledge balance is designated to support the construction of the L.E. & Thelma E. Stephens Performing Arts Center.

Investments—Equity securities are valued at fair value as reported by the Investment Managers/Custodians. The change in fair value of the investments is reflected in the Foundation's Statement of Revenues, Expenditures and Changes in Net Assets.

The Foundation, through the Board of Directors, 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 acknowledges and understands its fiduciary role and seeks to act prudently in the best interests of the Foundation.

The role of 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 are determined by guidelines and influenced by spending rules designed to protect the principal of the endowment over time by maintaining the purchasing power of returns from the assets.

Concentration Of Credit Risk—Concentration of credit risk for investments is the risk of loss attributable to the magnitude of an investment in a single issuer. The Foundation's investment policy sets a target distribution for investment types to minimize this risk. At June 30, 2005, the distribution of investments was:

Investment Manager	***Portfolio***	***Benchmark***	***Amount***	
Fixed Income				
Blackrock Core Bond Fund	US Fixed Income	Lehman Aggregate	$13,310,535	42.9%
Equity				
Fontegra IronBridge	Small Cap Growth	Russell 2000 Growth	2,394,967	
TCW	Large Cap Growth	Russell 1000 Growth	2,557,017	
Vanguard Admiral Shares	Large Cap	S&P 500	6,390,898	
Fidelity Diversified Intl	Foreign Large Growth	MSCI ACWI	3,337,153	
T. Rowe Price	Large Cap Value	S&P 500	1,511,962	
John Hancock Fund	Large Cap Value	S&P 500	1,553,900	
Total Equities			17,745,897	57.1%
Total Investments			$31,056,432	100.0%

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 & Poor's, and Fitch's. The Foundation's policy requires all bonds purchased to have a rating of "A" or better. The Blackrock Core Bond Fund average rating at June 30, 2005, was AA+, with an overall Morningstar rating of three stars.

Interest Rate Risk—Investments in debt securities that are fixed for longer periods are likely to experience greater variability in their par values due to future changes in interest rates. The Blackrock Core Bond Fund has an average maturity of 5.00 years.

Multi-Mode Variable Rate Revenue Bond—A Multi-Mode Variable Rate Revenue Bond for the construction, furnishing, equipping, and improving of certain real and personal property, comprising the L.E. and Thelma Stephens Performing Arts Center, was issued on May 30, 2001, in the amount of $22,170,000. The Bonds fully mature on May 1, 2021, and are secured by donations, pledges and other funds held under the Bond Indenture. Total interest expense was $409,127 in fiscal year 2005 and $226,418 in fiscal year 2004. The Performing Arts Center was constructed by the Foundation with contributions and the proceeds of the Foundation's Multi-Mode Variable Rate Revenue Bond, issued in 2001. The facility was constructed on land leased by the Foundation from the University for $1 a year for a 20 year term. The land and improvements were, in turn, leased back to the University for $1 a year for 20 years, with a provision that title to the improvements transfers to the University at the earlier of the end of the lease, or retirement of the bonds. The excess of the fair value of the improvements (i.e., cost) over the gross rents payable by the University were recorded as an asset of the University in recognition of the permanent transfer of rights of use to the University for only nominal consideration.

For the period from and including the date of issuance and delivery of the bonds, the bonds will bear interest at rates determined for the weekly rate, until converted to another permitted interest rate. The interest rate mode for the bonds may be changed from time to time to a semi-annual rate or a long-term rate. Each interest rate will be determined by the Remarketing Agent, initially Wells Fargo Brokerage Services, LLC. The interest rates were 2.30% at June 30, 2005 and 1.10% at June 30, 2004.

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

Date	Amount	Interest
2006	$ 1,385,000	$ 509,910
2007	1,385,000	478,055
2008	1,385,000	446,200
2009	1,385,000	414,345
2010	1,385,000	382,490
2011-2015	6,925,000	1,434,625
2016-2020	6,930,000	638,250
2021	1,390,000	31,970
Totals	$ 22,170,000	$ 4,335,845

Net Assets—the Foundation's net assets are classified as follows:

Restricted, Expendable Performing Arts Center—Restricted expendable Performing Arts Center net assets are those resources which have been designated by donors to support the construction of the Performing Arts Center. This category is stated separately to more clearly present the net assets of the Foundation.

Unrestricted—Unrestricted net assets represent resources derived from gifts, dividend and investment income that are not subject to donor-imposed restrictions.

Restricted Endowments—represents net assets that are subject to donor-imposed stipulations that must be maintained permanently by the Foundation.

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
Idaho State University
Pocatello, Idaho

We have audited the financial statements of Idaho State University (University) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement 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 9, 2005.

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

Moss Adams LLP

Eugene, Oregon
September 9, 2005