IDAHO
STATE
UNIVERSITY

Idaho State University

FINANCIAL STATEMENTS FOR THE
YEARS ENDED JUNE 30, 2006 AND 2005
AND INDEPENDENT AUDITOR'S
REPORT

IDAHO STATE UNIVERSITY

TABLE OF CONTENTS

IDAHO STATE UNIVERSITY

Management's Discussion and Analysis
For the year ended June 30, 2006

INTRODUCTION

This discussion and analysis is intended to serve as an introduction to the University's financial statements, which includes the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. 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, 2006. The financial statements have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universitie*s.

A brief explanation of each of these statements follows.

Statement of Net Assets – The statement of net assets includes all assets and liabilities of the University. Assets and liabilities are reported at their book value, on an accrual basis, as of the statement date. This statement also identifies any major categories of restrictions on the net assets of the University.
Statement of Revenues, Expenses, and Changes in Net Assets – The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during the year on an accrual basis.
Statement of Cash Flows – The statement of cash flows presents the inflows and outflows of cash for the year and is summarized by operating, non-capital financing, capital and related financing, and investing activities.

This analysis 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.

Based on GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Idaho State University Foundation, Incorporated (Foundation) is the only affiliated organization that qualifies for component unit presentation. The statement requires disclosure, as a component unit, of any significant organizations that raise and hold economic resources for the direct benefit of the University. Accordingly, the Foundation is discretely presented on the face of the University's financial statements as such. The Foundation's separate, audited financial statements are available by contacting the Idaho State University Foundation, Campus Box 8050, Pocatello, ID 83209.

STATEMENT OF NET ASSETS

The Statement of Net Assets is the University's financial balance sheet. It reflects the total assets and liabilities of the University, with the difference between the two reported as net assets (equity). 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 assessment 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. Changes from one year to the next in total net assets as presented on the Statement of Net Assets are based on the activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets.

A summary statement of the University's assets, liabilities and net assets at June 30, 2006 follows.

Summary Statement of Net Assets

	June 30, 2006	June 30, 2005
Assets:		
Current Assets	$54,764,656	$56,408,669
Noncurrent Assets	158,795,020	160,643,608
Total Assets	213,559,676	217,052,277
Liabilities:		
Current Liabilities	23,640,419	24,803,491
Noncurrent Liabilities	52,904,601	55,338,273
Total Liabilities	76,545,020	80,141,764
Net Assets:		
Invested in capital assets, net of related debt	91,299,662	81,347,825
Restricted, expendable	14,599,005	24,701,888
Unrestricted	31,115,989	30,860,800
Total Net Assets	$137,014,656	$136,910,513

Overall, the University's statement of net assets experienced no significant change during FY 2006. Current assets, consisting primarily of cash and cash equivalents; accounts and loans receivable; and investments and inventory, remained relatively flat at $54.8 million, compared to $56.4 million at June 30, 2005, representing a decrease of 2.8 percent. The primary reason for the slight decline in noncurrent assets of 1.2 percent is the increased depreciation from the L.E. and Thelma E. Stephens Performing Art Center. While it did not contribute to the decline, it is important to note the transfer of $10.4 million from investments held in trust (representing bond proceeds) to construction in progress, for work completed on the Rendezvous building.

Capital and Debt Activities

The development and renewal of property, plant, and equipment is one of the essential factors in maintaining the quality of the University's academic and research programs. The University continues to pursue its long-range plan to modernize the older teaching and research facilities, balanced with new construction, when appropriate.

University liabilities totaled $76.5 million at June 30, 2006, compared to $80.1 million at June 30, 2005. The slight decrease of 4.5 percent is not attributable to any single event or transaction. The primary factor is the payoff of notes and bonds payable, coupled with timing differences related to accruals and payables in salaries and benefits and amounts due to state agencies.

The University takes seriously its role of financial stewardship and works hard to manage its resources effectively, including the prudent use of debt to finance capital projects. Moody's Investors Service, Inc. and Standards & Poor's Rating Services have assigned the University a municipal bond credit rating of "A2", or equivalent. In addition to being an official acknowledgment of the University's strong financial position and financial management, these ratings enable the University to obtain future debt financing at favorable pricing.

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 received and the expenses paid by the University, both operating and nonoperating, along with other revenues, expenses, and gains or losses received or incurred by the University.

Operating revenues are typically received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. For example, certain state appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services in return for those revenues. As noted below, these nonoperating revenues, in particular the state appropriations and private gifts, are critical to the University's financial stability and directly affect the quality of its programs.

GASB requires subtotals for operating income or loss, and for income or loss before other revenue and expenses. For state-supported colleges and universities, this requirement typically results in the subtotal for operating income or loss showing a "loss". 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. These include state appropriations, gifts, and investment income, which are categorized as non-operating revenue in accordance with GASB Statement No.35.

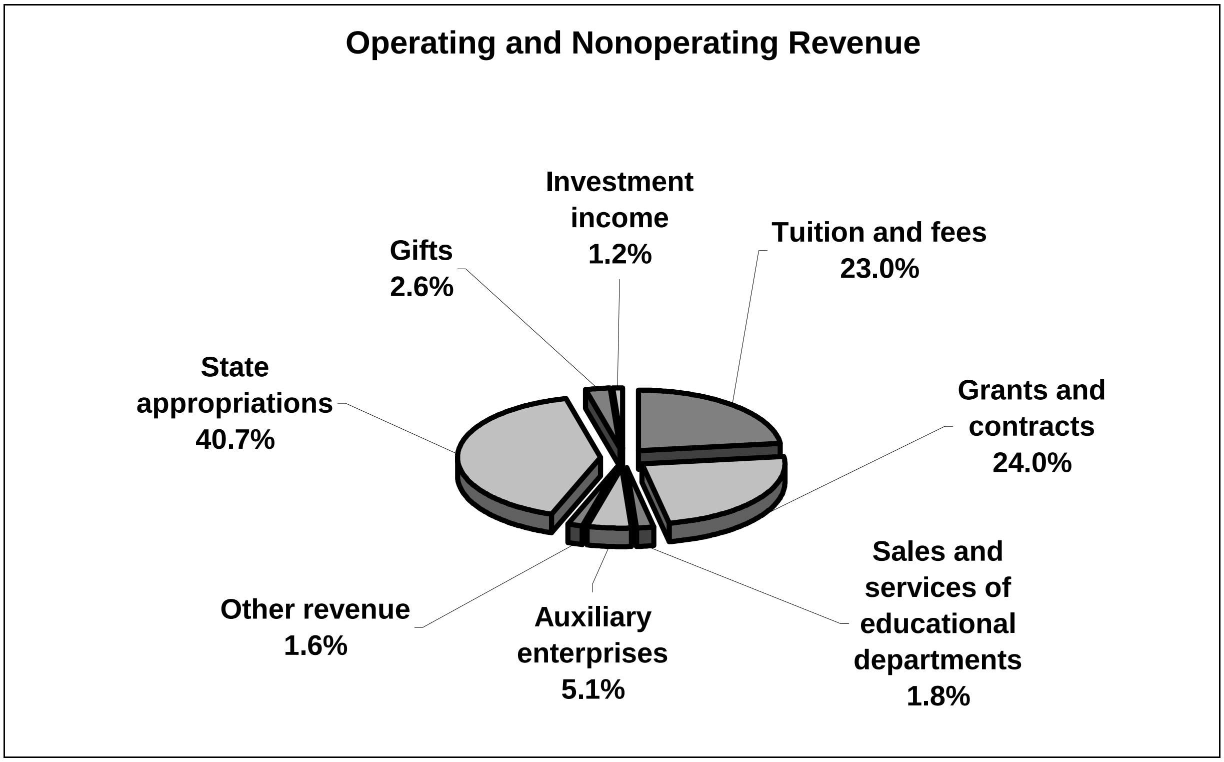
A summarized statement of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2006 and 2005, is presented on the next page.

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

	FY 2006	FY 2005
Operating revenues		
Student tuition and fees (net of scholarship discounts and allowances)	$ 44,368,605	$ 40,519,023
Federal grants and contracts	28,362,060	32,515,851
State and local grants and contracts	12,524,242	10,223,913
Nongovernment grants and contracts	5,310,855	5,893,573
Sales and services of educational departments	3,511,345	2,748,009
Auxiliary enterprises sales and services	9,857,306	9,381,793
Other operating revenue	3,080,836	2,639,333
Total operating revenues	107,015,249	103,921,495
Operating expenses	193,431,225	185,748,953
Operating income (loss)	(86,415,976)	(81,827,458)
Nonoperating revenues (expenses)		
State appropriations	78,601,293	74,092,216
Gifts	5,081,013	4,325,901
Investment income	2,220,046	1,315,037
Interest on capital asset related debt	(2,296,369)	(2,221,214)
Net nonoperating revenues	83,605,983	77,511,940
Other revenue and expenses		
Capital appropriations	1,785,761	1,069,624
Capital gifts and grants	1,125,435	5,891,531
Gain or (loss) on disposal of fixed assets	2,940	(48,861)
Net other revenues and expenses	2,914,136	6,912,294
Increase in net assets	104,143	2,596,776
Net assets - beginning of year	136,910,513	134,313,737
Net assets - end of year	$ 137,014,656	$ 136,910,513

Revenue

Major funding for Idaho State University comes primarily through appropriations from the state of Idaho and student tuition and fees. In addition, the University obtains funding from the Idaho State University Foundation, research-related grants and contracts, governments, other gifts, and other enterprises 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 funding resources to augment student tuition and fees and minimize the rising costs of education. The chart below illustrates University revenues by source (both operating and non-operating) for the year ended June 30, 2006.



In FY 2006, the University received a total of $78.6 million in appropriations from the state of Idaho. This represents an increase of $4.5 million, or 6.1 percent, as compared to the $1.3 million increase experienced in FY 2005. This trend reflects an overall improving economic condition for the state, but also represents an increase of less than one-half of one percent in the ratio of state funding compared to overall University funding. The Idaho State Board of Education authorized an 8.1 percent increase in student tuition and fees for FY 2006, resulting in fee revenue totaling $44.4 million (net of discounts or allowances), as compared to $40.5 million derived from a 7.3 percent increase authorized in FY2005.

As a research institution, the University receives a substantial amount of funding through federal, state, and private grants and contracts. Overall, grant funding declined slightly in FY 2006 from FY 2005, due primarily to several large multi-year grants coming to a close in FY 2005, coupled with a decline in the amount of Pell grants awarded in FY 2006.

For the past several years, funding for capital gifts and grants has come primarily from the Foundation for construction of the L. E. and Thelma E. Stephens Performing Arts Center. Construction on the project was substantially completed near the end of FY 2005, resulting in minimal expenditures to wrap it up in FY 2006, and contributing to the funding decline of $4.8 million for FY 2006.

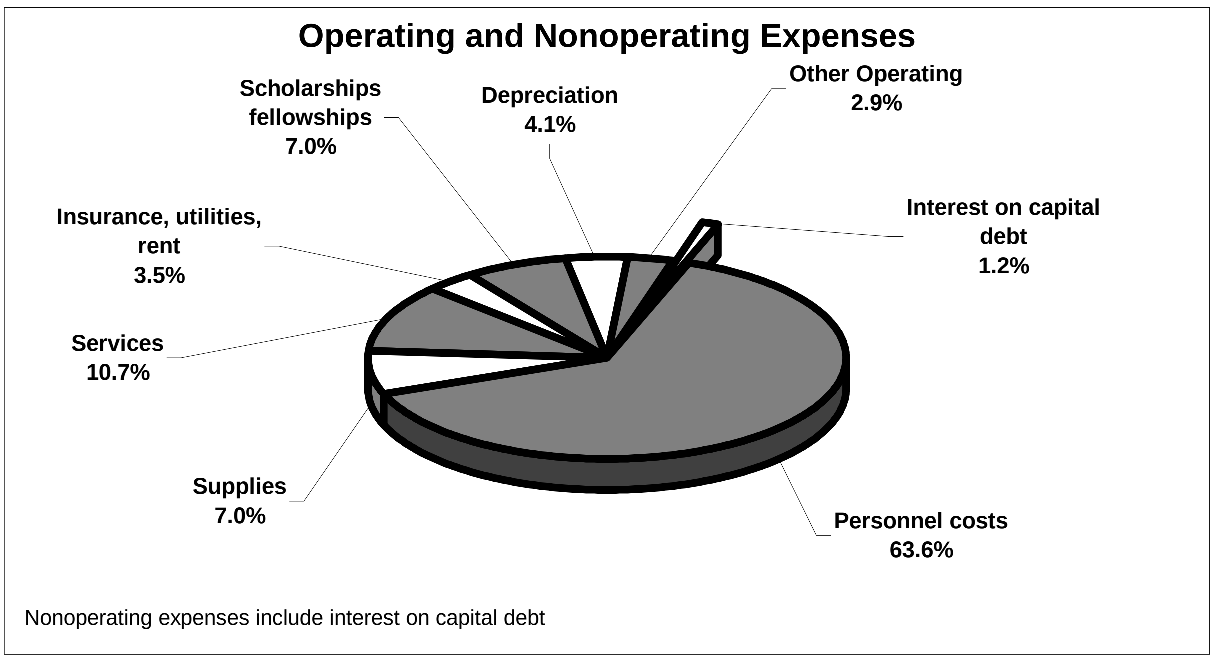
Expenses

Expenses for the year ended June 30, 2006 are summarized and contrasted to prior years below.

Summary Statement of Expenses

	2006	2005
Operating		
Personnel costs	$ 124,412,207	$ 114,434,088
Supplies	13,799,007	13,349,246
Services	20,927,517	23,509,815
Insurance, utilities and rent	6,789,995	5,726,706
Scholarships and fellowships	13,693,498	15,342,720
Depreciation Expense	8,123,834	7,262,462
Other operating Expenses	5,685,167	6,123,916
Total operating expenses	193,431,225	185,748,953
Nonoperating		
Interest on capital asset related debt	2,296,369	2,221,214
Total expenses	$ 195,727,594	$ 187,970,167

Total expenses by natural classification are illustrated in the chart below:



Fiscal year 2006 saw overall operating expenses increase marginally by 4.1 percent, or $7.7 million from FY 2005. This increase is due in large part to a 1 percent, one-time, temporary wage and salary adjustment, and a 3 percent wage and salary increase for FY 2007, which the Governor elected to implement in FY 2006. In addition, health insurance benefits increased and several new positions were added. Also contributing to the increase was a

56 percent rise in natural gas billing rates and higher property insurance premiums. These increases were partially offset by a $2.6 million decline in the cost of services attributable to reduced expenditures on the energy conservation project, as well as reduced spending on scholarships due to fewer Pell grants being awarded.

In addition to their natural (object) classification, a comparative summary of the University's expenses categorized by functional classification for the years ended June 30, 2006 and 2005, provides additional insight into the nature of expenditures made by the University in fulfilling its role of providing higher education to the citizens of Idaho (see below). Expenditures for instruction, research, student services, and scholarships and fellowships comprise 62 percent of total operating expenses, which is consistent with the University's mission of educating students. A complete matrix of expenses, natural versus functional, is contained in the footnotes to the financial statements.

Summary Statement of Expenses by Function

	2006	2005
Instruction	$82,677,907	$75,445,854
Research	15,378,400	15,286,600
Public Service	5,150,169	5,671,367
Academic Support	8,672,960	7,669,927
Libraries	2,676,104	2,573,803
Student Services	8,364,355	7,847,947
Institutional Support	14,050,166	12,124,776
Maintenance and Operations	13,405,379	12,705,875
Auxilary Enterprises	21,238,453	23,817,622
Scholarships and Fellowships	13,693,498	15,342,720
Depreciation	8,123,834	7,262,462
Total Functional Expenses	$193,431,225	$185,748,953

STATEMENT OF CASH FLOWS

The *Statement of Cash Flows* presents a view of the sources and uses of the University's cash resources and is useful in measuring its ability to satisfy financial obligations as they mature. The statement classifies cash flows in the following four categories.

- Operating activities – Displays the net cash flow required to conduct the day-to-day operating activities of the institution and reflects the continued need for funding from the state of Idaho.
- Non-capital financing activities – Reflects the net cash flow of non-operating transactions not related to investing or capital financing activities, and includes funds provided by state appropriations.
- 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 and reflects the change in rates of return on invested funds.

The statement summarizes the net cash flow at the bottom and is reconciled to the operating income or loss, as 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, 2006 is presented below.

Summary Statement of Cash Flows

	FY 2006	**FY 2005**
Cash (used in) or provided by:		
Operating activities	$ (75,786,724)	$ (75,936,159)
Noncapital financing activities	82,351,869	79,352,195
Investing activities	1,941,077	846,756
Capital and related financing activities	(10,334,835)	(9,247,627)
Net decrease in cash	(1,828,613)	(4,984,835)
Cash and cash equivalents, beginning of year	46,337,700	51,322,535
Cash and cash equivalents, end of year	$ 44,509,087	$ 46,337,700

For purposes of the *Statement of Cash Flows*, the University considers all highly liquid investments with an original maturity of three months or less and all non-negotiable certificates of deposit to be cash equivalents.

FUTURE ECONOMIC OUTLOOK

Management believes the University is reasonably well positioned to sustain its sound financial condition and continue providing excellent service to its students, the research community, and the state. The University's financial position provides a degree of flexibility in obtaining funds on competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will assist the University in obtaining the necessary resources to sustain excellence.

Idaho State University will continue to face competitive pressures related to attracting and retaining leading faculty and staff. A major factor in the University's future will continue to be its relationship with the state of Idaho. There is a direct correlation between the relative decrease in state support and the University's ability to enhance and protect its core academic programs. As the ratio of state appropriations decreases, the University must turn to the generous support of its alumni and other supporters, as well as increases in student tuition and fees to help offset the reductions. The University will continue to be a good value for students and parents in the higher education marketplace, but tuition remains an important revenue stream in the years ahead.

Looking forward to fiscal year 2007, there continue to be many encouraging and positive undertakings at Idaho State University. Construction on the $38.8 million Rendezvous Building is scheduled for completion in 2007. This unique, multipurpose educational, residential, and social complex will be a gathering place for the campus community and help to integrate more closely the upper and lower campuses in a facility where students and faculty can meet in classroom and social settings.

The University is in the initial stages of acquiring an Enterprise Resource Management (ERP) information system to replace the aging legacy system. This will undoubtedly be a challenge, but will also present new opportunities for economy and efficiency and improve and integrate campus information, communication, and service to students.

Research continues to grow and provide better and more in-depth opportunities for learning. This trend will continue and expand under the direction of the new University President. The Idaho State Board of Education named Dr. Arthur C. Vailas as President of Idaho State University in February 2006. He assumed the position on

July 1, 2006. Dr. Vailas was previously vice chancellor of all five campuses in the University of Houston System, as well as vice president for research and intellectual property management at the main campus. He held numerous positions at the University of Wisconsin in Madison, including associate dean for research and development in the School of Education; professor of orthopedic surgery in the College of Medicine; professor of kinesiology in the School of Education; professor in the College of Agriculture, and professor and director of the Bio-dynamics Laboratory. In addition, he served as an associate professor and an assistant professor in the department of physiological science at the University of California at Los Angeles. The University is fortunate to have Dr. Vailas as its new President and looks forward to new vision and direction and exciting changes under his leadership.

As management continues to deal with today's uncertain economic factors, we are confident the University's prudent use of resources, cost-containment efforts, and development of other sources of revenues will strengthen the institution and help ensure it is well positioned to continue its mission in Idaho.

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 and analyzed in this analysis.

INDEPENDENT AUDITOR'S REPORT

Idaho State Board of Education
Idaho State University
Pocatello, Idaho

We have audited the accompanying statements of net assets of Idaho State University (University) as of and for the years end June 30, 2006 and 2005, as listed in the table of contents. 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.

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 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 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, 2006 and 2005, and the changes in 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 6, 2006, 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 6, 2006

IDAHO STATE UNIVERSITY

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

	University		Component Unit	
	2006	2005	2006	2005
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 39,650,723	$ 37,281,812	$ 2,549,169	$ 508,249
Cash with Treasurer	4,858,364	9,055,888		
Student loans receivable	485,985	422,764		
Accounts receivable and unbilled charges, less allowance for doubtful accounts of $641,538 and $549,265	5,576,227	5,529,313		625,479
Gifts and pledges receivable			2,415,814	3,986,225
Due from state agencies	3,274,436	3,224,830		
Interest receivable	54,340	28,202		
Inventories	268,527	264,085		
Prepaid expenses	596,054	601,775		24,240
Total current assets	54,764,656	56,408,669	4,964,983	5,144,193
NONCURRENT ASSETS:				
Restricted cash and cash equivalents			2,000,463	2,853,320
Investments			33,187,085	31,056,432
Student loans receivable, less allowance for doubtful loans of $424,957 and $389,892	1,476,381	1,687,255		
Investments held in trust	11,372,931	20,630,492		
Property held for resale			1,125,372	1,125,372
Property, plant, and equipment, net	145,945,708	138,325,861		
Total noncurrent assets	158,795,020	160,643,608	36,312,920	35,035,124
TOTAL ASSETS	213,559,676	217,052,277	41,277,903	40,179,317
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	2,157,654	2,660,422	130,854	70,811
Due to Idaho State University				35,852
Due to state agencies	1,714,910	1,190,970		
Accrued salaries and benefits payable	8,724,473	9,723,964		
Compensated absences payable	3,738,159	3,592,321		
Deposits	99,409	111,975		
Funds held in custody for others	547,469	561,977	5,744,516	5,444,331
Deferred revenue	3,911,228	4,269,783		
Accrued interest payable	632,117	652,079		
Notes and bonds payable	2,115,000	2,040,000	1,385,000	1,385,000
Total current liabilities	23,640,419	24,803,491	7,260,370	6,935,994
NONCURRENT LIABILITIES--Notes and bonds payable	52,904,601	55,338,273	19,400,000	20,785,000
TOTAL LIABILITIES	76,545,020	80,141,764	26,660,370	27,720,994
NET ASSETS:				
Invested in capital assets, net of related debt	91,299,662	81,347,825		
Restricted, expendable	14,599,005	24,701,888	5,929,651	5,482,689
Restricted, unexpendable			28,306,055	25,110,824
Unrestricted	31,115,989	30,860,800	(19,618,173)	(18,135,190)
Total net assets	137,014,656	136,910,513	14,617,533	12,458,323
TOTAL LIABILITIES AND NET ASSETS	$213,559,676	$ 217,052,277	$41,277,903	$ 40,179,317

See Accompanying Notes to Financial Statements

IDAHO STATE UNIVERSITY

STATEMENT OF REVENUES EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	University		Component Unit	
	2006	2005	2006	2005
OPERATING REVENUES				
Student tuition and fees including pledged revenue of $32,237,058 and $30,761,631 (net of scholarship discounts and allowances of $14,524,341 and $14,566,807, respectively)	$ 44,368,605	$ 40,519,023		
Federal grants and contracts	28,362,060	32,515,851		
State and local grants and contracts	12,524,242	10,223,913		
Private grants and contracts	5,310,855	5,893,573		
Sales and services of educational activities	3,511,345	2,748,009		
Sales and services of auxiliary enterprises including pledged revenue of $3,635,383 and $3,370,821	9,857,306	9,381,793		
Other	3,080,836	2,639,333		
Gifts and contributions			$ 4,759,431	$ 6,240,191
Investments, including changes in fair value of $1,464,429 and $905,465, respectively			2,260,368	1,526,404
Total operating revenues	107,015,249	103,921,495	7,019,799	7,766,595
OPERATING EXPENSES				
Personnel costs	124,412,207	114,434,088		
Services	20,927,517	23,509,815	378,753	402,171
Supplies	13,799,007	13,349,246		50,000
Insurance, utilities and rent	6,789,995	5,726,706	76,618	76,621
Scholarships and fellowships	13,693,498	15,342,720		
Depreciation	8,123,834	7,262,462		
Miscellaneous	5,685,167	6,123,916	3,832	149,529
Payments to Idaho State University			3,708,715	8,035,313
Investment Expense			20,601	36,367
Total operating expenses	193,431,225	185,748,953	4,188,519	8,750,001
OPERATING INCOME (LOSS)	(86,415,976)	(81,827,458)	2,831,280	(983,406)
NONOPERATING REVENUES (EXPENSES)				
State appropriations:				
State general account - general education	65,066,500	61,409,300		
Endowment income	1,609,679	1,864,078		
Other state appropriations Idaho dental education program	2,170,375	1,963,750		
Professional technical education	9,754,739	8,855,088		
Gifts (including $2,610,795 and $2,192,133 respectively, from Idaho State University Foundation)	5,081,013	4,325,901		
Net investment income	2,220,046	1,315,037		
Interest on capital asset related debt	(2,296,369)	(2,221,214)	(658,445)	(409,127)
Other distributions			(13,625)	(13,443)
Net nonoperating revenues (expenses)	83,605,983	77,511,940	(672,070)	(422,570)
GAIN (LOSS) BEFORE OTHER REVENUES AND EXPENSES	(2,809,993)	(4,315,518)	2,159,210	(1,405,976)
OTHER REVENUES AND EXPENSES				
Capital appropriations	1,785,761	1,069,624		
Capital gifts (including $1,097,921 and $5,843,181 respectively from Idaho State University Foundation	1,125,435	5,891,531		
Gain or (loss) on disposal of fixed assets	2,940	(48,861)		
Net other revenues and expenses	2,914,136	6,912,294		
INCREASE IN NET ASSETS	104,143	2,596,776	2,159,210	(1,405,976)
NET ASSETS, BEGINNING OF YEAR	136,910,513	134,313,737	12,458,323	13,864,299
NET ASSETS, END OF YEAR	$ 137,014,656	$ 136,910,513	$ 14,617,533	$ 12,458,323

See Accompanying Notes to Financial Statements

IDAHO STATE UNIVERSITY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Student fees	$ 37,190,868	$ 33,231,971
Grants and contracts	46,930,045	46,658,399
Sales and services of educational activities	3,488,492	2,930,287
Sales and services from auxiliary enterprises	10,062,147	9,714,920
Other operating revenue	3,900,500	3,951,479
Collection on loans to students	633,634	623,391
Payments to and on behalf of employees	(126,806,004)	(114,424,330)
Payments for services	(14,951,685)	(17,598,656)
Payments for supplies	(16,775,959)	(16,697,877)
Payments for insurance, utilities, rent	(5,950,051)	(5,403,993)
Payments for scholarships and fellowships	(7,632,945)	(9,770,895)
Other operating payments	(5,291,954)	(8,339,375)
Loans issued to students	(583,812)	(811,480)
Net cash provided (used) by operating activities	(75,786,724)	(75,936,159)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	78,553,066	74,759,329
Gifts	4,423,399	4,368,050
Agency account receipts	40,871,075	38,414,708
Agency account payments	(41,433,561)	(38,195,430)
Direct lending receipts	46,182,563	44,485,034
Direct lending payments	(46,244,673)	(44,479,496)
Net cash provided (used) by non-capital financing activities	82,351,869	79,352,195
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital gifts and grants	1,202,702	7,604,204
Capital Purchases	(6,889,215)	(13,293,389)
Bond proceeds	0	282,016
Principal paid on capital debt	(2,040,000)	(1,407,087)
Interest paid on capital debt	(2,608,322)	(2,433,371)
Net cash provided (used) by financing activities	(10,334,835)	(9,247,627)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,941,077	846,756
Net cash provided (used) by investing activities	1,941,077	846,756
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,828,613)	(4,984,835)
CASH AND CASH EQUIVALENTS--Beginning of year	46,337,700	51,322,535
CASH AND CASH EQUIVALENTS--End of year	44,509,087	46,337,700
RECONCILIATION OF NET OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES		
Operating Loss	(86,415,976)	(81,827,458)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation	8,123,834	7,262,462
Maintenance costs paid by Department of Public Works and other	1,862,878	765,583
Change in assets and liabilities		
Accounts receivable, net	667,285	(887,586)
Prepaid expenses	201,539	(201,539)
Student loans receivable, net	147,653	(84,823)
Inventory	(4,442)	(6,128)
Accounts payable and accrued liabilities	404,789	243,895
Accrued salaries and benefits payable	(821,079)	344,667
Deposits	(12,566)	1,510
Deferred revenue	59,361	(1,546,742)
Net cash used in operating activities	$ (75,786,724)	$ (75,936,159)
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:		
Property, plant and equipment acquired through DPW appropriations		$ 350,000

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.* 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 and all non-negotiable certificates of deposit to be cash equivalents.

Student Loans Receivable—Loans receivable from students bear interest at rates ranging from 3 percent to 7 percent 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 consist 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, 2006 and 2005.

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 to 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. Amounts included in accrued salaries and benefits payable in the statement of net assets are $3,738,159 and $3,592,321 at June 30, 2006 and 2005, respectively.

Noncurrent Liabilities—Noncurrent liabilities include the principal portions of revenue bonds payable and notes payable with contractual maturities greater than one year.

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

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

Restricted, Expendable—Restricted expendable net assets include resources which the University is legally or contractually obligated to use 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.

When an expense is incurred that can be paid using either restricted or unrestricted resources, expense allocation decisions are made on a program-by-program basis.

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 requirements of this Statement are effective for the fiscal year ending June 30, 2006. The University has determined that no such impairments have occurred for the year ended 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* (OPEB). 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 requirements of this statement are effective for the fiscal year ending June 30, 2006. The University has determined there is no impact on the financial position or results of operations for the year ended June 30, 2006 by adopting Statement No. 47.

Reclassification**—**Certain amounts reported in the June 30, 2005, financial statements have been reclassified to conform to the June 30, 2006, 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, 2006 and 2005, 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 for overnight investment at competitive market rates to maximize the use of idle funds, including the cash float from outstanding checks. The investments in the sweep account consist of direct obligations or those that are fully guaranteed as to the principal and interest by the U.S. Government or its agencies 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, 2006 and June 30, 2005, total deposits consisted of the following:

	2006	2005
Cash	$ 1,530,030	$ 1,522,951
Non-negotiable certificates of deposit	1,327,276	1,316,864
Obligations of the U.S. Government and its agencies	40,619,811	37,962,636
Cash equity with the State Treasurer	4,858,364	9,055,888
Total deposits	$ 48,335,481	$ 49,858,339

The deposit amounts subject to custodial credit risk at June 30, 2006 and June 30, 2005, were $2,657,306 and $2,639,815, respectively, which were uncollateralized and uninsured.

At June 30, 2006 and June 30, 2005, the University had $105,637 and $103,476 respectively, of cash on hand in various change funds. The carrying amount of the University's cash and cash equivalents at June 30, 2006 and June 30, 2005, was $44,509,087 and $46,337,700, respectively. The net difference between deposits and the carrying amount of cash and cash equivalents 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 without prior Board approval 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. 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, 2006 and June 30, 2005, 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	2006	2005	Investment Maturity	Standard & Poors	Moody's
Repurchase Agreement	$ 11,372,931	$ 20,630,492	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 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:

	2006	2005
Operating:		
Student tuition fees	$ 51,048	$ 17,776
Federal grants and contracts	1,898,590	4,138,164
State and local grants and contracts	2,156,219	456,295
Nongovernment grants and contracts	1,448,613	1,462,860
Sales and services of educational departments	497,250	210,238
Auxiliary enterprises sales and services	535,728	467,553
Other operating revenue	597,051	570,724
Services and supplies	10,684	12,652
Perkins	134,638	115,988
Revolving	854,766	1,307,349
Less allowance for doubtful accounts	(641,538)	(549,265)
Net operating accounts receivable and due from state agencies	7,543,049	8,210,334
Nonoperating:		
State appropriations	693,463	92,878
Gifts	10,245	6,622
Agency	603,906	444,309
Net nonoperating accounts receivable	1,307,614	543,809
Total accounts receivable and due from state agencies	$ 8,850,663	$ 8,754,143

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. Under this Program, the federal government provides approximately 75 percent 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 University must deposit this reimbursement into its Perkins loan fund. However, the University is 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 were to cancel the Program, the amount the University would be liable for as of June 30, 2006 and 2005, is $2,064,467 and $2,129,599, 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, 2006 and 2005, the allowance for uncollectible loans was approximately $424,957 and $389,892, respectively.

In the spring of 2006, the University began participation in the Nursing Faculty Loan Program (NFLP), a federal loan program authorized under Title VIII of the Public Health Service Act, to increase the number of qualified nursing faculty. As per the agreement, the Department of Health and Human Services (HHS) makes an award to the University in the form of a Federal Capital Contribution (FCC). The University uses the FCC to establish a distinct account called the NFLP Fund, from which loans are made to full-time students enrolled in an eligible, advanced degree nursing program (master's or doctoral) at the University. In addition to the FCC award, the University must contribute an Institutional Capital Contribution (ICC) to the NFLP Fund equal to at least one-ninth of the total FCC award. In 2006, the FCC award was $28,540, the ICC was $3,171, and $6,000 in loans was issued to students. In the event the University should withdraw from the NFLP Program, or the government was to cancel the Program, the amount the University would be liable for as of June 30, 2006, is $28,664.

5. PROPERTY, PLANT AND EQUIPMENT

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

		2005				2006	
	Balance at June 30, 2004	Additions	Retirements	Balance at June 30, 2005	Additions	Transfers & Retirements	Balance at June 30, 2006
Property, plant and equipment:							
Land	$ 2,524,093	$ 767,900		$ 3,291,993			$ 3,291,993
Construction in progress	32,833,820	10,928,655	(1,713,092)	42,049,383	10,798,613	(33,854,336)	18,993,660
Total property, plant and equipment not being depreciated	$ 35,357,913	$ 11,696,555	$(1,713,092)	$ 45,341,376	$ 10,798,613	$(33,854,336)	$ 22,285,653
Other property, plant and equipment:							
Buildings and improvements	$119,475,217	$ 6,992,932	$	$126,468,149	$ 34,087,992	$	$160,556,141
Furniture, fixtures and equipment	29,271,412	3,090,810	(1,772,700)	30,589,522	2,467,527	(1,077,689)	31,979,360
Library materials	30,901,061	2,227,090		33,128,151	2,284,601		35,412,752
Total other property, plant and equipment	179,647,690	12,310,832	(1,772,700)	190,185,822	38,840,120	(1,077,689)	227,948,253
Less accumulated depreciation:							
Buildings and improvements	(48,738,752)	(3,306,066)		(52,044,818)	(4,052,436)		(56,097,254)
Furniture, fixtures and equipment	(19,626,642)	(2,316,015)	1,722,839	(20,219,818)	(2,316,602)	1,036,973	(21,499,447)
Library materials	(23,296,320)	(1,640,381)		(24,936,701)	(1,754,796)		(26,691,497)
Total accumulated depreciation	(91,661,714)	(7,262,462)	1,722,839	(97,201,337)	(8,123,834)	1,036,973	(104,288,198)
Other property, plant and equipment net of accumulated depreciation	$ 87,985,976	$ 5,048,370	$ (49,861)	$ 92,984,485	$ 30,716,286	$ (40,716)	$123,660,055
Property, Plant and Equipment Summary:							
Property, plant and equipment not being depreciated	$ 35,357,913	$ 11,696,555	$(1,713,092)	$ 45,341,376	$ 10,798,613	$(33,854,336)	$ 22,285,653
Other property, plant and equipment at cost	179,647,690	12,310,832	(1,772,700)	190,185,822	38,840,120	(1,077,689)	227,948,253
Total property, plant and equipment	215,005,603	24,007,387	(3,485,792)	235,527,198	49,638,733	(34,932,025)	250,233,906
Less accumulated depreciation	(91,661,714)	(7,262,462)	1,722,839	(97,201,337)	(8,123,834)	1,036,973	(104,288,198)
Property, plant and equipment—net	$123,343,889	$ 16,744,925	$(1,762,953)	$138,325,861	$ 41,514,899	$(33,895,052)	$145,945,708

Construction in progress includes $10,403,645 for the Rendezvous building, a multipurpose educational, residential and social complex.

Additions to building and improvements in FY 2006 include $34,087,992 for the L.E. and Thelma Stephens Performing Arts Center. The Performing Arts Center was constructed by the Foundation with contributions and the proceeds from 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, the value of which is uncertain.

In addition to accounts payable for construction in progress, the estimated cost to complete property authorized or under construction at June 30, 2006, is approximately $30,000,000. These costs will be financed by available resources of Idaho State University through General Refunding and Improvement Revenue Bonds.

6. DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	2006	2005
Prepaid fees	$ 2,343,441	$ 2,716,142
Auxiliary enterprises	88,614	57,191
Grants and contracts	1,477,913	1,485,287
Other ticket sales	1,260	11,163
	$ 3,911,228	$ 4,269,783

7. NONCURRENT LIABILITIES

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

Description	Balance Outstanding 6/30/2004	Additions	Reductions	Balance Outstanding 6/30/2005	Additions	Reductions	Balance Outstanding 6/30/2006	Amounts Due Within One Year
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.	10,800,000		(620,000)	10,180,000		(645,000)	9,535,000	670,000
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.	35,165,000		(715,000)	34,450,000		(1,090,000)	33,360,000	1,140,000
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)	4,770,000	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			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)	2,210,000	95,000
Note payable to City of Pocatello, due in annual installments of $11,570 through 2010, interest at 3.00%, unsecured.	72,087		(72,087)	-				
	46,037,087	10,590,000	(1,407,087)	55,220,000	0	(2,040,000)	53,180,000	2,115,000
Premium on bonds	2,617,551	44,832	(344,623.00)	2,317,760		(328,189)	1,989,571	
Discount on bonds	(139,073)	(29,930)	9,516	(159,487)		9,517	(149,970)	
Totals	$ 48,515,565	$ 10,604,902	$ (1,742,194)	$ 57,378,273	$ -	$ (2,358,672)	$ 55,019,601	$ 2,115,000

There are a number of limitations and restrictions contained in the various bond indentures. Management believes there were no conditions of noncompliance with any terms or debt covenants.

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

	Bonds	
	Principal	Interest
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	2,535,000	2,109,825
2012-2016	14,420,000	8,604,138
2017-2021	16,885,000	4,794,919
2022-2026	7,935,000	1,196,032
2027-2031	1,365,000	430,437
2032-2034	985,000	95,000
	$53,180,000	$26,744,319

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:

	2006		
	Student Facilities Fee Revenue Bond	Student Facility Fee Revenue Bond	Total
Pledged Revenues	Series 1998	Series 2003, 2004C, 2004A, 2004B,	
Matriculation fee	$	$ 28,360,077	$ 28,360,077
Student facilities fee	3,430,202	446,779	3,876,981
Revenue of student housing system		3,635,383	3,635,383
Investment income	587	1,780	2,367
	$ 3,430,789	$ 32,444,019	$ 35,874,808

	2005		
	Student Facilities Fee Revenue Bond	Student Facility Fee Revenue Bond	Total
Pledged Revenues	Series 1998	Series 2003, 2004C, 2004A, 2004B,	
Matriculation Fee	$	$ 26,911,042	$ 26,911,042
Student facilities fee	3,385,134	465,455	3,850,589
Revenue of student housing system		3,370,821	3,370,821
Investment income	123	284	407
	$ 3,385,257	$ 30,747,602	$ 34,132,859

As indicated, the Student Facilities Fee is pledged for Series 1998, Series 2003, Series 2004A, Series 2004B, and Series 2004C bonds. The 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.

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, 2006 and 2005 was $472,084 and $457,521, 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 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, 2006 and 2005, was $243,213 and $40,308, 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 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 Seventh Street in Pocatello, ID, ending in March 2007. The rent expense for the facility for the years ended June 30, 2006 and 2005, was $141,000 and $141,000, 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.

In September 2005, the University entered into a lease agreement for space located at 2039 Summersweet Drive in Boise, ID, ending in September 2010. The rent expense for the facility for the year ended June 30, 2006 was $33,921. 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.

In October 2005, the University entered into a lease agreement for space located in the Idaho Water Center at 322 East Front Street in Boise, ID, ending in October 2010. The rent expense for the facility for the years ended June 30, 2006, was $30,737.

Future minimum lease payments at June 30, 2006 for all leases are as follows:

Fiscal Years	Payments
2007	$ 980,742
2008	279,962
2009	158,449
2010	162,515
2011	61,002
2012-2014	42,003
Totals	$ 1,684,673

9. RETIREMENT PLANS AND TERMINATION PAYMENTS

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 percent or 2.3 percent (depending upon employee classification) of the average monthly salary for the highest consecutive 42 months.

For the year ended June 30, 2006, the required contribution rates as a percentage of covered payroll, remained unchanged from FY 2005, at 10.39 percent for the University, and 6.23 percent for employees. The University contributions that were required and paid were $2,905,913, $2,671,378, and $2,510,855, for the years ended June 30, 2006, 2005, and 2004, 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 the 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 on or after July 1, 1990 automatically enroll in the ORP and select a 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 in the ORP include the *Teachers Insurance and Annuity Association - College Retirement Equities Fund* and the *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, 2006 and 2005, were $7,765,136 and $6,728,188, respectively. These contributions consisted of $4,078,334 and $3,535,418 from the University and $3,686,802 and $3,192,770 from employees and represented approximately 7.72 percent and 6.97 percent of covered payroll, respectively.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute 3.03 percent of the annual covered payroll to PERSI. These annual supplemental payments are required through July 1, 2015. During the years ended June 30, 2006 and 2005, supplemental funding payments to PERSI were $1,601,002 and $1,387,974, respectively. These amounts are not included in the regular University PERSI contribution discussed previously.

Financial statements and required supplementary information related to PERSI may be obtained by writing to Public Employee Retirement System of Idaho, P.O. Box 83720, Boise, ID 83720-0078.

Postretirement Benefits Other Than Pensions— The University offers a life insurance plan for retired employees. During the years ended June 30, 2006 and 2005, the University made expenditures totaling $153,802 and $146,241 to purchase life insurance for 271 and 263 retired employees receiving these benefits. This program is accounted for by the University on a pay-as-you-go basis. Note 1 discusses a new accounting standard (GASB Statement No. 45) that, when implemented, would require the University to record this obligation on an actuarially determined basis and would likely result in a higher accrual amount.

Termination Payments— Employees who qualify for retirement under PERSI or ORP are eligible to use 50 percent 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 percent of employee gross payroll to PERSI, who administers the plan for all participating ISU employees and retirees under a trust fund. The total contributions for the years ended June 30, 2006 and 2005 were $525,244 and $465.639, respectively.

10. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

2006	Personnel Costs	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expenses Totals
Instruction	$ 70,256,242	$ 5,960,921	$ 4,717,569	$ 231,952	$	$	$ 1,511,223	$ 82,677,907
Research	9,801,369	3,317,406	1,765,250	42,038			452,337	15,378,400
Public services	3,882,324	501,425	543,971	77,199			145,250	5,150,169
Academic support	6,121,495	911,986	1,261,789	47,798			329,892	8,672,960
Libraries	2,356,930	189,783	100,413	170			28,808	2,676,104
Student services	6,822,510	630,094	448,696	31,255			431,800	8,364,355
Institutional support	9,558,263	2,125,384	1,442,223	132,653			791,643	14,050,166
Maintenance and operations	5,355,182	2,897,170	516,260	4,768,788			(132,021)	13,405,379
Auxiliary enterprises	10,257,892	4,393,348	3,002,836	1,458,142			2,126,235	21,238,453
Scholarships and fellowships					13,693,498			13,693,498
Depreciation						8,123,834		8,123,834
Total expenses	$ 124,412,207	$ 20,927,517	$ 13,799,007	$ 6,789,995	$ 13,693,498	$ 8,123,834	$ 5,685,167	$ 193,431,225

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

11. 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.

12. COMPONENT UNIT DISCLOSURE

The Idaho State University Foundation, Inc. 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 $86 million, which will be received over an extended period of years. Pledges receivable at June 30, 2006 and 2005, in the amount of $2,415,814 and $3,986,225, 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 $18.7 million of the total unrecorded pledges balance is designated to support bonds related to the L.E. & Thelma E. Stephens Performing Arts Center.

***Investments*—**Investments are carried at fair value. Equity securities are valued at fair value as reported by the investment managers or 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 its Board of Directors, appoints an Investment Committee that establishes investment guidelines, sets spending rules, and engages the investment managers and custodians. The Board oversees and approves all investment and asset allocation policies proposed by the Investment Committee.

The Investment Committee is also responsible to monitor and review the actions of the investment managers and custodians, 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. Foundation policies state that 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. Furthermore, the Board and the Investment Committee acknowledge and understand their fiduciary role and seek to act prudently in the best interests of the Foundation.

The Foundation maintains an Escrow/Reserve account for the Performing Arts Center invested in a Money Market Mutual Fund. It is not FDIC insured and may lose value. The June 30, 2006 and 2005 balances were $2,000,463 and $2,853,320, respectively. The foundation has no formal policy to address 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 Foundation's investment policy sets a target distribution for investment types to minimize this risk. At June 30, 2006, the distribution of investments was:

Investment Manager	***Portfolio***	***Benchmark***	***Amount***	
Fixed Income:				
Blackrock Core Bond Fund	US Fixed Income	Lehman Aggregate	$13,300,653	40.0%
Equity:				
Fontegra IronBridge	Small Cap Growth	Russell 2000 Growth	2,735,155	
TCW	Large Cap Growth	Russell 1000 Growth	2,631,352	
Vanguard Admiral Shares	Large Cap	S&P 500	6,939,838	
Fidelity Diversified Intl	Foreign Large Growth	MSCI ACWI	4,211,874	
T.Rowe Price	Large Cap Value	S&P 500	1,683,002	
John Hancock Fund	Large Cap Value	S&P 500	1,685,211.	
Total Equities			19,886,432	60.0%
Total Investments			$33,187,085	

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 ratings presented below use Standard & Poor's scale.

Investment Manager	***Quality Distribution***	
Blackrock Core Bond Fund	AAA	40.6%
	AA	11.3%
	A	3.5%
	BBB	3.2%
	<BBB	0.2%
	Governments	41.2%

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 5.01 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 $658,445 in fiscal year 2006, and $409,127 in fiscal year 2005. 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 3.69 percent at June 30, 2006 and 2.30 percent at June 30, 2005.

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

Date	**Amount**	**Interest**
2007	$ 1,385,000	$ 766,967
2008	1,385,000	715,860
2009	1,385,000	664,754
2010	1,385,000	613,647
2011	1,385,000	562,541
2012-2016	6,925,000	2,046,105
2017-2021	6,935,000	768,258
Totals	$ 20,785,000	$ 6,138,132

Unrestricted Net Assets—The unrestricted net asset balances as of June 30, 2006 and 2005, include balances from operations of $2,154,197 and $1,693,689, respectively, which are offset by a negative balance of $21,772,370 and $19,828,879, respectively. The negative net asset balances resulted from contributions from the Foundation to the University for construction of the L.E. and Thelma Stephens

Performing Arts Center, which will be offset by future pledges and contributions not yet recognized or collected by the Foundation.

Subsequent Events**—**At the March 3, 2006 Board Meeting, the directors authorized a change in investment fund managers from Strategic Investment Solutions (SIS) to Commonfund. The Investment Committee of the Foundation met via conference call with representatives of the Commonfund to approve the initial investment of the funds. As a result of this meeting, the ISU Foundation Investment Committee approved the liquidation and transfer of all funds held under management with SIS to Commonfund. The liquidation and transfer of assets into a diversified portfolio occurred during the months of July through September 2006. There was no financial impact on the value of the funds as a result of the liquidation and transfer.

Thelma E. Stephens, 98, of Boise, Idaho, passed away Friday, September 15, 2006. She was a major contributor to Idaho State University for construction of the L.E. and Thelma E. Stephens Performing Arts Center. Her death results in the maturing of a pledge of nearly $10 million that will be used to redeem a portion of the Multi-Mode, Variable Rate Revenue Bonds.

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, 2006, and have issued our report thereon dated September 4, 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. 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 6, 2006.

This report is intended solely for the information and use of the Idaho State Board of Education, Department 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 6, 2006