Idaho State University

Financial Statements for the Years
Ended June 30, 2008 and 2007
and Independent Auditor's Report
Including Single Audit Reports
for the Year Ended June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

Idaho State Board of Education
Idaho State University
Pocatello, Idaho

We have audited the accompanying financial statements of Idaho University (University) as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Idaho State University Foundation, as listed in the table of contents, a discretely presented component unit described in Note 14. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University and its discretely presented component unit, as of June 30, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statement, on July 1, 2007, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 required the University to recognize and match other postemployment benefit costs with related services received and disclose additional information.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008, on our consideration of the 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.

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

Our audit was conducted for the purpose of forming an opinion on the University's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Eugene, Oregon
December 17, 2008

IDAHO STATE UNIVERSITY

Management's Discussion and Analysis
For the year ended June 30, 2008

INTRODUCTION

As a comprehensive public institution of higher learning, Idaho State University (the 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.

OVERVIEW

The following discussion and analysis was prepared by management to provide a comprehensive overview of the financial position and activities of Idaho State University for the fiscal year ended June 30, 2008. 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. 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.

The Idaho State University Foundation, Incorporated (Foundation) is included in the statements as a component unit and is the only affiliated organization that qualifies for component unit presentation due to the significant economic resources it holds that directly benefit the University. The financial statements of the Foundation are audited by independent auditors. Because the Foundation is a nongovernmental entity, they report their financial information according to Financial Accounting Standards Board ("FASB") reporting standards. The University has chosen to present their financial information on pages separate from the financial statements of the University. 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 and reflects the financial position of the University at the end of the fiscal year. The difference between total assets and total liabilities is net assets. Net assets are one indicator of the current financial condition of the University. The change in net assets that occurs over time indicates whether the overall financial condition has improved during the year. Assets and liabilities are generally measured using current values, except for capital assets, which are stated at historical cost, less an allowance for depreciation. Net Assets are divided into three major categories on the statement. The first category, *Invested in Capital Assets Net of Related 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 or other external funding entities. The final category is *Unrestricted Net Assets*, which consist of assets available for expenditure by the institution for any lawful purpose.

Schedule of Net Assets

	June 30, 2008	June 30, 2007	June 30, 2006
Assets:			
Current Assets	$ 72,758,263	$ 65,698,248	$ 54,417,984
Noncurrent Assets	176,563,476	160,796,861	159,141,692
Total Assets	249,321,739	226,495,109	213,559,676
Liabilities:			
Current Liabilities	25,683,378	23,754,729	23,640,419
Noncurrent Liabilities	82,169,783	60,405,316	52,904,601
Total Liabilities	107,853,161	84,160,045	76,545,020
Net Assets:			
Invested in capital assets, net of related debt	85,173,954	91,907,601	91,299,662
Restricted, expendable	29,049,720	18,887,429	14,599,005
Unrestricted	27,244,904	31,540,034	31,115,989
Total Net Assets	$ 141,468,578	$ 142,335,064	$ 137,014,656

While the University's total net assets remained relatively flat during fiscal year 2008, there were some notable changes within this component. Total assets, which increased by $22.8 million, reflect the balance of the proceeds of the series 2007 revenue bond of $11.8 million. The bond was issued to finance the renovation and expansion of the Reed Gymnasium Recreation Center on the Pocatello campus and to purchase and renovate a portion of the newly acquired Meridian building, which will be used to consolidate the University's facilities in the Boise area. Among other, lesser amounts, the increase also reflects the $5.6 million balance of the proceeds from an agreement the University entered into to help finance the development and implementation of the new Enterprise Resource Planning (ERP) project. This long-term project will provide state-of-the-art software to better manage student, academic, financial, and human resource records and will integrate additional University business processes in a common database accessible to campus-wide users through a web portal. As discussed later, capital assets reflect increases resulting from the acquisitions funded by the bonds and other financing arrangements.

These increases are offset by a rise in debt of $23.7 million within the total liabilities component of net assets. This additional debt stems primarily from the bond issuance and the ERP financing. As noted below in more detail, these changes are indicative of a continuing commitment to upgrade and improve facilities at Idaho State University. Also of note is the addition of $3.1 million in debt related to recognition of post-employment employee benefits, as required by adoption this year of GASB statement 45.

Capital Asset and Debt Activities

The University's mission of providing excellent education and research programs is enhanced by its capital improvement and renewal efforts. Key to these efforts is a balanced financial position that enables the University to obtain funds through managed debt in accord with University strategic plans. The University continues to benefit from favorable municipal bond credit ratings of "A2" or equivalent.

Idaho State University's total capital assets before depreciation increased by $20.8 million; from $263.6 million in 2007, to $284.4 million in 2008. Additions to capital assets in fiscal year 2008 included completion of the Rendezvous building and related equipment expenditures, adding $27.8 million, but which was offset by a related reduction in construction in progress of $25.9 million. In addition, the University purchased the Meridian building and property for $5.2 million, completed a $1.6 million Department of Public Works (DPW) project to increase the steam capacity of the heating plant, and made equipment and library purchases of $6.1 million.

At June 30, 2008, total liabilities were $107.9 million, compared to $84.2 million at June 30, 2007. The increase of $23.7 million is attributable primarily to the capital asset additions noted above, including the $16.2 million dual-purpose bond for the recreation facility and Meridian building and the outstanding balance of $5.6 million related to financing the ERP system.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

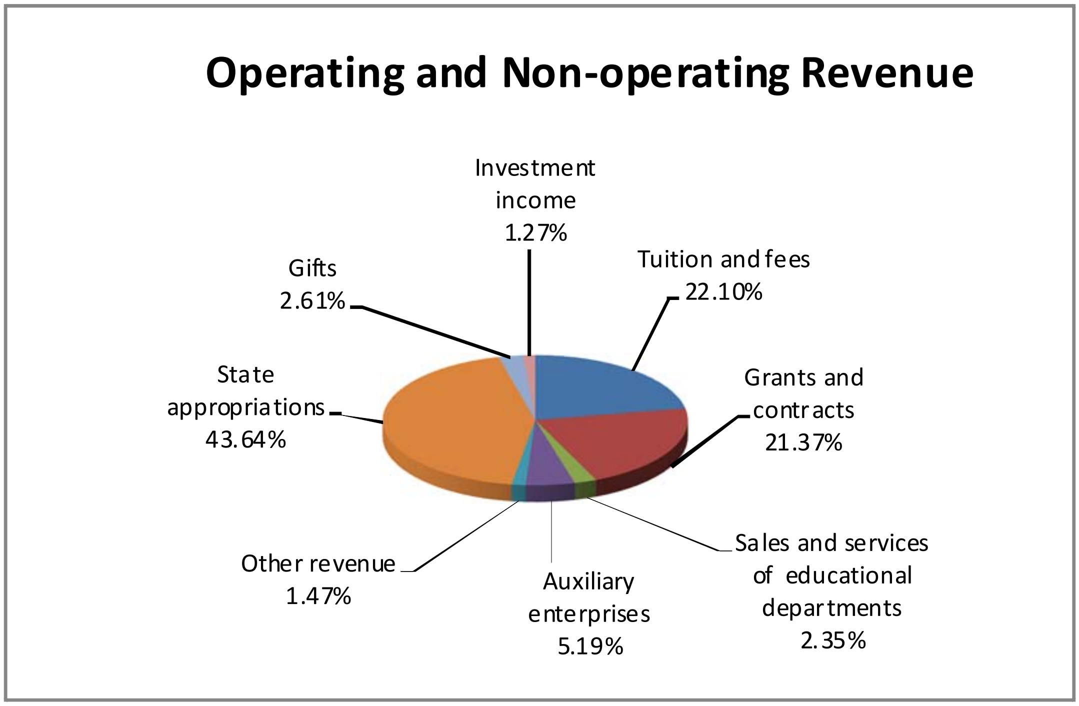
A summarized comparative statement of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2008, 2007, and 2006 is presented below.

Summary Statement of Revenues, Expenses & Changes in Net Assets

	FY 2008	FY 2007	FY 2006
Operating revenues			
Student tuition and fees (net of scholarship discounts and allowances)	$ 47,496,019	$ 45,443,297	$ 44,368,605
Federal grants and contracts	28,338,271	29,100,557	28,362,060
State and local grants and contracts	10,088,364	9,766,815	12,524,242
Nongovernment grants and contracts	7,482,974	6,310,763	5,310,855
Sales and services of educational departments	5,039,057	3,674,570	3,511,345
Auxiliary enterprises sales and services	11,147,278	10,493,060	9,857,306
Other operating revenue	3,166,792	3,057,178	3,080,836
Total operating revenues	112,758,755	107,846,240	107,015,249
Operating expenses	212,982,354	198,389,342	193,431,225
Operating income (loss)	(100,223,599)	(90,543,102)	(86,415,976)
Nonoperating revenues (expenses)			
State appropriations	93,751,820	85,564,566	80,387,054
Gifts	5,608,845	5,440,862	5,081,013
Investment income	2,730,165	2,936,125	2,220,046
Amortization of bond financing costs	(59,128)	(45,954)	
Interest on capital asset related debt	(3,549,902)	(2,215,928)	(2,296,369)
Net nonoperating revenues	98,481,800	91,679,671	85,391,744
Other revenue and expenses			
Capital gifts and grants	913,840	4,221,860	1,125,435
Gain or (loss) on disposal of fixed assets	(38,527)	(38,021)	2,940
Net other revenues and expenses	875,313	4,183,839	1,128,375
Increase in net assets	(866,486)	5,320,408	104,143
Net assets - beginning of year	142,335,064	137,014,656	136,910,513
Net assets - end of year	$ 141,468,578	$142,335,064	$137,014,656

Revenue

The State of Idaho, through annual state appropriations, remains the major funding source for Idaho State University. Student tuition and fees, as well as research related grants and contracts, continue to increase and represent significant funding sources. In addition, the University obtains funding from the Idaho State University Foundation (a component unit of the University,) external gifts, and other enterprises that help support the mission of the University. Below is a graphic illustration of revenues by source (both operating and non-operating) that funded the University's operating activities for the year ended June 30, 2008.



Total revenues for the year ended June 30, 2008, were $215.8 million, representing a $9.8 million increase over fiscal year 2007, or 4.7 percent. Appropriations from the State of Idaho continue to be a major support for the University and accounted for $93.8 million of the total. The appropriation from the state represents an increase of 9.6 percent, or $8.2 million, as compared to the $5.2 million increase experienced in fiscal year 2007.

The Idaho State Board of Education approved a 5.01 percent increase in student tuition and fees for fiscal year 2008. The resulting tuition and fee revenue of $47.5 million increased slightly when compared to the $45.4 million generated in fiscal year 2007.

As a research institution with strong emphasis on the health professions, the University's research programs and initiatives are key parts of our efforts to develop opportunities for the advancement of meaningful and in-depth education and learning for our students. While research revenues vary from year to year for many reasons, including the availability of funding from sponsors and the commencement or closure of particularly large projects, the University continues to be committed to growing research.

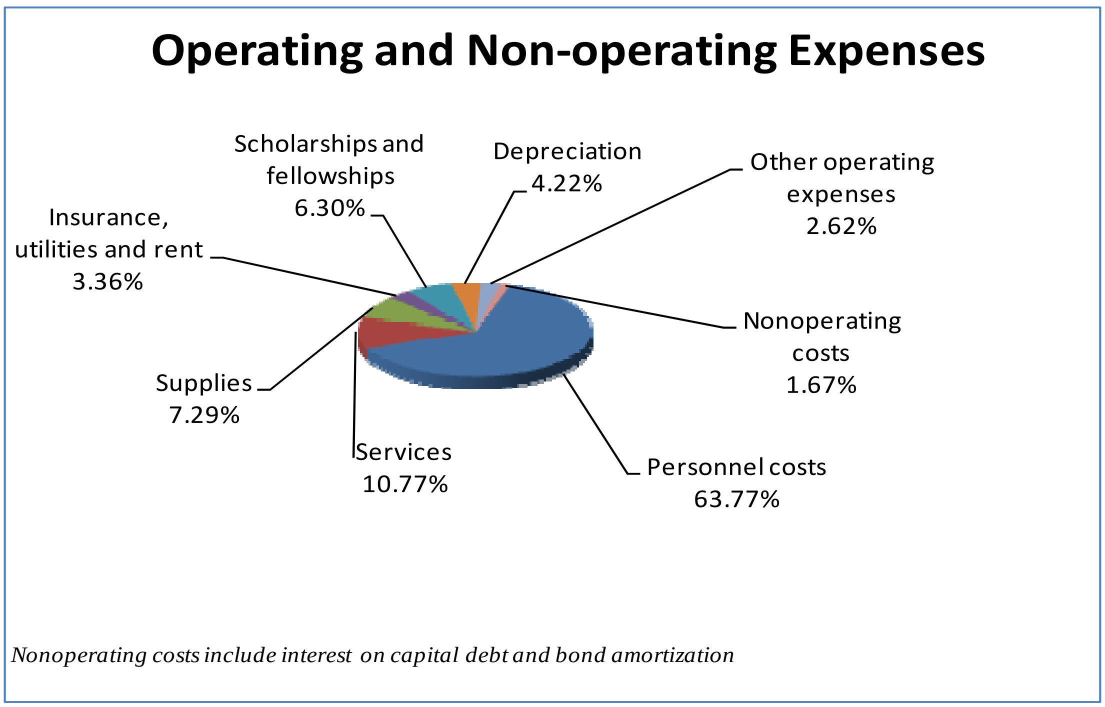
Expenses

Expenses for the year ended June 30, 2008 are summarized and contrasted to prior years below.

Summary Statement of Expenses

	2008	2007	2006
Operating			
Personnel costs	138,127,992	$ 126,120,085	$ 124,412,207
Services	23,333,994	23,399,917	20,927,517
Supplies	15,793,636	14,676,017	13,799,007
Insurance, utilities and rent	7,264,693	6,245,906	6,789,995
Scholarships and fellowships	13,640,570	13,487,571	13,693,498
Depreciation Expense	9,139,409	8,524,162	8,123,834
Other operating Expenses	5,682,060	5,935,684	5,685,167
Total operating expenses	212,982,354	198,389,342	193,431,225
Nonoperating			
Amortization of bond financing costs	59,128	45,954	
Interest on capital asset related debt	3,549,902	2,215,928	2,296,369
Total nonoperating expenses	$ 3,609,030	$ 2,261,882	$ 2,296,369

Total distribution of expenditures by natural classification is illustrated in the chart below:



Fiscal year 2008 operating expenditures of $213 million represent an overall increase of 7.4 percent over the prior year. Increased personnel costs account for $12.0 million of this increase, resulting from a general 5.0 percent salary increase, and expensing $3.1 million dollars in post employment benefits related to adoption of GASB 45. Rising utility and insurance costs also contributed to the change.

In an effort to provide a comprehensive picture of University expenditures, a comparative summary of these expenses, categorized by functional classification, is presented for the years ended June 30, 2008, 2007, and

2006. This perspective (see below) 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. Consistent with the University's mission of educating students, direct expenditures for instruction, research, student services, and scholarships and fellowships make up a large portion of total operating expenses. A matrix of natural versus functional expenses is contained in the footnotes to the financial statements and includes additional detail.

Summary Statement of Operating Expenses by Function

	2008	2007	2006
Instruction	$ 87,812,075	$ 84,694,999	$ 82,677,907
Research	16,221,213	15,915,146	15,378,400
Public Service	5,023,532	4,984,057	5,150,169
Academic Support	12,832,926	9,070,235	8,672,960
Libraries	2,559,620	2,551,888	2,676,104
Student Services	8,145,917	8,209,447	8,364,355
Institutional Support	18,665,374	15,021,183	14,050,166
Maintenance and Operations	16,357,910	16,010,745	13,405,379
Auxilary Enterprises	22,583,808	19,919,909	21,238,453
Scholarships and Fellowships	13,640,570	13,487,571	13,693,498
Depreciation	9,139,409	8,524,162	8,123,834
Total Functional Expenses	$ 212,982,354	$ 198,389,342	$ 193,431,225

STATEMENT OF CASH FLOWS

The various sources of cash, along with their application and use, are presented in the *Statement of Cash Flows.* This perspective is useful in assessing the ability of the university to satisfy its financial obligations as they come due. The statement classifies the flow of cash 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, 2008 is presented below.

Summary Statement of Cash Flows

	FY 2008	FY 2007	FY 2006
Cash and cash equivalents (used in) or provided by:			
Operating activities	$ (81,212,359)	$ (82,414,693)	$ (75,786,724)
Noncapital financing activities	92,741,847	88,800,634	82,351,869
Investing activities	2,488,990	2,640,185	1,941,077
Capital and related financing activities	(8,250,194)	952,664	(10,334,835)
Net increase (decrease) in cash	5,768,284	9,978,790	(1,828,613)
Cash and cash equivalents, beginning of year	54,487,877	44,509,087	46,337,700
Cash and cash equivalents, end of year	$ 60,256,161	$ 54,487,877	$ 44,509,087

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.

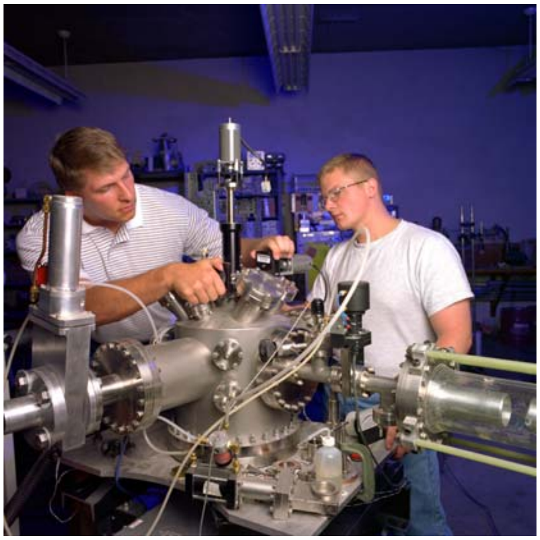
ECONOMIC OUTLOOK

Looking forward, management is committed to be well-positioned to continue providing a level of excellence in service to students, the research community, the state of Idaho, and the nation. One of the keys to doing this is maintaining a strong and stable financial position that will provide a degree of flexibility and competiveness in obtaining funds as needed for specific projects. This, along with the University's ongoing efforts toward revenue diversification and cost containment, will enable the University to provide the necessary resources to support this level of excellence, even though the University, the State, and the nation face significant economic challenges brought about by the downturn of the national economy.

As a labor-intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. Moreover, other costs, such as supplies and services – as well as the costs of the University's health benefits – have increased dramatically over the past several years. The University's success in meeting these challenges will depend in part upon the ability of the State of Idaho to provide adequate financial support through state appropriations.

The University's relationship with the State of Idaho is a crucial element in the University's future. In recent months the State's economy has followed the nation in sliding into a shallow recession. This downturn has resulted in a least one budget holdback from the state and sets the stage for more. These factors present significant challenges to achieving sustained and significant growth for the University and it may well be several years before the State's economy expands to a point where major new funds can flow to higher education.

Given the outlook for state appropriations, the University will continue to emphasize cost containment as a key factor in sustaining excellence and currently has a number of initiatives in place. As the cost of doing business rises, we will also depend on tuition and fees for incremental revenue. The University's tuition and fees remain well below national and regional benchmarks, leaving room for managed, justifiable rate increases. Private gifts are another important supplement to the fundamental support from the State and tuition, and represent a significant factor in the vitality of some academic units. Economic conditions affecting donors has and may continue to depress the level of support the University receives from corporations, foundations, and individuals. Nonetheless, we remain confident we will continue to be successful in attracting philanthropic support.



The University has benefited in the past from increases in the level of federal support for research. Those increases are likely to be more modest for the foreseeable future. However, we remain committed to growing our research enterprise and expect it to generate increases in reimbursement for overhead expenses, a major source of discretionary revenue. As an example, construction is virtually complete on the 55,000 square feet, $17 million CAES facility located in Idaho Falls. Funding for the building came from a pass-through of federal development grants from the University of Idaho, Idaho National Laboratory (INL) settlement funds, and bond proceeds. The University is supervising construction of the building and will manage it once it is built. This collaborative effort between industry, the INL, and the state's three universities, will address critical science and engineering issues to help resolve the challenges of energy needs and address the shortage of college students entering the field of nuclear energy research.

The volatility of the financial markets in recent months has created a good deal of uncertainty with regard to treasury management and investing and the University has not been immune to these factors. However, we continue to emphasize a long-term investment strategy consistent with the State Board of Education's guidelines that maximizes total return while managing the volatility of the portfolio and the associated impacts on the operating budget. The University has recently added resources to better manage these assets. While it is not possible to predict the ultimate results, management will be aggressive in meeting these economic uncertainties so as to maintain a stable financial condition.

As management wrestles with today's uncertain economic factors, the University's prudent use of resources, cost-containment efforts, and development of other sources of revenues will strengthen the institution and ensure that it is well positioned to take advantage of the next upturn in the business cycle.

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.

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IDAHO STATE UNIVERSITY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	University 2008	University 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 55,950,449	$ 53,609,058
Cash with Treasurer	4,305,712	878,819
Student loans receivable	323,329	506,654
Accounts receivable and unbilled charges, less allowance for doubtful accounts of $673,910 and $643,088	8,131,195	6,402,245
Due from state agencies	3,333,899	3,805,628
Interest receivable	50,500	91,495
Inventories	264,373	242,369
Prepaid expenses	398,806	161,980
Total current assets	72,758,263	65,698,248
NONCURRENT ASSETS:		
Student loans receivable, less allowance for doubtful loans of $455,810 and $409,964	1,718,229	1,375,418
Assets held in trust	7,570,296	4,989,338
Deferred bond financing costs	1,300,716	1,127,099
Property, plant, and equipment, net	165,974,235	153,305,006
Total noncurrent assets	176,563,476	160,796,861
TOTAL ASSETS	249,321,739	226,495,109
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	2,365,893	2,820,664
Due to state agencies	1,821,753	1,529,310
Accrued salaries and benefits payable	9,732,329	8,926,874
Compensated absences payable	4,278,366	4,058,437
Deposits	131,425	117,150
Funds held in custody for others	686,124	546,554
Deferred revenue	2,622,288	2,810,963
Accrued interest payable	998,032	739,777
Notes and bonds payable	3,047,168	2,205,000
Total current liabilities	25,683,378	23,754,729
NONCURRENT LIABILITIES:		
Other post-employment benefits payable	3,055,000	
Notes and bonds payable	79,114,783	60,405,316
Total noncurrent liabilities	82,169,783	60,405,316
TOTAL LIABILITIES	107,853,161	84,160,045
NET ASSETS:		
Invested in capital assets, net of related debt	85,173,954	91,907,601
Restricted, expendable	29,049,720	18,887,429
Unrestricted	27,244,904	31,540,034
Total net assets	141,468,578	142,335,064
TOTAL LIABILITIES AND NET ASSETS	$ 249,321,739	$ 226,495,109

See Accompanying Notes to Financial Statements

IDAHO STATE UNIVERSITY FOUNDATION
Statement of Financial Position
As of June 30, 2008 and 2007

ASSETS		2008		2007
Cash and cash equivalents	$	3,417,462	$	1,051,076
Cash and cash equivalents- restricted		2,359,381		1,928,248
Investments		40,132,126		39,558,573
Gift pledges receivable		5,310,954		7,468,804
Cash surrender value		9,425		9,425
Miscellaneous receivables		13,352		
Capitalized bond issuance costs, net		238,276		290,664
Property held for sale and investment		2,319,371		1,125,372
Total Assets	$	53,800,347	$	51,432,162
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	$	364,247	$	239,315
Scholarships and other payables to Idaho State University		532,949		
Obligations to beneficiaries under split-interest agreements		1,860,483		1,862,107
Funds held in custody for others		49,074		57,459
Long-term debt		10,910,000		11,010,000
Total liabilities		13,716,753		13,168,881
NET ASSETS				
Unrestricted		(8,876,441)		(7,568,364)
Temporarily restricted		26,198,106		24,239,402
Permanently restricted		22,761,929		21,592,243
		40,083,594		38,263,281
Total Liabilities and Net Assets	$	53,800,347	$	51,432,162

See Accompaning Notes to Financial Statements

IDAHO STATE UNIVERSITY
STATEMENT OF REVENUES EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	University 2008	University 2007
OPERATING REVENUES		
Student tuition and fees (net of scholarship discounts and allowances of $14,749,303 and $14,126,314 respectively)	$ 47,496,019	$ 45,443,297
Federal grants and contracts	28,338,271	29,100,557
State and local grants and contracts	10,088,364	9,766,815
Private grants and contracts	7,482,974	6,310,763
Sales and services of educational activities	5,039,057	3,674,570
Sales and services of auxiliary enterprises including pledged revenue of $3,524,614 and $3,635,383	11,147,278	10,493,060
Other	3,166,792	3,057,178
Total operating revenues	112,758,755	107,846,240
OPERATING EXPENSES		
Personnel costs	138,127,992	126,120,085
Services	23,333,994	23,399,917
Supplies	15,793,636	14,676,017
Insurance, utilities and rent	7,264,693	6,245,906
Scholarships and fellowships	13,640,570	13,487,571
Depreciation	9,139,409	8,524,162
Miscellaneous	5,682,060	5,935,684
Total operating expenses	212,982,354	198,389,342
OPERATING INCOME (LOSS)	(100,223,599)	(90,543,102)
NONOPERATING REVENUES (EXPENSES)		
State appropriations:		
State general account - general education	73,383,100	67,609,200
Endowment income	1,848,365	1,691,071
Other state appropriations Idaho dental education program	2,543,649	2,279,988
Professional technical education	10,121,045	10,458,259
Department of Public Works	5,855,661	3,526,048
Gifts (including $5,529,012 and $3,193,817 respectively, from the Idaho State University Foundation)	5,608,845	5,440,862
Net investment income including pledged revenue of $546,881 and $309,978	2,730,165	2,936,125
Amortization of bond financing costs	(59,128)	(45,954)
Interest on capital asset related debt net of capitalized interest of $58,929 and $310,402, respectively	(3,549,902)	(2,215,928)
Net nonoperating revenues (expenses)	98,481,800	91,679,671
GAIN (LOSS) BEFORE OTHER REVENUES AND EXPENSES	(1,741,799)	1,136,569
OTHER REVENUES AND EXPENSES		
Capital gifts and grants	913,840	4,221,860
Gain or (loss) on disposal of fixed assets	(38,527)	(38,021)
Net other revenues and expenses	875,313	4,183,839
INCREASE (DECREASE) IN NET ASSETS	(866,486)	5,320,408
NET ASSETS, BEGINNING OF YEAR	142,335,064	137,014,656
NET ASSETS, END OF YEAR	$ 141,468,578	$ 142,335,064

See Accompanying Notes to Financial Statements

IDAHO STATE UNIVERSITY FOUNDATION
Statement of Activities
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions and gifts	$ 2,558,533	$ 4,477,234	$ 1,163,743	$ 8,199,510
Contributed services	670,670			670,670
Interest and dividends	117,033	786,247		903,280
Net realized/unrealized gain/loss on investments	217,277	(1,245,807)		(1,028,530)
Fees, charges, and miscellaneous	772,799			772,799
Net change in value of annuity and life insurance		104,644	5,943	110,587
Total revenues and gains	4,336,312	4,122,318	1,169,686	9,628,316
Board and donor designated transfers	(2,003,535)	2,003,535		
Net assets released from program restrictions	4,167,149	(4,167,149)		
Total revenue	6,499,926	1,958,704	1,169,686	9,628,316
EXPENSES				
Program support to ISU				
Donations/transfers	2,212,110			2,212,110
Scholarship	1,528,449			1,528,449
Athletic	559,844			559,844
ISU department support	1,228,609			1,228,609
Support services				
Management and general	1,336,644			1,336,644
Fundraising	942,347			942,347
Total expenses	7,808,003			7,808,003
CHANGE IN NET ASSETS	(1,308,077)	1,958,704	1,169,686	1,820,313
NET ASSETS, beginning of year	(7,568,364)	24,239,402	21,592,243	38,263,281
NET ASSETS, end of year	$ (8,876,441)	$ 26,198,106	$ 22,761,929	$ 40,083,594

See Accompaning Notes to Financial Statements

IDAHO STATE UNIVERSITY FOUNDATION
Statement of Activities
Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions and gifts	$ 1,135,290	$ 15,631,026	$ 1,574,305	$ 18,340,621
Contributed services	642,461			642,461
Interest and dividends		1,041,676		1,041,676
Net realized/unrealized gains/loss on investments	51,903	3,934,933		3,986,836
Fees, charges, and miscellaneous	428,870			428,870
Net change in value of annuity and life insurance		157,956	11,417	169,373
Total revenues and gains	2,258,524	20,765,591	1,585,722	24,609,837
Board and donor designated transfers				
Net assets released from program restrictions	15,693,688	(15,693,688)		
Total revenue	17,952,212	5,071,903	1,585,722	24,609,837
EXPENSES				
Program support to ISU				
Donations/transfers	1,750,000			1,750,000
Scholarship	1,542,263			1,542,263
Athletic	327,755			327,755
ISU department support	1,644,800			1,644,800
Support services				
Management and general	1,020,423			1,020,423
Fundraising	952,227			952,227
Total expenses	7,237,468			7,237,468
CHANGE IN NET ASSETS	10,714,744	5,071,903	1,585,722	17,372,369
NET ASSETS, beginning of year as restated	(18,283,108)	19,167,499	20,006,521	20,890,912
NET ASSETS, end of year	$ (7,568,364)	$ 24,239,402	$ 21,592,243	$ 38,263,281

See Accompaning Notes to Financial Statements

IDAHO STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Student fees	$ 40,250,065	$ 34,540,538
Grants and contracts	46,152,359	43,680,217
Sales and services of educational activities	3,765,357	4,038,143
Sales and services from auxiliary enterprises	11,356,133	10,792,275
Other operating revenue	4,014,874	4,089,727
Collection on loans to students	450,730	652,380
Payments to and on behalf of employees	(134,096,617)	(126,038,999)
Payments for services	(14,830,458)	(16,668,572)
Payments for supplies	(17,367,057)	(17,167,366)
Payments for insurance, utilities, rent	(6,512,206)	(6,045,733)
Payments for scholarships and fellowships	(7,585,608)	(7,741,726)
Other operating payments	(6,137,548)	(5,890,999)
Loans issued to students	(672,383)	(654,578)
Net cash provided (used) by operating activities	(81,212,359)	(82,414,693)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	89,036,307	82,270,123
Gifts	4,664,855	4,643,688
Agency account receipts	44,869,356	42,381,198
Agency account payments	(46,141,936)	(40,234,981)
Direct lending receipts	48,600,742	43,160,337
Direct lending payments	(48,287,477)	(43,419,731)
Net cash provided (used) by non-capital financing activities	92,741,847	88,800,634
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital gifts and grants	1,024,533	2,844,343
Capital Purchases	(16,489,307)	(6,885,928)
Long-term debt proceeds	16,722,612	10,000,000
Bond costs of issuance	(234,571)	(207,277)
Principal paid on capital debt	(5,688,624)	(2,115,000)
Interest paid on capital debt	(3,584,837)	(2,683,474)
Net cash provided (used) by financing activities	(8,250,194)	952,664
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	2,488,990	2,640,185
Net cash provided (used) by investing activities	2,488,990	2,640,185
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,768,284	9,978,790
CASH AND CASH EQUIVALENTS - Beginning of year	54,487,877	44,509,087
CASH AND CASH EQUIVALENTS - End of year	60,256,161	54,487,877
RECONCILIATION OF NET OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES		
Operating Loss	(100,223,599)	(90,543,102)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation	9,139,409	8,524,162
Maintenance costs paid by Department of Public Works and other	7,884,603	(9,388)
Change in assets and liabilities		
Accounts receivable, net	(1,184,337)	(772,305)
Deferred expenses	(283,570)	(54,282)
Student loans receivable, net	(159,486)	80,294
Inventory	(22,004)	26,158
Accounts payable and accrued liabilities	(167,018)	(17,671)
Accrued salaries and benefits payable	4,075,795	519,641
Deposits	14,275	17,741
Deferred revenue	(286,427)	(185,941)
Net cash used in operating activities	$ (81,212,359)	$ (82,414,693)

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.

The Foundation is a legally separate private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the University's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the University.

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.

Cash with Treasurer—Cash with Treasurer--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.

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, 2008 and 2007.

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 $4,278,366 and $4,058,437 at June 30, 2008 and 2007, 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.

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

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

Income and Unrelated Business Income Taxes—The University, as a political subdivision of the State of Idaho, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The University is liable for tax on its unrelated business income. Defined by the Internal Revenue Code, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the performance by the organization of its exempt purpose or function. The University did not incur unrelated business income tax expense in the fiscal years ended June 30, 2008 or 2007.

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.

Use of Accounting Estimates—The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements, and revenues and expenses during the year. Actual results could differ from those estimates

New Accounting Standards—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 implemented this standard during fiscal year 2008. See Note 10 for more information.

In June of 2007, the GASB issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. This statement establishes standards of accounting and financial reporting for Intangible Assets.

The requirements of this statement are effective for the fiscal year ending June 30, 2008. The University has not completed the process of evaluating the impact that will result from adopting this Statement.

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, 2008 and 2007, 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.

At June 30, 2008 and June 30, 2007, total deposits consisted of the following:

	2007	2006
Cash	$ 932,504	$ 1,620,933
Non-negotiable certificates of deposit	1,466,839	1,347,726
Obligations of the U.S. Government and its agencies	56,128,580	53,095,490
Cash equity with the State Treasurer	4,305,712	878,819
Total deposits	$ 62,833,635	$ 56,942,968

The deposit amounts subject to custodial credit risk at June 30, 2008 and June 30, 2007, were $2,299,343 and $2,868,659, respectively, which were uncollateralized and uninsured.

At June 30, 2008 and June 30, 2007, the University had $81,248 and $83,225 respectively, of cash on hand in various change funds. The carrying amount of the University's cash and cash equivalents at June 30, 2008 and June 30, 2007, was $60,256,161 and $54,487,876, 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, 2008 and June 30, 2007, the only investments meeting the criteria for disclosure in GASB statement 40 consisted of investments held in trust. GASB Statement 40, *Deposits with Financial Institutions, Investments (including repurchase agreements), and Reverse Purchase Agreements* requires the University to update custodial credit risk disclosures, and also establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments. The entire amounts of these investments are restricted by bond indentures.

	Fair Value			Rating Must Exceed	
Investment Type	**2008**	**2007**	**Investment Maturity**	**Standard & Poors**	**Moody's**
Repurchase Agreement	$ -	$ 4,989,338	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:

	2008	2007
Operating:		
Student tuition fees	$ 26,522	$ 9,052
Federal grants and contracts	2,118,947	1,787,058
State and local grants and contracts	2,220,547	2,896,959
Nongovernment grants and contracts	1,936,626	2,117,923
Sales and services of educational departments	1,716,112	253,775
Auxiliary enterprises sales and services	638,907	600,452
Other operating revenue	578,165	497,555
Services, supplies and other	54,362	73,722
Perkins	148,457	147,156
Revolving	734,956	574,789
Less allowance for doubtful accounts	(673,910)	(643,088)
Net operating accounts receivable and due from state agencies	9,499,691	8,315,353
Nonoperating:		
State appropriations	631,078	657,664
Gifts	505,243	148,550
Department of Public Works	221,241	110,692
Agency	607,841	975,614
Net nonoperating accounts receivable	1,965,403	1,892,520
Total accounts receivable and due from state agencies	$ 11,465,094	$ 10,207,873

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, 2008 and 2007. 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, 2008 and 2007, is $1,960,985 and $2,000,892, 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, 2008 and 2007, the allowance for uncollectible loans was approximately $455,810 and $409,965, respectively.

In the spring of 2007, 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. There were $11,900 and $14,400 in loans issued to students in 2008 and 2007 respectively. 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, 2008 and 2007, is $27,462 and $29,103.

Loans receivable from students bear interest at rates ranging from 5% to 10% and are generally repayable in installments to the University over a 5 to 10 year period commencing 3 to 9 months after the date of separation from the University. The University out sources the loan servicing to a third party vendor.

5. PROPERTY, PLANT AND EQUIPMENT

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

	2007				2008		
	Balance at June 30, 2006	**Additions**	**Retirements**	**Balance at June 30, 2007**	**Additions**	**Transfers & Retirements**	**Balance at June 30, 2008**
Property, plant & equipment:							
Land	$ 3,291,993			$ 3,291,993	$ 772,980		$ 4,064,973
Construction in progress	18,993,660	8,808,251		27,801,911	6,674,059	(26,199,505)	8,276,465
Total property, plant & equipment not being depreciated	$ 22,285,653	$ 8,808,251	$	$ 31,093,904	$ 7,447,039	$ (26,199,505)	$ 12,341,438
Other property, plant & equipment:							
Buildings & improvements	$160,556,141		$	$ 160,556,141	$ 34,492,495		$195,048,636
Furniture, fixtures & equipment	31,979,360	4,686,261	(2,576,337)	34,089,284	3,414,568	(1,035,239)	36,468,613
Library materials	35,412,752	2,426,969		37,839,721	2,708,368		40,548,089
Total other property, plant & equipment	227,948,253	7,113,230	(2,576,337)	232,485,146	40,615,431	(1,035,239)	272,065,338
Less accumulated depreciation:							
Buildings & improvements	(56,097,254)	(4,037,849)		(60,135,103)	(4,384,434)		(64,519,537)
Furniture, fixtures & equipment	(21,499,447)	(2,611,778)	2,538,316	(21,572,909)	(2,744,945)	980,912	(23,336,942)
Library materials	(26,691,497)	(1,874,535)		(28,566,032)	(2,010,030)		(30,576,062)
Total accumulated depreciation	(104,288,198)	(8,524,162)	2,538,316	(110,274,044)	(9,139,409)	980,912	(118,432,541)
Other property, plant & equipment net of accumulated depreciation	$123,660,055	$ (1,410,932)	$ (38,021)	$ 122,211,102	$ 31,476,022	$ (54,327)	$153,632,797
Property, Plant & Equipment Summary:							
Property, plant & equipment not being depreciated	$ 22,285,653	$ 8,808,251	$	$ 31,093,904	$ 7,447,039	$ (26,199,505)	$ 12,341,438
Other property, plant & equipment at cost	227,948,253	7,113,230	(2,576,337)	232,485,146	40,615,431	(1,035,239)	272,065,338
Total property, plant & equipment	250,233,906	15,921,481	(2,576,337)	263,579,050	48,062,470	(27,234,744)	284,406,776
Less accumulated depreciation	(104,288,198)	(8,524,162)	2,538,316	(110,274,044)	(9,139,409)	980,912	(118,432,541)
Property, plant & equipment—net	$145,945,708	$ 7,397,319	$ (38,021)	$ 153,305,006	$ 38,923,061	$ (26,253,832)	$165,974,235

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, 2008, is approximately $26,600,000. These costs will be financed by available resources of Idaho State University and through General Refunding and Improvement Revenue Bond proceeds.

6. DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	2008	2007
Prepaid fees	$ 1,695,933	$ 1,462,887
Auxiliary enterprises	81,743	117,408
Grants and contracts	843,433	1,229,998
Other ticket sales	1,179	670
	$ 2,622,288	$ 2,810,963

7. NONCURRENT LIABILITIES

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

Description	Balance Outstanding 6/30/2006	Additions	Reductions	Balance Outstanding 6/30/2007	Additions	Reductions	Balance Outstanding 6/30/2008	Amounts Due Within One Year
Unsecured note payable to a bank, due in annual amounts varing from a maximum of $11,200 to $8,082 plus interest of 8.5% through 08/01/2011.					47,887	(11,050)	36,837	8,082
Unsecured note payable to a financial institution due in annual amounts varying from a maximum of $209,629 to $200,270 plus interest of 2.64% through 10/13/2009.					615,456	(209,629)	405,827	200,270
Unsecured note payable to a financial institution due in semi-annual installments varying from a maximum of $2,993,916 to $16,696 plus interest of 5.08% through 09/01/2016					8,733,257	(2,992,945)	5,740,312	33,816
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.	9,535,000		(670,000)	8,865,000		(700,000)	8,165,000	735,000
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.	33,360,000		(1,140,000)	32,220,000		(1,190,000)	31,030,000	1,250,000
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.	4,770,000		(210,000)	4,560,000		(215,000)	4,345,000	225,000
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.	2,210,000		(95,000)	2,115,000		(100,000)	2,015,000	105,000
General Revenue Bonds, Series 2006 (original balance of $10,000,000), consisting of term bonds payable in annual amounts increasing periodically from $320,000 to a maximum of $805,000, plus interest of 5.260% through the year 2028. All bonds are collateralized by certain student fees and other revenues.		10,000,000		10,000,000			10,000,000	
General Revenue Bonds, Series 2007 (original balance of $16,120,000), consisting of term bonds payable in annual amounts increasing periodically from $270,000 to a maximum of $1,055,000, plus interest from 3.90% to 5.00% through the year 2032. All bonds are collateralized by certain student fees and other revenues.	-			-	16,120,000	(270,000)	15,850,000	490,000
	-		-	-				
	53,180,000	10,000,000	(2,115,000)	61,065,000	25,516,600	(5,688,624)	80,892,976	3,047,168
Original issue discount on note payable					(13,583)	5,433	(8,150)	
Premium on bonds	1,989,571		(303,801.00)	1,685,770	159,965	(288,046)	1,557,689	
Discount on bonds	(149,970)		9,516	(140,454)	(159,228)	19,118	(280,564)	

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, 2008, are as follows:

	Bonds		Notes	
	Principal	Interest	Principal	Interest
2009	$ 2,805,000	$ 3,561,295	$ 242,168	$ 305,016
2010	3,250,000	3,434,613	325,834	296,349
2011	3,400,000	3,284,555	709,061	277,139
2012	3,565,000	3,125,048	857,405	238,944
2013	3,730,000	2,956,919	895,567	194,433
2014-2018	21,050,000	11,964,501	3,152,941	311,266
2019-2023	24,310,000	6,524,982		
2024-2028	9,155,000	2,104,417		
2029-2033	3,100,000	490,806		
2034	345,000	16,388		
	$74,710,000	$37,463,524	$ 6,182,976	$ 1,623,147

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, 2004C, 2006 and 2007. The University has pledged certain revenues as collateral for these bonds. The pledged revenue amounts as of June 30 are as follows:

	2008		
	Student Facilities Fee Revenue Bond	**Student Facility Fee Revenue Bond**	**Total**
Pledged Revenues	**Series 1998**	**Series 2003, 2004C, 2004A, 2004B, 2006 and 2007**	
Matriculation fee	$	$ 28,450,604	$ 28,450,604
Student facilities fee	3,171,713	412,983	3,584,696
Revenue of student housing system		4,237,734	4,237,734
Investment income	124	804,126	804,250
	$ 3,171,837	$ 33,905,447	$ 37,077,284
Debt Service	$ 1,126,375	$ 4,727,605	$ 5,853,980
Debt service coverage	282%	717%	633%
Coverage requirement	110%	110%	

	2007		
	Student Facilities Fee Revenue Bond	Student Facility Fee Revenue Bond	Total
Pledged Revenues	Series 1998	Series 2003, 2004C, 2004A, 2004B, 2006	
Matriculation fee	$	$ 27,147,385	$ 27,147,385
Student facilities fee	3,233,087	420,928	3,654,015
Revenue of student housing system		3,524,614	3,524,614
Investment income	555	546,326	546,881
	$ 3,233,642	$ 31,639,253	$ 34,872,895
Debt Service	$ 1,124,850	$ 3,676,423	$ 4,801,273
Debt service coverage	287%	861%	726%
Coverage requirement	110%	110%	

As indicated, the Student Facilities Fee is pledged for Series 1998, Series 2003, Series 2004A, Series 2004B, Series 2004C, Series 2006, and Series 2007 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 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. ISU leases building and office facilities under various non-cancelable operating leases. Total costs for such leases were $1,058,986 and $1,029,893 for the years ended June 30, 2008 and 2007, respectively.

Future minimum lease payments at June 30, 2008 for all leases are as follows:

Fiscal Years	Payments
2009	$ 1,049,316
2010	341,096
2011	89,504
2012	14,001
2013	14,001
2014	14,001
Totals	$ 1,521,919

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 60 months of credited service, members become fully vested in retirement benefits earned to date and receive a lifetime benefit at retirement. 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 of the average monthly salary for the highest consecutive 42 months.

For the year ended June 30, 2008, the required contribution rates as a percentage of covered payroll remained unchanged from FY 2007, at 10.39 percent for the University, and 6.23 percent for employees. The University contributions that were required and paid were $2,909,214, $2,844,156, and $2,905,913, for the years ended June 30, 2008, 2007, and 2006, 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, 2008 and 2007, were $9,485,808 and $7,997,767, respectively. These contributions consisted of $5,413,695 and $4,202,531 from the University which is an increase of 1.54% from 7.72% to in 2007 to approximately 9.3% in 2008 and $4,072,113 and $3,795,236 from employees or 6.97% of covered payroll.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute a percentage of the annual covered payroll to PERSI. Effective July 1, 2007, the percentage was changed from 3.03% to 1.49% allowing the difference of 1.54% to be used to increase the University's contribution to ORP retirement accounts. In addition, the payoff period to payoff the unfunded liability obligation was extended from July 1, 2015 to July 1, 2025. During the years ended June 30, 2008 and 2007, supplemental funding payments to PERSI were $871,076 and $1,649,546, respectively or 1.49% and 3.03%. 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.

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, 2008 and 2007 were $562,087 and $531,812, respectively.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Summary of Plans — The University participates in other postemployment benefit plans relating to health, disability, and life insurance administered by the State of Idaho as agent multiple-employer defined benefit plans. Idaho Code, ***Sections*** 67-***5760*** to 67-5767 and 72-1335, establishes the benefits and contribution obligations. Each of these benefits is provided by the University to retired or disabled employees. GASB Statement No. 45 has been implemented prospectively, and the net OPEB obligation at transition was zero. The most recent actuarial valuation is as of June 30, 2006. Detail of the plans can be found in the Comprehensive Annual Report of the State of Idaho, which may be obtained as follows:

Office of the Idaho State Controller
700 W State Street, 4th Floor
Boise, ID 83702
P.O. Box 83720
Boise, ID 83720-0011
www.sco.idaho.gov

Plan Descriptions

Retiree Healthcare Plan
This plan allows retirees to purchase healthcare insurance coverage for themselves and eligible dependents. A retired employee of the University who is eligible to retire under the Public Employee Retirement System of Idaho (PERSI) may elect to have the retiree health insurance coverage for themselves and eligible dependents. To be eligible, University employees must enroll within sixty days of the date of their retirement. Additionally, the unreduced PERSI monthly benefit at the time of retirement must meet or exceed the monthly cost of single retiree health insurance coverage, or employees must have ten or more years (20,800 or more hours) of credited state service.

Long-Term Disability Income
This plan provides long-term disability income benefits for active employees who become disabled, generally up to a maximum age of 70. Disabled employees are defined as being unable to perform each of the substantial and material duties of the job for which they were hired for the first 30 months of disability, or any job thereafter for which they are reasonably qualified by experience, education, or training. Additionally, to qualify for long-term disability, the waiting period of the later of 26 weeks of continuous total disability or exhaustion of accrued sick leave must be met. The gross benefit equals 60 percent of monthly salary or $3,000 (whichever is smaller). The benefit does not increase with inflation and may be offset by other disability benefits from Social Security, Workers' Compensation, or PERSI.

Life Insurance for Disabled Employees
This plan provides basic life and dependent life coverage for disabled employees, generally up to a maximum age of 70. The life insurance benefit amount is generally 100 percent of annual salary, but not less than $20,000. In addition, a $2,000 life insurance benefit is provided to spouses, and a $1,000 life insurance benefit is provided to dependent children. These benefits do not increase with inflation.

Healthcare for Disabled Employees
For up to 30 months following the date of disability, an employee is entitled to continue healthcare coverage under the State plan.

Life Insurance for Retirees
This plan provides basic life insurance for certified retired employees. In general, the employee must have completed at least 30 years of credited service or the sum of his/her age and years of credited service must total at least 80 to qualify for this benefit. Eligible retirees receive basic life insurance coverage equal to 100 percent of the annual salary at retirement.

Funding Policy— The University has not set aside any assets to pay future benefits; the University funds these benefits on a pay-as-you-go basis.

Retiree Healthcare Plan
Retirees eligible for medical health insurance pay the majority of the premium cost; however, the retiree plan costs are subsidized by the active employee plan. The University contributed $32.83 per active non-retired employee per month towards the retiree premium cost.

Long-Term Disability Income

Self-Insured portion:

Employees who became disabled prior to July 1, 2003, are self-insured by the State, which pays 100 percent of the cost of this benefit. The amount of the contributions is actuarially determined based on active claims and the number of insured individuals.

Insured Benefit portion:

Employees who became disabled after July 1, 2003, are insured by Principal Life Insurance Company and the obligation for the payment of benefits has been effectively transferred. The University pays 100 percent of the cost of the premiums. The University's contribution for the period was 0.37% of covered payroll in fiscal year 2008. This portion of the long-term disability income benefit is not included in the actuarial estimate.

Life Insurance for Disabled Employees
The University pays 100 percent of the premium cost of the benefit. The University's contribution for the period was 0.37% of covered payroll in fiscal year 2008.

Healthcare for Disabled Employees
The University pays 100 percent of the University's share of medical/dental premiums while the employee remains disabled. The employee is required to pay the normal active employee contribution for the plan and rate category in which the employee is enrolled. The University's contribution for the period was $5.98 per active employee per month in fiscal year 2008.

Life Insurance for Retirees
The University pays 100 percent of the cost of basic life insurance. The University's contribution for the period as a percent of payroll was 2.037% for retirees under age 65, 1.568% for retirees between the ages of 65 and 69, and 1.081% for retirees over age 70 in fiscal year 2008.

Annual OPEB Cost—The annual OPEB cost is actuarially determined based on the annual required contribution (ARC) of the employer in accordance with GASB Statement No. 45. The following table illustrates the annual OPEB expense, the amount of contributions made, and the increase in the net OPEB obligation, for the plans as of June 30, 2008, (*dollars in thousands):*

	Retiree Healthcare	Long-term Disability Income	Long-term Disability Life Insurance	Long-term Disability Healthcare	Life Insurance	Total
Annual required contribution						
Amortization of UAAL	$1,186	$21	$36	$34	$306	$1,583
Normal Cost	1,799	0	28	104	424	2,355
Interest to Fiscal Year-end	149	1	3	7	37	197
Annual OPEB cost (expense)	3,134	22	67	145	767	4,135
Contributions made	(737)	(83)	(38)	(82)	(140)	(1,080)
Increase (Decrease) in Net OPEB Obligation	2,397	(61)	29	63	627	3,055
Net OPEB Obligation – Beginning of Year	0	0	0	0	0	0
Net OPEB Obligation (Funding Excess) – End of Year	$2,397	($61)	$29	$63	$627	$3,055
Percentage of AOC Contributed	23.52%	377.27%	56.72%	56.55%	18.25%	26.12%

Funded Status and Funding Progress (dollars in thousands):

		Retiree Healthcare	Long-term Disability Income	Long-term Disability Life Insurance	Long-term Disability Healthcare	Life Insurance
	Actuarial Valuation Date	7/1/2006	7/1/2006	7/1/2006	7/1/2006	7/1/2006
1	Actuarial Value of Assets	-	-	-	-	-
2	Accrued Liability (AAL)	$33,223	$600	$999	$941	$8,587
3	Unfunded AAL (UAAL) (2) - (1)	33,223	600	999	941	8,587
4	Funded Ratios (1) : (2)	0.0%	0.0%	0.0%	0.0%	0.0%
5	Annual Covered Payroll	86,470	86,470	86,470	86,470	86,470
6	UAAL as a Percentage of Covered Payroll (3) : (5)	38.42%	0.69%	1.15%	1.09%	9.93%

Actuarial Methods and Assumptions— Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Required supplementary information immediately follows the notes to the financial statements; in subsequent years this will contain multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Calculations are based on the types of benefits provided under the terms of the plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members. Any variations in future experience from that expected from these assumptions will result in corresponding changes in the estimated costs of the benefits. The projection of benefits for financial reporting purposes does not incorporate the potential effects of legal funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective and actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions for all plans:

	Retiree Healthcare	Long-term Disability Income	Long-term Disability Life Insurance	Long-term Disability Healthcare	Life Insurance
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percentage of Payroll	Level Percentage of Payroll	Level Percentage of Payroll	Level Percentage of Payroll	Level Percentage of Payroll
Amortization Period	30 years, Open	30 years, Open	30 years, Open	30 years, Open	30 years, Open
Assumptions:					
Inflation Rate	3.75%	3.75%	3.75%	3.75%	3.75%
Investment Return	5.00%	5.00%	5.00%	5.00%	5.00%
OPEB Increases	N/A	N/A	N/A	N/A	N/A
Projected Salary Increases	4.50%	4.50%	4.50%	4.50%	4.50%
Healthcare Cost Initial Trend Rate	10.00%	N/A	N/A	10.00%	N/A
Healthcare Cost Ultimate Trend Rate	5.00%	N/A	N/A	5.00%	N/A

11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

2008	Personnel Costs	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expenses Totals
Instruction	$ 75,401,559	$ 6,072,988	$ 4,736,578	$ 244,601			$ 1,356,349	$ 87,812,075
Research	11,741,445	2,739,314	1,195,491	77,954			467,009	16,221,213
Public services	4,014,350	414,066	329,299	127,849			137,968	5,023,532
Academic support	7,274,463	1,987,075	3,286,833	19,784			264,771	12,832,926
Libraries	2,402,145	167,504	(30,595)	1,120			19,446	2,559,620
Student services	6,764,035	627,733	356,487	26,714			370,948	8,145,917
Institutional support	14,145,925	2,868,824	739,535	184,628			726,462	18,665,374
Maintenance and operations	5,653,610	4,673,560	1,044,126	4,947,696			38,918	16,357,910
Auxiliary enterprises	10,730,460	3,782,930	4,135,882	1,634,347			2,300,189	22,583,808
Scholarships and fellowships					13,640,570			13,640,570
Depreciation						9,139,409		9,139,409
Total expenses	$ 138,127,992	$ 23,333,994	$ 15,793,636	$ 7,264,693	$ 13,640,570	$ 9,139,409	$ 5,682,060	$ 212,982,354

2007	Personnel Costs	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expenses Totals
Instruction	$ 71,073,930	$ 6,386,822	$ 5,553,727	$ 226,384			$ 1,454,136	$ 84,694,999
Research	10,442,435	3,412,680	1,459,984	111,447			488,600	15,915,146
Public services	3,985,457	464,402	252,197	108,285			173,716	4,984,057
Academic support	6,187,159	1,094,424	1,496,475	43,015			249,162	9,070,235
Libraries	2,232,271	159,612	134,495	100			25,410	2,551,888
Student services	6,506,176	787,829	455,591	36,639			423,212	8,209,447
Institutional support	10,161,456	2,206,587	1,696,060	144,345			812,735	15,021,183
Maintenance and operations	5,184,789	5,443,814	613,173	4,732,680			36,289	16,010,745
Auxiliary enterprises	10,346,412	3,443,747	3,014,315	843,011			2,272,424	19,919,909
Scholarships and fellowships					13,487,571			13,487,571
Depreciation						8,524,162		8,524,162
Total expenses	$ 126,120,085	$ 23,399,917	$ 14,676,017	$ 6,245,906	$ 13,487,571	$ 8,524,162	$ 5,935,684	$ 198,389,342

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. RISK MANAGEMENT

The University participates in the State of Idaho Risk Management Program, which manages property and general liability risk. That program provides liability (cap) protection to $500,000 per occurrence. Insurance premium payments are made to the State risk management program based on rates determined by a State agency's loss trend experience and asset value covered. Presently, Idaho State University's total insured property at replacement value is $661,312,830.

The University obtains worker's compensation coverage from the Idaho State Insurance Fund. The University's worker's compensation premiums are based on its payroll, its own loss experience, as well as that of the State of Idaho as a whole.

The University carries commercial insurance for other risks of loss, including but not limited to employee bonds and crime, out of state worker's compensation, business interruption, media liability and automobile physical damage insurance.

14. COMPONENT UNIT DISCLOSURE

The Idaho State University Foundation, Inc. is discretely presented within 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*.

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

Foundation Operations

The Foundation was established in March, 1967 to provide support for the private fundraising efforts of the University and to manage privately donated funds. The Foundation is a not-for-profit corporation incorporated in accordance with the laws of the State of Idaho and managed by a volunteer Board of Trustees. Under the Idaho State Board of Education's administrative rules the Foundation must be independent of, and cannot be controlled by, the University. A memorandum of understanding between the Foundation and the University defines the relationship between the two entities in accordance with State Board of Education policies.

Change in Accounting Standards

In prior years the Foundation followed the financial reporting standards set by the GASB. As a result of recent requirements established by the Idaho State Board of Education requiring the Foundation to operate on a much more autonomous basis from the University and for other reasons, the Foundation elected to follow the financial reporting standards set by the FASB. Accordingly, beginning balances have been restated to reflect this change. FASB standards require three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, instead of reporting by fund as is done under GASB standards. In addition, other differences include criteria for recognizing pledges, the method of accounting for split interest gifts, and the presentation of financial information.

Additionally, as a result of the conversion, the Foundation noted approximately $9.3 million of endowment earnings had been included in the Restricted-non-expendable net asset balance. These earnings were not restricted by donors and should have been classified as Restricted-expendable net assets. Therefore, the Foundation reclassified the earnings between Restricted-nonexpendable and Restricted-expendable beginning balances. The reclassification of the earnings did not affect the change in net assets for the years ending June 30, 2008 and 2007.

The impact of this change has resulted in a restatement of beginning net assets for the fiscal year starting July 1, 2006, and the related changes to the Statement of Financial Position and Statement of Activities as of and for the year ended June 30, 2007.

Additional detail related to these changes is included in the Foundation's audited financial statements.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with Generally Accepted Accounting Principles in the United States of America, whereby revenue is recorded when earned and expenses are recorded when materials or services are received. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Permanently Restricted Net Assets – Net assets are subject to donor-imposed restrictions that they be maintained permanently by the Foundation.

Investments

Investments are recorded in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Investments in equity and debt securities that have readily determinable fair values are recorded at quoted market prices. Investment securities without quoted market prices are valued at estimate fair value using appropriate valuation methods that consider the underlying assets and financial reports.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

Pledges Receivable

Unconditional promises to give (pledges) are recognized as an asset and contribution revenue in the period the promise is received. Pledges to be received after one year are discounted at rates commensurate with risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Obligations Under Split Interest Agreements

The Foundation administers such life income agreements as charitable remainder trusts where an income beneficiary is the lifetime recipient of income and the Foundation is the remainder beneficiary. Upon receipt of the gift, a liability is established for the estimated net present value of the lifetime recipient's interest using applicable mortality tables and a discount rate commensurate with the risks involved. A contribution is recognized for the estimated remainder interest.

Capitalized Bond Issuance Costs

Capitalized bond issuance costs consist of legal costs, underwriting fees, printing and other costs incurred to obtain, secure and rate the Multi-Mode Variable Rate Revenue Bonds issued for the construction of the L.E. and Thelma Stephens Performing Arts Center on May 30, 2001. The issuance costs for the Multi-Mode Variable Rate Bonds have an original cost of $570,000 at May 30, 2021 and are amortized over the seventeen year term of the Bonds using the effective interest rate method. Accumulated amortization of these bonds costs at the end of June 30, 2008 is $331,724.

Market Events

Subsequent to June 30, 2008, the financial markets experienced significant volatility and a decline in the market value of securities. The Foundation's investment experience has been consistent with losses experienced in the overall financial market and may affect the amounts available for spending in the future.

Separate audited financial statements are prepared for the Foundation and may be obtained in their entirety by contacting the Idaho State University Foundation, 921 S. 8th Ave, Stop 8050 Pocatello, ID 83209-8050.

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) and its discretely presented component unit as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 17, 2008. 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. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the University's financial statements. This report does not include the results of other auditors' testing of internal control over financial report or compliance and other matters that are reported on separately by other auditors. The financial statements of Idaho State University Foundation were not audited in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in normal course of performing the assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph on this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008-01 to be a significant deficiency in internal control over financial reporting.

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.*

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on it.

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

Moss Adams LLP

Eugene, Oregon
December 17, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Idaho State Board of Education
Idaho State University
Pocatello, Idaho

COMPLIANCE

We have audited the compliance of Idaho State University (University) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

INTERNAL CONTROL OVER COMPLIANCE

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the University's internal control that might be significant deficiencies or material weaknesses. We did not identify deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of, management, others within the entity, the Idaho State Board of Education, and 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
December 17, 2008

IDAHO STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:		Unqualified
Internal control over financial reporting:		
• Material weakness(es) identified?	______ yes	__X__ no
• Significant deficiencies(s) identified that are not considered to be material weaknesses?	__X__ yes	______ no
Noncompliance material to financial statements noted?	______ yes	__X__ no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	______ yes	__X__ no
• Significant deficiencies(s) identified that are not considered to be material weaknesses?	______ yes	__X__ no
Type of auditor's report issued on compliance for major programs:		Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	______ yes	__X__ no

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Lending Program
84.375	Academic Competitiveness Grant
84.376	National Science and Mathematics Access to Retain Talent Grant
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds

Dollar threshold used to distinguish between type A and type B programs:	$ 1,164,344	
Auditee qualified as low-risk auditee?	__X__ yes	______ no

Section II - Financial Statement Findings

2008-01 – Lack of adequate controls surrounding accounts receivable

Criteria – Good internal controls require having adequate procedures in place to facilitate the identification and tracking accounts receivable. These procedures help to ensure that all receivables have been reported completely and accurately.

Condition and context – During the current fiscal year, the University's Business Office discovered that amounts receivable from Portneuf Medical Center (PMC) for cost reimbursements related to Graduate Medical Education (GME) had not been being recorded as receivables. Annually the University's Business Office requests that departments return a form that details out all receivables for the current fiscal year end. Accompanying this form is a memo which provides guidance to departments on what constitutes a receivable. The Business Office follows up on any forms that are not returned to verify that the department has no receivable balances outstanding. In this case, the department responsible for this area had verified in previous years that they did not have any outstanding receivable balances even though they were aware of the cost reimbursements due from PMC. The Business Office has subsequently reviewed all returned forms and feels that this was an isolated incident.

Questioned Costs – None

Cause –The responsible department failed to accurately report outstanding receivables.

Effect – Due to the condition above, an adjustment was made at year end to record a receivable related to GME reimbursements for prior years that had not been received as of June 30, 2008. The amount of this adjustment was immaterial to the financial statements taken as a whole and therefore was recorded in the current year.

Recommendation – We recommend that a process be put into place that would identify all University receivables. This would ensure the proper amount of receivables is recorded on the financial statements.

Management Response – Idaho State University will go live with a new enterprise system on July 1, 2009. This system has a comprehensive accounts receivable module that will mitigate the likelihood of this recurring and will provide additional control. In the interim, the University will add additional emphasis to the requests for information sent to university departments and business units relative to outstanding accounts receivable to ascertain their accuracy.

Section III - Federal Award Findings and Questioned Costs

None.

Program Title	Federal CFDA Number	Amounts Provided to Subrecipients
Sahara Desert NSF	47.041	
University of South Florida		$ 18,067
Digital Geology of Idaho	47.050	
University of Houston		$ 3,176
Complexity Across Boundaries	47.074	
Montana State University		$ 7,208
Steriods & Cardia Function	47.074	
Oregon State University		$ 28,680
Mountain State Tumor & Medical Research Institute		26,264
NSFEPSCoR - Baxter	47.076	
Freshwaters Illustrated		$ 12,000
Sanak Biocomplexity Project	47.078	
Rocky Mountain Biological Laboratory		$ 23,558
University of Alaska Fairbanks		32,371
Antioch University		4,895
DOE EPSCoR Implementation	81.049	
University of Idaho		$ 193,655
Boise State University		32,921
General Atomics 2006	81.112	
General Atomics		$ 542,167
MSP08	84.366	
American Association of Physics Teachers		$ 13,500
Blackfoot School Dist #55		3,833
Idaho Falls School Dist #91		7,713
Pocatello School Dist #25		2,863
Buhl School Dist #412		970
Aberdeen School Dist #58		2,863
Bonneville School Dist #93		6,743
Child Trauma Center	93.243	
University of Wyoming		$ 25,084
Ethanol/Gender Select Effects	93.273	
Portland VA Research Foundation		$ 53,537
Bioterrorism Training and Curriculum Dev Program	93.996	
Mountain States Group, Inc.		$ 28,693