Lewis-Clark STATE COLLEGE

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

LEWIS-CLARK STATE COLLEGE

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MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Idaho State Board of Education
Lewis-Clark State College
Lewiston, Idaho

We have audited the accompanying statement of net assets of Lewis-Clark State College and its discretely presented component unit (the College) as of June 30, 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year financial statements were audited by other auditors whose opinion dated October 29, 2004 was unqualified.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lewis-Clark State College and its discretely presented component unit at June 30, 2005, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005, on our consideration of the College's internal control over financial reporting and on 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 audits.

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

Moss Adams LLP

Eugene, Oregon
September 16, 2005

LEWIS-CLARK STATE COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

Overview of the Financial Statements and Financial Analysis

Lewis-Clark State College (the "College") is pleased to present its financial statements for fiscal year 2005. Comparative data for fiscal year 2004 is also presented. Three financial statements are included for both the College and its component unit, the Lewis-Clark State College Foundation, Inc. (the "Foundation"). Included are the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows.

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year.

Statements of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. The Statement of Net Assets is a point-in-time financial statement intended to present to the readers a fiscal snapshot of the College. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets is discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the College. They are also able to ascertain how much the College owes vendors, grantors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the College.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, indicates the net equity in property, plant and equipment owned by the College. The next net asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted net assets are available for expenditure by the College, but must be spent for purposes specified by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the College to utilize in any legal fashion in accordance with the State Board of Education specified role and mission.

SUMMARY STATEMENTS OF NET ASSETS

	2005	2004	2003
ASSETS:			
Current assets	$ 10,242,555	$ 9,688,194	$ 8,660,226
Property, plant and equipment, net	26,598,107	25,683,227	23,461,705
Other assets	1,635,505	1,705,478	1,570,461
Total assets	$ 38,476,167	$ 37,076,899	$ 33,692,392
LIABILITIES:			
Current liabilities	$ 5,457,593	$ 5,041,046	$ 5,663,642
Noncurrent liabilities	6,539,982	6,996,405	6,554,074
Total liabilities	$ 11,997,575	$ 12,037,451	$ 12,217,716
NET ASSETS:			
Invested in capital assets, net of related debt	$ 19,615,225	$ 18,662,356	$ 17,076,656
Restricted - nonexpendable		2,852	2,852
Restricted - expendable	1,380,113	1,385,939	1,434,865
Unrestricted	5,483,254	4,988,301	2,960,303
Total net assets	$ 26,478,592	$ 25,039,448	$ 21,474,676

Total assets of the College increased by $1,399,268 in fiscal year 2005. Property, plant and equipment increased $914,880, representing 65% of the increase to total assets. This net increase was primarily due to the purchase of residential property located in close proximity to the campus as part of the institution's long-range infrastructure expansion.

Total liabilities of the College decreased by $39,876 in fiscal year 2005. This minor change represented only .3% of total liabilities at June 30, 2005. Changes within both current and non-current liability categories were relatively insignificant and did not exceed what would be expected in the normal course of operations.

Statements of Revenues, Expenses and Changes in Net Assets

Changes in total net assets, as presented on the Statement of Net Assets, are specifically depicted by the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to present the revenues received by the College, operating and nonoperating, the expenses paid by the College, operating and nonoperating, and all other revenues, expenses, gains and losses received or spent by the College.

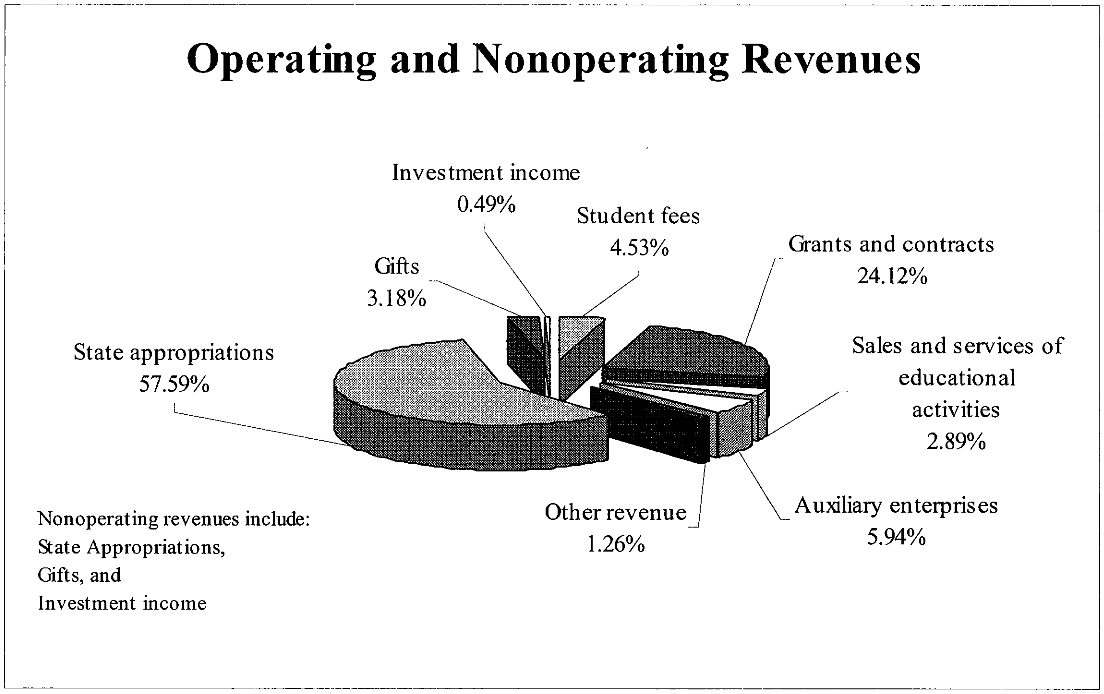
Generally speaking, operating revenues are received in return for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the role and mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are deemed nonoperating because they are provided by the Legislature to the College without the Legislature directly receiving commensurate value in return for those revenues.

SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2005	2004	2003
OPERATING REVENUES:			
Student fees (net of scholarship discounts and allowances of $3,300,412, $3,194,189, $2,580,944)	$ 1,832,553	$ 1,775,395	$ 1,813,558
Federal grants and contracts	6,416,740	6,519,353	5,173,734
State and local grants and contracts	2,698,053	2,339,425	2,187,469
Private grants and contracts	637,118	695,354	767,914
Sales and services of educational activities	1,166,145	1,165,504	1,270,115
Sales and services of auxiliary enterprises	2,402,140	2,368,564	2,104,665
Other	511,136	395,709	424,429
Total operating revenues	15,663,885	15,259,304	13,741,884
OPERATING EXPENSES:	39,597,914	36,828,038	33,955,755
OPERATING LOSS	(23,934,029)	(21,568,734)	(20,213,871)
NONOPERATING REVENUES (EXPENSES):			
State appropriations	23,284,168	21,972,133	20,048,983
Gifts	1,284,890	2,336,869	440,288
Net investment income	199,720	109,678	105,281
Interest on capital asset related debt	(364,460)	(383,046)	(357,355)
Other	(8,927)	(8,927)	(9,763)
Net nonoperating revenues	24,395,391	24,026,707	20,227,434
INCOME BEFORE OTHER REVENUES (EXPENSES)	461,362	2,457,973	13,563
OTHER REVENUES (EXPENSES):			
Capital appropriations	932,713	985,042	578,529
Capital grants and gifts	144,671	159,688	
Other	(99,602)	(37,931)	
Total other revenues (expenses)	977,782	1,106,799	578,529
INCREASE IN NET ASSETS	1,439,144	3,564,772	592,092
NET ASSETS, BEGINNING OF YEAR	25,039,448	21,474,676	20,882,584
NET ASSETS, END OF YEAR	$ 26,478,592	$ 25,039,448	$ 21,474,676

Revenues

The College generates revenues from a variety of sources. The following is a graphic depiction of the revenues by source (both operating and nonoperating), which are used to fund the College's activities for the year ended June 30, 2005.



Total operating and nonoperating revenues for fiscal year 2005 increased $754,679 from fiscal year 2004. Significant fluctuations from the prior year are highlighted as follows:

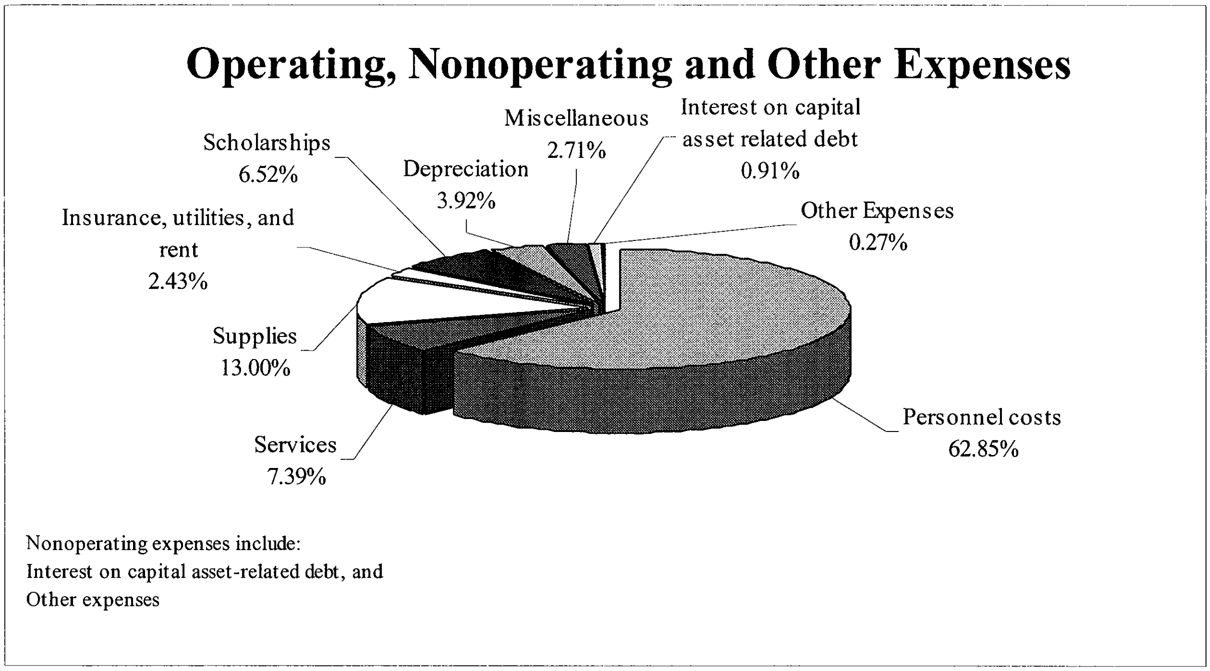
- State appropriations increased $1,312,035.
- Nonoperating gift revenue decreased $1,051,979. This decline reflects the fact that a one-time gift of $1,285,000 from the Foundation to the College for the construction of the Student Activity Center was received in 2004.

Expenses

Following is a comparative summary of the College's expenses for the years ended June 30, 2005, 2004 and 2003.

Expenses	**2005**	**2004**	**2003**
OPERATING EXPENSES:			
Personnel costs	$ 25,186,063	$ 23,405,954	$ 22,455,910
Services	2,962,663	2,999,724	2,362,190
Supplies	5,211,190	4,401,836	4,067,117
Insurance, utilities, and rent	971,830	971,841	869,722
Scholarships & fellowships	2,611,062	2,424,299	1,644,667
Depreciation	1,570,586	1,483,259	1,574,210
Miscellaneous	1,084,520	1,141,125	981,939
Total operating expenses	39,597,914	36,828,038	33,955,755
NONOPERATING EXPENSES:			
Interest on capital asset related debt	364,460	383,046	357,355
Other	8,927	8,927	9,763
Total nonoperating expenses	373,387	391,973	367,118
OTHER EXPENSES	99,602	37,931	
Total other expenses	99,602	37,931	
TOTAL EXPENSES	$ 40,070,903	$ 37,257,942	$ 34,322,873

The following is a graphic depiction of total expenses by natural classification for the year ended June 30, 2005.



Total expenses in fiscal year 2005 increased $2,812,961 compared with the previous year. This represents a 7.5% increase from fiscal year 2004 to fiscal year 2005. Several specific factors that attributed to this fluctuation are summarized below:

- Total personnel costs increased by $1,780,109. Health insurance premiums paid by the College increased approximately $500,000 over the previous year. Merit raises and other salary adjustments accounted for about $508,000 of this change. Academic and administrative program modifications resulted in new positions or job description enhancements that accounted for about $400,000 of the increase between the two fiscal years. The balance of the increase, in the amount of $372,109 was attributed to a variety of normal fluctuations expected on an annual basis.

- Expenditures for supplies increased by $809,354. While inflationary pressures and institutional growth usually result in some annual increase in this expenditure classification, this increase of 18.4% over fiscal year 2004 was significantly greater than what would normally be expected. During fiscal year 2005 the new Student Activity Center began operations. This increase is largely due to the increase in maintenance and operating supplies associated with this new facility. Expenditures included ongoing janitorial and maintenance supplies as well as a significant investment in new equipment that was below the capitalization threshold and thereby reflected as a period expense.

Statements of Cash Flows

The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year.

The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used to perform the operating activities of the College. The second section reflects cash flows related to noncapital financing activities. This section depicts the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section displays cash flows from capital and related financing activities. This section reflects the cash used for the acquisition and construction of capital and related items. The fourth section presents the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash provided or used in operating activities to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

SUMMARY STATEMENTS OF CASH FLOWS

		2005		2004		2003
CASH PROVIDED BY (USED IN):						
Operating activities	$	(21,985,228)	$	(20,564,139)	$	(18,129,870)
Noncapital financing activities		24,444,708		23,189,049		20,641,197
Capital and related financing activities		(1,878,572)		(2,169,589)		(1,209,220)
Investing activities		177,102		118,745		99,692
NET INCREASE IN CASH AND CASH EQUIVALENTS		758,010		574,066		1,401,799
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		7,339,059		6,764,993		5,363,194
CASH AND CASH EQUIVALENTS, END OF YEAR	$	8,097,069	$	7,339,059	$	6,764,993

It is noteworthy that the line item cash used by operating activities indicates an outflow of $21,985,228 for fiscal year 2005. However, cash provided by noncapital financing activities for fiscal year 2005 shows an inflow of $24,444,708. This situation reflects the Government Accounting Standards Board ("GASB") pronouncement that requires the College to recognize the State of Idaho appropriated revenues as noncapital financing activities while all the expenditures associated with these funds are reflected as operating activities. Unless GASB modifies their requirement in this regard, readers should expect this anomaly each year.

Capital Asset and Debt Administration

The College has two outstanding bond issues and one secured student fee revenue note. No new bonds were issued in 2005. Subsequent to the fiscal year end, Moody's Investors Service affirmed the existing bond rating for the College. There has been no significant change in credit ratings or debt limitations that may affect future financing for the College. Additional information concerning property, plant and equipment and debt administration is detailed in Notes 1, 5, 6, 7 and 8 as part of the notes to the financial statements.

Component Unit

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB 14*. This Statement clarified the definition of a component unit for financial reporting purposes. As a result, the College is discretely reporting the Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets for the Foundation as part of the financial statements for the College. As the Foundation is not publishing separate financial statements, the Statements of Cash Flows are also discretely presented in the College financial statements.

At June 30, 2005, the statement of net assets revealed that the total net assets of the Foundation were $3,528,149. Restricted nonexpendable and expendable net assets together represented $2,708,481 or 76.8% of total net assets. These restricted assets largely provide scholarships to students directly or through the distribution of endowment earnings. Net assets invested in capital assets, net of related debt accounted for $428,283 or 12.1% of total net assets. These assets consist of three buildings held by the Foundation by virtue of donation. The remaining $391,385 or 11.1% of total net assets are unrestricted assets. Of this amount, $300,000 represents an unrestricted endowment created from the liquidation of property received as an unrestricted gift. The remaining unrestricted balance of $91,385 consists of cash. Liabilities of the Foundation totaled $509,417 at June 30, 2005, an increase of $285,392. This significant increase of 127% reflects the contingent liability associated with the receipt of two new gift annuities in fiscal year 2005.

The Statements of Revenues, Expenses, and Changes in Net Assets reflected an increase in net assets of $1,096,479. This was due to several significant new gifts received by the Foundation during the fiscal year ended June 30, 2005.

Economic Outlook

Idaho legislative funding as a percent of total revenue continued to decline in fiscal year 2005. State revenues currently exceed beginning of the year budget projections for this date and suggest the likelihood of a surplus at the end of the fiscal year. The outlook for an increase in appropriated funding for higher education is cautious but optimistic. Financial management anticipates a small to moderate increase in appropriated funding for fiscal year 2007.

The College's overall financial condition remains stable. Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year; beyond unknown economic variables that could universally impact all similar organizations. Recent accreditation reviews have affirmed the effectiveness of the College's strategic objectives. Specifically, the College is developing a five-year plan to enhance enrollment growth consistent with the role and mission approved by the Idaho State Board of Education.

LEWIS-CLARK STATE COLLEGE

STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

	LCSC		Component Unit	
ASSETS	**2005**	**2004**	**2005**	**2004**
CURRENT ASSETS:				
Cash and cash equivalents	$ 8,097,069	$ 7,339,059	$ 380,137	$ 577,226
Accounts receivable and unbilled charges	1,486,483	1,726,682	50,000	
Due from state agencies	186,168	172,480		
Inventories	289,279	276,531		
Pledges receivable			5,707	24,710
Student loan receivables	168,702	154,554		
Other assets	14,854	18,888	9,220	8,757
Total current assets	10,242,555	9,688,194	445,064	610,693
NONCURRENT ASSETS:				
Restricted cash and cash equivalents				189,691
Student loan receivables, less allowance for doubtful loans of \$85,000 and \$185,000 for 2005 and 2004, respectively	774,261	857,925		
Investments held in trust	745,178	722,559		
Investments			3,151,919	1,144,307
Deferred bond financing costs	116,066	124,994		
Pledges receivable			12,300	20,100
Property, plant and equipment, net	26,598,107	25,683,227	428,283	690,904
Total noncurrent assets	28,233,612	27,388,705	3,592,502	2,045,002
TOTAL ASSETS	$ 38,476,167	$ 37,076,899	$ 4,037,566	$ 2,655,695

See notes to financial statements.

LIABILITIES	LCSC 2005	LCSC 2004	Component Unit 2005	Component Unit 2004
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	$ 121,514	$ 281,416	$ 84,732	$ 224,025
Accrued salaries and benefits payable	3,193,148	2,966,739		
Deposits	31,149	32,036		
Deferred revenue	475,712	430,819		
Funds held in custody for others	331,926	458,019		
Accrued interest payable	108,581	114,189		
Obligations under capital leases	73,973	85,354		
Notes and bonds payable	1,121,590	672,474		
Total current liabilities	5,457,593	5,041,046	84,732	224,025
NONCURRENT LIABILITIES:				
Gift annuities payable			424,685	
Obligations under capital leases	60,288	134,040		
Notes and bonds payable	6,479,694	6,862,365		
Total noncurrent liabilities	6,539,982	6,996,405	424,685	
TOTAL LIABILITIES	11,997,575	12,037,451	509,417	224,025
NET ASSETS				
Invested in capital assets, net of related debt	19,615,225	18,662,356	428,283	690,904
Restricted for:				
Nonexpendable		2,852	1,860,900	1,329,069
Expendable	1,380,113	1,385,939	847,581	340,248
Unrestricted	5,483,254	4,988,301	391,385	71,449
TOTAL NET ASSETS	26,478,592	25,039,448	3,528,149	2,431,670
TOTAL LIABILITIES AND NET ASSETS	$ 38,476,167	$ 37,076,899	$ 4,037,566	$ 2,655,695

LEWIS-CLARK STATE COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	LCSC		Component Unit	
	2005	2004	2005	2004
OPERATING REVENUES:				
Student fees (net of scholarship discounts and allowances of $3,300,412 and $3,194,189, for 2005 and 2004, respectively)	$ 1,832,553	$ 1,775,395	$ -	$ -
Federal grants and contracts	6,416,740	6,519,353		
State and local grants and contracts	2,698,053	2,339,425		
Private grants and contracts	637,118	695,354		
Sales and services of educational activities	1,166,145	1,165,504		
Sales and services of auxiliary enterprises	2,402,140	2,368,564		
Gifts			788,587	223,235
Other	511,136	395,709	50,630	57,236
Total operating revenues	15,663,885	15,259,304	839,217	280,471
OPERATING EXPENSES:				
Personnel costs	25,186,063	23,405,954		
Services	2,962,663	2,999,724		
Supplies	5,211,190	4,401,836		
Insurance, utilities, and rent	971,830	971,841		
Scholarships and fellowships	2,611,062	2,424,299		
Depreciation	1,570,586	1,483,259	24,381	26,908
Miscellaneous	1,084,520	1,141,125	68,162	42,122
Total operating expenses	39,597,914	36,828,038	92,543	69,030
OPERATING GAIN (LOSS)	(23,934,029)	(21,568,734)	746,674	211,441
NONOPERATING REVENUES (EXPENSES):				
State appropriations	23,284,168	21,972,133		
Gifts (including $317,841and $1,516,852 from the Foundation for 2005 and 2004, respectively)	1,284,890	2,336,869		
Net investment income	199,720	109,678	61,700	114,419
Interest on capital asset related debt	(364,460)	(383,046)		
Distributions to the College			(317,841)	(1,516,852)
Other	(8,927)	(8,927)		
Net nonoperating revenues (expenses)	24,395,391	24,026,707	(256,141)	(1,402,433)
INCOME (LOSS) BEFORE OTHER REVENUES (EXPENSES)	461,362	2,457,973	490,533	(1,190,992)
OTHER REVENUES (EXPENSES):				
Capital appropriations	932,713	985,042		
Capital grants and gifts	144,671	159,688		
Additions to permanent endowments			531,831	306,498
Gain (loss) from sale of property, plant and equipment			74,115	
Other	(99,602)	(37,931)		
Total other revenues (expenses)	977,782	1,106,799	605,946	306,498
INCREASE (DECREASE) IN NET ASSETS	1,439,144	3,564,772	1,096,479	(884,494)
NET ASSETS---BEGINNING OF YEAR	25,039,448	21,474,676	2,431,670	3,316,164
NET ASSETS---END OF YEAR	$ 26,478,592	$ 25,039,448	$ 3,528,149	$ 2,431,670

See notes to financial statements.

LEWIS-CLARK STATE COLLEGE

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	LCSC		Component Unit	
	2005	2004	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student fees	$ 1,726,255	$ 1,731,814	$ -	$ -
Grants and contracts	9,946,966	9,284,969		
Sales and services of educational activities	1,174,315	1,186,264		
Sales and services of auxiliary enterprises	2,429,037	2,344,946		
Donations received			1,207,010	375,094
Payments to employees	(24,973,342)	(23,391,943)		
Payments to suppliers	(5,219,721)	(8,475,756)		
Other payments	(5,038,166)	(1,108,549)	(68,162)	(42,122)
Payments for scholarships and fellowships	(2,611,062)	(2,424,299)		
Loans issued to students	(138,210)	(310,923)		
Collection of loans from students	196,817	198,930		
Other receipts	521,883	400,408	50,168	57,236
Net cash provided (used) by operating activities	(21,985,228)	(20,564,139)	1,189,016	390,208
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	23,284,168	21,972,133		
Gifts	1,307,265	2,314,495		
Additions to endowments			531,831	306,498
Agency account receipts	1,459,319	1,184,760		
Agency account payments	(1,606,044)	(2,282,339)		
Federal student loan receipts	8,768,455	7,460,064		
Federal student loan payments	(8,768,455)	(7,460,064)		
Distributions to the College			(474,069)	(1,491,253)
Net cash provided (used) by noncapital financing activities	24,444,708	23,189,049	57,762	(1,184,755)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from capital debt	458,331	1,203,307		
Proceeds from sale of property	17,870	35,870	312,355	
Capital grants and gifts	139,671	159,688		
Purchase of property, plant and equipment	(1,647,356)	(2,865,020)		
Principal paid on capital debt and leases	(477,020)	(361,372)		
Interest paid on capital debt and leases	(370,068)	(342,062)		
Net cash provided (used) in capital and related financing activities	(1,878,572)	(2,169,589)	312,355	
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	177,102	118,745	(50,756)	24,074
Purchase of investments			(3,055,184)	(200,000)
Proceeds from sale of investments			1,160,027	18,216
Net cash provided (used) by investing activities	177,102	118,745	(1,945,913)	(157,710)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	758,010	574,066	(386,780)	(952,257)
CASH AND CASH EQUIVALENTS---BEGINNING OF THE YEAR	7,339,059	6,764,993	766,917	1,719,174
CASH AND CASH EQUIVALENTS---END OF THE YEAR	$ 8,097,069	$ 7,339,059	$ 380,137	$ 766,917

(Continued)

RECONCILIATION OF NET OPERATING GAIN (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY OPERATING ACTIVITIES:	LCSC 2005	LCSC 2004	Component Unit 2005	Component Unit 2004
Operating Gain (Loss)	$ (23,934,029)	$ (21,568,734)	$ 746,674	$ 211,441
Adjustments to reconcile operating gain (loss) to net cash used in operating activities:				
Depreciation expense	1,570,586	1,483,259	24,381	26,908
Changes in assets and liabilities:				
Receivables, net	219,888	(356,870)	(50,000)	
Due from state agencies	(13,688)	(105,456)		
Pledge receivables, net			26,803	151,859
Inventories	(12,748)	62,372		
Other assets	4,034	(4,439)	(462)	
Accounts payable and accrued liabilities	(159,202)	(157,398)	441,620	
Accrued salaries and benefits payable	226,409	119,467		
Deposits	(887)	1,096		
Deferred revenue	44,893	54,557		
Loans to students	69,516	(91,993)		
Net cash provided (used) by operating activities	$ (21,985,228)	$ (20,564,139)	$ 1,189,016	$ 390,208

SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:	LCSC 2005	LCSC 2004
Property, plant and equipment acquired through Department of Public Works' appropriations	$ 932,713	$ 985,042

See notes to financial statements.

(Concluded)

LEWIS-CLARK STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lewis-Clark State College (the "College") 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 confirmed by the legislature, directs the system. The College is located in Lewiston, Idaho. Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

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

Effective July 1, 2003 the College adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB 14.* This Statement provides additional guidance for determining whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary institution. At this time, the College has determined that, by definition, the Foundation is a component unit of the College. The financial activity of the Foundation is discretely presented in the College's financial statements.

Component Unit—The Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The 28-member board of the Foundation is self-perpetuating and consists of alumni and friends of the college. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by or for the benefit of the College, the Foundation is considered a component unit of the College. See Note 13 for the relevant information related to the Foundation.

Basis of Accounting—For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College'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 College has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected to not apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents—The College considers all liquid investments with a remaining maturity of three months or less at date of acquisition to be cash equivalents. Cash equity with state treasurer funds invested through the Idaho State Treasury Local Government Investment Pool is considered a cash equivalent.

Student Loans Receivable—Loans receivable from students bear interest at the rate of 5% and are generally repayable in installments to the College over a 10-year period commencing 9 months after the date of separation from the College.

Accounts Receivable—Accounts receivable consists of fee charges to students and auxiliary enterprise services provided to students, faculty and staff; the majority of each residing in the State of Idaho. Accounts receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College'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 College accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Changes in unrealized gains and losses on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net assets. The total unrealized gain or loss was not significant for the years ended June 30, 2005 and 2004. More comprehensive disclosure of common risks associated with the deposits and investments are detailed in Notes 2 and 13, as per the requirements of GASB Statement No. 40, *Deposit and Investment Risk Disclosures.*

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—Property, plant and equipment are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair value at date of gift. The College'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; 50 years for buildings, 10 to 40 years for building improvements, 10 years for library books, and 5 to 15 years for equipment.

Compensated Absences—Employee vacation pay that is earned but unused is accrued at year end for financial statement purposes. Accrued vacation pay in the amount of $842,013 and $791,699 is included as a component of both accrued salaries and benefits payable in the statement of net assets and as personnel costs in the statement of revenues, expenses, and changes in net assets at June 30, 2005 and 2004, respectively.

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.

Noncurrent Liabilities—Noncurrent liabilities include principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year.

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

> *Invested in Capital Assets, Net of Related Debt*—This represents the College'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—Nonexpendable*—Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
>
> *Restricted—Expendable*—Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
>
> *Unrestricted*—Unrestricted net assets represent resources derived from student fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions related to the educational and general operations of the College, and may be used to meet current expenses for any lawful purpose in compliance with State Board of Education ("Board") Policy.

When an expense is incurred that can be paid using either restricted or unrestricted resources, restricted resources will be used first, if permitted by the terms of the restrictions.

Income Taxes—The College, as a political subdivision of the State of Idaho, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

Classification of Revenues—The College 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 educational activities and auxiliary enterprises, (3) most Federal, state and local grants and contracts, and (4) interest on institutional 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 Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as state appropriations and investment income.

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

New Accounting Standards—In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets and establishes requirements for application of related insurance recoveries. The College has not completed the process of evaluating the impact that will result from adopting this Statement and is therefore unable to disclose the impact that adopting the Statement will have on its financial statements. The requirements of this Statement are effective for the College's fiscal year ending June 30, 2006.

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

2. DEPOSITS AND INVESTMENTS

Deposits – Cash and cash equivalents are deposited with various financial institutions. Cash deposited with the State Treasurer's Office is subject to the legal provisions found throughout *Idaho Code,* Title 67. Enterprise funds held by the College are deposited with financial institutions qualified as state depositories. All deposits are insured or collateralized with securities held in the College's name. The amount on deposit fluctuates and at times exceeds the insured limit by the U.S. Federal Deposit Insurance Corporation, which potentially subjects the College to credit risk.

Investments held in Trust – Investments held by the College as of June 30, 2005 were limited to investments held in trust relative to outstanding debt issues and consisted of the following:

Investment	Maturities		Fair Value
U.S. Treasury mutual funds	Less than one year	$	398,343
Federal National Mortgage Association pool	2/1/2017		346,835
Total Investments Held in Trust		$	745,178

Credit risk
The general investment policy of the college, as adopted by the State Board of Education states that investments in securities are to be made with the objective of ensuring safety of principal. Funds may be invested in FDIC passbook savings accounts, certificates of deposit, U.S. securities, Federal funds repurchase agreements, reverse repurchase agreements, Federal agency securities, large money market funds, bankers acceptances, corporate bonds of AA grade or better, mortgage-backed securities of AA grade or better, and commercial paper of prime or equivalent grade. Authority to make investments in any other form requires prior Board approval.

Interest rate risk
The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

3. ACCOUNTS RECEIVABLE AND UNBILLED CHARGES

Accounts receivable and unbilled charges consisted of the following at June 30:

		2005		2004
Student fees	$	526,191	$	369,588
Federal, state and nongovernmental grants and contracts		577,933		783,327
Auxiliary enterprises		226,899		271,666
Educational departments		24,345		35,185
Lewis-Clark State College Foundation, Inc.		67,797		224,025
Funds held in custody for others		63,318		42,891
	$	1,486,483	$	1,726,682

4. STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program ("FPLP") and the Nursing Student Loan Program ("NSLP") comprise the majority of the loans receivable at June 30, 2005 and 2004.

FPLP requires the College to match 33% of the federal contributions. A portion or all of the loan principal and interest may be cancelled upon the occurrence of certain events. The amount of such cancellations is partially absorbed by the Federal Government. In the event the College should withdraw from FPLP or the government was to cancel the program, the amount the College would be liable for as of June 30, 2005 and 2004 is approximately $688,600 and $801,000, respectively. These amounts are not reflected as a liability in the financial statements.

The NSLP program requires the College to match one-ninth of the awarded funds.

As the College determines that loans are uncollectible and not eligible for reimbursement by the Federal government, the loans are written off and assigned to the U.S. Department of Education. The allowance for uncollectible loans only applies to College funded loans and the College portion of Federal student loans, as the College is not obligated to fund the Federal portion of uncollected student loans. The College has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off.

Student loans receivable at June 30 consisted of the following:

	2005		
	Current	**Noncurrent**	**Total**
Federal Perkins Loan Program	$ 127,345	$ 739,279	$ 866,624
Nursing Student Loan Program	41,147	119,982	161,129
Institutional Student Loan Programs	210		210
	168,702	859,261	1,027,963
Less Allowance for doubtful loans		(85,000)	(85,000)
Net Student Loans Receivable	**$ 168,702**	**$ 774,261**	**$ 942,963**

	2004		
	Current	**Noncurrent**	**Total**
Federal Perkins Loan Program	$ 112,516	$ 920,688	$ 1,033,204
Nursing Student Loan Program	42,038	122,237	164,275
	154,554	1,042,925	1,197,479
Less allowance for doubtful loans		(185,000)	(185,000)
Net student loans receivable	**$ 154,554**	**$ 857,925**	**$ 1,012,479**

5. PROPERTY, PLANT AND EQUIPMENT—NET

Following are the changes in property, plant and equipment, net, for the years ended June 30, 2005 and 2004:

	2005			
	Balance at June 30, 2004	Additions	Reductions	Balance at June 30, 2005
Property, plant and equipment not being depreciated:				
Land	$ 1,862,624	$ 405,329	$ -	$ 2,267,953
Capitalized collections	15,000			15,000
Construction in progress	2,533,463			2,533,463
Total property, plant and equipment not being depreciated	$ 4,411,087	$ 405,329	$ -	$ 4,816,416
Other property, plant and equipment:				
Buildings	$ 30,424,001	$ 1,528,061	$ (533,403)	$ 31,418,659
Furniture, fixtures and equipment	4,669,824	383,485	(342,872)	4,710,437
Library materials	4,211,655	268,193	(5,585)	4,474,263
Total other property, plant and equipment	39,305,480	2,179,739	(881,860)	40,603,359
Less accumulated depreciation:				
Buildings	(11,248,556)	(991,978)	439,801	(11,800,733)
Furniture, fixtures and equipment	(3,590,745)	(346,534)	336,872	(3,600,407)
Library materials	(3,194,039)	(232,074)	5,585	(3,420,528)
Total accumulated depreciation	(18,033,340)	(1,570,586)	782,259	(18,821,668)
Other property, plant and equipment net of accumulated depreciation	$ 21,272,140	$ 609,153	$ (99,602)	$ 21,781,692
Property, plant and equipment summary:				
Property, plant and equipment not being depreciated	$ 4,411,087	$ 405,329	$ -	$ 4,816,416
Other property, plant and equipment at cost	39,305,480	2,179,739	(881,860)	40,603,359
Total cost of property, plant & equipment	43,716,567	2,585,068	(881,860)	45,419,775
Less accumulated depreciation	(18,033,340)	(1,570,586)	782,259	(18,821,668)
Property, plant and equipment, net	$ 25,683,227	$ 1,014,482	$ (99,602)	$ 26,598,107

	2004			
	Balance at June 30, 2003	Additions	Reductions	Balance at June 30, 2004
Property, plant and equipment not being depreciated:				
Land	$ 1,813,427	$ 49,197	$ -	$ 1,862,624
Capitalized collections	15,000			15,000
Construction in progress	270,002	2,263,461		2,533,463
Total property, plant and equipment not being depreciated	$ 2,098,429	$ 2,312,658	$ -	$ 4,411,087
Other property, plant and equipment:				
Buildings	$ 29,554,532	$ 1,030,502	$ (161,033)	$ 30,424,001
Furniture, fixtures and equipment	4,427,572	295,041	(52,789)	4,669,824
Library materials	4,003,269	211,861	(3,475)	4,211,655
Total other property, plant and equipment	37,985,373	1,537,404	(217,297)	39,305,480
Less accumulated depreciation:				
Buildings	(10,380,669)	(886,512)	18,625	(11,248,556)
Furniture, fixtures and equipment	(3,271,963)	(368,698)	49,916	(3,590,745)
Library materials	(2,969,465)	(228,049)	3,475	(3,194,039)
Total accumulated depreciation	(16,622,097)	(1,483,259)	72,016	(18,033,340)
Other property, plant and equipment net of accumulated depreciation	$ 21,363,276	$ 54,145	$ (145,281)	$ 21,272,140
Property, plant and equipment summary:				
Property, plant and equipment not being depreciated	$ 2,098,429	$ 2,312,658	$ -	$ 4,411,087
Other property, plant and equipment at cost	37,985,373	1,537,404	(217,297)	39,305,480
Total cost of property, plant & equipment	40,083,802	3,850,062	(217,297)	43,716,567
Less accumulated depreciation	(16,622,097)	(1,483,259)	72,016	(18,033,340)
Property, plant and equipment, net	$ 23,461,705	$ 2,366,803	$ (145,281)	$ 25,683,227

The estimated cost to complete property authorized or under construction at June 30, 2005 is approximately $12,750,050. These costs will be financed by state appropriations, available resources and/or long-term borrowing.

Certain land on which four campus buildings are located was donated to the College by the City of Lewiston. Under terms of the gift, ownership of the land reverts back to the City if it ceases to be used for educational purposes.

6. LONG-TERM LIABILITIES

Following are the changes in long-term debt for the years ended June 30, 2005 and 2004:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Leases, bonds and notes:					
Lease obligations	$ 219,394	$ -	$ (85,133)	$ 134,261	$ 73,973
Revenue bonds	6,105,000		(275,000)	5,830,000	285,000
Notes	1,429,839	458,331	(116,886)	1,771,284	836,590
	$ 7,754,233	$ 458,331	$ (477,019)	$ 7,735,545	$ 1,195,563

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Leases, bonds and notes:					
Lease obligations	$ 299,568	$ -	$ (80,174)	$ 219,394	$ 85,354
Revenue bonds	6,365,000		(260,000)	6,105,000	275,000
Notes	247,730	1,203,307	(21,198)	1,429,839	397,474
	$ 6,912,298	$ 1,203,307	$ (361,372)	$ 7,754,233	$ 757,828

7. NOTES AND BONDS PAYABLE

Notes and bonds payable at June 30, 2005 and 2004 consisted of the following:

	Balance Outstanding	
	2005	**2004**
Student Fee Refunding Revenue Bonds, Series 1998 (original issuance of $6,335,000), issued to provide for the refunding of certain outstanding obligations and to fund improvements of the Student Union Building and related facilities, due in annual amounts increasing periodically from $130,000 to a maximum of $1,145,000, plus interest from 4.25% to 5.20% through April 2018, collateralized by a pledge of gross revenues less operating and maintenance expenses of certain auxiliary enterprises ($1,497,805 in 2005 and $1,624,437 in 2004).	$ 5,515,000	$ 5,645,000
Student Fee Refunding Revenue Bonds, Series 1993 (original issuance of $1,640,000), issued to provide for the refunding, redemption, and defeasance of certain outstanding obligations, due in annual amounts increasing periodically from $145,000 to a maximum of $160,000, plus interest from 5.35% to 5.50% through December 2006, collateralized by a pledge of gross revenues less operating and maintenance expenses of certain auxiliary enterprises ($1,418,166 in 2005 and $1,402,957 in 2004).	315,000	460,000
Secured Student Fee Revenue Note, Series 2003 (original issuance of $1,126,307), issued to finance construction of the Student Activity Center, due in annual installments of $138,656, including interest at 3.90%, through July 2013, collateralized by dedicated student fees.	1,032,365	1,126,307
Unsecured note payable (original issuance of $130,000), issued to purchase residential property, due in monthly installments, maturing on December 31, 2005, including interest at 4.46%. Renewable at the option of the lender.	96,108	104,172
Unsecured note payable (original issuance of $150,000), issued to purchase land, due in monthly installments, maturing on December 31, 2005, including interest at 4.46%. Renewable at the option of the lender.	113,175	124,358
Unsecured note payable (original issuance of $77,000), issued to purchase residential property, due in monthly installments, maturing on December 31, 2005, including interest at 4.46%. Renewable at the option of the lender.	71,305	75,002
Unsecured note payable (original issuance of $458,331), issued to purchase residential property, due in monthly installments, maturing on December 31, 2005, including interest at 5.10%. Renewable at the option of the lender.	458,331	
Total bonds and notes payable	$ 7,601,284	$ 7,534,839

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

	Notes		Bonds	
	Principal	Interest	Principal	Interest
2006	$ 836,590	$ 58,755	$ 285,000	$ 288,246
2007	101,549	37,107	465,000	273,838
2008	105,580	33,076	315,000	255,560
2009	109,772	28,884	330,000	241,070
2010	114,130	24,526	345,000	225,560
2011-2015	503,663	50,962	2,000,000	856,910
2016-2020			2,090,000	252,750
	$ 1,771,284	$ 233,310	$ 5,830,000	$ 2,393,934

8. CAPITAL LEASE OBLIGATIONS

The College has entered into several capital lease agreements to improve buildings and acquire certain equipment. At June 30, 2005 and 2004, gross assets under capital leases total $528,244 with $335,444 included in buildings and $192,800 included in furniture, fixtures and equipment. Future minimum lease obligations under these agreements for the years ended June 30 are as follows:

2006	$ 80,743
2007	51,923
2008	11,205
Total minimum obligations:	$ 143,871
Less amount representing interest:	(9,610)
Present value of minimum obligations:	$ 134,261

9. RETIREMENT PLANS

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

After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.000% or 2.300% (depending upon employee classification) of the average monthly salary for the highest consecutive 42 months.

For the year ended June 30, 2005, the required contribution rate for general employees was 10.39% and 6.23% of covered payroll for the College and its employees, respectively. The College's contributions required and paid were $672,761, $613,364, $614,806, $622,681 and $323,153 for the five years ended June 30, 2005, 2004, 2003, 2002 and 2001 respectively.

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

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

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or any portion thereof upon attaining 55 years of age. The contribution requirement (and amount paid) for the years ended June 30, 2005 and 2004 was $1,414,389 and $1,337,014, respectively, which consisted of $733,722 and $702,458, respectively, from the College and $680,667 and $634,556, respectively, from employees. For both 2005 and 2004 these contributions represented approximately 7.72% and 6.97% of covered payroll for the College and its employees, respectively.

Although enrollees in the ORP no longer belong to PERSI, the College is required to contribute to PERSI 3.03% of the annual covered payroll. These annual supplemental payments are required through July 1, 2015. During the years ended June 30, 2005 and 2004, this supplemental funding payment made to PERSI was $296,195 and $275,882. These amounts are not included in the regular College PERSI contribution discussed previously.

Postretirement Benefits Other Than Pensions—Employees who qualify for retirement under PERSI or ORP are eligible to use 50% of the cash value of their unused sick leave to continue their medical insurance coverage through the College. The College partially funds these obligations by depositing 0.65% of employee gross payroll to PERSI who administers the plan as a cost-sharing, multiple-employer plan. The total contributions for the years ended June 30, 2005 and 2004 were $105,036 and $99,661.

The College also offers a life insurance plan for retired employees. During the year ended June 30, 2005 and 2004 the College made expenditures totaling $34,334 and $28,122, respectively, to purchase life insurance for 68 and 60, respectively, retired employees receiving these benefits. This program is accounted for by the College on a pay-as-you-go basis. See Note 1 for discussion of a new accounting standard related to these types of benefits.

10. NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The following table shows natural classifications with funcation classifications:

	2005 Natural Classification							
Functional Classification	Personnel Costs	Services	Supplies	Insurance, Utilities, and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expense Totals
Instruction	$13,848,545	$967,641	$1,278,825	$69,784	$173,736		$222,138	$16,560,669
Research	156,044	3,918	127,840				5,140	292,942
Public services	1,587,471	259,136	251,362	36,599	21,400		273,715	2,429,683
Libraries	507,862	120,211	21,989				304	650,366
Student services	2,087,907	224,934	141,106	6,703	177,359		97,948	2,735,957
Plant operations	1,196,140	49,080	606,792	480,664		$1,570,586	7,213	3,910,475
Institutional support	2,152,220	563,756	415,326	88,037	8,924		181,676	3,409,939
Academic support	1,763,853	174,997	246,621	1,350	83		21,060	2,207,964
Scholarships and fellowships	152,132	(326)	8		1,977,368		39,170	2,168,352
Auxiliaries	1,733,889	599,316	2,121,321	288,693	252,192		236,156	5,231,567
Total expenses:	$25,186,063	$2,962,663	$5,211,190	$971,830	$2,611,062	$1,570,586	$1,084,520	$39,597,914

	2004 Natural Classification							
Functional Classification	Personnel Costs	Services	Supplies	Insurance, Utilities, and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expense Totals
Instruction	$12,767,693	$983,519	$1,244,987	$78,287	$215,905	$215,786	$222,771	$15,728,948
Research	116,148	21,102	42,154			1,301	1,886	182,591
Public services	1,353,179	290,841	300,987	48,536		3,265	270,670	2,267,478
Libraries	547,917	235,255	62,518			240,219	250	1,086,159
Student services	1,924,028	233,488	138,554	6,851	190,233	2,364	68,086	2,563,604
Plant operations	1,098,850	51,838	498,890	509,281		916,943	9,753	3,085,555
Institutional support	2,076,288	428,671	226,913	106,374	2,000	20,914	236,302	3,097,462
Academic support	1,800,233	252,326	256,588	8,255		70,286	41,810	2,429,498
Scholarships and fellowships	157,276	195			1,794,203		64,849	2,016,523
Auxiliaries	1,564,342	502,489	1,630,245	214,257	221,958	12,181	224,748	4,370,220
Total expenses:	$23,405,954	$2,999,724	$4,401,836	$971,841	$2,424,299	$1,483,259	$1,141,125	$36,828,038

11. RELATED PARTIES TRANSACTIONS

Early in fiscal year 2004 the College began constructing a new Student Activity Center (the "facility"). With an estimated cost of approximately $15,000,000, this project is scheduled for completion in fiscal year 2006. The Idaho State Building Authority (the "ISBA"), with approval from the Idaho State Legislature, issued $10,018,000 of tax exempt bonds to finance the project and will have initial ownership of the facility. The College has contributed $2,533,463 to the project with the balance to be provided by the State of Idaho. A portion of the College's contribution was financed through the issuance of a Secured Student Fee Revenue Note, Series 2003, issued in the amount of $1,126,307. See Note 7.

The College, through the State Board of Education, entered into a lease agreement with the ISBA whereby the land upon which the building is being constructed is leased to the ISBA. It is intended that this lease will continue until all amounts owed to the bondholders have been paid. The Idaho Legislature is obligated, via the annual appropriation process, to provide funds to the State Department of Administration (the "SDOA") to make the bond payments.

The facility will be in use for many years prior to the transfer of ownership to the College. Therefore, the SDOA, on behalf of the College, has signed an agreement to lease the facility from the ISBA during the period the bond holders are being paid. This agreement obligates the SDOA to pay rent to the ISBA in the amount of the annual bond obligations, plus expenses, as funded by the Idaho Legislature.

The College and the SDOA have entered into an operating agreement whereby the College is obligated to cover all operating costs including maintenance, insurance, and furnishings. At the termination of these agreements, drafted to coincide with the final bond payments, ownership of the facility should pass to the College. As of June 30, 2005 and 2004 the College's contribution is reflected as construction in progress in the amount of $2,533,463. See Note 5.

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 College 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. College 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 College.

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

13. COMPONENT UNIT DISCLOSURE

As described in Note 1, the Lewis-Clark State College Foundation, Inc. (the "Foundation") has been determined to be a component unit of the College. Significant accounting policies associated with the College, also described in Note 1, apply to the Foundation, when applicable. Other disclosures at June 30, 2005 are as follows:

Deposits—Cash and cash equivalents are deposited with various financial institutions. All deposits are insured or collateralized with securities held in the College's name. The amount on deposit fluctuates and at times exceeds the insured limit by the U.S. Federal Deposit Insurance Corporation, which potentially subjects the Foundation to credit risk.

Investments—The Foundation investment policy permits investments in the following investment categories: (a) cash and cash equivalents, including money market funds; (b) fixed income assets to include bonds and bank certificates of deposit; and (c) stocks of large and small U.S. or foreign companies. The Foundation prohibits investments in the following: (a) derivatives, (b) natural resources, (c) precious metals, and (d) venture capital.

Credit Risk of Debt Securities
The risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation is commonly expressed in terms of a credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard & Poor's, and Fitch's. The ratings below use the Standard & Poor's scale and represent the debt securities held by the Foundation as of June 30, 2005:

Investment Type	Rating	Fair Value	
Corporate Debt Instruments	BBB	$	26,908
Corporate Debt Instruments	BB		27,731
Federal Home Loan Bank	Gov't		397,613
Federal Home Loan Mortgage Corporation	Gov't		314,122
Total Rated Debt Securities		$	766,374

Interest Rate Risk
Investments in debt securities that are fixed for longer periods are likely to experience greater variability in fair value due to future changes in interest rates. The Foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of June 30, 2005, the Foundation held debt securities with the following maturities:

Investment Type	Maturity Range	Fair Value	
Corporate Debt Instruments	2 - 4 years	$	54,639
Federal Agencies	1/4 - 4 1/2 years		711,735
Total Debt Securities		$	766,374

Foreign Currency Risk

The Foundation investment policy permits the acquisition of equities denominated in foreign currencies. There is a risk that changes in exchange rates could adversely affect the fair value of these investments. To reduce this risk the investment policy limits the investment in international equities to no more than 15% of the total investment portfolio. As of June 30, 2005, the Foundation's exposure to foreign currency risk is as follows:

Equity Investments	Denominated Currency	Fair Value
European Securities	Euro	$ 50,145
British Securities	British Pound	47,814
Mexican Securities	Mexican Peso	31,423
Swiss Securities	Franc	27,606
Australian Securities	Australian Dollar	18,636
Japanese Securities	Yen	16,094
Swedish Securities	Krona	13,140
Hong Kong Securities	Hong Kong Dollar	12,763
Canadian Securities	Canadian Dollar	12,604
Norwegian Securities	Krone	11,730
Philippine Securities	Philippine Peso	8,860
South African Securities	South African Rand	5,935
South Korean Securities	Won	5,243
Indian Securities	Rupee	4,290
Total Foreign Equity Investments		266,283
US Denominated Securities & Mutual Funds	U.S. Dollar	2,119,262
Total Equity Investments & Mutual Funds		$ 2,385,545

Property, Plant and Equipment—Net—Following are the changes in property holdings for the years ended June 30, 2005 and 2004:

	2005			
	Balance at June 30, 2004	Additions	Reductions	Balance at June 30, 2005
Property holdings not being depreciated:				
Land	$ 97,082	$ -	$ (57,516)	$ 39,566
Other property holdings:				
Buildings	$ 807,252	$ -	$ (227,484)	$ 579,768
Less accumulated depreciation:				
Buildings	(213,430)	(24,382)	46,761	(191,051)
Other property holdings accumulated depreciation	$ 593,822	$ (24,382)	$ (180,724)	$ 388,717
Property holdings summary:				
Property holdings not being depreciated	$ 97,082	$ -	$ (57,516)	$ 39,566
Other property holdings at cost	807,252		(227,484)	579,768
Total cost of property buildings	904,334		$ (285,000)	619,334
Less accumulated depreciation	(213,430)	(24,382)	46,761	(191,051)
Property holdings, net	$ 690,904	$ (24,382)	$ (238,239)	$ 428,283

	2004			
	Balance at June 30, 2003	Additions	Reductions	Balance at June 30, 2004
Property holdings not being depreciated:				
Land	$ 97,082	$ -	$ -	$ 97,082
Other property holdings:				
Buildings	$ 807,252	$ -	$ -	$ 807,252
Less accumulated depreciation:				
Buildings	(186,522)	(26,908)		(213,430)
Other property holdings accumulated depreciation	$ 620,730	$ (26,908)	$ -	$ 593,822
Property holdings summary:				
Property holdings not being depreciated	$ 97,082	$ -	$ -	$ 97,082
Other property holdings at cost	807,252			807,252
Total cost of property buildings	904,334			904,334
Less accumulated depreciation	(186,522)	(26,908)		(213,430)
Property holdings, net	$ 717,812	$ (26,908)	$ -	$ 690,904

Income Taxes—The Foundation is exempt from income taxes on its activities as a Foundation under Section 501(c)(3) of the Internal Revenue Code and similar state statutes. Activities unrelated to those of a Foundation are subject to corporate tax rates.

Related Party Transactions—As of June 30, 2005 and 2004, the Foundation reported a liability to the College of $67,797 and $224,025, respectively for campaign administrative expenses paid by the College.

Distributions to the College—During the years ended June 30, 2005 and 2004, the Foundation distributed $317,841 and $1,516,852, respectively to the College for both restricted and unrestricted purposes.

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
Lewis-Clark State College
Lewiston, ID

We have audited the financial statements of Lewis-Clark State College (the College) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of Lewis Clark State College in a separate letter dated September 16, 2005.

MOSS-ADAMS LLP

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

Moss Adams LLP

Eugene, Oregon
September 16, 2005