Lewis-Clark
STATE
COLLEGE

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS June 30, 2006 and 2005

LEWIS-CLARK STATE COLLEGE

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Lewis-Clark State College and its discretely presented component unit, the Lewis-Clark State College Foundation, Inc. (collectively the College) as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 College's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2006 and 2005, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006, 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 supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Eugene, Oregon
October 6, 2006

LEWIS-CLARK STATE COLLEGE

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

Overview of the Financial Statements and Financial Analysis

Lewis-Clark State College (the "College") is pleased to present its financial statements for fiscal year 2006. Comparative data for fiscal years 2005 and 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.

Statement 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 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

	2006	2005	2004
ASSETS:			
Current assets	$ 11,871,121	$ 10,242,555	$ 9,688,194
Property, plant and equipment, net	23,738,370	26,598,107	25,683,227
Other assets	3,963,240	1,635,505	1,705,478
Total assets	39,572,731	38,476,167	37,076,899
LIABILITIES:			
Current liabilities	5,144,519	5,457,593	5,041,046
Noncurrent liabilities	6,060,213	6,539,982	6,996,405
Total liabilities	11,204,732	11,997,575	12,037,451
NET ASSETS:			
Invested in capital assets, net of related debt	19,599,852	19,615,225	18,662,356
Restricted - nonexpendable			2,852
Restricted - expendable	1,384,340	1,380,113	1,385,939
Unrestricted	7,383,807	5,483,254	4,988,301
Total net assets	$ 28,367,999	$ 26,478,592	$ 25,039,448

Total assets of the College increased by $1,096,564 in fiscal year 2006. This represents a relatively small 2.9% increase over 2005. However, Other assets increased $2,327,735 while Property, plant and equipment decreased $2,859,737. These changes were precipitated by the reclassification of the institutional funds invested in the new Student Activity Center (the “facility”). The facility was not completed until fiscal year 2006. At June 30, 2005, $2,533,463 of institutional funds expended for this project were included as construction in progress within Property, plant and equipment. While the project was completed in 2006, ownership of the facility will not pass to the College until debt incurred by the State of Idaho for the majority of the project costs is retired (see footnote 11). Until that time, the College will reflect the institutional investment as a non-depreciable Investment in capital assets, included in Other assets in the above Summary Statements of Net Assets. This classification change accounts for the majority of the fluctuation between Property, plant and equipment and Other assets noted above between 2006 and 2005 and creates a netting effect. The majority of the net change to Total net assets is due to the increase of $1,628,566 in the Current assets category. This represents a 15.9% increase and is almost exclusively attributed to an increase in Cash and cash equivalents. This increase is detailed in the *Statements of Cash Flows* where it is revealed that a net increase in cash and cash equivalents of $1,587, 001 resulted for the year ended June 30, 2006.

Total liabilities of the College decreased by $792,843 in fiscal year 2006. This variation represented 6.6% of total liabilities at June 30, 2005. While there were relatively minor fluctuations in nearly all liability categories as would be expected in the normal course of business, there was a significant reduction in Accrued salaries and benefits of $715,864. Within the Current liabilities category, this is a typical fluctuation due to the number of days included in the accrued salary calculation at June 30th. At June 30, 2005 the accrued salary calculation included 19 days while the June 30, 2006 calculation only included 10 days. Fluctuations of this nature will frequently occur as employees are paid every other Friday and the number of days from the last pay date until June 30 varies from year-to-year.

Statement 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 earned by the College, operating and nonoperating, the expenses incurred by the College, operating and nonoperating, and all other revenues, expenses, gains and losses earned or incurred by the College.

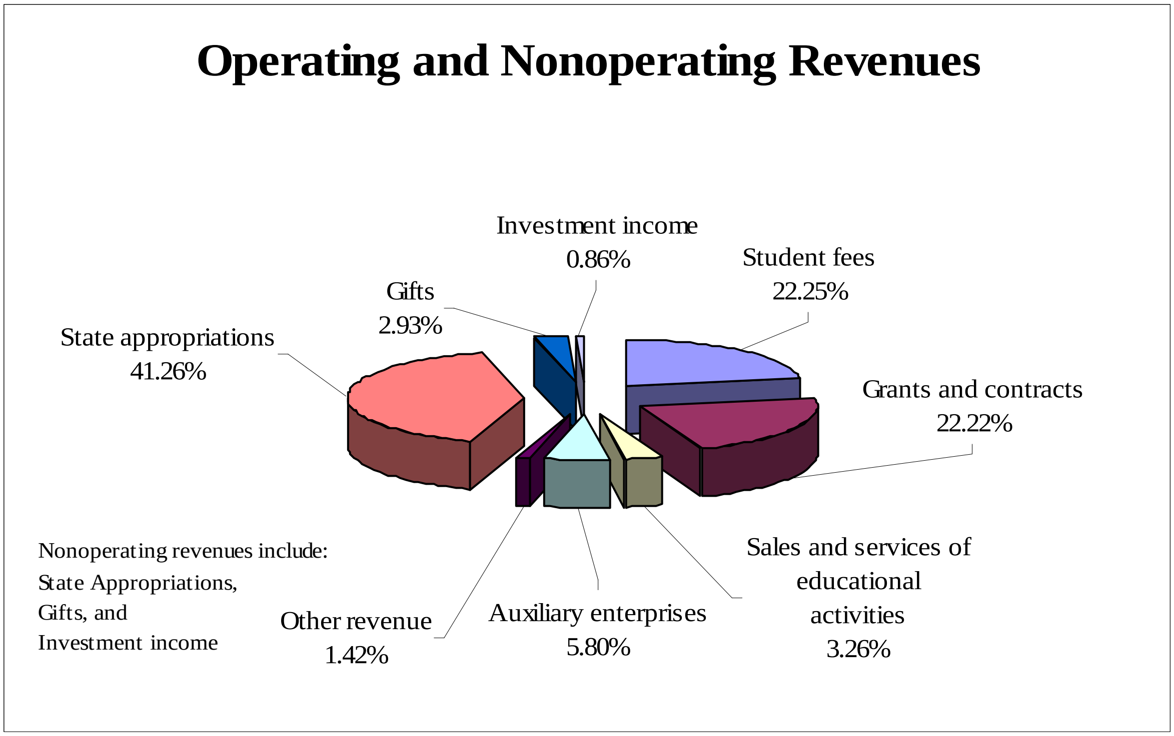
Generally speaking, operating revenues are earned in return for providing goods and services to the various customers and constituents of the College. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry 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 Idaho 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

	2006	2005	2004
OPERATING REVENUES:			
Student fees (net of scholarship discounts and allowances of $3,169,006, $3,300,412, $3,194,189 for 2006, 2005 and 2004, respectively)	$ 8,599,385	$ 7,820,005	$ 6,838,962
Student fees pledged for debt	827,284	882,978	906,536
Federal grants and contracts	5,852,858	6,416,740	6,519,353
State and local grants and contracts	2,886,801	2,698,053	2,339,425
Private grants and contracts	664,565	637,118	695,354
Sales and services of educational activities	1,380,236	1,166,145	1,165,504
Sales and services of auxiliary enterprises	2,457,929	2,402,140	2,368,564
Other	602,955	511,136	395,709
Total operating revenues	23,272,013	22,534,315	21,229,407
OPERATING EXPENSES:	40,072,928	39,597,914	36,828,038
OPERATING LOSS	(16,800,915)	(17,063,599)	(15,598,631)
NONOPERATING REVENUES (EXPENSES):			
State appropriations	17,484,370	16,413,738	16,002,030
Gifts	1,241,975	1,284,890	2,336,869
Net investment income	364,711	199,720	109,678
Interest on capital asset related debt	(372,622)	(364,460)	(383,046)
Other	(8,927)	(8,927)	(8,927)
Net nonoperating revenues	18,709,507	17,524,961	18,056,604
INCOME BEFORE OTHER REVENUES	1,908,592	461,362	2,457,973
OTHER REVENUES (EXPENSES):			
Capital appropriations		932,713	985,042
Capital grants and gifts	10,144	144,671	159,688
Other	(29,329)	(99,602)	(37,931)
Total other revenues (expenses)	(19,185)	977,782	1,106,799
INCREASE IN NET ASSETS	1,889,407	1,439,144	3,564,772
NET ASSETS, BEGINNING OF YEAR	26,478,592	25,039,448	21,474,676
NET ASSETS, END OF YEAR	$ 28,367,999	$ 26,478,592	$ 25,039,448

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, 2006.



Total operating and nonoperating revenues for fiscal year 2006 increased $1,930,406 from fiscal year 2005. Significant fluctuations from the prior year are highlighted as follows:

- State appropriations increased $1,070,632.
- Student fees increased $723,686.

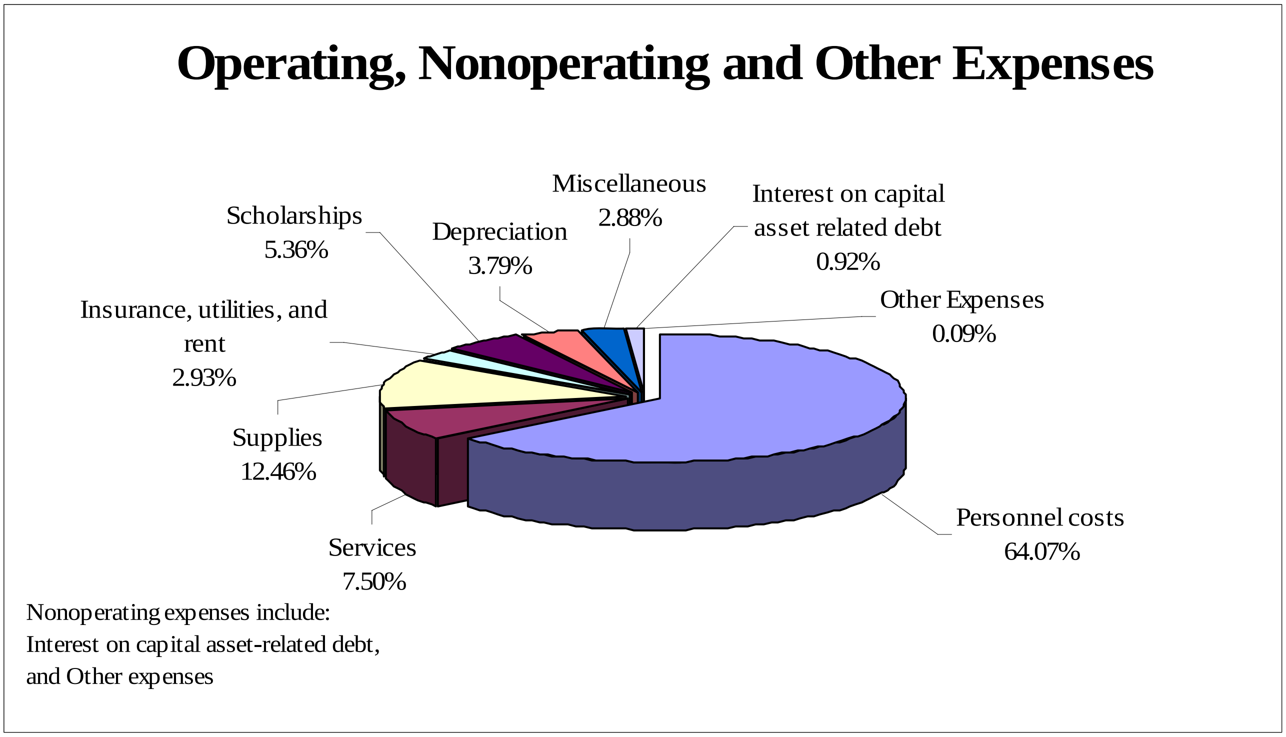
Other fluctuations in operating and nonoperating revenues were relatively insignificant.

Expenses

Following is a comparative summary of the College's expenses for the years ended June 30, 2006, 2005 and 2004.

Expenses	**2006**	**2005**	**2004**
OPERATING EXPENSES:			
Personnel costs	$ 25,938,929	$ 25,186,063	$ 23,405,954
Services	3,034,485	2,962,663	2,999,724
Supplies	5,046,142	5,211,190	4,401,836
Insurance, utilities, and rent	1,187,464	971,830	971,841
Scholarships & fellowships	2,168,203	2,611,062	2,424,299
Depreciation	1,532,658	1,570,586	1,483,259
Miscellaneous	1,165,047	1,084,520	1,141,125
Total operating expenses	40,072,928	39,597,914	36,828,038
NONOPERATING EXPENSES:			
Interest on capital asset related debt	372,622	364,460	383,046
Other	8,927	8,927	8,927
Total nonoperating expenses	381,549	373,387	391,973
OTHER EXPENSES	29,329	99,602	37,931
Total other expenses	29,329	99,602	37,931
TOTAL EXPENSES	$ 40,483,806	$ 40,070,903	$ 37,257,942

The following is a graphic depiction of total expenses by natural classification for the year ended June 30, 2006.



Total expenses in fiscal year 2006 increased $412,903 compared with the previous year. This represents a 1.0% increase from fiscal year 2005 to fiscal year 2006. This fluctuation is insignificant in total. However, as depicted below some netting of increases and decreases did occur:

- Total personnel costs increased by $752,866. This 3.0% increase was largely attributed to salary increases in the current year that averaged approximately 2.5%.
- Total expenditures for Scholarships and fellowships decreased $442,859. This decrease was almost exclusively associated with a decrease in Federal Pell grant awards for the year ended June 30, 2006.
- Other categorical fluctuations were relatively minor and would be expected in the normal course of business.

Statement 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 statements are 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 *Statements of Revenues, Expenses, and Changes in Net Assets.*

SUMMARY STATEMENTS OF CASH FLOWS

	2006	2005	2004
CASH PROVIDED BY (USED IN):			
Operating activities	$ (15,700,068)	$ (15,114,798)	$ (14,594,036)
Noncapital financing activities	18,822,507	17,574,278	17,218,946
Capital and related financing activities	(1,885,674)	(1,878,572)	(2,169,589)
Investing activities	350,236	177,102	118,745
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,587,001	758,010	574,066
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,097,069	7,339,059	6,764,993
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,684,070	$ 8,097,069	$ 7,339,059

It is noteworthy that the line item cash used by operating activities indicates an outflow of $15,700,068 for fiscal year 2006. However, cash provided by noncapital financing activities for fiscal year 2006 shows an inflow of $18,822,507. 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 its requirement in this regard, readers should expect this presentation every 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 2006. 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 *Statement of Net Assets* and the *Statement 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 a separate financial statement, its *Statement of Cash Flows* is also discretely presented in the College financial statements.

At June 30, 2006, the *Statement of Net Assets* revealed that the total net assets of the Foundation were $3,827,256. Restricted nonexpendable and expendable net assets together represented $3,027,532 or 79.1% of total net assets. These restricted assets primarily provide scholarships to students directly or through the distribution of endowment earnings. Net assets invested in capital assets, net of related debt accounted for $408,957 or 10.7% of total net assets. These assets consist primarily of three buildings being held by the

Foundation by virtue of donation. The remaining $390,767 or 10.2% 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 $90,767 consists of cash. Liabilities of the Foundation totaled $471,751 at June 30, 2006, a decrease of $37,666 from June 30, 2005. This decrease of 7.4% is primarily attributed to a net reduction in the line item Due to Lewis-Clark State College in the amount of 43,655. This liability results from an obligation of the Foundation to reimburse the College for campaign costs incurred during a capital campaign.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflected an increase in net assets of $299,107. This increase reflects new gifts received by the Foundation during the fiscal year ended June 30, 2006.

Economic Outlook

Idaho legislative funding for the College as a percent of total revenue continued to decline in fiscal year 2006, continuing a trend that has been ongoing for a number of years. Revenue growth for the State of Idaho was 7.2% from the end of fiscal year 2005 through fiscal year 2006, despite a reduction in the State sales tax. Proposed changes in property tax legislation could potentially introduce new variables in the higher education funding equation. As noted in the July 2006 issue of the *Idaho Outlook,* economists for the State of Idaho project that nominal personal income will expand about 6.7% per year through 2009, which is greater than the 5.7% forecast at the national level. These factors would indicate that the outlook for an increase in appropriated funding for higher education remains cautious but optimistic. Management anticipates a small to moderate increase in appropriated funding for the College in fiscal year 2008.

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 pursuing 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, 2006 and 2005

	LCSC		Component Unit	
ASSETS	**2006**	**2005**	**2006**	**2005**
CURRENT ASSETS:				
Cash and cash equivalents	$ 7,694,288	$ 6,058,166	$ 159,841	$ 122,404
Cash with treasurer	1,989,782	2,038,903		
Accounts receivable and unbilled charges	1,425,817	1,418,686		50,000
Due from Lewis-Clark State College			275,939	257,733
Due from state agencies	361,427	186,168		
Inventories		289,279		
Pledges receivable			3,000	5,707
Investments held in trust	143,500			
Student loan receivables	193,525	168,702		
Due from component unit	24,142	67,797		
Prepaid expenses	38,640	14,854	9,757	9,220
Total current assets	11,871,121	10,242,555	448,537	445,064
NONCURRENT ASSETS:				
Student loan receivables, less allowance for doubtful loans of $85,000 for 2006 and 2005.	706,485	774,261		
Investments held in trust	616,154	745,178		
Investments			3,436,513	3,151,919
Deferred bond financing costs	107,138	116,066		
Pledges receivable			5,000	12,300
Investment in capital assets	2,533,463			
Property, plant and equipment, net	23,738,370	26,598,107	408,957	428,283
Total noncurrent assets	27,701,610	28,233,612	3,850,470	3,592,502
TOTAL ASSETS	**$ 39,572,731**	**$ 38,476,167**	**$ 4,299,007**	**$ 4,037,566**

See notes to financial statements.

(Continued)

LEWIS-CLARK STATE COLLEGE

STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

	LCSC		Component Unit	
LIABILITIES	**2006**	**2005**	**2006**	**2005**
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	$ 244,014	$ 121,514	$ 19,762	$ 16,935
Accrued salaries and benefits payable	1,635,271	2,351,135		
Compensated absences payable	894,089	842,013		
Due to component unit	275,939	275,733		
Due to Lewis-Clark State College			24,142	67,797
Unearned revenue	488,415	475,712		
Amounts held in trust for others	128,231	87,342		
Accrued interest payable	105,501	108,581		
Obligations under capital leases	49,223	73,973		
Notes and bonds payable	1,323,836	1,121,590		
Total current liabilities	5,144,519	5,457,593	43,904	84,732
NONCURRENT LIABILITIES:				
Gift annuities payable			427,847	424,685
Obligations under capital leases	11,067	60,288		
Notes and bonds payable	6,049,146	6,479,694		
Total noncurrent liabilities	6,060,213	6,539,982	427,847	424,685
TOTAL LIABILITIES	11,204,732	11,997,575	471,751	509,417
NET ASSETS				
Invested in capital assets, net of related debt	19,599,852	19,615,225	408,957	428,283
Restricted for:				
Nonexpendable			1,946,194	1,860,900
Expendable	1,384,340	1,380,113	1,081,338	847,581
Unrestricted	7,383,807	5,483,254	390,767	391,385
TOTAL NET ASSETS	28,367,999	26,478,592	3,827,256	3,528,149
TOTAL LIABILITIES AND NET ASSETS	**$ 39,572,731**	**$ 38,476,167**	**$ 4,299,007**	**$ 4,037,566**

See notes to financial statements.

LEWIS-CLARK STATE COLLEGE

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

	LCSC		Component Unit	
	2006	2005	2006	2005
OPERATING REVENUES:				
Student fees (net of scholarship discounts and allowances of $3,169,006 and $3,300,412, for 2006 and 2005, respectively)	$ 8,599,385	$ 7,820,005	$	$
Student fees pledged for debt	827,284	882,978		
Federal grants and contracts	5,852,858	6,416,740		
State and local grants and contracts	2,886,801	2,698,053		
Private grants and contracts	664,565	637,118		
Sales and services of educational activities	1,380,236	1,166,145		
Sales and services of auxiliary enterprises	2,457,929	2,402,140		
Gifts			339,279	788,587
Other	602,955	511,136	17,899	50,630
Total operating revenues	23,272,013	22,534,315	357,178	839,217
OPERATING EXPENSES:				
Personnel costs	25,938,929	25,186,063		
Services	3,034,485	2,962,663		
Supplies	5,046,142	5,211,190		
Insurance, utilities, and rent	1,187,464	971,830		
Scholarships and fellowships	2,168,203	2,611,062		
Depreciation	1,532,658	1,570,586	19,325	24,381
Miscellaneous	1,165,047	1,084,520	69,002	68,162
Total operating expenses	40,072,928	39,597,914	88,327	92,543
OPERATING GAIN (LOSS)	(16,800,915)	(17,063,599)	268,851	746,674
NONOPERATING REVENUES (EXPENSES):				
State appropriations	17,484,370	16,413,738		
Gifts (including $347,498 and $317,841 from the Foundation for 2006 and 2005, respectively)	1,241,975	1,284,890		
Net investment income	364,711	199,720	292,461	61,700
Interest on capital asset related debt	(372,622)	(364,460)		
Distributions to the College			(347,498)	(317,841)
Other	(8,927)	(8,927)		
Net nonoperating revenues (expenses)	18,709,507	17,524,961	(55,037)	(256,141)
INCOME BEFORE OTHER REVENUES (EXPENSES)	1,908,592	461,362	213,814	490,533
OTHER REVENUES (EXPENSES):				
Capital appropriations		932,713		
Capital grants and gifts	10,144	144,671		
Additions to permanent endowments			85,293	531,831
Gain from sale of property, plant and equipment				74,115
Other	(29,329)	(99,602)		
Total other revenues (expenses)	(19,185)	977,782	85,293	605,946
INCREASE IN NET ASSETS	1,889,407	1,439,144	299,107	1,096,479
NET ASSETS---BEGINNING OF YEAR	26,478,592	25,039,448	3,528,149	2,431,670
NET ASSETS---END OF YEAR	$ 28,367,999	$ 26,478,592	$ 3,827,256	$ 3,528,149

See notes to financial statements.

LEWIS-CLARK STATE COLLEGE

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 and 2005

	LCSC 2006	LCSC 2005	Component Unit 2006	Component Unit 2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student fees	$ 8,976,624	$ 7,713,707	$	$
Student fees pledged for debt	827,284	882,978		
Grants and contracts	9,081,171	9,946,966		
Sales and services of educational activities	1,386,028	1,174,315		
Sales and services of auxiliary enterprises	2,631,218	2,429,037		
Donations received			27,145	1,215,619
Payments to employees	(26,602,717)	(24,973,342)		
Payments to suppliers	(4,881,413)	(5,219,721)		
Other payments	(5,242,599)	(5,038,166)	(36,990)	(21,496)
Payments for scholarships and fellowships	(2,168,203)	(2,611,062)		
Loans issued to students	(219,322)	(138,210)		
Collection of loans from students	232,333	196,817		
Other receipts	279,528	521,883	3,290	555
Net cash provided (used) by operating activities	(15,700,068)	(15,114,798)	(6,555)	1,194,678
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	17,484,370	16,413,738		
Gifts	1,241,975	1,307,265		
Contributions to endowments			85,293	531,832
Agency account receipts	1,021,395	1,459,319		
Agency account payments	(925,233)	(1,606,044)		
Student loan receipts	8,782,993	8,768,455		
Student loan payments	(8,782,993)	(8,768,455)		
Distributions to the College			(37,361)	(23,739)
Net cash provided by noncapital financing activities	18,822,507	17,574,278	47,932	508,093
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from capital debt		458,331		
Proceeds from sale of property	85,519	17,870		
Capital grants and gifts	10,144	139,671		
Purchase of property, plant and equipment	(1,120,742)	(1,647,356)		
Principal paid on capital debt and leases	(484,894)	(477,020)		
Interest paid on capital debt and leases	(375,701)	(370,068)		
Net cash used in capital and related financing activities	(1,885,674)	(1,878,572)		
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income (loss)	350,236	177,102	5,843	(57,609)
Purchase of investments			(9,783)	(3,055,184)
Proceeds from sale of investments				1,155,120
Net cash provided (used) by investing activities	350,236	177,102	(3,940)	(1,957,673)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,587,001	758,010	37,437	(254,902)
CASH AND CASH EQUIVALENTS---BEGINNING OF THE YEAR	8,097,069	7,339,059	122,404	377,306
CASH AND CASH EQUIVALENTS---END OF THE YEAR	$ 9,684,070	$ 8,097,069	$ 159,841	$ 122,404

See notes to financial statements.

(Continued)

LEWIS-CLARK STATE COLLEGE

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 and 2005

RECONCILIATION OF NET OPERATING GAIN (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY OPERATING ACTIVITIES:	LCSC 2006	LCSC 2005	Component Unit 2006	Component Unit 2005
Operating Gain (Loss)	$ (16,800,915)	$ (17,063,599)	$ 268,851	$ 746,674
Adjustments to reconcile operating gain (loss) to net cash used in operating activities:				
Noncash donations			(318,122)	(14,587)
Other noncash receipts			(14,609)	(50,076)
Other noncash payments			32,011	46,666
Depreciation expense	1,532,658	1,570,586	19,325	24,381
Changes in assets and liabilities:				
Receivables, net	(83,703)	86,529		
Due from state agencies	(175,259)	(13,688)		
Inventories	289,279	(12,748)		
Due from component unit	43,656	133,359		
Prepaid Expenses	(23,788)	4,034		
Accounts payable and accrued liabilities	121,509	(159,202)		
Accrued salaries and benefits payable	(715,864)	176,095		
Compensated absences	52,076	50,314		
Gift annuities payable			5,989	441,620
Amounts held in trust for others	4,626	(887)		
Unearned revenue	12,704	44,893		
Loans to students	42,953	69,516		
Net cash provided (used) by operating activities	$ (15,700,068)	$ (15,114,798)	$ (6,555)	$ 1,194,678
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:				
Property, plant and equipment acquired through Department of Public Works' appropriations	$	$ 932,713		

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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.

The College has 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 30-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, that 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 consist 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. In 2006, the College contracted with the Follett Higher Education Group, Inc. ("Follett") to assume operational responsibility for the College bookstore. The College retained ownership of the building as well as all bookstore furniture and equipment. Follett purchased all bookstore inventory available for sale as of June 19, 2006.

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 *Statements of Revenues, Expenses, and Changes in Net Assets*. The total unrealized gain or loss was not significant for the years ended June 30, 2006 and 2005. 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 the 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 and discretely presented in the *Statements of Net Assets.*

Unearned Revenues**—**Unearned revenues include amounts received for tuition, fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned 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 the College is legally or contractually obligated to spend 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.

Reclassifications**—**Certain reclassifications have been made in the 2005 financial statements to conform to the 2006 presentations.

New Accounting Standards**—**In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement generally requires that the 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 were limited to investments held in trust relative to outstanding debt issues and consisted of the following:

Investment	Maturities	2006	2005
U.S. Treasury mutual fund	Less than one year	$ 505,121	$ 398,343
Federal National Mortgage Association pool	2/1/2017	254,533	346,835
Total Investments Held in Trust		$ 759,654	$ 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:

	2006	**2005**
Student fees	$ 174,259	$ 526,191
Federal, state and nongovernmental grants and contracts	876,981	577,933
Corporate affiliate contractual obligation	317,741	
Auxiliary enterprises	35,740	226,899
Educational departments	15,560	24,345
Funds held in custody for others	5,536	63,318
	$ 1,425,817	$ 1,418,686

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, 2006 and 2005.

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, 2006 and 2005 is approximately $563,500 and $581,000, 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:

	2006		
	Current	**Noncurrent**	**Total**
Federal Perkins Loan Program	$ 151,659	$ 689,339	$ 840,998
Nursing Student Loan Program	41,866	102,146	144,012
	193,525	791,485	985,010
Less Allowance for doubtful loans		(85,000)	(85,000)
Net Student Loans Receivable	**$ 193,525**	**$ 706,485**	**$ 900,010**

	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**

5. PROPERTY, PLANT AND EQUIPMENT—NET

Following are the changes in property, plant and equipment, net, for the years ended June 30, 2006 and 2005:

	2006			
	Balance at June 30, 2005	Additions	Reductions	Balance at June 30, 2006
Property, plant and equipment not being depreciated:				
Land	$ 2,267,953	$ 40,000	$ (58,942)	$ 2,249,011
Capitalized collections	15,000			15,000
Construction in progress	2,533,463		(2,533,463)	
Total property, plant and equipment not being depreciated	$ 4,816,416	$ 40,000	$ (2,592,405)	$ 2,264,011
Other property, plant and equipment:				
Buildings	$ 31,418,659	$ 621,423	$ (35,557)	$ 32,004,525
Furniture, fixtures and equipment	4,710,437	371,199	(139,641)	4,941,995
Library materials	4,474,263	274,119	(19,969)	4,728,413
Total other property, plant and equipment	40,603,359	1,266,741	(195,167)	41,674,933
Less accumulated depreciation:				
Buildings	(11,800,733)	(966,710)	13,334	(12,754,109)
Furniture, fixtures and equipment	(3,600,407)	(326,966)	120,450	(3,806,923)
Library materials	(3,420,528)	(238,983)	19,969	(3,639,542)
Total accumulated depreciation	(18,821,668)	(1,532,659)	153,753	(20,200,574)
Other property, plant and equipment net of accumulated depreciation	$ 21,781,691	$ (265,918)	$ (41,414)	$ 21,474,359
Property, plant and equipment summary:				
Property, plant and equipment not being depreciated	$ 4,816,416	$ 40,000	$ (2,592,405)	$ 2,264,011
Other property, plant and equipment at cost	40,603,359	1,266,741	(195,167)	41,674,933
Total cost of property, plant and equipment	45,419,775	1,306,741	(2,787,572)	43,938,944
Less accumulated depreciation	(18,821,668)	(1,532,659)	153,753	(20,200,574)
Property, plant and equipment, net	$ 26,598,107	$ (225,918)	$ (2,633,819)	$ 23,738,370

	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)	782,258	(18,821,668)
Other property, plant and equipment net of accumulated depreciation	$ 21,272,140	$ 609,153	$ (99,602)	$ 21,781,691
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 and equipment	43,716,567	2,585,068	(881,860)	45,419,775
Less accumulated depreciation	(18,033,340)	(1,570,586)	782,258	(18,821,668)
Property, plant and equipment, net	$ 25,683,227	$ 1,014,482	$ (99,602)	$ 26,598,107

The estimated cost to complete property authorized or under construction at June 30, 2006 is approximately $1,481,483. These costs will be financed by state appropriations, available resources and/or long-term borrowing.

At June 30, 2005, $2,533,463 of institutional funds included in the construction costs of the Student Activity Center were reflected in construction in progress within Property, Plant and Equipment. When the facility was completed in 2006, these costs were reclassified as an Investment in capital assets since ownership of the facility will not pass to the College until debt incurred by the State of Idaho for the majority of the project costs is retired (see footnote 11).

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. This land is reflected in Property, Plant and Equipment in the amount of $19,200 as of June 30, 2006 and 2005.

6. LONG-TERM LIABILITIES

Following are the changes in long-term debt for the years ended June 30, 2006 and 2005:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Leases, bonds and notes:					
Lease obligations	$ 134,261	$	$ (73,971)	$ 60,290	$ 49,223
Revenue bonds	5,830,000		(285,000)	5,545,000	465,000
Notes	1,771,284	186,000	(129,302)	1,827,982	858,836
	$ 7,735,545	$ 186,000	$ (488,273)	$ 7,433,272	$ 1,373,059

	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

7. NOTES AND BONDS PAYABLE

Notes and bonds payable at June 30, 2006 and 2005 consisted of the following:

	Balance Outstanding	
	2006	**2005**
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 certain auxiliary enterprise gross revenues ($3,976,305 in 2006 and $4,580,529 in 2005) less operating and maintenance expenses of those enterprises ($2,576,119 in 2006 and $3,082,724 in 2005).	$ 5,385,000	$ 5,515,000
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 certain auxiliary enterprise gross revenues ($2,921,709 in 2006 and $3,171,135 in 2005) less operating and maintenance expenses of those enterprises ($1,636,463 in 2006 and $1,752,969 in 2005).	160,000	315,000
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 specific student fees.	934,694	1,032,365
Unsecured note payable (original issuance of $130,000), issued to purchase residential property, due in monthly installments, maturing on December 31, 2006, including interest at 6.16%. Renewable at the option of the lender.	88,977	96,108
Unsecured note payable (original issuance of $150,000), issued to purchase land, due in monthly installments, maturing on December 31, 2006, including interest at 6.16%. Renewable at the option of the lender.	102,754	113,175
Unsecured note payable (original issuance of $77,000), issued to purchase residential property, due in monthly installments, maturing on December 31, 2006, including interest at 6.16%. Renewable at the option of the lender.	67,957	71,305
Unsecured note payable (original issuance of $458,331), issued to purchase residential property, due in monthly installments, maturing on December 31, 2006, including interest at 6.16%. Renewable at the option of the lender.	447,600	458,331
Unsecured note payable (original issuance of $186,000), issued to purchase residential property, due in annual installments, maturing on March 2011, including interest at 5.95%.	186,000	
Total bonds and notes payable	$ 7,372,982	$ 7,601,284

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

	Notes		Bonds	
	Principal	**Interest**	**Principal**	**Interest**
2007	$ 858,836	$ 69,779	$ 465,000	$ 273,838
2008	155,580	41,168	315,000	255,560
2009	159,772	34,002	330,000	241,070
2010	150,130	26,668	345,000	225,560
2011	118,661	19,995	360,000	209,000
2012-2016	385,003	30,966	2,100,000	756,360
2017-2021			1,630,000	144,300
	$ 1,827,982	$ 222,578	$ 5,545,000	$ 2,105,688

8. CAPITAL LEASE OBLIGATIONS

The College has entered into several capital lease agreements to improve buildings and acquire certain equipment. At June 30, 2006 and 2005, gross assets under capital leases total $528,244 with $335,444 included in buildings and $192,800 included in furniture, fixtures and equipment. Amortization of assets acquired via capital lease is included with depreciation expense. Accumulated depreciation of assets under capital leases totaled $459,386 with $335,444 related to buildings and $123,942 related to furniture, fixtures and equipment. Future minimum lease obligations under these agreements for the years ended June 30 are as follows:

2007	$ 51,925
2008	11,205
Total minimum obligations:	$ 63,130
Less amount representing interest:	(2,840)
Present value of minimum obligations:	$ 60,290

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, 2006, 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 $690,462, $672,761, $613,364, $614,806, and $622,681 for the five years ended June 30, 2006, 2005, 2004, 2003, and 2002 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, 2006 and 2005 was $1,500,468 and $1,414,389, respectively, which consisted of $792,884 and $733,722, respectively, from the College and $707,584 and $680,667, respectively, from employees. For both 2006 and 2005, these contributions represented approximately 7.72% and 6.97% of covered payroll for the College and its employees.

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, 2006 and 2005, this supplemental funding payment made to PERSI was $307,601 and $296,195. These amounts are not included in the regular College PERSI contribution discussed previously.

Postretirement Benefits Other Than Pensions**—**The College offers a life insurance plan for retired employees. During the year ended June 30, 2006 and 2005 the College made expenditures totaling $39,381 and $34,334, 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.

Sick Leave Insurance Reserve Fund**—** 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 with PERSI who administers the trust fund. The total contributions for the years ended June 30, 2006 and 2005 were $109,161 and $105,036.

10. NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The following tables show natural classifications with functional classifications:

2006 Natural Classification

Functional Classification	Personnel Costs	Services	Supplies	Insurance, Utilities, and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expense Totals
Instruction	$ 14,030,269	$ 902,073	$ 1,400,923	$ 114,709	$ 138,488	$	$ 323,713	$ 16,910,175
Research	230,513	24,849	152,775				31,939	440,076
Public services	1,465,323	303,596	293,250	42,595			250,683	2,355,447
Libraries	533,846	50,466	25,192				-26	609,478
Student services	1,996,108	226,877	158,456	6,146	118,180		99,195	2,604,962
Plant operations	1,328,881	73,586	577,169	563,622		1,532,658	8,847	4,084,763
Institutional support	2,488,989	610,516	349,390	133,875	3,248		128,158	3,714,176
Academic support	1,871,530	262,938	154,281	3,523			21,726	2,313,998
Scholarships and fellowships	152,646	739			1,655,462		74,525	1,883,372
Auxiliaries	1,840,824	578,845	1,934,706	322,994	252,825		226,287	5,156,481
Total expenses:	$ 25,938,929	$ 3,034,485	$ 5,046,142	$ 1,187,464	$ 2,168,203	$ 1,532,658	$ 1,165,047	$ 40,072,928

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

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 was completed 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, 2006 the College's contribution is discretely presented in the *Statements of Net Assets* as Investment in capital assets in the amount of $2,533,463.

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, 2006 are as follows:

Deposits—Cash and cash equivalents are deposited with various financial institutions. 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, 2006:

Investment Type	Rating	Fair Value
Corporate Debt Instruments	BBB	$ 2,745
Corporate Debt Instruments	BB	26,149
Federal Home Loan Bank	AAA	273,938
Federal Home Loan Mtg. Corporation	AAA	398,411
Federal National Mtg. Association	AAA	84,196
Total Rated Debt Securities		$ 785,439

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, 2006, the Foundation held debt securities with the following maturities:

Investment Type	Maturity Range	Fair Value
Corporate Debt Instruments	2 - 4 years	$ 28,894
Federal Agencies	1- 4 years	756,545
Total Debt Securities		$ 785,439

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, 2006, the Foundation's exposure to foreign currency risk is as follows:

Equity Investments	Denominated Currency	Fair Value
European Securities	Euro	$ 78,743
British Securities	British Pound	102,019
Mexican Securities	Mexican Peso	30,210
Swiss Securities	Franc	62,895
Danish Securities	Krone	12,381
Japanese Securities	Yen	53,981
Israeli Securities	Sheqel	24,762
Italian Securities	Lire	15,352
Canadian Securities	Canadian Dollar	34,667
Russian Securities	Russian Ruble	4,952
Chinese Securities	Yuan	9,410
Brazilian Securities	Real	10,400
South Korean Securities	Won	16,838
Indian Securities	Rupee	10,895
Total Foreign Equity Investments		467,505
US Denominated Securities & Mutual Funds	U.S. Dollar	2,969,008
Total Foundation Investments		$ 3,436,513

Property, Plant and Equipment—Net—Following are the changes in property holdings for the years ended June 30, 2006 and 2005:

	2006			
	Balance at June 30, 2005	**Additions**	**Reductions**	**Balance at June 30, 2006**
Property holdings not being depreciated:				
Land	$ 39,566	$	$	$ 39,566
Total property holdings not being depreciated	$ 39,566	$	$	$ 39,566
Other property holdings:				
Buildings	$ 579,768	$	$	$ 579,768
Total other property holdings	579,768			579,768
Less accumulated depreciation:				
Buildings	(191,051)	(19,325)		(210,376)
Total accumulated depreciation	(191,051)	(19,325)		(210,376)
Other property holdings net of accumulated depreciation	$ 388,717	$ (19,325)	$	$ 369,392
Property holdings summary:				
Property holdings not being depreciated	$ 39,566	$	$	$ 39,566
Other property holdings at cost	579,768			579,768
Total cost of property buildings	619,334			619,334
Less accumulated depreciation	(191,051)	(19,325)		(210,376)
Property holdings, net	$ 428,283	$ (19,325)	$	$ 408,957

	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
Total property holdings not being depreciated	$ 97,082	$	$ (57,516)	$ 39,566
Other property holdings:				
Buildings	$ 807,252	$	$ (227,484)	$ 579,768
Total other property holdings	807,252		(227,484)	579,768
Less accumulated depreciation:				
Buildings	(213,431)	(24,381)	46,761	(191,051)
Total accumulated depreciation	(213,431)	(24,381)	46,761	(191,051)
Other property holdings net of accumulated depreciation	$ 593,821	$ (24,381)	$ (180,723)	$ 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	(213,431)	(24,381)	46,761	(191,051)
Property holdings, net	$ 690,903	$ (24,381)	$ (238,239)	$ 428,283

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, 2006 and 2005, the Foundation reported a liability to the College of $24,142 and $67,797, respectively for campaign administrative expenses paid by the College. Exclusive of cash held by third party investment managers, Foundation cash is deposited and withdrawn from a College bank account. The balance in this account attributable to the Foundation is reported as a receivable from the College in the amount of $275,939 and $257,733 as of June 30, 2006 and 2005 respectively.

Distributions to the College—During the years ended June 30, 2006 and 2005, the Foundation distributed $347,498 and $317,841, respectively to the College for both restricted and unrestricted purposes.

Line of Credit—The Foundation has access to a secured line of credit through Edward D. Jones & Co. limited by the amount of investment assets held in the Edward D. Jones & Co. account. The amount available at June 30, 2006 was $208,580. The Foundation has never made use of this credit facility and therefore had no outstanding balance as of June 30, 2006.

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 and its discretely presented component unit, the Lewis-Clark State College Foundation, Inc. (collectively the College) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 and accordingly, would not necessarily disclose all reportable conditions that are also considered to 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*.

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
October 6, 2006