



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

UNIVERSITY OF IDAHO

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INDEPENDENT AUDITOR'S REPORT

Idaho State Board of Education
University of Idaho
Moscow, Idaho

We have audited the accompanying financial statements of the University of Idaho 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 University of Idaho's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Idaho's discretely presented component unit as described in Note 15. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of University of Idaho and its discretely presented component unit, 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 September 21, 2006, on our consideration of University of Idaho'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 audit.

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

Moss Adams LLP

Eugene, Oregon
September 21, 2006

UNIVERSITY OF IDAHO

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

The University of Idaho (the "University") is a doctoral-research extensive land-grant institution, with the principal responsibility for research and granting Ph.D. degrees in Idaho. The University serves state, national and international communities by providing academic instruction and conducting research that advances fundamental knowledge. In addition to its main campus in Moscow, the University has instructional centers in Coeur D'Alene, Boise, Twin Falls and Idaho Falls as well as research and extension centers located across the state.

OVERVIEW

The Management's Discussion and Analysis is designed to provide an easily readable analysis of the University's financial condition, results of operations and cash flows based on facts, decisions and conditions known at the date of the auditor's reports. The emphasis of this discussion of the financial performance of the University is for the current year.

The discussion and analysis that follows provides an overview of the University's financial activities for the fiscal year ended June 30, 2006. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. They are prepared using the accrual basis of accounting, whereby revenues are recognized when services are provided and expenses are recognized when goods or services are received, regardless of when cash is exchanged.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement 14*, these statements also present information for the University of Idaho Foundation, Inc. (the "Foundation") which qualifies as a component unit of the University. Separate audited financial statements are prepared for the Foundation and may be obtained by contacting University of Idaho Foundation, P.O. Box 443143, Moscow, ID 83844-3143.

Statement of Net Assets

The statement of net assets outlines the University's financial condition at fiscal year end. This is a point-in-time financial statement and presents end-of-year data concerning assets, liabilities and net assets.

From the data presented, readers are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors and lending institutions. Finally, it provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

The statement of net assets is presented in a classified format, which differentiates between current and noncurrent assets and liabilities, and also categorizes net assets into four categories:

- *Invested in Capital Assets, Net of Related Debt*—Net assets representing the University's investment in property, plant and equipment net of depreciation and outstanding debt obligations related to those capital assets.
- *Restricted Nonexpendable*—Net assets subject to donor stipulations requiring the net assets to be maintained permanently by the University. These assets are invested by the Foundation.

- *Restricted Expendable*—Net assets subject to donor stipulations regarding their use. The University may expend these assets for purposes as determined by donors and/or external entities.
- *Unrestricted*—Net assets not subject to donor stipulations which may be expended for any lawful purpose of the University.

Condensed Statement of Net Assets
Fiscal Years Ended June 30
(Thousands)

| | 2006 | 2005 | 2004 |
|--|-------------------|-------------------|-------------------|
| Assets: | | | |
| Current assets | \$ 40,442 | \$ 39,966 | \$ 56,518 |
| Capital assets | 309,387 | 306,409 | 311,705 |
| Other noncurrent assets | <u>161,946</u> | <u>138,583</u> | <u>107,756</u> |
| Total assets | <u>\$ 511,775</u> | <u>\$ 484,958</u> | <u>\$ 475,979</u> |
| Liabilities: | | | |
| Current liabilities | \$ 43,950 | \$ 45,263 | \$ 47,307 |
| Noncurrent liabilities | <u>121,870</u> | <u>127,010</u> | <u>133,148</u> |
| Total liabilities | <u>165,820</u> | <u>172,273</u> | <u>180,455</u> |
| Net assets: | | | |
| Invested in capital assets—net of debt | 179,267 | 171,201 | 173,804 |
| Restricted nonexpendable | 84,672 | 78,667 | 71,171 |
| Restricted expendable | 38,728 | 21,252 | 20,631 |
| Unrestricted | <u>43,288</u> | <u>41,565</u> | <u>29,918</u> |
| Total net assets | <u>345,955</u> | <u>312,685</u> | <u>295,524</u> |
| Total liabilities and net assets | <u>\$ 511,775</u> | <u>\$ 484,958</u> | <u>\$ 475,979</u> |

Current assets include the University's cash, accounts receivable, grants and loans receivable, inventories and prepaid expenses expected to benefit the University within one year. Accounts, grants and loans receivable result primarily from student accounts and from sponsored projects which are payable on a cost reimbursement basis. Inventories include books and supplies from auxiliary operations and supplies for resale in other University departments.

Capital assets are values related to construction in progress, library materials, furniture and equipment, buildings and improvements. Equipment acquisitions relate largely to the University's research and instruction programs and include acquisitions of scientific equipment.

Other noncurrent assets include endowment fund assets, student loans receivable and investments expected to mature over a period greater than one year.

Current liabilities include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, and debt principal payments due within one year.

Amounts invested in capital assets, net of related debt, consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets.

Restricted, expendable net assets represent balances that may be expended by the University, but only in accordance with the restrictions imposed upon the University by an external party, such as a donor or legislative mandate. The University's most significant restricted, expendable balance relates to funds held by trustees in accordance with bond covenants, which may only be expended for the renewal and replacement of assets whose revenues are pledged as security for repayment of debt.

Restricted, nonexpendable balances must be held in perpetuity, and include endowment principal.

Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for contractual payments such as debt service and grant funded employee termination payouts, funds earmarked for facility renewal and replacement and student organization funds.

YEAR ENDED JUNE 30, 2006 COMPARED TO YEAR ENDED JUNE 30, 2005

Significant Changes in the Statement of Net Assets

- Noncurrent investments increased by \$17.1 million due to a combination of rising interest rates, student tuition and fee rate increases, and an expenditure strategy that allowed the University to spend state appropriated funds before local funds thus allowing local funds to be invested for longer periods.
- Accrued salaries and benefits payable decreased by \$1.0 million due to ten days of accrual in FY 2006 as compared to nineteen days in FY 2005.
- Notes and bonds payable decreased \$4.9 million as a result of annual debt service payments.
- Invested in capital assets, net of related debt increased due primarily to a reduction in bond liabilities of \$5.1 million and a net increase in assets acquired after depreciation and assets retired or written off.

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents the revenues received and expenses incurred during the year, classifying activities as either “operating” or “nonoperating.” This distinction results in operating deficits for those institutions that depend on state aid and gifts, because the GASB 34 reporting model classifies state appropriations and gifts as nonoperating revenue. The utilization of capital assets is reflected in the financial statements as depreciation expense, which allocates the cost of assets over their expected useful lives.

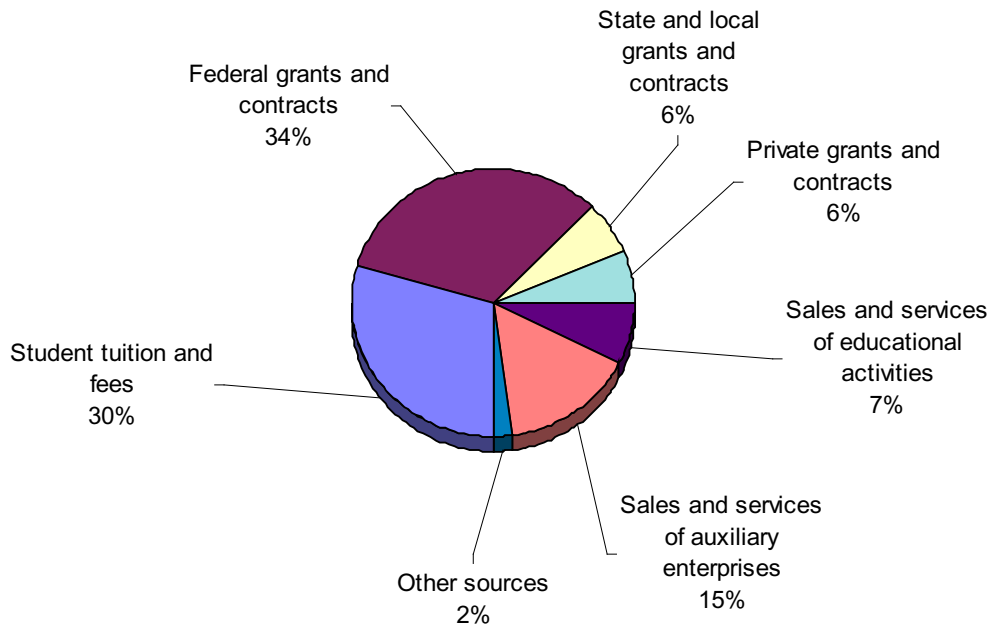
Condensed Statement of Revenues, Expenses and Changes in Net Assets Fiscal Year Ended June 30 (Thousands)

| | 2006 | 2005 | 2004 |
|------------------------------|-------------------|-------------------|-------------------|
| Operating revenues | \$ 176,715 | \$ 170,790 | \$ 165,932 |
| Operating expenses | <u>302,176</u> | <u>296,438</u> | <u>286,785</u> |
| Operating loss | (125,461) | (125,648) | (120,853) |
| Net nonoperating revenues | <u>147,997</u> | <u>138,450</u> | <u>125,844</u> |
| Income before other revenues | 22,536 | 12,802 | 4,991 |
| Other revenues | <u>10,734</u> | <u>4,359</u> | <u>6,001</u> |
| Increase in net assets | 33,270 | 17,161 | 10,992 |
| Net assets—beginning of year | <u>312,685</u> | <u>295,524</u> | <u>284,532</u> |
| Net assets—end of year | <u>\$ 345,955</u> | <u>\$ 312,685</u> | <u>\$ 295,524</u> |

Operating Revenues

Operating revenues are generated through providing services to the various customers and constituencies of the University. Operating revenues include tuition and fees, grant and contract revenues, and sales and service revenues generated by student housing, bookstores and other auxiliary enterprises. The two largest sources of operating revenues for the university are federal grants and contracts and student tuition and fees as shown in the following chart

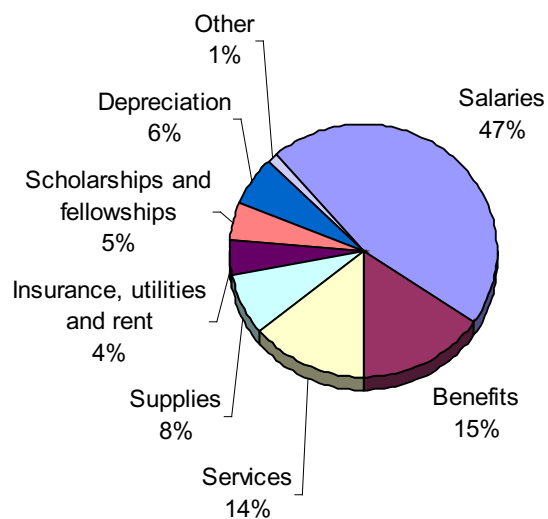
Operating Revenues



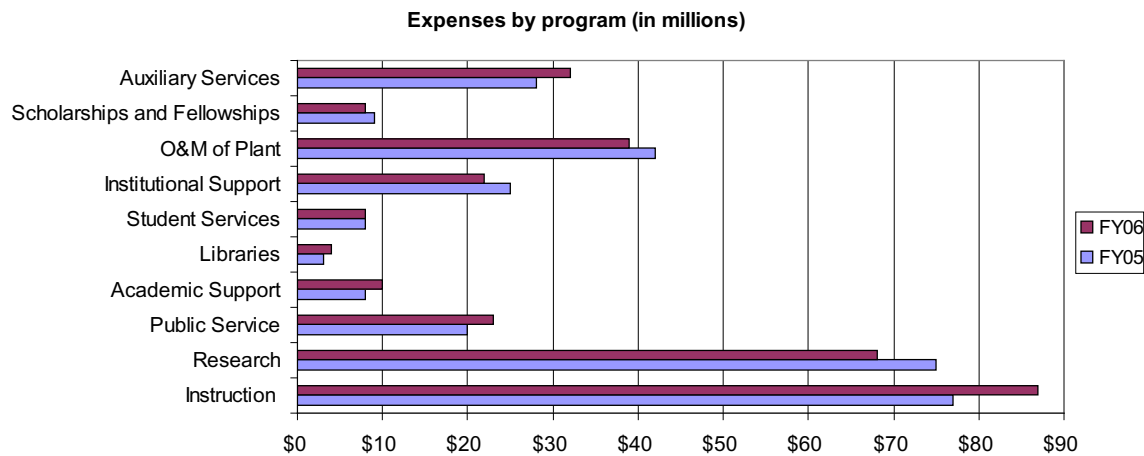
Operating Expenses

As shown in the chart below, over 60% of the University's expenses relate to employee compensation and benefits. This relationship is expected to continue, and the proportion may grow as compensation, insurance and other payroll related costs increase. Services are the next largest expenditure category and consist primarily of travel, telephone and computer expenses, and repair and maintenance of equipment.

Operating Expenses



When depicting operating expenses by functional categories, instruction and research activities together constitute over half the University's expenses as shown in the graph below. The cost of investing in the operation and maintenance of plant is the third largest cost category while auxiliary service expenses constitute the fourth largest cost category.



Nonoperating Revenues

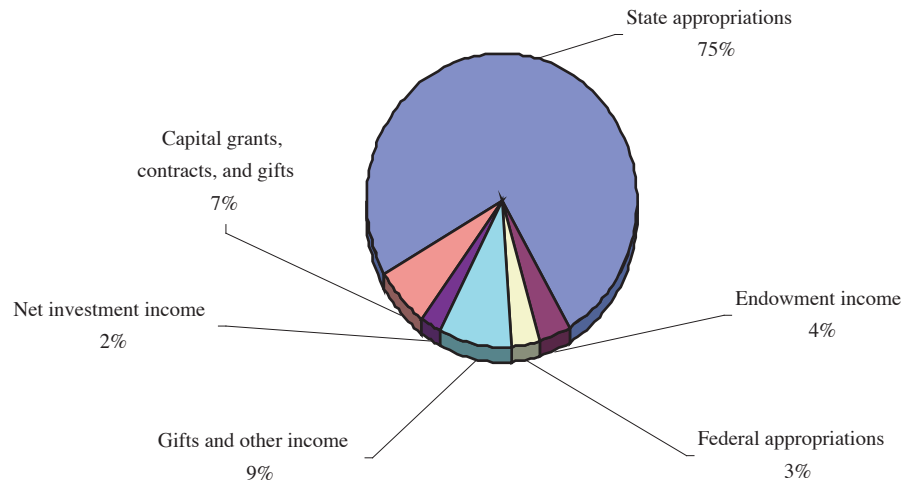
Similar to most public higher education institutions, the University receives significant non-operating revenues, including state appropriations, which offset the losses generated by operating activities. The operating loss for the year ended June 30, 2006 of \$125.5 million was offset by \$148.0 million in net non-operating revenues, principally composed of \$120.4 million of state appropriations, \$6.3 million of state land grant endowment income, \$13.3 million of gifts, and \$3.8 million of net investment income. Net non-operating revenues were offset by \$6.2 million in interest expense.

Other Revenues

Other revenues include contributions to the University for capital assets from the Foundation and the state's permanent building fund.

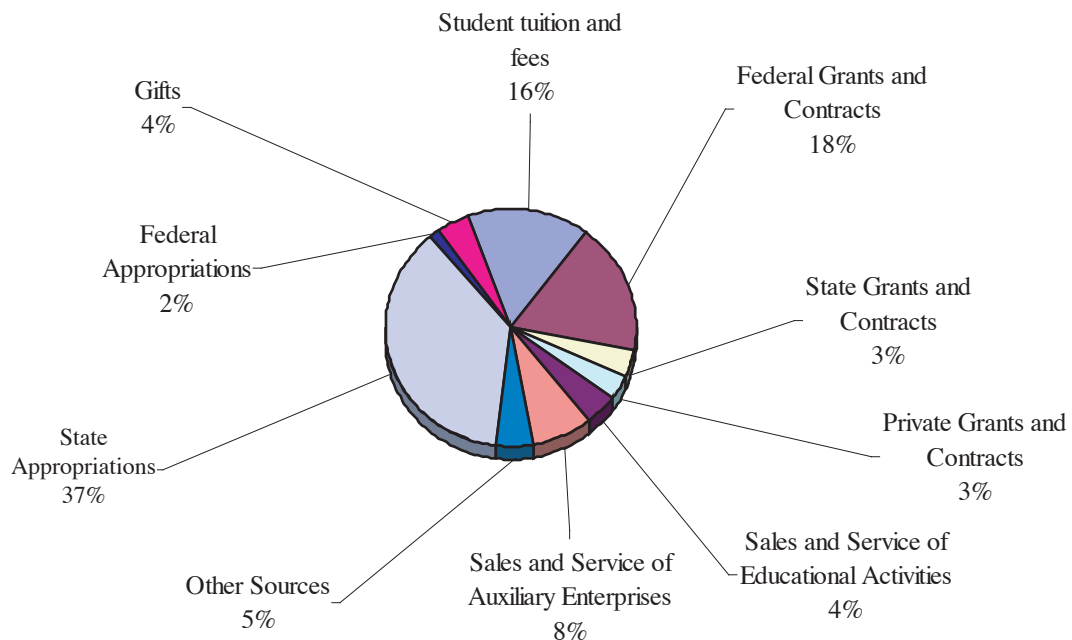
The following chart illustrates percentages of the University nonoperating revenue and other revenue.

Nonoperating and Other Revenue



When comparing all sources of revenue to the University, as shown in the chart below, state appropriations account for 37% of the total revenue received while federal grants and contracts and student tuition and fees comprise 18% and 16% of the total respectively,

Total Revenue



Significant Changes in the Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues increased by \$5.9 million primarily due to the following:

- Student tuition and fee revenue increased \$3.9 million due primarily to an overall increase of 8.5% to the fee structure.
- Sales and services of educational activities increased by \$4.0 million due to \$2.0 million in facility rental revenues received from the Water Center Building in Boise, with the remaining increase due to increases across-the-board in the remaining revenues in this category.
- The revenue increases were offset by a decrease in federal grants and contracts of \$2.2 million.

Operating expenses increased \$5.7 million primarily due to the following:

- Supply expenses increased \$4.7 million due to increased computer software and hardware expenses, office supplies, and office equipment. These expenditures were held to below minimum levels for several years due to budget reductions
- During 2005, UI revised the estimate of useful lives of equipment to more accurately measure the useful lives of each asset type. The change had the effect of increasing equipment depreciation expense and decreasing the net assets by approximately \$5.5 million in FY 2005. The decrease in depreciation expense of approximately \$3.5 million in FY 2006 is the direct result of the prior year being so high.
- Insurance, utilities and rent increased \$3.7 million due to an increase in rent paid for the Water Center Building in Boise of \$1.5 million, utility increases of \$0.6 million, and insurance increases of \$0.6 million.

Nonoperating revenues increased \$9.6 million primarily due to the following:

- State of Idaho general fund appropriations increased \$6.1 million.
- Federal Appropriations increased \$1.8 million due to increased capital construction expenditures and increased salary and benefit costs.
- Gift revenue increased \$2.1 million due primarily to \$1 million payout of the CIT, \$0.7 million from the M.J.Murdock Charitable Trust, with the remainder being a general increase in gifts.
- Provision for doubtful accounts decreased by \$2 million due to the write off of the loan from the Foundation for the Idaho Water Center in FY 2005.

Other revenues increased by \$6.4 million primarily due to an increase in Capital Gifts from the Foundation of \$5 million and an increase in Capital Grants and Contracts of \$1.8 million.

Statement of Cash Flows

The statement of cash flows presents detailed information about the cash activities of the University during the year ended June 30, 2006. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing and non-capital financing purposes. The third section, cash flows from capital and related financing activities, deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and investment earnings received. The fifth section reflects the net change in cash position.

Condensed Statement of Cash Flows
Fiscal Year Ended June 30
(Thousands)

| | 2006 | 2005 | 2004 |
|--|------------------|------------------|------------------|
| Cash provided (used) by: | | | |
| Operating activities | \$ (107,636) | \$ (103,569) | \$ (102,435) |
| Noncapital financing activities | 145,644 | 135,810 | 125,327 |
| Capital and related financing activities | (22,405) | (24,477) | (33,636) |
| Investing activities | <u>(15,872)</u> | <u>(11,566)</u> | <u>(2,823)</u> |
| Net change in cash | (269) | (3,802) | (13,567) |
| Cash, beginning of the year | <u>12,175</u> | <u>15,977</u> | <u>29,544</u> |
| Cash, end of the year | <u>\$ 11,906</u> | <u>\$ 12,175</u> | <u>\$ 15,977</u> |

Operating activities used \$107.6 million in cash for the year, a slight increase over 2005.

Non-capital financing activities provided \$145.6 million in cash for the year, a \$9.8 million increase primarily resulting from increased state appropriations and increased gift revenue.

Capital and related financing activities used \$22.4 million of cash during the year, \$2.1 million less than 2005. This declining trend results from completion of several large building projects.

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 University 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 University.

At June 30, 2006 the total net assets of the Foundation were \$125.4 million, an increase of \$13.9 million. Restricted nonexpendable and expendable net assets together total \$125.5. These restricted assets largely provide scholarships to students and support to academic departments directly or through the distribution of endowment earnings. The unrestricted assets of the Foundation are a negative \$97 thousand compared to a negative \$4.2 million in FY 2005 resulting from the loan write off of the Water Center project in Boise.

As presented in the Foundation financial statements, for the year ended June 30, 2006, operating revenues were \$28.3 million while operating expenses were \$1.3 million. However, non-operating and other revenue (expenses) netted to a negative \$23.0 million. In addition the Foundation recovered \$9.9 million from the impairment of the Idaho Water Center in Boise. The overall increase in net assets for the Foundation was \$13.9 million.

Capital Asset and Debt Management

The University had \$547,395,976 and \$529,283,258 of capital assets at June 30, 2006 and 2005 respectively, net of by accumulated depreciation of \$238,009,410 and \$222,874,235 respectively. The major categories and associated value of capital assets as well as accumulated depreciation at June 30, 2006 and 2005 are illustrated in the charts below.

Property, Plant and Equipment - Cost

| | 2006 | 2005 | 2004 |
|------------------------------------|-----------------------|-----------------------|-----------------------|
| Buildings and Improvements | \$ 392,396,232 | \$ 385,840,992 | \$ 376,879,060 |
| Equipment | 68,167,751 | 66,162,641 | 65,400,898 |
| Construction In Progress | 11,591,731 | 10,637,818 | 10,664,509 |
| Library Materials | 55,115,912 | 52,936,155 | 50,717,661 |
| Capitalized Collections | 2,108,681 | 2,207,204 | 2,165,519 |
| Land | 18,015,669 | 11,498,448 | 10,120,613 |
| Total Property Plant and Equipment | <u>\$ 547,395,976</u> | <u>\$ 529,283,258</u> | <u>\$ 515,948,260</u> |

Accumulated Depreciation - Property, Plant, and Equipment

| | | | |
|---------------------------------------|-----------------------|-----------------------|-----------------------|
| Buildings and Improvements | \$ 144,194,379 | \$ 134,425,095 | \$ 124,720,056 |
| Equipment | 50,161,586 | 46,405,530 | 39,184,283 |
| Library Materials | 43,653,445 | 42,043,610 | 40,338,625 |
| Total Accumulated Depreciation | <u>\$ 238,009,410</u> | <u>\$ 222,874,235</u> | <u>\$ 204,242,964</u> |

The most significant change in capital assets was due to gifts of property in Salmon valued at \$4.5 million and property in McCall valued at \$2.4 million.

At June 30, 2006 and 2005, the University had debt (or similar long-term obligations of \$127.0 million and \$132.0 million respectively. The university did not assume any additional debt in FY 2006.

ECONOMIC OUTLOOK

In fiscal year 2006, the University executed a balanced budget and nearly all of the colleges and operating units maintained or increased their reserves as a safeguard against the uncertainties of additional program or enrollment changes. The University will continue to strive for the proper balance between revenue increases and spending reductions to ensure that quality programs remain viable, while access to the University is not unduly limited by the cost of attendance.

In April, 2006, the University reached a settlement with the UI Foundation and other parties which resolved a legal dispute regarding amounts due the University and the Foundation, including amounts due under the above described notes. The University received \$2,500,000 in that settlement in resolution of all of its outstanding claims in the underlying litigation. The settlement extinguished all claims that the parties to the settlement had against each other. Of this settlement amount, \$1 million will create an Impact-Hire Fund to be leveraged with an additional \$1 million from other units at the University. The \$2 million fund will be used to support start-up costs, which include research equipment and instrumentation, supplies and staff, to enable us to recruit several new faculty to the university. Another \$750,000 will be used to jump-start our private giving enterprise as we prepare for a comprehensive fundraising campaign. Finally, \$750,000 will be placed in reserve for future unanticipated needs.

University leadership continues to emphasize accountability and stewardship of University human and financial resources, with a primary focus on maintaining relevance and excellence in programs offered. In FY 2006, many key management positions were filled including: Executive Vice President and Provost, Vice President for Advancement, Vice President for Finance and Administration, University Counsel, Dean of Business, Dean of Education, Dean of Engineering, Assistant Vice President for Human Resources, Assistant Vice President for Auxiliary Services, Assistant Vice President for Marketing and Communication, the University Controller, the University Registrar and three vacant accounting positions.

UNIVERSITY OF IDAHO

STATEMENT OF NET ASSETS

JUNE 30, 2006 AND 2005

| | University of Idaho 2006 | University of Idaho 2005 | Component Unit (Note 15) 2006 | Component Unit (Note 15) 2005 |
|---|--------------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 9,050,005 | \$ 9,523,465 | \$ 12,778,393 | \$ 8,280,890 |
| Student loans receivable | 1,322,965 | 1,588,469 | - | - |
| Accounts receivable & unbilled charges - net | 24,144,595 | 24,247,777 | 923,330 | 172,366 |
| Due from state agencies | 676,064 | 128,214 | - | - |
| Investments | 2,126,951 | 1,137,897 | 8,380,548 | 8,158,946 |
| Interest receivable | 420,718 | 398,650 | - | 551,824 |
| Inventories | 1,625,292 | 1,682,829 | - | - |
| Pledges receivable - net | - | - | 866,972 | 787,608 |
| Notes receivable | - | - | 41,159 | 45,100 |
| Prepaid expenses | <u>1,075,697</u> | <u>1,259,281</u> | <u>-</u> | <u>-</u> |
| Total Current Assets | <u>40,442,287</u> | <u>39,966,582</u> | <u>22,990,402</u> | <u>17,996,734</u> |
| NONCURRENT ASSETS | | | | |
| Restricted cash and cash equivalents | 2,856,205 | 2,651,336 | 6,622,500 | 7,611,203 |
| Student loans receivable - net | 10,081,752 | 10,176,163 | - | - |
| Investments | 62,328,274 | 45,186,279 | 175,604,810 | 166,904,539 |
| Interest receivable | 94,462 | - | - | 467 |
| Assets held in trust by Foundation | 84,671,646 | 78,667,182 | - | - |
| Pledges receivable - net | - | - | 1,467,692 | 1,195,581 |
| Notes receivable | 126,000 | - | 763,234 | 973,701 |
| Deferred bond financing costs | 1,787,953 | 1,886,888 | - | - |
| Capital assets | 309,386,566 | 306,409,023 | 19,875,986 | 19,526,879 |
| Other noncurrent assets | <u>-</u> | <u>14,916</u> | <u>243,043</u> | <u>355,947</u> |
| Total Noncurrent Assets | <u>471,332,858</u> | <u>444,991,787</u> | <u>204,577,265</u> | <u>196,568,317</u> |
| TOTAL ASSETS | <u>\$ 511,775,145</u> | <u>\$ 484,958,369</u> | <u>\$ 227,567,667</u> | <u>\$ 214,565,051</u> |

See notes to financial statements.

Continued

UNIVERSITY OF IDAHO

STATEMENT OF NET ASSETS

JUNE 30, 2006 AND 2005

| | University of Idaho 2006 | University of Idaho 2005 | Component Unit (Note 15) 2006 | Component Unit (Note 15) 2005 |
|---|--------------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 4,882,017 | \$ 4,338,662 | \$ 164,560 | \$ 394,459 |
| Accrued salaries and benefits payable | 18,244,443 | 19,078,638 | - | - |
| Compensated absences payable | 6,719,516 | 6,885,574 | - | - |
| Trust earnings payable to trust beneficiaries | - | - | 6,913,160 | 5,801,703 |
| Accrued interest payable | 1,531,007 | 1,584,924 | - | - |
| State teacher education loan advance | 165,337 | 146,090 | - | - |
| Deposits | 621,207 | 655,745 | - | - |
| Deferred revenue | 5,846,553 | 6,533,798 | - | - |
| Funds held in custody for others | 641,760 | 737,343 | - | - |
| Obligations under capital leases | 40,705 | 70,066 | - | - |
| Notes and bonds payable | 5,098,904 | 4,955,984 | 2,650,000 | 7,071,957 |
| Other liabilities | 158,302 | 275,758 | - | - |
| Split interest agreements | - | - | 1,059,908 | 1,045,515 |
| Total Current Liabilities | <u>43,949,751</u> | <u>45,262,582</u> | <u>10,787,628</u> | <u>14,313,634</u> |
| NONCURRENT LIABILITIES | | | | |
| Obligations under capital leases | 34,257 | 74,106 | - | - |
| Notes and bonds payable | 121,836,170 | 126,936,461 | - | 3,400,000 |
| Assets held in trust for the University | - | - | 84,671,646 | 78,667,182 |
| Split interest agreements | - | - | 6,738,400 | 6,611,047 |
| Total Non-current Liabilities | <u>121,870,427</u> | <u>127,010,567</u> | <u>91,410,046</u> | <u>88,678,229</u> |
| Total Liabilities | <u>165,820,178</u> | <u>172,273,149</u> | <u>102,197,674</u> | <u>102,991,863</u> |
| NET ASSETS | | | | |
| Invested in capital assets-net of related debt | 179,267,162 | 171,201,330 | - | - |
| Restricted for: | | | | |
| Nonexpendable | 84,671,646 | 78,667,182 | 93,102,914 | 85,502,418 |
| Expendable | 38,727,669 | 21,252,064 | 29,933,762 | 30,304,509 |
| Unrestricted | <u>43,288,490</u> | <u>41,564,644</u> | <u>2,333,317</u> | <u>(4,233,739)</u> |
| Total Net Assets | <u>345,954,967</u> | <u>312,685,220</u> | <u>125,369,993</u> | <u>111,573,188</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 511,775,145</u> | <u>\$ 484,958,369</u> | <u>\$ 227,567,667</u> | <u>\$ 214,565,051</u> |

See notes to financial statements.

UNIVERSITY OF IDAHO

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

| | University of Idaho 2006 | University of Idaho 2005 | Component Unit (Note 15) 2006 | Component Unit (Note 15) 2005 |
|---|---|---|--|--|
| OPERATING REVENUES | | | | |
| Student tuition and fees (net of scholarship allowance of \$12,182,570 and \$12,412,945 for FY 2006 and FY 2005 respectively) | \$ 51,976,798 | \$ 48,029,987 | \$ - | \$ - |
| Federal grants and contracts | 57,955,693 | 60,156,155 | - | - |
| State and local grants and contracts | 11,406,131 | 11,259,208 | - | - |
| Private grants and contracts | 11,233,477 | 12,725,677 | - | - |
| Sales and services of educational activities | 13,157,974 | 9,148,657 | - | - |
| Sales and services of auxiliary enterprises | 26,840,877 | 26,011,637 | - | - |
| Interest on loans receivable | 170,907 | 173,252 | - | - |
| Other sources | 3,973,319 | 3,285,587 | 391,598 | 196,721 |
| Gifts | - | - | 27,688,021 | 11,269,351 |
| | | | - | - |
| Total Operating Revenue | <u>176,715,176</u> | <u>170,790,160</u> | <u>28,079,619</u> | <u>11,466,072</u> |
| OPERATING EXPENSES | | | | |
| Salaries | 137,690,687 | 135,560,670 | - | - |
| Benefits | 46,816,736 | 46,411,151 | - | - |
| Services | 42,730,543 | 43,838,313 | - | - |
| Supplies | 24,029,702 | 19,116,886 | - | - |
| Insurance, utilities and rent | 13,240,156 | 9,506,628 | - | - |
| Scholarships and fellowships | 14,334,337 | 14,410,510 | - | - |
| Depreciation | 18,812,934 | 22,344,637 | 5,893 | 5,893 |
| Other | 4,521,405 | 5,249,633 | 16,063 | 892,796 |
| Administrative expense | - | - | 1,304,670 | 1,280,878 |
| | | | - | - |
| Total Operating Expenses | <u>302,176,500</u> | <u>296,438,428</u> | <u>1,326,626</u> | <u>2,179,567</u> |
| OPERATING (LOSS) INCOME | <u>(125,461,324)</u> | <u>(125,648,268)</u> | <u>26,752,993</u> | <u>9,286,505</u> |

See notes to financial statements.

Continued

UNIVERSITY OF IDAHO

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

| | University of Idaho 2006 | University of Idaho 2005 | Component Unit (Note 15) 2006 | Component Unit (Note 15) 2005 |
|--|--------------------------------|--------------------------------|--|--|
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State appropriations | 120,445,669 | 114,259,600 | - | - |
| Endowment income | 6,314,000 | 6,714,256 | - | - |
| Federal appropriations | 4,957,425 | 3,134,133 | - | - |
| Gifts (including gifts from Foundation) | 13,304,566 | 11,137,007 | - | - |
| Private grants and contracts | 422,775 | 63,577 | - | - |
| Net investment income | 3,842,495 | 2,232,059 | 8,624,016 | 7,267,277 |
| Net increase (decrease) in fair value of investments | (1,527,352) | 192,443 | 4,324,313 | 4,615,557 |
| Change in fair value of investments | 6,004,464 | 7,495,721 | (6,004,464) | (7,495,721) |
| Provision for doubtful accounts | - | (2,030,198) | - | - |
| Distribution of endowment income to trust beneficiaries | - | - | (6,913,160) | (5,801,703) |
| Distribution to University & affiliates | - | - | (22,488,548) | (7,237,209) |
| Distribution of trust income to life income beneficiaries | - | - | (652,618) | (672,388) |
| Lease and rental income | - | - | 69,956 | 194,535 |
| Property management | - | - | (123,187) | (223,516) |
| Change to split interest trusts | - | - | 424,807 | 178,851 |
| Interest expense (net of capitalized interest of \$493,621 and \$749,680 for FY2006 and FY2005 respectively) | (6,168,942) | (5,672,149) | (89,726) | (319,115) |
| Capital gains | - | - | - | 5,894,712 |
| Other sources | 401,968 | 923,762 | (34,803) | (34,803) |
| Net nonoperating revenues (expenses) | 147,997,068 | 138,450,211 | (22,863,414) | (3,633,523) |
| INCOME BEFORE OTHER REVENUES | 22,535,744 | 12,801,943 | 3,889,579 | 5,652,982 |
| OTHER REVENUES | | | | |
| Capital grants and contracts | 2,221,813 | 419,023 | - | - |
| Projects with Idaho Dept of Public Works | 1,146,567 | 1,628,961 | - | - |
| Capital gifts from Foundation | 7,365,624 | 2,311,025 | - | - |
| Recovery on impairment of Idaho Water Center | - | - | 9,907,226 | 1,819,644 |
| Total other revenues | 10,734,004 | 4,359,009 | 9,907,226 | 1,819,644 |
| INCREASE IN NET ASSETS | 33,269,748 | 17,160,952 | 13,796,805 | 7,472,626 |
| NET ASSETS—Beginning of year | 312,685,220 | 295,524,268 | 111,573,188 | 104,100,562 |
| NET ASSETS—End of year | \$ 345,954,968 | \$ 312,685,220 | \$ 125,369,993 | \$ 111,573,188 |

See notes to financial statements.

UNIVERSITY OF IDAHO

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005

| | University of Idaho 2006 | University of Idaho 2005 |
|---|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and fees | \$ 51,358,197 | \$ 47,745,318 |
| Grants and contracts | 80,595,301 | 84,141,040 |
| Sales and services - net | 39,998,851 | 34,236,394 |
| Payments to employees | (185,507,676) | (180,984,001) |
| Payments to suppliers | (83,737,331) | (79,367,944) |
| Scholarships and fellowships disbursed | (14,334,337) | (14,235,869) |
| Funds held for others | (95,583) | (330,448) |
| Student loans collected | 3,472,091 | 3,019,847 |
| Student loans disbursed | (3,221,039) | (3,356,156) |
| Other receipts | 4,383,863 | 5,562,854 |
| Other payments | (547,850) | - |
| Net cash used by operating activities | (107,635,513) | (103,568,965) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Appropriated general education revenues: | | |
| State appropriations | 120,445,669 | 114,286,841 |
| Land grant endowment income | 6,314,000 | 6,714,256 |
| Federal appropriations | 4,957,425 | 3,585,783 |
| Private grants and contracts | - | 63,577 |
| Gifts from Foundation | 13,727,341 | 11,137,007 |
| Other receipts | 199,450 | 22,615 |
| Net cash provided by noncapital financing activities | 145,643,885 | 135,810,079 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from capital debt | \$ - | \$ 30,740,000 |
| State appropriations, capital | 1,146,567 | 1,264,887 |
| Capital gifts | 2,221,813 | 2,454,256 |
| Purchase of capital assets | (14,424,851) | (16,750,891) |
| Principal paid on capital debt | (5,125,519) | (36,602,542) |
| Interest paid on capital debt | (6,222,859) | (5,583,015) |
| Net cash used by capital & related financing activities | (22,404,849) | (24,477,305) |

See notes to financial statements.

Continued

UNIVERSITY OF IDAHO

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005

| | University of Idaho 2006 | University of Idaho 2005 |
|--|--------------------------------|--------------------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | \$ 22,560,776 | \$ 13,023,350 |
| Investment income | 3,842,495 | 1,106,963 |
| Purchase of investments | (42,275,385) | (25,696,532) |
| Net cash used by investing activities | (15,872,114) | (11,566,219) |
| NET DECREASE IN CASH | (268,591) | (3,802,410) |
| Cash — Beginning of year | 12,174,801 | 15,977,211 |
| Cash—End of year | \$ 11,906,210 | \$ 12,174,801 |
| RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating loss | \$ (125,461,324) | \$ (125,648,268) |
| Adjustments to reconcile: | | |
| Depreciation expense | 18,812,934 | 22,344,637 |
| Effect on cash of changes in operating assets and liabilities: | | |
| Receivables, net | 39,889 | 2,067,273 |
| Inventories and prepaid expenses | 241,121 | 66,818 |
| Other assets | 14,916 | (43,847) |
| Deferred financing costs | 98,935 | 180,820 |
| Accounts payable and accrued liabilities | 543,355 | (717,092) |
| Accrued salaries and benefits payable | (1,000,253) | - |
| Deferred revenues | (687,245) | (1,488,858) |
| Deposits | (34,544) | - |
| Funds held in custody for others | (95,583) | (330,448) |
| Other liabilities | (107,714) | - |
| Net cash used by operating activities | \$ (107,635,513) | \$ (103,568,965) |
| NONCASH TRANSACTIONS: | | |
| Capital asset write-offs | \$ - | \$ 869,733 |
| Provision for doubtful accounts | - | 2,030,198 |
| Donated assets | 7,365,624 | 2,260,025 |
| Change in fair value of investments | (1,583,560) | (15,632) |
| Change in fair value of assets held in trust | 6,004,464 | 7,495,721 |
| Increase in receivables related to nonoperating income | - | 350,107 |

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Idaho (the “University”) is a publicly-supported comprehensive land grant institution created in 1889 by a statute of the 15th territorial legislature and 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 State Senate, directs the University. The significant accounting policies followed by the University are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation— In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement is required to be implemented for fiscal year 2006. It establishes accounting and financial reporting standards for impairment of capital assets and requirements for application of related insurance recoveries. The university had no impaired assets during fiscal year 2006 or fiscal year 2005.

Basis of Accounting— For financial statement purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated. The University is presenting its financial statements in accordance with GASB Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, an amendment of GASB Statement No. 34.

The University has the option to apply all Financial Accounting Standards Board (“FASB”) pronouncements issued after November 30, 1989, unless those standards conflict or contradict with GASB pronouncements. The University has elected to not apply FASB pronouncements issued after the applicable date.

Component Unit— The University of Idaho Foundation, Inc. (the “Foundation”) is considered a component unit of the University as determined by GASB 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, which requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The Foundation was established in 1970 to solicit financial support for the University of Idaho and to manage and invest the resulting charitable gifts. The Foundation is a separate corporation made up of over 150 volunteers who are governed by a 25 member Board of Directors elected annually by the Foundation members.

The Foundation receives all gifts to the University and transfers gifts to the donor specified area within the University on a regular schedule. In addition, it manages the endowment funds in a pooled investment fund, the Consolidated Investment Trust (“C.I.T.”). Earnings from the endowment are transferred annually to the University. Funds invested in the C.I.T. are held in trust for the University and are shown as an asset and liability on the Foundation financial statements.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

The Foundation also manages a number of split-interest agreements. These are contributions in the form of irrevocable charitable remainder trusts and charitable gift annuities. These gifts have been received from donors subject to obligations to pay stipulated amounts periodically to the donors or designated beneficiaries during their lifetimes or a period of years. These assets for which the Foundation serves as trustee are included in investments, and the present value of the estimated future payments to be made to the donors or other beneficiaries is included in the liabilities. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, amortization of the discount, or the estimated life of the trust.

During the years ended June 30, 2006 and June 30, 2005, the Foundation distributed \$13,812,682 and \$7,237,209 respectively, to the University from gifts and other revenues and \$6,913,160 and \$5,801,703, respectively, from C.I.T. endowment income.

Cash and Cash Equivalents—The University considers all highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents.

Student Loans Receivable—Loans receivable from students bear interest at rates ranging from 3% to 7% and are generally repayable in installments to the University over a 5- to 10-year period commencing 6 or 9 months from the date of separation from the University. Collections on these student loans are primarily handled through a third party servicer.

Accounts Receivable—Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories—All inventories are valued at the lower of FIFO cost or market.

Investments—The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of the net increase in fair value of investments in the statement of revenues, expenses and changes in net assets.

Restricted Cash and Cash Equivalents and Investments—Cash and cash equivalents that are restricted to make debt service payments, maintain sinking or reserve funds, or (except for currently due payments), are classified as noncurrent assets in the statement of net assets.

Capital Assets—Capital assets are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair value at the date of gift. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

Depreciation is computed using the straight-line, composite method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for improvements other than to buildings, 10 years for library materials and an average of 7 years for equipment.

Compensated Absences—Employee vacation and compensatory time pay is accrued at year-end for financial statement purposes. The accrued liability at June 30, 2006 and 2005 for compensated absences earned but not used are \$6,719,516, and \$6,885,574, respectively. Compensated absence costs are included in benefits expense in the statement of revenues, expenses, and changes in net assets.

Waivers- Tuition and fees revenues include waivers for faculty and staff benefits charged to the appropriate expense programs to which the applicable personnel relate. The total of these waivers for 2006 and 2005 was \$676,751 and \$621,616 respectively.

Deferred Revenue—Deferred revenue includes 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 revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

Noncurrent Liabilities—Noncurrent liabilities primarily include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for other liabilities that will not be paid within the next fiscal year.

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

Invested In Capital Assets—Net of Related Debt—This represents the University's investment in capital assets, net of depreciation and 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 for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, investment income, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board for any lawful purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then toward unrestricted resources.

Income Taxes— The University is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code, per letter dated November 7, 1945. The University is also considered a Section 501(c)(3) corporation via letter from the Internal Revenue Service dated August 29, 1961. The university is subject to unrelated business income tax.

Classification of Revenues— The University has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenues—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most federal, state and local grants and contracts, and (4) interest on institutional student loans.

Nonoperating Revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources 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, such as state and federal appropriations and investment income.

Scholarship Discounts and Allowances— Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance. Scholarship allowances for FY 2006 and FY 2005 are \$12,182,570 and \$12,412,945 respectively.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net assets and disclosures regarding contingent assets and liabilities. Actual results could differ from those estimates.

Reclassifications—Certain reclassifications have been made in the 2005 financial statements to conform to the 2006 presentation. The primary reclassification was to reflect due from state agencies as a current rather than non current asset to properly reflect the current status.

New Accounting Standards— In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement generally requires that the University account for and report the cost and obligations related to post-

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

employment healthcare and other non-pension 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 University to fund its OPEB plans. The University 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 University are effective for the fiscal year ending June 30, 2008. The University has not completed the process of evaluating the impact that will result from adopting this Statement and is therefore unable to disclose the impact that adopting the Statement will have on its financial statements.

2. CASH AND CASH EQUIVALENTS

The University accounts for its cash on a pooled basis whereby each fund has a positive or negative equity in cash depending upon the net effect of its cash receipts and disbursements activity.

Cash and cash equivalents are deposited with various financial institutions. Custodial credit risk on deposits is the risk that in the event of a bank failure, the University’s deposits may not be returned to it. At June 30, 2006, \$973,771 of the University’s bank balance of \$11,906,210 was exposed to custodial credit risk because it was uninsured and uncollateralized. At June 30, 2005, \$4,723,875 of the University’s bank balance of \$12,174,801 was exposed to custodial credit risk because it was uninsured and uncollateralized.

3. INVESTMENTS

The general investment policy of the University as adopted by the State Board of Education is that investments in securities are to be made with the objectives of maximizing long-term total return, ensuring safety of principal and providing satisfactory current income. Investment of cash shall be restricted to:

- 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.
- Commercial paper of prime or equivalent grade.

In accordance with established investment policy, the University may invest in various mortgage-backed securities, such as collateralized mortgage obligations. These securities are recorded at fair value in the statement of net assets. Investment income, including change in fair value of investments, is recognized as revenue in the statement of revenues, expenses and changes in net assets.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

Custodial Credit Risk

The University's investments described above are categorized below to give an indication of the level of risk assumed by the University at June 30, 2006. Category 1 includes investments that are insured or registered, or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the University's name; or by the counterparty's trust department or agent but not in the University's name.

| | 2006 | | | |
|---|--------------------------|--------------|----------|-----------------------|
| | Investment Risk Category | | | Total Carrying Amount |
| | 1 | 2 | 3 | |
| INVESTMENTS: | | | | |
| Corporate debt securities and preferred stock | \$ 29,356,222 | \$ - | \$ - | \$ 29,356,222 |
| U.S. government or government guaranteed securities | 33,179,136 | 1,133,074 | - | 34,312,210 |
| Mutual funds | <u>786,793</u> | <u>-</u> | <u>-</u> | <u>786,793</u> |
| | \$ 63,322,151 | \$ 1,133,074 | \$ - | \$ 64,455,225 |

| | 2005 | | | |
|---|--------------------------|---------------------|-------------|-----------------------|
| | Investment Risk Category | | | Total Carrying Amount |
| | 1 | 2 | 3 | |
| INVESTMENTS: | | | | |
| Corporate debt securities and preferred stock | \$ 32,787,675 | \$ - | \$ - | \$ 32,787,675 |
| U.S. government or government guaranteed securities | 11,565,799 | 1,137,898 | - | 12,703,697 |
| Mutual funds | <u>832,804</u> | <u>-</u> | <u>-</u> | <u>832,804</u> |
| | <u>\$ 45,186,278</u> | <u>\$ 1,137,898</u> | <u>\$ -</u> | <u>\$ 46,324,176</u> |

Interest Rate Risk

Interest rate risk is defined by GASB Statement No. 40, Deposit and Investment Risk Disclosure, as the risk a government may face should interest rate variances affect the fair value of investments. The University does not presently have a formal policy that addresses interest rate risk. As of June 30, 2006, the University had the following investments subject to interest rate risk:

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

Debt Security Investments at June 30, 2006

Investment Maturities In Years

| <u>Investment Type:</u> | <u>Fair Value</u> | <u><1</u> | <u>1-5</u> | <u>6-10</u> | <u>>10</u> | <u>Total</u> |
|-------------------------|----------------------|---------------------|-------------------|---------------------|----------------------|----------------------|
| US Corporations | \$ 3,381,222 | \$ 197,250 | \$ 282,500 | \$ 528,950 | \$ 2,372,522 | \$ 3,381,222 |
| US Government Agencies | <u>34,312,210</u> | <u>1,929,701</u> | <u>448,837</u> | <u>4,632,328</u> | <u>27,301,344</u> | <u>\$ 34,312,210</u> |
| Total | <u>\$ 37,693,432</u> | <u>\$ 2,126,951</u> | <u>\$ 731,337</u> | <u>\$ 5,161,278</u> | <u>\$ 29,673,866</u> | <u>\$ 37,693,432</u> |

Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB 40 requires disclosure of credit quality ratings for investments in debt securities. The University does not presently have a formal policy that addresses credit risk. (The credit risk ratings listed below are issued upon standards set by Standard and Poor's.) As of June 30, 2006, the University had the following investment credit risk:

| | U.S. Corporations | United States Agencies | Total |
|-----|--------------------------|-------------------------------|----------------------|
| AAA | \$ 29,325,815 | \$ 34,312,210 | \$ 63,638,025 |
| AA | 817,200 | - | 817,200 |
| | <u>\$ 30,143,015</u> | <u>\$ 34,312,210</u> | <u>\$ 64,455,225</u> |

Concentration of Credit Risk

Per GASB Statement No. 40, Concentration of Credit Risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB has adopted a principle that governments should provide note disclosure when 5 percent of investments are concentrated in any one issuer. The University does not presently have a formal policy that addresses concentration of credit risk.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

| Issuer | Fair Value | % of Total Investments |
|--|-------------------|-------------------------------|
| Cohen & Steers REIT Auction Preferred | \$ 4,000,000 | 6.20% |
| Cohen & Steers REIT Float Auction Preferred | 4,100,000 | 6.36% |
| Nicholas Applegate (AAA) | 3,925,000 | 6.09% |
| PIMCO Corp (AAA) | 6,850,000 | 10.63% |
| Various (no single issuer) exceeds 5% of total | 45,580,225 | 70.72% |
| Total | \$ 64,455,225 | 100.00% |

4. RECEIVABLES AND UNBILLED CHARGES

Receivables and unbilled charges consisted of the following at June 30, 2006 and June 30, 2005, respectively:

| | June 30, 2006 | | June 30, 2005 | |
|--|---------------|----|---------------|------------|
| | Current | | Current | Noncurrent |
| Student tuition and fees | \$ 2,080,677 | \$ | 2,185,839 | \$ - |
| Auxiliary enterprises | 1,002,872 | | 1,280,111 | - |
| Other activities | 555,326 | | 241,719 | 14,916 |
| Federal appropriations | 219,466 | | 197,282 | - |
| Federal financial aid funds | 39,705 | | 44,577 | - |
| Grants and contracts | 14,196,719 | | 15,138,136 | - |
| Due from Foundation | 6,506,130 | | 5,418,113 | - |
| Notes receivable | - | | 7,197,957 | - |
| | 24,600,895 | | 31,703,734 | 14,916 |
| Less allowance for doubtful accounts | (456,300) | | (7,455,957) | - |
| Net accounts receivable and unbilled charges | \$ 24,144,595 | \$ | 24,247,777 | \$ 14,916 |

The University held an unsecured note receivable in the amount of \$5,041,759 from the Foundation, a related party, dated October 14, 2003, due December 31, 2005. Variable rate interest was due at maturity at the Wells Fargo daily sweep rate plus 2% (2.19% as of June 30, 2006 and 3.98% as of June 30, 2005). An allowance for the full amount was recorded as of June 30, 2005. The University also held an unsecured note receivable in the amount of \$2,030,198 from the Foundation, a related party, dated October 14, 2003, due December 31, 2005. Fixed rate interest due at maturity is 1%. An allowance for the full amount was recorded as of June 30, 2005.

In April, 2006, the University reached a settlement with the Foundation and other parties which resolved a legal dispute regarding amounts due the University. The University received \$2,500,000 in that settlement and will no longer pursue outstanding claims regarding the Boise Place construction.

5. STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the “Program”) comprise substantially all of the loans receivable at June 30, 2006 and June 30, 2005. Under this Program, the federal government provides approximately 75% of the funding for the Program with the University providing the balance. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions. In the event the University should withdraw from the Program or the government were to cancel the Program, the amount the University would be liable for is approximately \$10,146,489 at June 30, 2006 and \$10,092,715 at June 30, 2005.

As the University 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 University has provided an allowance for uncollectible loans, which, in management’s opinion, is sufficient to absorb loans that will ultimately be written off. The allowance for uncollectible loans was \$1,078,707 at June 30, 2006 and \$1,126,177 at June 30, 2005.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

6. CAPITAL ASSETS

Capital Assets at June 30, 2006 and 2005 consisted of the following:

| | <u>Year Ended June 30, 2006</u> | | | | |
|--|---------------------------------|-----------------------|-----------------------|---------------------|----------------------------------|
| | <u>Balance July 1, 2005</u> | <u>Additions</u> | <u>Transfers</u> | <u>Retirements</u> | <u>Balance June 30, 2006</u> |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 11,498,448 | \$ 6,517,221 | \$ - | \$ - | \$ 18,015,669 |
| Capitalized collections | 2,207,204 | 41,313 | - | (139,836) | 2,108,681 |
| Equipment construction in progress | 520,552 | 683,870 | (974,815) | (17,355) | 212,252 |
| Construction in progress | <u>10,637,818</u> | <u>4,643,128</u> | <u>(3,592,278)</u> | <u>(96,937)</u> | <u>11,591,731</u> |
| Total capital assets not being depreciated | <u>\$ 24,864,022</u> | <u>\$ 11,885,532</u> | <u>\$ (4,567,093)</u> | <u>\$ (254,128)</u> | <u>\$ 31,928,333</u> |
| Other capital assets: | | | | | |
| Buildings | \$ 348,786,099 | \$ 1,996,199 | \$ 3,042,868 | \$ (22,839) | \$ 353,802,327 |
| Other improvements | 37,054,893 | 1,104,807 | 549,410 | (115,205) | 38,593,905 |
| Furniture and equipment | 65,642,089 | 4,509,601 | 974,815 | (3,171,006) | 67,955,499 |
| Library materials | <u>52,936,155</u> | <u>2,944,009</u> | <u>-</u> | <u>(764,252)</u> | <u>55,115,912</u> |
| Total other capital assets | <u>504,419,236</u> | <u>10,554,616</u> | <u>4,567,093</u> | <u>(4,073,302)</u> | <u>515,467,643</u> |
| Less accumulated depreciation: | | | | | |
| Buildings | (115,195,338) | (8,267,991) | - | 2,855 | (123,460,474) |
| Other improvements | (19,229,757) | (1,619,353) | - | 115,205 | (20,733,905) |
| Furniture and equipment | (46,405,530) | (6,551,503) | - | 2,795,447 | (50,161,586) |
| Library materials | <u>(42,043,610)</u> | <u>(2,374,087)</u> | <u>-</u> | <u>764,252</u> | <u>(43,653,445)</u> |
| Total accumulated depreciation | <u>(222,874,235)</u> | <u>(18,812,934)</u> | <u>-</u> | <u>3,677,759</u> | <u>(238,009,410)</u> |
| Other capital assets | <u>\$ 281,545,001</u> | <u>\$ (8,258,318)</u> | <u>\$ 4,567,093</u> | <u>\$ (395,543)</u> | <u>\$ 277,458,233</u> |
| Capital assets summary: | | | | | |
| Capital assets not being depreciated | \$ 24,864,022 | \$ 11,885,532 | \$ (4,567,093) | \$ (254,128) | \$ 31,928,333 |
| Other capital assets—at cost | <u>504,419,236</u> | <u>10,554,616</u> | <u>4,567,093</u> | <u>(4,073,302)</u> | <u>515,467,643</u> |
| Total cost of capital assets | 529,283,258 | 22,440,148 | - | (4,327,430) | 547,395,976 |
| Less accumulated depreciation | <u>(222,874,235)</u> | <u>(18,812,934)</u> | <u>-</u> | <u>3,677,759</u> | <u>(238,009,410)</u> |
| Capital assets—net | <u>\$ 306,409,023</u> | <u>\$ 3,627,214</u> | <u>\$ -</u> | <u>\$ (649,671)</u> | <u>\$ 309,386,566</u> |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

In addition to accounts payable for construction in progress, the estimated cost to complete property authorized or under construction at June 30, 2006 is approximately \$14,983,350. These costs will be financed by state appropriations, institutional funds, gifts, grants and contracts, the Department of Public Works, and/or long-term borrowing.

| | <u>Year Ended June 30, 2005</u> | | | | |
|--|---------------------------------|-----------------------|-----------------------|-----------------------|----------------------------------|
| | <u>Balance July 1, 2004</u> | <u>Additions</u> | <u>Transfers</u> | <u>Retirements</u> | <u>Balance June 30, 2005</u> |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 10,120,613 | \$ 1,674,683 | \$ 13,190 | \$ (310,038) | \$ 11,498,448 |
| Capitalized collections | 2,165,519 | 56,685 | - | (15,000) | 2,207,204 |
| Equipment construction in progress | 727,334 | 591,676 | (795,140) | (3,318) | 520,552 |
| Construction in progress | <u>10,664,509</u> | <u>5,086,769</u> | <u>(5,107,505)</u> | <u>(5,955)</u> | <u>10,637,818</u> |
| Total capital assets not being depreciated | <u>\$ 23,677,975</u> | <u>\$ 7,409,813</u> | <u>\$ (5,889,455)</u> | <u>\$ (334,311)</u> | <u>\$ 24,864,022</u> |
| Other capital assets: | | | | | |
| Buildings | \$ 340,362,300 | \$ 3,571,371 | \$ 4,892,366 | \$ (39,938) | \$ 348,786,099 |
| Other improvements | 36,516,760 | 427,780 | 214,873 | (104,520) | 37,054,893 |
| Furniture and equipment | 64,673,564 | 4,510,953 | 782,216 | (4,324,644) | 65,642,089 |
| Library materials | <u>50,717,661</u> | <u>2,778,213</u> | <u>-</u> | <u>(559,719)</u> | <u>52,936,155</u> |
| Total other capital assets | <u>492,270,285</u> | <u>11,288,317</u> | <u>5,889,455</u> | <u>(5,028,821)</u> | <u>504,419,236</u> |
| Less accumulated depreciation: | | | | | |
| Buildings | (107,033,486) | (8,160,602) | (6,462) | 5,212 | (115,195,338) |
| Other improvements | (17,686,570) | (1,553,639) | - | 10,452 | (19,229,757) |
| Furniture and equipment | (39,184,283) | (10,365,692) | 6,462 | 3,137,983 | (46,405,530) |
| Library materials | <u>(40,338,625)</u> | <u>(2,264,704)</u> | <u>-</u> | <u>559,719</u> | <u>(42,043,610)</u> |
| Total accumulated depreciation | <u>(204,242,964)</u> | <u>(22,344,637)</u> | <u>-</u> | <u>3,713,366</u> | <u>(222,874,235)</u> |
| Other capital assets—net | <u>\$ 288,027,321</u> | <u>\$(11,056,320)</u> | <u>\$ 5,889,455</u> | <u>\$ (1,315,455)</u> | <u>\$ 281,545,001</u> |
| Capital assets summary: | | | | | |
| Capital assets not being depreciated | \$ 23,677,975 | \$ 7,409,813 | \$ (5,889,455) | \$ (334,311) | \$ 24,864,022 |
| Other capital assets—at cost | <u>492,270,285</u> | <u>11,288,317</u> | <u>5,889,455</u> | <u>(5,028,821)</u> | <u>504,419,236</u> |
| Total cost of capital assets | 515,948,260 | 18,698,130 | - | (5,363,132) | 529,283,258 |
| Less accumulated depreciation | <u>(204,242,964)</u> | <u>(22,344,637)</u> | <u>-</u> | <u>3,713,366</u> | <u>(222,874,235)</u> |
| Capital assets—net | <u>\$ 311,705,296</u> | <u>\$ (3,646,507)</u> | <u>\$ -</u> | <u>\$ (1,649,766)</u> | <u>\$ 306,409,023</u> |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2006 and 2005:

| | 2006 | 2005 |
|--|---------------------|---------------------|
| Operating activities | \$ 4,689,158 | \$ 4,172,641 |
| Taxes payable | 22,419 | 10,154 |
| Foundation payable | <u>170,440</u> | <u>155,867</u> |
| Total accounts payable and accrued liabilities | <u>\$ 4,882,017</u> | <u>\$ 4,338,662</u> |

8. OPERATING LEASES

The University has entered into various noncancellable operating lease agreements covering certain assets. The lease terms range from one to five years. The expense for operating leases was \$373,021 for the year ended June 30, 2006 and \$802,322 for the year ended June 30, 2005.

Future minimum lease payments on noncancellable leases at June 30, 2006 are as follows:

| | |
|----------------------------------|-------------------|
| 2007 | \$ 262,240 |
| 2008 | 153,358 |
| 2009 | 103,567 |
| 2010 | 77,513 |
| 2011 | <u>47,234</u> |
| Total future minimum obligations | <u>\$ 643,912</u> |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

9. LONG-TERM LIABILITIES

Long-term liability activity for years ended June 30, 2006 and 2005 is as follows:

| | Ending Balance June 30, 2005 | Additions | Reductions | Ending Balance June 30, 2006 | Amounts Due within One Year |
|--|------------------------------------|-------------|---------------------|------------------------------------|-----------------------------------|
| Bonds and notes payable and capital lease obligations: | | | | | |
| Bonds payable | \$ 130,578,803 | \$ - | \$ 4,726,418 | \$ 125,852,385 | \$ 5,006,419 |
| Notes payable | 1,313,642 | - | 230,953 | 1,082,689 | 92,485 |
| Capital lease obligations | <u>144,172</u> | <u>-</u> | <u>69,210</u> | <u>74,962</u> | <u>40,705</u> |
| Total bonds, notes and capital leases | <u>\$ 132,036,617</u> | <u>\$ -</u> | <u>\$ 5,026,580</u> | <u>\$ 127,010,036</u> | <u>\$ 5,139,609</u> |

| | Ending Balance June 30, 2004 | Additions | Reductions | Ending Balance June 30, 2005 | Amounts Due within One Year |
|--|------------------------------------|----------------------|----------------------|------------------------------------|-----------------------------------|
| Bonds and notes payable and capital lease obligations: | | | | | |
| Bonds payable | \$ 135,526,384 | \$ 29,299,872 | \$ 34,247,453 | \$ 130,578,803 | \$ 4,726,419 |
| Notes payable | 1,945,211 | 63,458 | 695,027 | 1,313,642 | 229,565 |
| Capital lease obligations | <u>427,564</u> | <u>31,705</u> | <u>315,097</u> | <u>144,172</u> | <u>70,066</u> |
| Total bonds, notes and capital leases | <u>137,899,159</u> | <u>29,395,035</u> | <u>35,257,577</u> | <u>132,036,617</u> | <u>5,026,050</u> |
| Other liabilities: | | | | | |
| Early retirement accrued liability | 2,802,758 | - | 2,802,758 | - | - |
| Total other liabilities | <u>2,802,758</u> | <u>-</u> | <u>2,802,758</u> | <u>-</u> | <u>-</u> |
| Long-term liabilities | <u>\$ 140,701,917</u> | <u>\$ 29,395,035</u> | <u>\$ 38,060,335</u> | <u>\$ 132,036,617</u> | <u>\$ 5,026,050</u> |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

10. NOTES AND BONDS PAYABLE

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

| Description | Balance Outstanding 2006 | Balance Outstanding 2005 |
|---|-----------------------------|-----------------------------|
| Student Fee Refunding Bonds, Series 1996 (original balance of \$9,285,000), consisting of serial bonds due in annual installments increasing periodically from \$550,000 to a maximum of \$860,000, plus interest from 5.15% to 5.80% through the year 2013, collateralized by a pledge of net revenues and certain student fees of the University. | \$4,960,000 | \$5,510,000 |
| Student Fee Revenue Bonds, Series 1996 (original balance of \$7,965,000), consisting of serial bonds due in annual installments ranging from \$435,000 to a maximum of \$605,000, plus interest from 5.75% to 5.85% through the year 2011, collateralized by a pledge of the University's Student Matriculation Fee and other pledged net revenues derived from the Telecommunications System, Non-Dormitory Housing System, and Parking System. A portion of these bonds are considered extinguished through defeasance by the 2005A General Revenue Refunding Bonds. | - | 455,000 |
| Student Fee Refunding Revenue Bonds, Series 1997B (original balance of \$12,380,000), consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$715,000 to a maximum of \$1,220,000, plus interest from 5.00% to 5.70% through the year 2016, collateralized by a pledge of net revenues of the Student Housing System, University's Student Matriculation Fee and other pledged net revenues. The 2005A General Revenue Refunding Bonds extended the general pledge to these Bonds. | 9,680,000 | 10,395,000 |
| Student Fee Revenue Bonds (University Commons Project) Series 1997, (original balance of \$14,100,000), consisting of serial bonds due in annual installments commencing in 1999 and increasing periodically from \$140,000 to a maximum of \$1,650,000, plus interest from 4.95% to 5.7% through the year 2022, collateralized by a pledge of certain student fees, and certain other pledged revenue. A portion of these bonds are considered extinguished through defeasance by the 2005A General Revenue Refunding Bonds. The defeased amount is \$12,965,000 and the university's remaining annual installments range from \$140,000 to a maximum of \$145,000, plus interest from 5.50% to 5.70%. | 145,000 | 285,000 |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

| Description | Balance Outstanding 2006 | Balance Outstanding 2005 |
|--|-----------------------------|-----------------------------|
| Student Fee Revenue Bonds (University Commons Supplemental Project) Series 1997, (original balance of \$5,620,000), consisting of serial bonds due in annual installments commencing in 2000 and increasing periodically from \$180,000 to a maximum of \$405,000, plus interest from 4.65% to 5.35% through the year 2022, collateralized by a pledge of certain student fees, and certain other pledged revenue. A portion of these bonds are considered extinguished through defeasance by the 2005A General Revenue Refunding Bonds. The defeased amount is \$4,120,000 and the University's remaining annual installments range from \$180,000 to a maximum of \$200,000, plus interest from 4.90% to 5.35%. | \$390,000 | \$570,000 |
| Student Fee Revenue Bonds (Recreation Center Project), Series 1999, (original balance of \$20,115,000), consisting of serial bonds due in annual installments commencing in 2002 and increasing periodically from \$525,000 to a maximum of \$1,425,000, plus interest from 4.00% to 6.50% through the year 2025, collateralized by a pledge of certain student fees, and certain other pledged revenue | 17,990,000 | 18,515,000 |
| Student Fee Revenue Bonds, Series 1999A, (original balance of \$1,470,000) consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$40,000 to a maximum of \$105,000, plus interest from 4.10% to 5.25% through the year 2025, collateralized initially by a pledge of the University's Student Matriculation Fee and other pledged net revenues. 2005A General Revenue Refunding Bonds extended the general pledge to these Bonds. | 1,315,000 | 1,355,000 |
| Student Fee Revenue Bonds, Series 1999B, (original balance of \$6,150,000) consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$175,000 to a maximum of \$445,000, plus interest from 5.25% to 5.625% through the year 2025, collateralized initially by a pledge of net revenues of the University's Student Matriculation Fee and other pledged net revenues. 2005A General Revenue Refunding Bonds extended the general pledge to these Bonds. | 5,505,000 | 5,680,000 |
| Student Fee Revenue Bonds, Series 1999C, (original balance of \$6,305,000), consisting of serial bonds due in annual installments commencing in 2001 and increasing periodically from \$260,000 to a maximum of \$515,000, plus interest from 4.75% to 5.70% through the year 2019, collateralized initially by a pledge of University's Student Matriculation Fee and other pledged revenues. 2005A General Revenue Refunding Bonds extended the general pledge to these Bonds. A portion of these bonds are considered extinguished through defeasance by the 2005A General Revenue Refunding Bonds. The defeased amount is \$4,065,000 and the University's remaining annual installments range from \$260,000 to a maximum of \$295,000, plus interest from 5.63% to 5.705%. | 850,000 | 1,110,000 |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

| Description | Balance Outstanding 2006 | Balance Outstanding 2005 |
|--|-----------------------------|-----------------------------|
| Student Fee Revenue Bonds, Series 2001, (original balance of \$40,930,000), consisting of serial bonds due in annual installments commencing in 2005 and increasing periodically from \$375,000 to a maximum of \$2,125,000, plus interest from 3.50% to 5.40% through the year 2041, collateralized initially by a pledge of net revenues of the University's Student Matriculation Fee. 2005A General Revenue Refunding Bonds extended the general pledge to these Bonds. | 40,305,000 | 40,680,000 |
| Student Fee Refunding and Revenue Bonds, Series 2003, (original balance of \$17,585,000), consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from \$1,280,000 to a maximum of \$1,525,000, plus interest from 5.00% to 5.25% through the year 2014, collateralized by a pledge of net revenues of the Student Housing System, net revenues derived from the Telecommunications System, and certain other pledged revenues. | 14,205,000 | 15,485,000 |
| General Revenue Refunding Bonds, Series 2005A, (original balance of \$30,740,000), consisting of bonds due in annual installments commencing in 2005 and fluctuating periodically from a minimum of \$90,000 to a maximum of \$2,265,000, plus interest from 3% to 5% through the year 2026, collateralized by a pledge of all revenues of the University with the exception of general account appropriated funds of the State of Idaho and restricted gift and grant revenues. Revenues pledged to the Recreation Center Bonds and to the Activity Center Bonds are pledged to the 2005A bonds on a subordinate basis until the retirement of the Recreation Center Bonds and Activity Center Bonds. | 30,635,000 | 30,725,000 |
| Other indebtedness, consisting of notes payable with interest rates ranging from 4.8% to 5% due through the year 2019 | 1,082,619 | 1,313,642 |
| Total | 127,062,689 | 132,078,642 |
| Premium on Bonds | 2,892,762 | 3,048,337 |
| Deferred amount on Refunding – 2005A | (3,020,377) | (3,234,534) |
| TOTAL | \$126,935,074 | \$131,892,445 |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

There are a number of limitations and restrictions contained in the various bond indentures. Management believes the University is in compliance with all bond covenants as of June 30, 2006 and 2005.

Principal and interest maturities on notes and bonds payable, excluding amortization of bond premium and principal and interest on bonds subject to an insubstance debt defeasance are as follows for the years ending June 30:

| | Interest | Principal |
|-------------|----------------------|----------------------|
| 2007 | \$ 6,417,119 | \$ 5,098,904 |
| 2008 | 6,167,124 | 6,113,066 |
| 2009 | 5,904,091 | 5,453,257 |
| 2010 | 5,650,431 | 5,708,599 |
| 2011 | 5,361,675 | 5,508,130 |
| 2012 – 2016 | 22,428,877 | 29,074,245 |
| 2017 – 2021 | 15,185,324 | 24,785,132 |
| 2022 – 2026 | 9,094,492 | 22,487,258 |
| 2027 – 2031 | 5,509,576 | 5,709,062 |
| 2032 – 2036 | 3,827,250 | 7,389,063 |
| 2037 – 2041 | 1,608,390 | 9,608,358 |
| | <u>\$ 87,154,349</u> | <u>\$126,935,074</u> |

Pledged Revenues – As stated in the bond descriptions above, the University has pledged certain revenues as collateral for debt instruments. The pledged revenue amounts for the year ended June 30, 2006 are as follows:

| | Matriculation Fee and General Revenue System Series 1996 TIP, 1997B, 1999A, 1999B, 1999C, 2001, 2003 & 2005A | Activity Center Fee System Series 1996, 1997 Commons, Commons Supplemental, & Series 1999D | Student Recreation Center System Student Recreation Center Series 1999 | Total |
|---|---|---|---|----------------------|
| Pledged Revenues | | | | |
| Student matriculation fee | \$ 27,302,986 | \$ - | \$ 41,016 | \$ 27,344,002 |
| Residence hall system | 7,364,683 | - | - | 7,364,683 |
| Apartment housing system | 1,840,878 | - | - | 1,840,878 |
| Food service (meal plan) | 3,532,624 | - | - | 3,532,624 |
| Food service (institutional food service system) | - | 506,843 | - | 506,843 |
| Bookstore | - | 7,884,169 | - | 7,884,169 |
| Parking system | 1,248,898 | - | - | 1,248,898 |
| Telecommunication system ecomunicaitons system | 3,423,940 | - | - | 3,423,940 |
| Other student fees and tuition | 1,633,105 | 2,128,486 | 1,742,621 | 5,504,212 |
| Investment income | 93,053 | 643 | 911 | 94,607 |
| Total pledged revenues | <u>\$ 46,440,167</u> | <u>\$ 10,520,141</u> | <u>\$ 1,784,548</u> | <u>\$ 58,744,856</u> |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

11. CAPITAL LEASES

The University has entered into various capital lease agreements covering certain computer, maintenance and telecommunication assets. At June 30, 2006 and 2005, assets under capital leases totaled \$333,588 and \$1,083,056, respectively, and are included in property, plant and equipment. Future minimum lease obligations under these agreements for the year ending June 30, 2006 are as follows:

| | |
|--------------------------------------|------------------|
| 2007 | \$ 43,003 |
| 2008 | <u>35,225</u> |
| Total minimum obligations | \$ 78,228 |
| Less amount representing interest | <u>(3,266)</u> |
| Present value of minimum obligations | <u>\$ 74,962</u> |

12. 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. PERSI 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. It is a defined benefit plan requiring that both the member and the employer contribute. Designed as a mandatory system for eligible state employees, the legislation provided for 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 year of credited service, the annual service retirement allowance is 2% of the average monthly salary for the highest consecutive 42 months.

For the years ended June 30, 2006 and 2005, the required contribution rate as determined by PERSI was 9.77% of covered payroll for the University and employees, respectively. The University’s contributions required and paid were \$5,316,110 and \$5,244,318, for the years ended June 30, 2006 and 2005, respectively.

Optional Retirement Plan—Effective July 1, 1990, the Idaho State Legislature authorized the Board of Regents 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.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

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 year ended June 30, 2006 and 2005 was \$9,116,733 and \$8,886,361, respectively, that consisted of \$4,791,086 from the University and \$4,325,647 from employees for 2006 and \$4,670,037 from the University and \$4,216,324 from employees for 2005.

Although enrollees in the ORP no longer belong to PERSI, the University 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, the supplemental funding payments made to PERSI were \$1,880,248 and \$1,831,227. This amount is not included in the regular University PERSI contribution discussed previously.

Early Retirement Program—During fiscal year 2002, the University offered the Voluntary Separation and Retirement Opportunities Program (“VSROP”). The purpose of VSROP was to afford eligible faculty and staff members who desire to leave or retire from the University an opportunity to do so with additional economic incentives. This was a one-time opportunity, and this program is not expected to become an on-going feature of University benefits. The University accepted enrollment in VSROP from February 1, 2002 to April 2, 2002 only. Included in accrued salaries and benefits payable at June 30, 2006 and 2005 is \$0 and \$146,923 (undiscounted) respectively, associated with this program.

Postretirement Benefits Other Than Pensions—In addition to the pension benefits described above, the University provides post-retirement medical, dental and life insurance coverage for life to employees who meet certain age and service requirements. In general, the employee must have completed at least 30 years of credited service or the sum of his/her age and years of credited service must total at least 80 to qualify for this benefit. This benefit was not offered to employees hired on or after January 1, 2002. Employees who do not qualify for this benefit but who do qualify for retirement under PERSI or ORP are eligible to use 50% of the cash value of their unused sick leave to continue their medical insurance coverage through the University.

The University partially funds these obligations by depositing a percentage of employee gross payrolls into a reserve. This percentage was 1.5% at June 30, 2006 and June 30, 2005. The University had expenses totaling \$2,942,073 in fiscal 2006 to purchase insurance for 714 retired employees and expenses totaling \$2,975,588 in fiscal 2005 to purchase insurance for 707 retired employees receiving these benefits. As of June 30, 2006, approximately \$6,333,063 is available to fund these obligations, in Fiscal 2005 the amount available was \$4,288,113.

The University has begun the necessary preparation to record the Other Post Employment Benefits (OPEB) liability required by GASB 45. The University has hired actuaries to quantify the unrecorded obligations and to review the provisions of its benefit plan. The initial Annual Required Contribution (ARC) liability estimate for FY 2007 will be approximately \$7.4 million using the Entry Age Normal method and \$7.7 million using the Unit Credit method. The Actuarial Accrued Liability (AAL) which is the liability or obligation for benefits earned based on certain actuarial methods and assumptions is estimated to be \$84.9 million under the Unit Credit method and \$95.8 under the Earned Age Normal method. The plan’s Present Value of Benefits (PVB) which is the value of the benefits promised to current and future retirees, is \$100.3 million. Fifty seven percent of this liability is for current active employees. Benefits for this purpose are defined as paid claims and expenses from the plan and net of retiree contributions.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

For fiscal years prior to 2003, the University reported expenses in functional categories. In order to be consistent with the State of Idaho's reporting method, operating expenses are displayed in their natural classifications for fiscal year 2006 and 2005. The following table shows natural classifications with functional classifications:

| Expenses 2006 | Salaries | Benefits | Services | Supplies | Ins, Utilities, Rent | Sch. & Fellow | Depreciation | Other | Totals |
|------------------------------|-----------------------|----------------------|----------------------|----------------------|-------------------------|----------------------|----------------------|---------------------|-----------------------|
| Instruction | \$ 48,579,801 | \$ 17,832,837 | \$ 9,713,628 | \$ 4,465,968 | \$ 575,590 | \$ 4,392,440 | \$ - | \$ 1,258,342 | \$ 86,818,606 |
| Research | 37,659,881 | 10,554,813 | 13,070,995 | 4,712,723 | 800,831 | 1,102,715 | - | 309,949 | 68,211,907 |
| Public Service | 12,872,200 | 4,273,889 | 3,509,184 | 1,030,582 | 253,367 | 539,667 | - | 661,569 | 23,140,458 |
| Academic Support | 5,777,486 | 2,060,110 | 1,099,847 | 1,052,846 | 148,885 | 87,951 | - | 237,718 | 10,464,843 |
| Libraries | 2,279,371 | 855,187 | 679,543 | 411,453 | (20) | - | - | 24,404 | 4,249,938 |
| Student Services | 4,382,744 | 1,640,443 | 1,153,575 | 406,708 | 60,017 | 12,982 | - | 120,159 | 7,776,628 |
| Institutional Support | 10,422,358 | 3,803,410 | 6,755,953 | 368,899 | 304,206 | 59,684 | - | 411,626 | 22,126,136 |
| Plant Operations | 5,570,629 | 2,560,974 | 1,873,636 | 1,153,224 | 9,112,132 | 2,821 | 18,812,934 | 673,322 | 39,759,671 |
| Scholarships and Fellowships | 450,552 | (91) | - | - | - | 7,259,107 | - | 69,366 | 7,778,935 |
| Auxiliaries | 9,695,665 | 3,235,164 | 4,874,182 | 10,427,299 | 1,985,148 | 876,970 | - | 754,950 | 31,849,378 |
| | <u>\$ 137,690,687</u> | <u>\$ 46,816,736</u> | <u>\$ 42,730,543</u> | <u>\$ 24,029,702</u> | <u>\$ 13,240,156</u> | <u>\$ 14,334,337</u> | <u>\$ 18,812,934</u> | <u>\$ 4,521,405</u> | <u>\$ 302,176,500</u> |

| Expenses 2005 | Salaries | Benefits | Services | Supplies | Ins, Utilities, Rent | Sch. & Fellow | Depreciation | Other | Totals |
|------------------------------|-----------------------|----------------------|----------------------|----------------------|-------------------------|----------------------|----------------------|---------------------|-----------------------|
| Instruction | \$ 43,376,295 | \$ 13,724,897 | \$ 9,619,108 | \$ 4,134,395 | \$ 848,819 | \$ 4,484,621 | \$ - | \$ 1,102,996 | \$ 77,129,131 |
| Research | 42,660,758 | 12,666,073 | 11,677,488 | 6,147,836 | 700,344 | 911,472 | - | 523,756 | 75,287,727 |
| Public Service | 12,150,700 | 3,617,928 | 2,749,058 | 958,897 | 282,897 | 254,148 | - | 406,857 | 20,419,966 |
| Academic Support | 5,358,542 | 1,706,259 | 632,537 | 595,811 | 89,129 | 5,700 | - | 52,973 | 8,440,951 |
| Libraries | 2,230,050 | 767,289 | 469,135 | (188,616) | - | - | - | 6,789 | 3,284,647 |
| Student Services | 4,831,759 | 1,709,879 | 620,591 | 360,593 | 42,411 | 49,094 | - | 136,318 | 7,750,645 |
| Institutional Support | 11,434,625 | 4,601,126 | 5,742,083 | 2,427,083 | 294,343 | 6,140 | - | 541,879 | 25,047,298 |
| Plant Operations | 6,378,068 | 2,663,681 | 8,474,416 | (5,939,508) | 6,534,785 | 2,514 | 22,344,637 | 1,678,102 | 42,136,695 |
| Scholarships and Fellowships | 907,685 | 1,175 | 6,726 | - | - | 7,968,203 | - | 200,145 | 9,083,934 |
| Auxiliaries | 9,465,899 | 1,719,133 | 3,847,152 | 10,620,914 | 713,901 | 728,618 | - | 599,818 | 27,695,434 |
| | <u>\$ 138,794,381</u> | <u>\$ 43,177,440</u> | <u>\$ 43,838,313</u> | <u>\$ 19,116,886</u> | <u>\$ 9,506,628</u> | <u>\$ 14,410,510</u> | <u>\$ 22,344,637</u> | <u>\$ 5,249,633</u> | <u>\$ 296,438,428</u> |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

14. CONTINGENCIES AND LEGAL MATTERS

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

15. COMPONENT UNIT

The University of Idaho Foundation, Inc. (Foundation) is a legally separate, 501 (C) (3) component unit of the University of Idaho (University). The Foundation was established in 1970 for the purpose of soliciting donations and to hold and manage invested donations for the benefit of the University. The Foundation is made up of over 150 volunteers who are governed by a 25 member Board of Directors elected annually by the Foundation members. The Foundation is supported by professional staff of the University in the Foundation Office, Trust & Investment Office, the Development Office, and throughout the colleges. Separate audited financial statements are prepared for the Foundation and may be obtained by contacting University of Idaho Foundation, PO Box 443143, Moscow, Idaho 83844-3143.

The majority of the resources, or income earned from those resources, that the Foundation holds and invests are restricted to the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University and because these resources provide a significant amount of support to the University, the Foundation has been determined to be a component unit of the University and is discretely presented in the University's financial statements. Significant accounting policies associated with the University, described in Note 1, apply to the Foundation, when applicable. Significant disclosures at June 30, 2006 and 2005 are as follows:

UNIVERSITY PLACE IN BOISE

In April 2006, a settlement was reached by the Foundation, University, and several other parties involved in the development of the University Place Project in Boise. The Foundation's contribution to the global settlement fund was \$2.5 million. The Foundation received \$5.8 million from the fund to extinguish the notes with the Consolidated Investment Trust (C.I.T.) which is managed by the Foundation. In addition, notes valued at \$7 million between the University and the Foundation were cancelled. The University received \$2.5 million from the settlement fund.

The Foundation is pursuing legal action against a developer of the project for breach of warranty and is seeking to recover between \$8 and \$9 million in damages. A court date has been set for January 2007.

INVESTMENTS— Investments in marketable securities are recorded at fair value as determined by quoted market prices. At June 30, 2006, the fair value of restricted and unrestricted investments was \$181,750,596 and \$2,234,762 respectively. At June 30, 2005, the fair value of restricted and unrestricted investments was \$171,347,476 and \$3,716,009 respectively.

UNIVERSITY OF IDAHO**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006 AND 2005**

The majority of investments held by the Foundation are part of the pooled endowment fund referred to as the Consolidation Investment Trust (C.I.T.) The C.I.T. was established by the Regents of the University of Idaho in 1959 to pool endowment funds received by the University and the Foundation. The C.I.T. utilizes the market value share method of accounting. The fair value of the C.I.T.'s portfolio is divided by the number of outstanding unit participation shares owned by the individual endowments to determine the value of a share when additional contributions are added.

The following table represents the fair value of investments by type at June 30, 2006:

| Investment Type | Fair Value |
|------------------------------------|-----------------------|
| U.S. Government Agency Obligations | \$ 21,257,017 |
| Corporate Debt and Preferred Stock | 26,643,080 |
| Common Stock | 115,063,868 |
| Funds | 21,021,392 |
| | <u>\$ 183,985,357</u> |

Interest Rate Risk

Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Foundation does not presently have a formal policy that addresses interest rate risk. As of June 30, 2006, the Foundation had the following investments subject to interest rate risk:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|------------------------------------|----------------------|----------------------------------|---------------------|----------------------|----------------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. Corporations | \$ 19,175,426 | \$ 1,741,704 | \$ 2,765,936 | \$ 4,443,061 | \$ 10,224,725 |
| U.S. Government Agency Obligations | 17,548,803 | | 476,376 | 2,449,947 | 14,622,480 |
| U.S. Treasuries | 3,708,214 | | 1,490,221 | 1,268,965 | 949,028 |
| Municipal Securities | 1,395,313 | | 75,750 | 914,775 | 404,788 |
| Bond Mutual Funds | <u>13,800,252</u> | | | <u>13,800,252</u> | |
| | <u>\$ 55,628,008</u> | <u>\$ 1,741,704</u> | <u>\$ 4,808,283</u> | <u>\$ 22,877,000</u> | <u>\$ 26,201,021</u> |

UNIVERSITY OF IDAHO**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006 AND 2005**

Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB 40 requires disclosure of credit quality ratings for investments in debt securities. The Foundation does not presently have a formal policy that addresses credit risk. (The credit risk ratings listed below are issued upon standards set by Standard and Poor's.) As of June 30, 2006, the Foundation had the following investment credit risk:

| Credit Rating | Fair Value |
|----------------------|----------------------|
| AAA | \$ 19,473,261 |
| AA | 12,306,849 |
| A | 5,890,942 |
| BBB | 9,394,594 |
| BB | 130,345 |
| B | 3,465,147 |
| CCC | 119,750 |
| Not Rated | 1,138,906 |
| | <u>\$ 51,919,794</u> |

Concentration of Credit Risk

Per GASB Statement No. 40, Concentration of Credit Risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation has a formal policy addressing concentration of credit risk. Investments shall be diversified with the intent to minimize the risk of large realized and unrealized losses to the invested assets. The total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holding in individual issues, corporations, or industries.

- Not more than 5% of the total equity portfolio valued at market may be invested in the common stock of any one corporation.
- Not more than 5% of the total outstanding shares of any one company may be held.
- Not more than 20% of the equity portfolio valued at market may be held in any one industry category.
- Not more than 15% of the equity portfolio valued at market may be invested in securities issued as American Depositary Receipts.
- Fixed income securities of any one issuer shall not exceed 5% of the market value of the total bond portfolio at the time of the purchase (except US Treasury or other federal agencies).
- Holdings of any individual fixed income issue must not exceed 5% of the value of the total issue (except US Treasury or other federal agency issues.)

| June 30, 2006 Issuer | Fair Value | % of Total Investments |
|--|--------------------|-----------------------------------|
| Common Fund Multi-Strategy Bond Fund | 10,335,105 | 5.62% |
| Various (no single issuer exceeds 5% of total) | 173,650,253 | 94.38% |
| Total | <u>183,985,358</u> | <u>100.00%</u> |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

Distributions To University Of Idaho And Affiliates

During fiscal years 2006 and 2005, earnings from endowments invested in the C.I.T., direct gifts and other revenues to the Foundation were distributed as follows:

| | 2006 | | 2005 | |
|---|--|---|--|---|
| | C.I.T. Endowment Income | Gifts and Other Revenues | C.I.T. Endowment Income | Gifts and Other Revenues |
| Scholarships | \$ 3,878,150 | \$ 3,033,827 | \$3,180,512 | \$ 2,372,617 |
| Student loans | 187,514 | 250 | 168,923 | 300 |
| Building funds | - | 280,048 | - | 1,660,554 |
| Real Property | - | 6,965,000 | - | 604,660 |
| University of Idaho College and Department Operating Accounts: | | | | |
| Academic Excellence | 583,932 | 42,082 | 516,455 | 40,622 |
| Agricultural and Life Sciences | 228,647 | 265,081 | 201,783 | 265,894 |
| Art and Architecture | 12,129 | - | - | - |
| Athletics | 43,711 | 97,576 | 37,644 | 173,869 |
| Business and Economics | 281,133 | 216,853 | 235,185 | 167,353 |
| Education | 16,592 | 226,589 | 10,939 | 115,285 |
| Engineering | 79,224 | 401,406 | 62,440 | 373,522 |
| Law | 206,007 | 242,177 | 181,603 | 197,890 |
| Letters, Arts and Social Science | 359,557 | 480,738 | 327,115 | 449,462 |
| Library | 123,220 | 9,387 | 108,884 | 10,028 |
| Natural Resources | 117,906 | 646,862 | 101,424 | 264,309 |
| Science | 146,300 | 177,899 | 115,929 | 193,323 |
| Other departments | 190,664 | 847,252 | 169,462 | 300,247 |
| Life beneficiaries | 417,274 | - | 345,287 | - |
| University of Idaho affiliates | 41,200 | 8,555,521 | 38,118 | 47,274 |
| | <u>\$6,913,160</u> | <u>\$ 22,488,548</u> | <u>\$5,801,703</u> | <u>\$ 7,237,209</u> |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTES PAYABLE -- Notes payable at June 30 consisted of the following:

| | 2006 | 2005 |
|--|---------------------|---------------------|
| Unsecured note payable to the University of Idaho, a related party, dated October 14, 2003, due December 31, 2005. Variable rate interest due at maturity at Wells Fargo daily sweep rate plus 2% (2.1% as of June 30, 2005). Proceeds were used to finance University Place in Boise. | \$ - | \$ 5,041,759 |
| Variable rate demand revenue notes, Series 2000, University of Idaho College of Business Project. Dated November 22, 2000, due January 1, 2007, secured by pledges to the building campaign. Variable rate interest due monthly (4.03% as of June 30, 2006). Proceeds were used to finance J.A. Albertson Building at UI Campus. Original note amount was \$9,205,000. | 2,650,000 | 3,400,000 |
| Unsecured note payable to the University of Idaho, a related party, dated October 14, 2003, due December 3, 2005. Fixed rate interest due at maturity at 1%. Proceeds were used to finance University Place in Boise. | - | 2,030,198 |
| | <u>\$ 2,650,000</u> | <u>\$10,471,957</u> |

Activity for the year ended June 30, 2006 was as follows:

| | Balance July 1, 2005 | Additions | Reductions | Balance 6 | Due Within One Year |
|---------------|---------------------------------|------------------|-------------------|----------------------|--------------------------------|
| Notes payable | \$10,471,957 | \$ - | \$(7,821,957) | \$ 2,650,000 | \$2,650,000 |

Activity was as follows for the year ended June 30, 2005:

| | Balance July 1, 2004 | Additions | Reductions | Balance June 30, 2005 | Due Within One Year |
|---------------|---------------------------------|------------------|-------------------|----------------------------------|--------------------------------|
| Notes payable | \$16,971,957 | \$ - | \$(6,500,000) | \$10,471,957 | \$7,071,957 |

Principal and interest payment on notes payable are due as follows for the year ended June 30, 2006:

| | Interest | Principal |
|-------|------------------|---------------------|
| 2007 | <u>\$ 59,625</u> | <u>\$ 2,650,000</u> |
| Total | <u>\$ 59,625</u> | <u>\$ 2,650,000</u> |

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

16. RELATED ORGANIZATIONS

The Idaho Research Foundation, Inc. (the "Research Foundation") is a separate legal entity that provides technology transfer services to the University. On January 17, 2002, the University executed a revolving line-of-credit agreement with the Research Foundation not to exceed \$200,000. As of June 30, 2006 and 2005, the Research Foundation has drawn \$126,000 on the line-of-credit. Interest of 5% is due annually on the outstanding balance. The note had an original due date of June 30, 2005 but has been extended without the ability to take further draws. Payment of all outstanding interest and principal is due June 30, 2007. The Research Foundation is a legally separate organization which provides a valuable service to the University. It does not provide financial resources to the University and is not reported as a component unit.

The Vandal Boosters, Inc. (the "Boosters") is a fund raising organization that provides financial assistance and services to the University of Idaho intercollegiate athletic department. Contributions received by the University from this organization are recorded as gifts. Unaudited net assets of the Boosters at June 30, 2006 and 2005 were \$225,542 and \$321,439, respectively. Assets owned by the Boosters are not included in the accompanying financial statements.

The University of Idaho Alumni Association (the "Association") was established to develop and maintain a positive relationship with alumni, parents, and friends of the University. The Association is a legally separate organization which provides a valuable service to the University. It does not provide significant financial resources to the University and is not reported as a component unit.

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**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
University of Idaho
Moscow, Idaho

We have audited the financial statements of University of Idaho as of and for the year ended June 30, 2006, and have issued our report thereon dated September 21, 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 University of Idaho'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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University of Idaho's ability to initiate, record, process, and record financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Schedule of Findings and Questioned Costs as item 2006-01, which is included in our audit in accordance with OMB Circular A-133 for the year ended June 30, 2006.

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

We noted certain matters that we reported to management of the University in a separate letter dated September 21, 2006.

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 21, 2006