University of Idaho

FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 AND INDEPENDENT AUDITOR'S REPORT

INCLUDING SINGLE AUDIT REPORTS FOR THE YEAR ENDED JUNE 30, 2008

University of Idaho

TABLE OF CONTENTS

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 (University) as of and for the years ended June 30, 2007 and 2008, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University's discretely presented component unit as described in Note 17. 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 the 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 the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University and its discretely presented component unit as of June 30, 2007 and 2008, 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.

As discussed in Note 1 to the financial statements, on July 1, 2007, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement No. 45 requires the University to recognize and match other postemployment benefit costs with related services received and disclose other additional information which is included in Notes 11 and 13 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 and the required supplementary information on page 54 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

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

Moss Adams LLP

Eugene, Oregon
December 9, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

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, 2008. 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 Governmental Accounting Standards Board (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 groups net assets into four categories which are:

Invested in Capital Assets, Net of Related Debt - the University's investment in property, plant and equipment net of depreciation and outstanding debt obligations related to those capital assets.

Restricted Nonexpendable - the corpus of nonexpendable restricted resources is available only for investment purposes. These assets are held in perpetuity.

Restricted Expendable - subject to external donor or grantor stipulations regarding their use. The University may expend these assets for purposes as determined by donors and/or external entities.

Unrestricted - may be expended for any lawful purpose of the University.

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

	2008	2007	2006
ASSETS			
Current assets	$ 37,157	$ 38,637	$ 40,422
Capital assets - net	343,070	327,313	309,387
Other noncurrent assets	196,143	178,994	161,946
Total assests	$ 576,370	$ 544,944	$ 511,755
LIABILITIES			
Current liabilities	$ 44,525	$ 50,258	$ 43,950
Noncurrent liabilities	146,009	117,548	121,870
Total Libilities	$ 190,534	$ 167,807	$ 165,820
NET ASSETS			
Invested in capital assets-net of debt	$ 185,755	$ 202,640	$ 179,267
Restricted nonexpendable	77,042	88,789	84,672
Restricted expendable	84,838	39,824	29,203
Unrestricted	38,201	45,885	52,813
Total net assets	$ 385,836	$ 377,137	$ 345,955
Total liabilties and net assets	$ 576,370	$ 544,944	$ 511,775

The University's current assets decreased by $1.5M , a 3.8% decrease, during fiscal year 2008 due primarily to a reduction in cash and investments of $1.4M. Noncurrent assets increased $32.9M due to a combination of $33.6M received and invested to complete the energy initiative funded by the 2007B bonds; a reduction in the value of endowments held by the foundation in the amount of $11.7M; reduction in long term investments of $4.7M; and an increase in capital assets of $15.8M.The net effect of these changes from fiscal year 2007 to 2008 was an increase in total assets of $31.4M, up 5.8% during the year. Total liabilities increased by $22.7M during the current fiscal year. The primary reason for this change was the additional liability assumed by the University as a result of the FY 2008 bonding. Series 2007A was issued to refund several older bonds and 2007B was issued to fund an energy savings initiative.

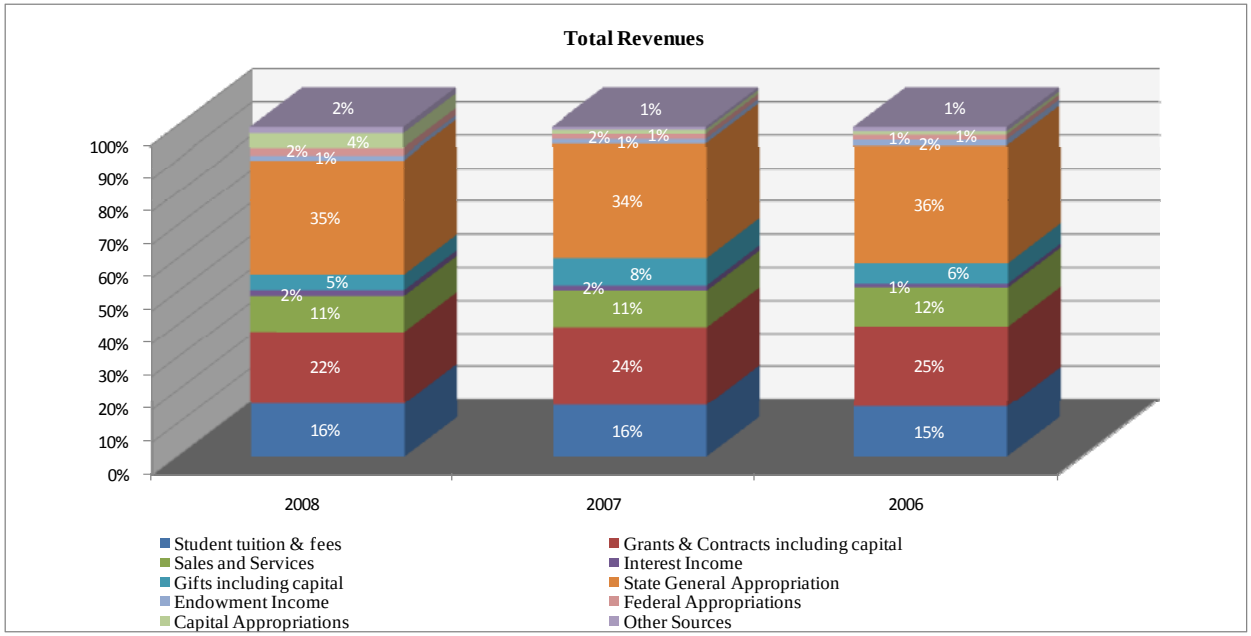
Net assets increased $8.7M overall during fiscal year 2008. Restricted nonexpendable assets decreased by 13% due to unrealized losses on assets held in trust by the Foundation. Restricted expendable assets increased primarily because bond proceeds from the 2007B series bond to conduct the capital energy improvement initiative. Unrestricted net assets decreased by $7.7M primarily due to a $4.3M increase in salaries and benefits, $2.5M increase in expenses for services and a $1.1M increase in insurance and rents.

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 non-operating. The GASB 34 reporting model classifies state appropriations, gifts, federal appropriations, and investment income as non-operating revenue which results in a net operating loss.

Operating revenues are derived from activities associated with providing goods and services for instruction, research, public service or related support to entities separate from the university and that are exchange transactions. Examples include student tuition and fees, sales and services of auxiliary enterprises, grants and contracts. Operating expenses are those expenses paid to acquire or produce the goods and services provided to carry out the functions of the University. Non-operating revenues are primarily are derived from activities that are non-exchange transactions, e.g., gifts and contributions; and from sources defined as such by GASB Statement No. 9, e.g., investment income; and from sources defined as such by GASB Statement Nos. 33 and 34, e.g., state appropriations.

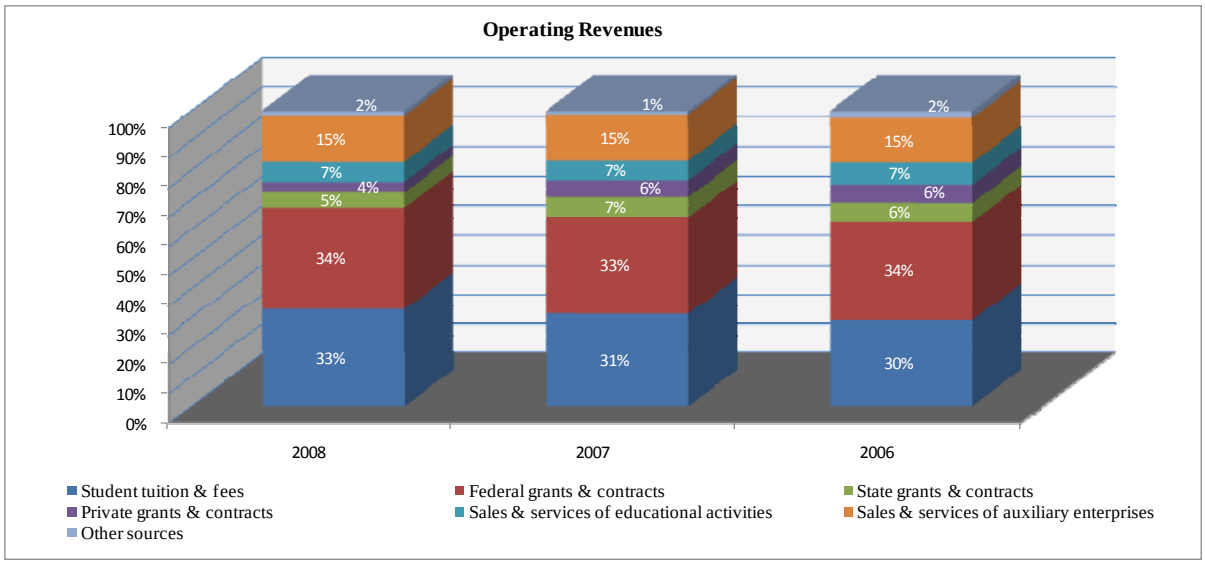
When comparing all of the University's sources of revenue, as shown in the chart below, state appropriations account for 35% of the total revenue received while grants and contracts and student tuition and fees were 22% and 16% of the total respectively.

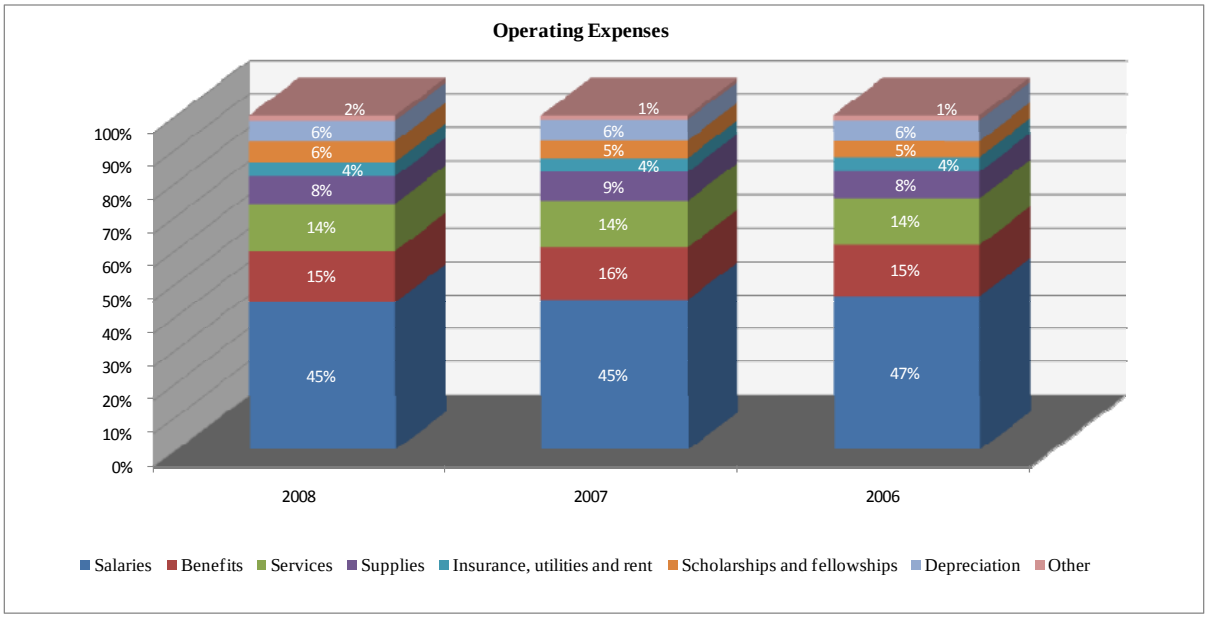


Condensed Statement of Revenues, Expenses and Changes in Net Assets
Fiscal Years Ended June 30
(Dollars inThousands)

	2008	2007	2006
Operating revenues	$ 175,697	$ 176,659	$ 176,715
Operating expenses	330,004	317,589	302,176
Operating loss	(154,307)	(140,930)	(125,461)
Net nonoperating revenues	143,979	147,994	147,997
Income before other revenues	(10,328)	7,064	22,536
Other revenues	19,027	24,118	10,734
Increase in net asets	8,699	31,182	33,270
Net assets - Beginning of year	377,137	345,955	312,685
Net assets - End of year	$ 385,836	$ 377,137	$ 345,955

The statement of revenues, expenses and changes in net assets results in an increase in net assets of $8.7M for fiscal year 2008. Operating revenues decreased $962K due primarily to the combination of an increase in student tuition and fees of $2.6M offset by a decrease in grants and contracts of $3.7M. Operating expenses increased by 3.9% or $12.4M. The primary reasons for the increase are: an increase in compensation expense of $10.6M,, a 5.6% increase over fiscal year 2007; an increase in scholarships and fellowships of $3.1M due to a $2.5M increase of parental Plus loan activity and additional focus placed on increasing scholarships to students; and an increase in other expenses of $1.2M primarily due to a litigation settlement, loan receivable from the Idaho Research Foundation which was written off, an increase of allowance for uncollectable accounts due to the carrying more Perkins loans, and several small internally funded research initiatives. Services expense increased by 5.8%, a $2.5M increase over fiscal year 2007. Nonoperating revenues and expenses had an overall $4.0M decline or 2.7% from fiscal year 2007. Primary causes of the decline from FY 2007 are a combination of a $15.4M decrease in the value of assets held in trust by the foundation which was offset by the following increased revenue: gift revenue of $3.4M; federal appropriation increase of $2.4M; increase in the fair value of investments and investment income of $1.5M; increase in state appropriations of $1.0M and a decrease in capitalized interest of $3.5M.. Other revenues and expenses decreased $5.1M in fiscal year 2008 due primarily to a decrease in capital grants and contracts of $1.5M, a decrease in capital gifts received from the foundation of $15.4M, and an increase in capital projects with the State of Idaho Department of Public Works booked in the amount of $11.8M.





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, 2008. The statement is divided into five parts. The first part shows operating cash flows and the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital 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, shows 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 interest received. The fifth section reflects the net change in cash position.

Condensed Statement of Cash Flows
Fiscal Years Ended June 30
(Dollars in Thousands)

Cash provided (used) by:	2008	2007	2006
Operating Activities	$ (140,160)	$ (114,981)	$ (107,636)
Noncapital financing activities	153,304	146,614	145,644
Capital and related financing activities	6,875	(24,870)	(22,405)
Investing activities	(21,686)	(8,630)	(15,872)
Net change in cash	(1,667)	(1,867)	(269)
Cash beginning of the year	10,039	11,906	12,175
Cash end of the year	8,372	10,039	11,906

Operating activities used $140M in cash for the year, an increase of $25.2M over FY 2007. Noncapital financing activities provided $153.3M in cash for the year, an increase of $6.7M over FY 2007. Capital and related financing activities provided $6.8M of cash during the year, $31.7M more than FY 2007 due to bonds issued during 2008. Investing activities increased $13M over FY 2007 resulting from a combination of $38M in investment sale proceeds and investing actions of the bond proceeds.

Capital Assets and Debt Management

The University had $614.1M and $581.5M of capital assets at June 30, 2008 and 2007 respectively, with accumulated depreciation of $271.0M and $254.2M respectively. The major categories and associated value of capital assets as well as accumulated depreciation at June 30, 2008 and 2007 are illustrated in the chart below (in thousands).

	2008	2007	2006
Capital Asset @ Cost			
Buildings and improvements	$ 446,769	$ 424,862	$ 392,396
Equipment	77,302	73,521	68,167
Construction in progress	8,343	5,060	11,592
Library materials	60,788	57,704	55,116
Capitalized collections	2,128	2,084	2,109
Land	18,768	18,244	18,016
Total Capital Assets	$ 614,098	$ 581,475	$ 547,396
Accumulated Depreciation			
Building and improvements	$ 165,685	$ 154,813	$ 144,194
Equipment	57,802	53,859	50,162
Library materials	47,542	45,490	43,653
Total Accumulated Depreciation	$ 271,029	$ 254,162	$ 238,009

At June 30, 2008 and 2007 the University had debt (or similar long-term obligations) of $151.8 and $121.8M respectively. The University issued series 2007A for $63,445,000 during fiscal year 2008 to refund several outstanding bonds and issued series 2007B for $35,035,000 to fund an energy savings initiative.

Economic Outlook

In FY 2008, the University executed a balanced budget and all colleges and divisions were able to carry forward reserves for future strategic needs. As in past years, 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. The portion of the budget that is supported by state appropriations remains stable at approximately one third of the total revenue received by the institution and fee increases for FY 2009 remain at the same five percent level of increase as FY 2008.

From FY 2006 to FY 2007, the decline in enrollment as measured at fall census was 5.6%. Overall enrollment declined another .5% from FY 2007 to FY 2008 as measured in the fall 2008 census. The institution developed a strategy in FY07 which, continued through FY08, of directing additional financial and human resources to turn around this enrollment decline. Strategies included adding new scholarships, hiring a chief enrollment officer, and increasing financial resources and staff in the areas of new student services and other enrollment related areas. Those strategies were largely responsible for turning around the enrollment decline. Additional evidence that the strategies are working is that the FY 2009 enrollment as measured in the fall 2008 ten day census reflect a 1.3% increase in all categories from fall 2007. New undergraduate student enrollment increased by 11.6% and first year graduate student enrollment is up over 20% as well, both strong indicators that the enrollment efforts are having positive results. The university will continue these efforts for FY 2009 and beyond.

Due to the economic outlook for the nation and the state, the university does not anticipate increased funding through the general fund allocation process for FY 2010. In FY2008, and in order to address continuing university-wide needs and priorities, and in line with our current economy, the university began planning for the future. Throughout a series of planning meetings and working with all the executives of the university as well as college deans and major directors of the operating units, a reallocation plan was developed and implemented to fund our collective university-wide strategic priorities. Resources were reallocated to fund initiatives in the areas of enrollment to include increased scholarships and recruitment efforts, advancement efforts designed to increased gifts to support the academic mission, efforts to support research start up activities, and increased funding in areas of expected growth and need such as the Colleges of Art and Architecture, Science, and Language, Arts, and Social Sciences, as well as increases to underfunded central operations and fixed costs. The university will continue to strategically reallocate resources in future years by identifying and eliminating underperforming programs and redundant and burdensome processes, and increasing the utilization of technology for communication and operations.

The University administration plans on another balanced and productive year in FY 2009 as it continues to align University priorities and finances with the strategic plan. This process will facilitate living within our means and growing our means.

University of Idaho

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	University of Idaho 2008	University of Idaho 2007	Component Unit (note 17) 2008	Component Unit (note 17) 2007
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 7,750,808	$ 8,961,170	$ 8,058,542	$ 12,070,468
Due from state agencies	169,403	155,762	-	-
Prepaid expenses	467,887	772,238	-	-
Investments	1,141,227	1,360,565	3,677,488	3,568,021
Interest receivable	551,673	414,447	1,079,994	1,899,434
Student loans receivable	1,457,420	1,320,773	-	-
Accounts receivable & unbilled charges - net	23,808,080	23,894,658	-	-
Inventories	1,810,319	1,632,024	-	-
Pledges receivable - net	-	-	755,261	492,600
Notes receivable	-	126,000	50,500	47,800
Total Current Assets	37,156,817	38,637,637	13,621,785	18,078,323
NONCURRENT ASSETS				
Restricted cash and cash equivalents	620,915	1,077,733	7,638,537	19,378,295
Student loans receivable - net	10,620,594	10,231,499	-	-
Investments	72,424,094	77,221,313	188,899,335	191,085,337
Interest receivable	-	-	-	-
Assets held in trust by Foundation	77,042,418	88,788,847	-	-
Pledges receivable - net	-	-	2,064,060	1,314,692
Notes receivable	-	-	655,896	709,121
Deferred bond financing costs	1,785,937	1,674,025	-	-
Capital Assets	343,070,224	327,313,233	3,241,233	4,543,670
Repurchase Agreements	33,649,058	-	-	-
Other noncurrent assets	-	-	488,350	214,748
Total Noncurrent Assets	539,213,241	506,306,650	202,987,411	217,245,863
TOTAL ASSETS	$ 576,370,058	$ 544,944,287	$ 216,609,196	$ 235,324,186

See notes to financial statements

Continued

University of Idaho

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	University of Idaho 2008	University of Idaho 2007	Component Unit (note 17) 2008	Component Unit (note 17) 2007
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	$ 6,646,977	$ 5,099,543	$ 104,378	$ 110,829
Accrued salaries and benefits payable	14,338,641	22,621,017	-	-
Compensated absences payable	8,078,001	7,449,965	-	-
Trust earnings payable to trust beneficiaries	-	-	8,120,513	7,658,112
Accrued interest payable	1,656,406	1,479,483	-	-
State teacher education loan advance	130,547	119,385	-	-
Deposits	625,912	596,321	-	-
Deferred revenue	6,558,744	6,185,067	-	-
Funds held in custody for others	253,607	250,052	-	-
Obligations under capital leases	-	34,257	-	-
Notes and bonds payable	5,838,146	6,259,771	-	-
Other liabilities	397,979	163,579	-	-
Split interest agreements	-	-	1,054,936	1,117,223
Total Current Liabilities	44,524,960	50,258,440	9,279,827	8,886,164
NONCURRENT LIABILITIES				
Notes and bonds payable	146,009,263	117,548,439	-	-
Assets held in trust for the University	-	-	77,042,418	88,788,847
Split interest agreements	-	-	6,400,646	7,136,818
Total Noncurrent Liabilities	146,009,263	117,548,439	83,443,064	95,925,665
Total Liabilities	190,534,223	167,806,879	92,722,891	104,811,829
NET ASSETS				
Invested in capital assets - net of related debt	185,755,208	202,639,863	-	-
Restricted for:				
Nonexpendable	77,042,418	88,788,847	95,734,757	103,226,280
Expendable	84,837,542	39,823,699	23,270,372	25,495,882
Unrestricted	38,200,667	45,885,000	4,881,176	1,790,195
Total Net Assets	385,835,835	377,137,409	123,886,305	130,512,357
TOTAL LIABILITIES AND NET ASSETS	$ 576,370,058	$ 544,944,287	$ 216,609,196	$ 235,324,186

See notes to financial statements

University of Idaho

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

	University of Idaho 2008	University of Idaho 2007	Component Unit (note 17) 2008	Component Unit (note 17) 2007
OPERATING REVENUES				
Student tuition and fees including pledged revenues of $54,236,467 and $32,604,354 (net of scholarship allowance of $10,693,531 and $11,872,500) for FY 2008 and FY 2007 respectively	$ 58,017,484	$ 55,433,037	$ -	$ -
Federal grants and contracts	60,520,404	57,566,518	-	-
State and local grants and contracts	9,155,871	12,077,643	-	-
Private grants and contracts	6,387,333	10,077,723	-	-
Sales and services of educational activities including pledged revenues of $11,724,272 and $3,441,688 for FY 2008 and FY 2007 respectively	11,724,272	11,506,759	-	-
Sales and services of auxiliary enterprises including pledged revenues of $27,146,132 and $22,254,308 for FY 2008 and FY 2007 respectively	27,146,132	27,223,911	-	-
Interest on loans receivable	205,773	189,849	-	-
Other sources	2,539,474	2,583,091	521,418	356,567
Gifts	-	-	17,696,686	11,265,313
Total operating revenue	175,696,743	176,658,531	18,218,104	11,621,880
OPERATING EXPENSES				
Salaries	147,240,935	143,780,406	-	-
Benefits	50,342,854	49,480,845	-	-
Services	46,797,855	44,251,813	-	-
Supplies	26,704,301	27,065,768	-	-
Insurance, utilities and rent	14,105,584	12,992,018	-	-
Scholarships and fellowships	19,559,942	16,420,676	-	-
Depreciation	20,124,222	19,713,258	5,893	5,893
Other	5,128,530	3,883,978	404,965	48,051
Administrative expense	-	-	1,954,630	1,952,984
Total operating expenses	330,004,223	317,588,762	2,365,488	2,006,928
OPERATING (LOSS) INCOME	$ (154,307,480)	$ (140,930,231)	$ 15,852,616	$ 9,614,952

See notes to financial statements

Continued

University of Idaho

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

	University of Idaho 2008	University of Idaho 2007	Component Unit (note 17) 2008	Component Unit (note 17) 2007
NONOPERATING REVENUES (EXPENSES)				
State appropriations	$ 124,175,577	$ 123,192,100	$ -	$ -
Endowment income	4,853,000	4,859,600	-	-
Federal appropriations	7,784,424	5,416,579	-	-
Gifts (including gifts from Foundation)	15,700,835	12,260,710	-	-
Private grants and contracts	277,550	192,889	-	-
Net investment income including pledged revenues of $4,656,208 and $85,929 for FY 2008 and FY 2007 respectively	5,963,327	5,400,129	10,557,549	10,106,367
Net increase (decrease) in fair value of investments	1,022,670	99,034	(27,574,607)	19,032,737
Change in value of assets held in trust for University	(11,746,429)	4,117,201	11,746,429	(4,117,201)
Provision for doubtful accounts	-	-		
Distribution of endowment income to trust beneficiaries	-	-	(8,120,513)	(7,658,112)
Distribution to University and affiliates	-	-	(8,808,759)	(20,799,019)
Distribution of trust income to life income beneficiaries	-	-	(584,722)	(690,486)
Lease and rental income	-	-	93,000	92,377
Property management	-	-	(411,712)	(94,874)
Change to split interest trusts	-	-	624,667	(286,846)
Interest expense (net of capitalized interest of $98,582 and $384,448 for FY 2008 and FY 2007 respectively)	(4,564,660)	(8,016,613)	-	(40,130)
Other sources	512,724	472,108	-	(17,401)
Net nonoperating revenues (expenses)	143,979,018	147,993,737	(22,478,668)	(4,472,588)
INCOME (LOSS) BEFORE OTHER REVENUES	(10,328,462)	7,063,506	(6,626,052)	5,142,364
OTHER REVENUES				
Capital grants and contracts	2,153,087	3,673,773	-	-
Projects with Idaho Department of Public Works	15,821,740	4,032,672	-	-
Capital gifts from Foundation	1,052,061	16,412,490	-	-
Total other revenues	19,026,888	24,118,935	-	-
INCREASE (DECREASE) IN NET ASSETS	8,698,426	31,182,441	(6,626,052)	5,142,364
NET ASSETS - Beginning of year	377,137,409	345,954,968	130,512,357	125,369,993
NET ASSETS - End of year	$ 385,835,835	$ 377,137,409	$ 123,886,305	$ 130,512,357

See notes to financial statements

University of Idaho

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	University of Idaho 2008	University of Idaho 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received:		
Tuition and fees	$ 58,507,332	$ 58,430,071
Grants and contracts	76,063,607	79,721,884
Sales of services - net	38,870,404	38,730,670
Payments to or for employees	(205,238,128)	(190,487,348)
Payments to suppliers	(91,038,634)	(87,479,710)
Scholarships disbursed	(19,559,942)	(16,420,676)
Funds held for others	3,555	(391,709)
Student loans collected	1,882,843	3,037,814
Student loans disbursed	(2,285,185)	(3,190,963)
Other receipts	2,634,169	3,068,988
Net cash used by operating activities	(140,159,979)	(114,980,979)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Appropriated general education revenues:		
State general account	124,175,577	123,192,100
Land grant endowment income	4,853,000	4,859,600
Federal Appropriations	7,784,424	5,416,579
Gifts from Foundation	15,978,386	12,453,599
Other receipts (payments)	512,724	692,569
Net cash provided by noncapital financing activities	153,304,111	146,614,447
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State appropriations, capital	15,821,740	4,032,672
Capital grants and gifts	2,153,087	3,673,773
Capital assets	(34,829,153)	(21,227,433)
Proceeds from capital debt	37,165,000	-
Principal paid on capital debt	(9,048,147)	(3,281,496)
Interest paid on capital debt	(4,387,737)	(8,068,136)
Net cash provided (used) by capital & related financing activities	6,874,790	(24,870,620)

See notes to financial statements.

Continued

University of Idaho

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	University of Idaho 2008	University of Idaho 2007
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	38,085,631	18,784,860
Investment income	5,963,327	5,400,129
Repurchase agreement	(33,649,058)	-
Purchase of investments	(32,085,999)	(32,815,143)
Net cash provided (used) by investing activities	(21,686,099)	(8,630,154)
NET DECREASE IN CASH	(1,667,178)	(1,867,307)
Cash - Beginning of year	10,038,903	11,906,210
Cash - End of year	$ 8,371,725	$ 10,038,903
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (154,307,480)	$ (140,930,231)
Adjustments to reconcile:	-	
Depreciation expense	20,124,222	19,713,258
Noncash operating transactions		
Decrease (increase) in assets:		
Receivables, net	(74,935)	652,701
Inventories and prepaids	126,056	296,727
Other assets	-	-
Deferred financing costs	(111,911)	113,928
Increase (decrease) in liabilities:		
Accounts payable	1,547,434	217,526
Accrued payroll	(8,282,376)	2,773,902
Deferred revenues	373,677	2,671,634
Student deposits	29,591	(24,886)
Compensated absences	628,036	-
Change in funds held for others	3,555	(391,708)
Other current liabilities	(215,848)	(73,830)
Net cash provided (used) by operating activities	$ (140,159,979)	$ (114,980,979)
NONCASH TRANSACTIONS		
Capital asset write-offs	$ 1,734,096	$ 136,206
Donated assets	-	16,412,492
Change in fair value of investments	1,022,670	99,034
Change in fair value of assets held in trust	(11,746,429)	4,117,201
Proceeds from capital debt deposited to escrow	60,315,000	-
Principal paid on capital debt through defeasance	(60,315,000)	-

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.

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 not to 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 raised 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 501(c)(3) corporation comprised of 25 members who serve as a self-perpetuating Board of Directors.

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's financial statements.

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, 2008 and June 30, 2007, the Foundation distributed $8,808,759 and $20,799,019, respectively, to the University from gifts and other revenues and $8,120,513 and $7,658,112, 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 5% 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 consist 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—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 non-current 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.

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 buildings, 10 years for library materials and an average of 7 years for equipment. Depreciation is not computed on capitalized collections which include works of art, historical treasures, and various special collections comprised of anthropological, geological, insect, jazz, and wildlife subjects.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets and requirements for application of related insurance recoveries. The University had no impaired assets during fiscal year 2008 or fiscal year 2007.

Compensated Absences—Employee vacation and compensatory time pay is accrued at year-end for financial statement purposes. The accrued liability at June 30, 2008 and 2007 for compensated absences earned but not used is $8,078,001 and $7,449,964, respectively. Compensated absence costs are included in benefits expense in the statement of revenues, expenses, and changes in net assets.

Waivers—Tuition and fees revenue 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 2008 and 2007 was $636,521 and $622,825.

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.

Non-current Liabilities—Noncurrent liabilities primarily include (1) principal amounts of revenue bonds payable, and notes payable 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.

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 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 FY2008 and FY2007 are $10,693,531 and $11,872,500 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.

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-employment healthcare and other non-pension benefits ("OPEB") and include disclosures regarding its OPEB plans. OPEB costs are based on actuarially determined amounts that, if paid on an ongoing basis, generally will provide sufficient resources to pay benefits as they come due. The requirements of this Statement for the University became effective for the fiscal year ending June 30, 2008. The University has implemented this standard by creating a Retiree Medical Trust to fund future OPEB liabilities.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, an amendment of GASB Statements No. 25 and No. 27. This Statement aligns more closely the financial reporting requirements for pensions with those for other post-retirement benefits ("OPEB") providing enhanced information disclosure in note to financial statements and required supplementary information. The University implemented this standard for the fiscal year ending June 30, 2008.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This Statement requires that all identifiable intangible assets, not specifically excluded by the Statement, be recorded as capital assets. These intangible assets will be included in the net assets of the University. The implementation of this Statement is effective for fiscal years beginning after June 15, 2009. This State of Idaho is requiring all agencies to adopt this Statement early beginning fiscal year 2009. The University has not completed the process of evaluating the impact that results from implementation of this Statement 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, 2008, $699,896 of the University's bank balance of $8,372,144 was exposed to custodial credit risk because it was uninsured and uncollateralized. At June 30, 2007, $1,158,388 of the University's bank balance of $10,038,903 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.

The following table represents the fair value of investments by type at June 30, 2008:

	Fair Value
Corporate debt securities and preferred stock	$19,547,550
U.S. government or government guaranteed securities	53,644,753
Mutual Funds	373,018
	$73,565,321

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, 2008, the University had the following investments subject to interest rate risk:

Debt Security Investments at June 30, 2008

Investment Maturities in Years

Investment Type:	Fair Value	<1	1-5	6-10	>10	Total
US Corporations	$ 1,807,700	$ -	$ 260,326	$ 91,728	$ 1,455,646	$ 1,807,700
US Government Agencies	$ 53,644,754	$ 1,141,227	$ 131,116	$ 6,298,456	$ 46,073,955	$ 53,644,754
Total	$ 55,452,454	$ 1,141,227	$ 391,442	$ 6,390,184	$ 47,529,601	$ 55,452,454

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, 2008, the University had the following investment credit risk:

	U.S. Corporations	U.S. Government Agencies	Total
AAA	$ 19,568,514	$ 59,901,834	$ 79,470,348
AA	352,054	-	352,054
Unrated	-	27,391,977.00	27,391,977

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 Governmental Accounting Standards Board 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.

Issuer:	Fair Value	% of Total Investments
Pimco Corp (AAA)	$ 6,850,000	6.39%
Cohen & Steers (AAA)	4,100,000	3.82%
Nicholas Applegate (AAA)	3,844,930	3.59%
Fed Home Loan Mrtg Corp (Unrated)	12,350,955	11.52%
Fed National Mortg Assoc (AAA)	17,184,483	16.03%
Various (no single issuer) exceeds 5% of total	62,884,011	58.65%

Custodial Credit Risk

Custodial credit risk on investments is the risk that in the event of a failure of the counterparty, the University will not be able to recover the value of its investments that are in the possession of an outside party. The University does not have an investment policy for custodial credit risk. At June 30, 2008 all investments were held by the University or its counterparty in the University's name.

4. ACCOUNTS RECEIVABLE AND UNBILLED CHARGES

Receivables and unbilled charges consisted of the following at June 30, 2008 and June 30, 2007, respectively:

	June 30, 2008	June 30, 2007
	Current	Current
Student tuition and fees	$ 2,592,613	$ 2,511,572
Auxiliary enterprises	2,902,826	1,312,338
Other activities	1,501,314	744,858
Federal appropriations	-	207,657
Federal financial aid funds	75,257	14,698
Grants and contracts	9,644,035	12,275,691
Due from Foundation	7,587,835	7,323,644
Notes receivable	-	-
	$ 24,303,880	$ 24,390,458
Less allowance for doubtful accounts	(495,800)	(495,800)
Net accounts receivable and unbilled charges	$ 23,808,080	$ 23,894,658

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, 2008 and June 30, 2007. Under this Program, the federal government provides approximately 67% of the funding for the Program with the University providing the balance. The Program provides for the cancellation of a loan at rates of 12.5% 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 was to cancel the Program, the amount the University would be liable for is approximately $10,003,421 at June 20, 2008 $10,038,859 at June 30, 2007.

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 $1,259,557 for June 30, 2008 and $1,094,485 at June 30, 2007.

6. CAPITAL ASSETS

Property, plant and equipment at June 30, 2008 and 2007 consisted of the following:

	Year ended June 30, 2008				
	Balance July 1, 2007	Additions	Transfers	Retirements	Balance June 30, 2008
Property, plant and equipment not being depreciated:					
Land	$ 18,243,669	$ 524,283	$ -	$ -	$ 18,767,952
Capitalized collections	2,084,574	61,132	-	(17,250)	2,128,456
Equipment construction in progress	114,203	332,155	(393,838)	(8,927)	43,593
Construction in progress	5,060,000	7,386,660	(2,784,551)	(1,319,405)	8,342,704
Total property, plant and equipment not being depreciated	$ 25,502,446	$ 8,304,230	$ (3,178,389)	$(1,345,582)	$ 29,282,705
Other property, plant and equipment:					
Buildings	$ 385,501,044	$ 18,793,775	$ 2,343,718	$ (648,738)	$ 405,989,799
Other improvements	39,360,663	977,877	440,833		40,779,373
Furniture and equipment	73,407,164	5,921,832	393,838	(2,464,194)	77,258,640
Library materials	57,703,842	3,693,360	-	(608,752)	60,788,450
Total other property, plant and equipment	555,972,713	29,386,844	3,178,389	(3,721,684)	584,816,262
Less accumulated depreciation:					
Buildings	(132,453,264)	(9,466,859)	-	275,872	(141,644,251)
Other improvements	(22,359,460)	(1,681,450)	-		(24,040,910)
Furniture and equipment	(53,859,310)	(6,314,998)	-	2,372,782	(57,801,526)
Library materials	(45,489,892)	(2,660,916)	-	608,752	(47,542,056)
Total accumulated depreciation	(254,161,926)	(20,124,223)	-	3,257,406	(271,028,743)
Other property, plant and equipment—net	$ 301,810,787	$ 9,262,621	$ 3,178,389	$ (464,278)	$ 313,787,519
Property, plant and equipment summary:					
Property, plant and equipment not being depreciated	$ 25,502,446	$ 8,304,230	$ (3,178,389)	$(1,345,582)	$ 29,282,705
Other property, plant and equipment—at cost	555,972,713	29,386,844	3,178,389	(3,721,684)	584,816,262
Total cost of property, plant and equipment	581,475,159	37,691,074	-	(5,067,266)	614,098,967
Less accumulated depreciation	(254,161,926)	(20,124,223)	-	3,257,406	(271,028,743)
Property, plant and equipment—net	$ 327,313,233	$ 17,566,851	$ -	$(1,809,860)	$ 343,070,224

In addition to accounts payable for construction in progress, the estimated cost to complete property authorized or under construction at June 30, 2008 is approximately $41,477,720. These costs will be financed by state appropriations, institutional funds, gifts, grants and contracts, the Department of Public Works, and/or long-term borrowing.

	Balance July 1, 2006	Year ended June 30, 2007 Additions	Transfers	Retirements	Balance June 30, 2007
Property, plant and equipment not being depreciated:					
Land	$ 18,015,669.00	$ 228,000.00	$ -	$ -	$ 18,243,669.00
Capitalized collections	2,108,681	67,243	-	(91,350)	2,084,574
Equipment construction in progress	212,252	739,200	(823,451)	(13,798)	114,203
Construction in progress	11,591,731	4,128,559	(8,551,655)	(2,108,635)	5,060,000
Total property, plant and equipment not being depreciated	$ 31,928,333	$ 5,163,002	$ (9,375,106)	$ (2,213,783)	$ 25,502,446
Other property, plant and equipment:					
Buildings	$ 353,802,327	$ 23,559,502	$ 8,281,514	$ (142,299)	$ 385,501,044
Other improvements	38,593,905	496,617	270,141		39,360,663
Furniture and equipment	67,955,499	8,112,385	823,451	(3,484,171)	73,407,164
Library materials	55,115,912	3,246,247	-	(658,317)	57,703,842
Total other property, plant and equipment	$ 515,467,643	$ 35,414,751	$ 9,375,106	$ (4,284,787)	$ 555,972,713
Less accumulated depreciation:					
Buildings	(123,460,474)	(9,051,041)	-	58,251	(132,453,264)
Other improvements	(20,733,905)	(1,625,555)	-		(22,359,460)
Furniture and equipment	(50,161,586)	(6,541,898)	-	2,844,174	(53,859,310)
Library materials	(43,653,445)	(2,494,764)	-	658,317	(45,489,892)
			-		
Total accumulated depreciation	(238,009,410)	(19,713,258)	-	3,560,742	(254,161,926)
Other property, plant and equipment—net	$ 277,458,233	$ 15,701,493	$ 9,375,106	$ (724,045)	$ 301,810,787
Property, plant and equipment summary:					
Property, plant and equipment not being depreciated	$ 31,928,333	$ 5,163,002	$ (9,375,106)	$ (2,213,783)	$ 25,502,446
Other property, plant and equipment—at cost	515,467,643	35,414,751	9,375,106	(4,284,787)	555,972,713
Total cost of property, plant and equipment	547,395,976	40,577,753	-	(6,498,570)	581,475,159
Less accumulated depreciation	(238,009,410)	(19,713,258)	-	3,560,742	(254,161,926)
Property, plant and equipment—net	$ 309,386,566	$ 20,864,495	$ -	$ (2,937,828)	$ 327,313,233

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2008 and 2007:

	2008	2007
Operating activities	$ 6,450,161	$ 4,904,724
Taxes payable	26,453	23,179
Foundation payable	170,363	171,640
Total accounts payable and accrued liabilities	$ 6,646,977	$ 5,099,543

8. OPERATING LEASES

The University has entered into various non-cancellable operating lease agreements covering certain equipment assets. The lease terms range from one to five years. The expense for operating leases was $3,128,462 for the year ended June 30, 2008 and $565,119 for the year ended June 30, 2007.

Future minimum lease payments on non-cancellable leases at June 30, 2008 are as follows:

FY 2009	$ 2,869,172
FY 2010	184,553
FY 2011	72,967
FY 2012	1,770
FY 2013	-
Total future minimum obligations	$ 3,128,462

9. LONG-TERM LIABILITIES

Long-term liability activity for years ended June 30, 2008 and 2007 is as follows:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due within One Year
Bonds and notes payable and capital lease obligations:					
Bonds payable	$ 120,915,000	$ 97,480,000	$ 65,585,000	$ 152,810,000	$ 5,855,000
Notes payable	986,928	-	80,787	906,141	112,535
Capital lease obligations	34,257	-	34,257	-	-
Sub-Total	$ 121,936,185	$ 97,480,000	$ 65,700,044	$ 153,716,141	$ 5,967,535
Premium on Bonds	2,737,185	1,276,132	414,441	3,598,876	194,162
Deferred Refunding Costs	(830,903)	(4,700,844)	(64,139)	(5,467,608)	(323,551)
Long-term liabilities	$ 123,842,467	$ 94,055,288	$ 66,050,346	$ 151,847,409	$ 5,838,146

	Ending Balance June 30, 2006	Additions	Reductions	Ending Balance June 30, 2007	Amounts Due within One Year
Bonds and notes payable and capital lease obligations:					
Bonds payable	$ 125,980,000	$ -	$ 5,065,000	$ 120,915,000	$ 5,270,000
Notes payable	1,082,689	-	95,761	986,928	898,333
Capital lease obligations	74,962	-	40,705	34,257	34,257
Sub-Total	$ 127,137,651	$ -	$ 5,201,466	$ 121,936,185	$ 6,202,590
Premium on Bonds	2,892,762	-	155,577	2,737,185	155,577
Deferred Refunding Costs	(3,020,377)	-	(2,189,474)	(830,903)	(64,139)
Long-term liabilities	$ 127,010,036	$ -	$ 3,167,569	$ 123,842,467	$ 6,294,028

10. NOTES AND BONDS PAYABLE

Notes and bonds payable consisted of the following at June 30, 2008 and 2007:

Description	Balance Outstanding 2008	Balance Outstanding 2007
Student Fee Refunding Bonds, Series 1996 (original balance of $9,285,000), consisting of serial bonds due in annual installments increasing periodically from $585,000 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.	$3,765,000	$4,375,000
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 $775,000 to a maximum of $1,220,000, plus interest from 5.15% 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.	8,120,000	8,905,000
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 $190,000 to a maximum of $405,000, plus interest from 4.80% 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 $190,000 to a maximum of $200,000, plus interest from 4.85% to 5.35%.	-	200,000

Description	Balance Outstanding 2008	Balance Outstanding 2007
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 $600,000 to a maximum of $1,425,000, plus interest from 4.15% to 6.50% through the year 2025, collateralized by a pledge of certain student fees, and certain other pledged revenue. Portions of these bonds are considered extinguished through defeasance by the 2005A General Revenue Refunding Bonds and the 2007A General Revenue Refunding Bonds. The defeased amounts total $19,320,000 and the University's remaining annual installment is $640,000, plus interest at 4.30%.	$640,000	$17,390,000
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 $45,000 to a maximum of $105,000, plus interest from 4.30% 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. A portion of these bonds are considered extinguished through defeasance by the 2007A General Revenue Refunding Bonds. The defeased amount is $1,175,000 and the University's remaining annual installment is $50,000, plus interest at 5.75%.	50,000	1,270,000

Description	Balance Outstanding 2008	Balance Outstanding 2007
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 $155,000 to a maximum of $445,000, plus interest from 4.95% 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. A portion of these bonds are considered extinguished through defeasance by the 2007A General Revenue Refunding Bonds. The defeased amount is $4,970,000 and the University's remaining annual installment is $200,000, plus interest at 6.95%.	200,000	5,350,000
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 $270,000 to a maximum of $515,000, plus interest from 4.85% 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 $270,000 to a maximum of $295,000, plus interest from 4.85% to 5.70%.	295,000	580,000

Description	Balance Outstanding 2008	Balance Outstanding 2007
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 $390,000 to a maximum of $2,125,000, plus interest from 4.00% 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. A portion of these bonds are considered extinguished through defeasance by the 2007A General Revenue Refunding Bonds. The defeased amount is $38,035,000 and the University's remaining annual installments range from $420,000 to a maximum of $620,000, plus interest from 4.05% to 4.125%.	$1,475,000	$39,915,000
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 $1,335,000 to a maximum of $1,525,000, plus interest from 4.00% 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.	11,475,000	12,870,000
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 $575,000 to a maximum of $2,265,000, plus interest from 3.00% to 5.00% 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.	29,310,000	30,060,000

Description	Balance Outstanding 2008	Balance Outstanding 2007
General Revenue Refunding Bonds, Series 2007A, (original balance of $62,445,000), consisting of bonds due in annual installments, commencing in 2009 and fluctuating periodically from $350,000 to a maximum of $59,500,000 plus interest from 3.250% to 4.375% through the year 2041, 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 the Activity Center Bonds are pledged to the 2007A Bonds on a subordinate basis until the retirement of the Recreation Center Bonds and the Activity Center Bonds.	62,445,000	-
General Revenue Bonds, Series 2007B, (original balance of $35,035,000), consisting of bonds due in annual installments, commencing in 2015 and fluctuating periodically from $200,000 to a maximum of $34,235,000 plus interest from 4.25% to 4.50% through the year 2041, 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 the Activity Center Bonds are pledged to the 2007B Bonds on a subordinate basis until the retirement of the Recreation Center Bonds and the Activity Center Bonds.	$35,035,000	-
Other indebtedness, consisting of notes payable with interest rates ranging from 4.75% to 5.00% due through the year 2019.	906,141	1,021,185
Total	153,716,141	121,936,185
Premium on Bonds	3,598,874	2,737,183
Deferred amount on Refunding – 2005A & 2007A	(5,467,607)	(830,901)
TOTAL	**$151,847,408**	**$123,842,467**

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, 2008 and 2007.

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

	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2009	$ 5,855,000	$ 6,878,391	$ 112,535	$ 52,338
2010	6,115,000	6,611,074	119,533	45,340
2011	5,910,000	6,313,962	126,968	37,906
2012	5,525,000	5,720,142	134,866	30,007
2013	3,935,000	5,433,306	143,256	21,616
2014-2018	29,170,000	23,003,226	266,740	19,188
2019-2023	27,320,000	15,710,544	2,243	-
2024-2028	20,440,000	10,915,659	-	-
2029-2033	15,930,000	7,866,683	-	-
2034-2038	19,225,000	4,676,270	-	-
2039-2043	13,385,000	1,005,596	-	-
	$ 152,810,000	$ 94,134,853	$ 906,141	$ 206,395

Pledged Revenues – As stated in the bond descriptions above, the University has pledged certain revenues as collateral for debt instruments comprised of all outstanding University bond issuances. The pledged revenue amounts for the year ended June 30, 2008 are as follows:

Source of Pledged Revenues	
Student Fees	$ 54,236,467
Sales and Services Revenues	38,870,404
Other Operating Revenues	4,994,424
Investment Income	4,656,208
F&A Recovery Revenues	8,878,622
Total Pledged Revenues	$ 111,636,125
Revenues Available for Debt Service	$ 111,636,125
Debt Service on Bonds	11,564,848
Debt Service Coverage	9.7

Debt Defeased Through Advance Refunding – The University has defeased certain debt obligations through advanced refunding. These advance refundings are comprised of the University's Series 2005A and Series 2007A bond issuances. The specific debt, principal payments, refunded amounts and remaining balances for the refunded bonds are as follows:

Refunded Issue	Original Issue Amount	Principal Payments	Refunded Amount	Balance 6/30/2008
Student Fee Revenue Bonds (Recreation Center Project) Series 1999	20,115,000	155,000	19,320,000	640,000
Student Fee Revenue Bonds, Series 1999A	1,470,000	245,000	1,175,000	50,000
Student Fee Revenue Bonds, Series 1999B	6,150,000	980,000	4,970,000	200,000
Student Fee Revenue Bonds, Series 1999C	6,305,000	1,945,000	4,065,000	295,000
Student Fee Revenue Bonds, Series 2001	40,930,000	1,420,000	38,035,000	1,475,000
Totals	$ 74,970,000	$ 4,745,000	$ 67,565,000	$ 2,660,000

11. HEALTH INSURANCE PLAN AND HEALTH BENEFITS TRUST

The University of Idaho ("University") is self-insured for the health insurance benefits it provides to employees and retirees. In June, 2007, the University established an affiliated but independent trust for the purpose of funding and paying its medical, mental health, dental and vision claims and their associated administrative costs under its health insurance plan for both active and retired employees. This trust, known as the University of Idaho Health Benefits Trust ("HBT"), was established as a tax-exempt entity under Section 115(1) of the Internal Revenue Code of 1986, as amended. The HBT is administered by a board of four trustees who are members of the University's active staff and faculty. The HBT is maintained in an independent trust account established with U.S. Bank. This trust account is maintained under the sole control of the HBT board of trustees.

The HBT receives its funding for the payment of University health plan claims through a combination of employer, employee and retiree contributions. These contributions amounts are established in advance of the health plan year based upon independent actuarial valuation which takes into account health plan participant demographics, health plan design, expected health claim costs and expected investment returns on HBT reserves.

Employer and employee contributions are made to the HBT on a bi-weekly basis corresponding to the University's payroll schedule. Retiree contributions are billed and collected by the University quarterly and deposited to the HBT each calendar quarter. Additional employer funding may be provided by the University to the HBT as necessary to ensure the solvency of the HBT. Deposits into the HBT are irrevocable and may only be utilized for the payment of participating employee and retiree health plan claims, the associated administrative costs of such claims, and other necessary incidental costs attributable to the administration of the HBT.

Payments under the HBT are initiated via electronic request by University personnel on a weekly basis based upon processed claim information provided to the University by its contracted health plan claim administrators. All retiree-related costs incurred on an annual basis within the HBT apply toward the calculation of the University's Annual Required Contribution ("ARC") as determined under the requirements of Governmental Accounting Standard Board Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The funding of the University's liability under GASB 45 is recorded separately from the HBT under a second trust, the "University of Idaho Retiree Benefits Trust" as disclosed in Footnote 13 of these financial statements.

The HBT does not issue a publicly available financial report.

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 and can be viewed at http://www.persi.idaho.gov/investments/reports.cfm.

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 three years ended June 30, 2008, 2007 and 2006, the required contribution rate as determined by PERSI was 10.39% and 6.23% of covered payroll for the University and employees, respectively. The University's contributions required and paid were $5,563,717, $5,356,667 and $5,316,110, for the years ended June 30, 2008, 2007 and 2006, 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.

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 requirements (and amounts paid) for the three years ended June 30, 2008, 2007 and 2006 were $12,494,135, $10,147,956 and $9,116,733, respectively, that consisted of $7,127,049 from the University and $5,367,086 from employees for 2008, $5,354,885 from the University and $4,793,071 from employees for 2007, and $4,791,086 from the University and $4,325,647 from the employees for 2006.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute to PERSI 1.49% of the annual covered payroll. The University will be required to make these annual supplemental payments through July 1, 2025. During the three years ended June 30, 2008, 2007 and 2006, the supplemental funding payments made to PERSI were $1,147,997, $2,023,096 and $1,880,248 respectively. This amount is not included in the regular University PERSI contribution discussed previously.

13. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS AND RETIREE BENEFITS TRUST

A. PLAN DESCRIPTION

The University of Idaho (the "University") provides medical and dental benefits to eligible retirees, disabled employees, spouses, and survivors. The University also provides life insurance benefits to eligible retirees. Long-term disabled employees are treated as retirees and eligible for these same retiree benefits. These benefits represent a single-employer defined benefit plan administered by the University. The University has established a trust to fund the medical and dental portions of these post-employment benefits as described below in Section B.

Under certain conditions the University pays a portion of the coverage for retirees and disabled employees and the retiree or disabled employee pays the remainder. Spouses and survivors are always required to pay 100% of the cost for these benefits. In general, to qualify, the employee must have completed at least 30 years of credited service or the sum or his/her age and years of credited service must total at least 80 to qualify for this benefit. Employees who were hired on or after

January 1, 2002 are not eligible for this benefit. Employees hired after January 1, 2002 are eligible to participate in the University's health insurance plan, but the University does not cover any portion of their premiums, deductibles, or coinsurance; those costs are the sole responsibility of the employee. All University post-employment benefits may be further established or amended by the University or the State Board of Education.

Funding for these benefits is comprised of both University and retiree contributions, combined with appropriated funding by the State of Idaho. The University determines the defined premium costs that will be borne by its retiree plan participants, and the State of Idaho Legislature determines the amount of annual state appropriations that will be granted to the University for employee and retiree benefits, provided to the University as a fixed annual amount per full-time equivalent employee. The University allocates this appropriated sum to its various employee and retiree benefits, including the retiree health insurance program. The University solely bears the risk for adverse financial performance within the retiree health insurance program, subject to a cap of $150,000 per retiree per year, after which the University is reinsured. Retiree premium rates through calendar year 2008 range from $30.00 to $1003.26 per month, depending upon the retiree's status and number of dependents including spouse. Retiree health plan performance is reviewed annually and premium rates are then annually adjusted by the University as necessary.

B. TRUST DESCRIPTION

The University of Idaho established the Retiree Benefits Trust ("RBT") in 2008 to fund the future payments required to provide post-employment benefits other than pension as described in Section A. above. The RBT is an independent, irrevocable trust administered on behalf of the University by Wells Fargo Bank as trustee. The RBT was established in accordance with the Governmental Accounting Standards Board ("GASB") Statement 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", and Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". Funding and payment of the annual, ongoing retiree medical and dental benefits under the University's Health Benefits Trust ("HBT"), as described in Footnote 11 to these financial statements, do apply toward the funding of the RBT to meet the requirements of the Annual Contribution Rate ("ARC") as defined in the GASB statements.

The RBT does not issue a publicly available financial report.

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — Financial statements for the RBT are prepared using the accrual basis of accounting. University contributions are recorded and recognized in the period in which they are paid into the RBT.

Valuation of Investments – Investments will be reported at fair value in accordance with GASB

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.* Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of the net decrease in fair value of investments in the statement of changes in plan assets.

D. PLAN MEMBERSHIP, CONTRIBUTION AND FUNDING STATUS

The number and class of retirees and employees are disclosed in the following table. These retiree and disabled counts do not include spouses or surviving spouses. These counts are as follows:

	Medical	Dental	Life	Sick Pay
Active	1,405	1,526	1,526	789
Retirees	755	170	674	N/A
Disableds	13	N/A	N/A	-
Retirees (Sick Leave)	N/A	N/A	N/A	3
Total Inactive	768	170	674	3
Total Combined	2,173	1,696	2,200	792

The University's ongoing obligations and liability under GASB Statement No. 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, are actuarially determined. These actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and are subject to continual revision based upon actual results. Actuarial projections of benefits are based upon the types of benefits provided under the University's retiree health plan and the pattern of cost sharing between the University and retirees at the time of valuation. The University's actuarial calculations are based upon long-term expectations and include techniques that are designed to reduce short-term volatility in the actuarial accrued liabilities and corresponding asset values.

The Entry Age Normal cost method and the Level Dollar amortization method have been utilized to actuarially calculate the University's Present Value of Benefits ("PVB"), Actuarial Accrued Liability ("AAL"), Annual Required Contribution ("ARC") and Annual OPEB Cost ("AOC") for the retiree health plan. Due to the University's establishment of the RBT to hold the funds required to finance its GASB 45 liability, the Unfunded Accrued Liability ("UAL") is amortized with interest over a 30-year period. All expected amortization payments are discounted to the end of the year. These actuarial calculations utilize an estimated discount rate of 6.25% and an estimated salary inflation rate of 3.00%. The discount rate of 6.25% is based upon the University's historical and long-term expected investment returns on the trust that has been established to fund these future benefits. All retiree medical, prescription drugs, dental, sick pay conversion and life insurance benefits are included in the University's actuarial calculations required under GASB 45. The results of these

calculations are summarized as follows:

	Entry Age Normal Level Dollar Cost Method
Present Value of Benefits (PVB)	$89,988,000
Actuarial Accrued Liability (AAL)	83,011,000
Annual Required Contribution (ARC)[1]	7,157,000
Actual Pay-As-You-Go Contributions[2]	2,909,000
Contributions to Qualifying Trust	4,325,000
Total Actual Annual Contributions	7,234,000
Net Annual OPEB Cost (AOC) - Funding Excess	(77,000)
Total Actual Annual Contributions as % of ARC	101.1%

[1]The ARC reflects a 30-year level dollar amortization of the unfunded AAL. The amortization also reflects interest at the discount rate.

[2]Actual Pay-As-You-Go Contributions are net of retiree contributions of $1,660,000.

Funded Status, Utilizing Entry Age Normal Cost Method and Level Dollar Amortization Method of UAAL – As of June 30, 2008:

	Medical	Dental	Life	Sick Pay	Total
Present Value of Benefits (PVB)					
Retirees	$37,250,000	$158,000	$3,789,000	$40,000	$41,237,000
Actives	46,044,000	474,000	747,000	1,486,000	48,751,000
Total	$83,294,000	$632,000	$4,536,000	$1,526,000	$89,988,000
Actuarial Accrued Liability (AAL)					
Retirees	$37,250,000	$158,000	$3,789,000	$40,000	$41,237,000
Actives	40,317,000	437,000	722,000	298,000	41,774,000
Total	$77,567,000	$595,000	$4,511,000	$338,000	$83,011,000
Assets	$4,041,359	$31,000	$235,030	$17,610	$4,325,000
Unfunded AAL (UAAL)	$73,525,641	$564,000	$4,275,970	$320,390	$78,686,000
Assets as % of AAL (Funded Ratio)	5.2%	5.2%	5.2%	5.2%	5.2%
UAAL as % of Annual Covered Payroll	93.3%	0.7%	5.1%	0.9%	65.3%
Annual Required Contribution (ARC)					
Normal Cost[1]	$768,000	$5,000	$7,000	$184,000	$964,000
Amortization of Unfunded AAL[2]	$5,787,000	$44,000	$337,000	$25,000	$6,193,000
Total ARC	$6,555,000	$49,000	$344,000	$209,000	$7,157,000
Estimated Benefit Payments (pay-as-you-go)[3]	$2,528,000	$46,000	$309,000	$26,000	$2,909,000
Covered Payroll	$78,802,000	$84,147,000	$84,147,000	$36,413,000	$120,560,000

[1]Includes interest to year end.

[2]Level dollar basis for 30 years. Interest charged at the discount rate and paid at the end of the year.

[3]Net of retiree contributions.

The accompanying schedule of University contributions presents trend information about the amounts contributed to the plan by the University in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the University and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the University and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation is as follows:

	Retiree Benefits Trust ("RBT")
Valuation Date	7/1/2007
Actuarial Cost Method	Entry Age Normal
Actuarial Amortization Method	Level Dollar to decrement age
Remaining Amortization Period	30 Years, Open
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.25%
Healthcare Cost Trend Rates:	
Medical and drug initial	10%
Medical and drug ultimate	5%
Dental initial	5%
Dental ultimate	5%
Inflation Rate - All Other	N/A
Administrative Costs - Medical & Dental	Included in Claim Costs
- Life Insurance	10%

14. 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 2008 and 2007. The following table shows natural classifications with functional classifications:

Expenses 2008	Salaries	Benefits	Services	Supplies	Ins, utilities, rent	Sch. & fellow	Depreciation	Other	Totals
Instruction	$ 52,235,172	$ 16,506,365	$ 9,081,244	$ 6,254,811	$ 482,860	$ -	$ -	$ 2,304,315	$ 86,864,767
Research	35,968,460	11,025,272	12,466,821	4,339,294	635,442	-	-	(1,259,772)	63,175,517
Public Service	13,590,718	5,000,354	4,128,036	1,077,431	264,398	-	-	1,352,551	25,413,488
Academic Support	7,004,397	2,495,510	1,764,808	1,385,063	205,776	-	-	226,221	13,081,775
Libraries	2,294,115	922,219	367,209	487,569	205	-	-	14,221	4,085,538
Student Services	5,228,931	2,028,332	1,575,105	412,062	100,691	-	-	308,558	9,653,679
Institutional Support	13,725,265	5,471,696	7,823,053	(519,877)	294,501	-	-	791,514	27,586,152
Plant Operations	6,453,362	3,130,882	3,922,393	2,626,667	9,625,145	-	20,124,222	594,589	46,477,260
Scholarships & Fellowships	526,214	1	162,889	-	-	19,559,942	-	170,345	20,419,391
Auxiliary Enterprises	10,214,301	3,762,223	5,506,297	10,641,281	2,496,566	-	-	625,988	33,246,656
	$147,240,935	$ 50,342,854	$ 46,797,855	$ 26,704,301	$ 14,105,584	$ 19,559,942	$ 20,124,222	$ 5,128,530	$ 330,004,223

Expenses 2007	Salaries	Benefits	Services	Supplies	Insurance, utilities and rent	Scholarships	Depreciation	Other	Totals
Instruction	$ 52,880,294	$ 17,554,133	$ 8,344,597	$ 5,952,607	$ 382,624	$ -	$ -	$ 1,269,170	$ 86,383,426
Research	36,739,277	12,213,359	12,226,483	4,862,050	408,652	-	-	426,086	66,875,907
Public Service	13,815,257	4,563,770	3,613,079	1,295,537	223,866	-	-	540,277	24,051,787
Academic Support	6,132,065	2,320,061	1,416,003	1,167,668	222,075	-	-	230,181	11,488,053
Libraries	2,248,530	868,010	698,240	546,730	5,570	-	-	(30,164)	4,336,916
Student Services	4,804,585	1,834,727	1,488,149	458,157	59,741	-	-	127,955	8,773,314
Institutional Support	10,861,468	4,178,719	7,466,352	133,171	282,068	-	-	475,931	23,397,709
Plant Operations	5,675,206	2,616,896	2,230,653	1,702,908	10,731,476	-	19,713,258	155,848	42,826,244
Scholarships & Fellowships	638,598	56	284,922	-	-	16,420,676	-	64,065	17,408,317
Auxiliary Enterprises	9,985,126	3,331,114	6,483,335	10,946,940	675,946	-	-	624,629	32,047,089
	$143,780,406	$ 49,480,845	$ 44,251,813	$ 27,065,768	$ 12,992,018	$ 16,420,676	$ 19,713,258	$ 3,883,978	$ 317,588,762

15. CONTINGENCIES AND LEGAL MATTERS

Revenue from federal research and service grants includes amounts for the recovery of overhead and other costs allocated to these projects. The University may be required to make refunds of amounts received for overhead and other costs reimbursed as a result of audits by agencies of the federal government. University officials are of the opinion that the effect of these refunds, if any, will not have a significant effect on the financial position of the University.

The University is a defendant in litigation arising from the normal course of operations. Based on present knowledge, and except as noted below, the University's administration believes any ultimate liability in these matters will not materially affect the financial position of the University. The University is a defendant in litigation arising from changes in its retiree health care plan and retiree life insurance plan. Without opining on the merit of the University's position in the litigation, any ultimate liability in this matter potentially could materially affect the financial position of the University.

16. RISK MANAGEMENT

The University participates in the State of Idaho's Retained Risk Fund for risk and insurance programs. The Fund has a $500,000 cap for tort claims and includes property and casualty lines of coverage. The University's premiums are based on the State's actuarial calculations and are weighted for losses sustained by the University. Deductibles for the program include $2,000 for property losses, $500 for auto physical damage, $5,000 for boiler and machinery losses, and $50 for inland marine losses. There are no casualty deductibles, and all other covered losses are paid by the State.

The State Fund of Idaho, a competitive state fund, writes the University's Worker's Compensation coverage. The University's premiums and the State Fund loss experience modifications are based on the loss experience of all State agencies.

17. 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. A Board of Directors comprised of up to 25 voting members governs and conducts the business of the Foundation, meeting at least four times in each fiscal year. 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, 2008 and 2007 are as follows:

INVESTMENTS—Investments in marketable securities are recorded at fair value as determined by quoted market prices. At June 30, 2008, the fair value of restricted and unrestricted investments was $188,191,613 and $4,385,210 respectively. At June 30, 2007, the fair value of restricted and unrestricted investments was $190,630,412 and $4,022,946 respectively.

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, 2008:

Investment Type	Fair Value 2008	Fair Value 2007
U.S. Government Agency Obligations	$ 32,134,805	$ 24,840,842
Corporate bonds	34,819,750	18,442,501
Preferred Stock	5,113,679	5,475,321
Municipal Securities	1,326,434	3,371,634
U.S. Treasuries	4,297,869	2,730,984
Bond Mutual Funds	-	17,075,767
Common Stock	107,105,140	114,287,973
International equity funds	5,218,181	6,597,102
Mutual Funds	1,289,111	1,347,516
Private Equity	1,248,262	483,718
Foreign Currency	23,592	-
	$ 192,576,823	$ 194,653,358

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, 2008, the Foundation had the following investments subject to interest rate risk:

		Investment Maturities (in years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Corporations	$ 34,819,750	$ 744,407	$ 7,143,260	$ 10,792,680	$ 16,139,403
U.S. Government Agency Obligations	32,134,805	2,490	324,243	3,375,821	28,432,251
U.S. Treasuries	4,297,869	124,580	2,919,593	369,882	883,814
Municipal Securities	1,326,434	40,151	513,397	421,357	351,529
	$ 72,578,858	$ 911,628	$ 10,900,493	$ 14,959,740	$ 45,806,997

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, 2008, the Foundation had the following investment credit risk:

	US Government Agency Obligations	Corporate Debt	Municipal Securities	Total
Credit Rating				
AAA	$ 31,834,008	$ 6,149,308	$ -	$ 37,983,316
AA	278,267	4,535,314	390,921	5,204,502
A	-	8,131,755	777,139	8,908,894
BBB	-	6,719,874	-	6,719,874
BB	-	2,174,476	38,179	2,212,655
B	-	5,139,039	-	5,139,039
CCC	-	1,445,305	-	1,445,305
Not Rated	22,530	524,679	120,195	667,404
	$ 32,134,805	$ 34,819,750	$ 1,326,434	$ 68,280,989

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 Depository 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.)

As of June 30, 2008, the Foundation had not invested more than 5 percent of their investments in any one issuer.

Custodial Credit Risk

The Foundation minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to Foundation ownership and further to the extent possible, be held in the Foundation's name. At June 30, 2008 all Foundation funds were insured or registered investments, or investments held by the Foundation or their agent in the Foundation's name.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Foundation does not presently have a policy that addresses foreign currency risk. The Foundation is exposed to foreign currency risk in foreign stocks that it holds as follows:

Currency Type		Fair Value
Australian Dollar	$	2,722,576
Canadian Dollar		153,519
Swiss Franc		1,111,572
Danish Krone		15,655
Euro		3,111,420
British Pound		10,269,950
Hong Kong Dollar		3,895,170
Japanese Yen		4,384,791
Norwegian Krone		41,819
New Zealand Dollar		437,750
Swedish Krona		565,464
Singapore Dollar		1,328,858
		$28,038,544

DISTRIBUTIONS TO UNIVERSITY OF IDAHO AND AFFILIATES

During fiscal years 2008 and 2007, earnings from endowments invested in the C.I.T., direct gifts and other revenues to the Foundation were distributed as follows:

	2008		2007	
	C.I.T. Endowment Income	Gifts and Other Revenues	C.I.T. Endowment Income	Gifts and Other Revenues
Scholarships	$ 4,631,548	$ 3,327,260	$ 4,323,644	$ 2,576,779
Student loans	207,213	-	197,326	100
Building funds	-	300,724	-	909,649
Real property	-	675,000	-	15,326,424
University of Idaho College and Dept Operating Accounts				
Academic Excellence	483,130	37,777	620,960	44,149
Agricultural and Life Sciences	282,559	620,866	252,221	276,795
Art and Architecture	14,872	20,693	12,931	18,510
Athletics	48,856	434,715	48,923	309,527
Business and Economics	337,739	41,393	297,846	97,455
Education	23,635	25,061	22,626	47,854
Engineering	92,233	476,835	90,831	178,126
Law	231,813	211,619	226,269	203,025
Letters, Art and Social Science	453,886	208,134	369,791	144,838
Library	139,641	1,490	132,338	6,690
Natural Resources	220,131	302,238	130,963	134,129
Science	99,147	69,934	163,128	82,356
Other departments	416,971	2,008,065	219,429	420,885
Life beneficiaries	391,687	-	519,207	-
University of Idaho affiliates	45,452	46,955	29,679	21,728
TOTAL DISTRIBUTIONS	$ 8,120,513	$ 8,808,759	$ 7,658,112	$ 20,799,019

DONOR RESTRICTED ENDOWMENTS

The Foundation receives certain gift assets that are restricted for endowment purposes, and by definition the original gift amount will be held in perpetuity for the benefit of the University. Restriction requirement for principal preservation is addressed by Idaho statute under "management of Institutional Funds," and is applicable lacking any further guidance from the individual gift agreement. During the fiscal year ended June 30, 2008, $7,145,393 was contributed to current endowments.

The Foundation has a two-tier spending policy dependent upon the endowment agreement that exists for each endowment. 1) Endowments with language requiring the reinvestment of all realized capital gains as principal can distribute only realized interest and dividends, and all realized gains are reinvested. 2) The Foundation Board of Directors establishes a spending rate annually for endowments without the restrictive reinvestment language. The approved fiscal year 2008 spending rate was set at 4.5% of the three-year rolling average of the C.I.T.'s monthly fair market value. If

total realized dividends, interest and short-term capital gains are less than the total amount required to make the distributions based on this spending rate, realized long-term gains will be used to make up the shortfall.

During the fiscal year ended June 30, 2008 and 2007, the endowments held by the Foundation had net depreciation on donor restricted endowments of $(25,924,940) and $17,881,930. Per terms of the endowment agreements realized capital gains are either reinvested as principal or distributed per the donor agreement. Unrealized appreciation is included with the "Restricted – Non Expendable" Fund Balance.

18. RELATED ORGANIZATIONS

The Idaho Research Foundation, Inc. (the "Research Foundation") is a separate legal entity that until 2008 provided technology transfer services to the University. In 2008 an agreement was reached between the University and Research Foundation to integrate some of the services into the University. The new role of the Research Foundation is to hold equity from licensing transactions on behalf of 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, 2007, the Research Foundation had drawn $126,000 on the line-of-credit. As part of the agreement to integrate into the University the $126,000 was forgiven and the note was removed from the University's books. 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, 2008 and 2007 were $6,773.76 and $257,952 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.

19. RISKS AND UNCERTAINTIES

Per Regents of University of Idaho Policy the University invests in various types of investment securities rated Aa or better. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, changes in the values of investments securities may occur in the near term and such changes could

affect the amounts reported in the statement of financial position.

Since June 2008, there has been significant volatility in the domestic and international investment markets, primarily as a result of liquidity issues in credit markets. Consequently, the fair value of the University's investments may be exposed to higher than typical price volatility which could result in a subsequent reduction in fair value of certain investments from the amounts reported as of June 30, 2008.

20. SUBSEQUENT EVENT

On December 4, 2008 the Board of Regents of the University approved a resolution for the University to borrow $10,000,000. These funds will be used to finance the improvements necessary to the indoor athletic facility, Kibbie Dome, at Moscow, Idaho.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008 AND 2007

RETIREE BENEFITS TRUST (RBT)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
7/1/2007	$4,325,000	$83,011,000	$78,686,000	5.2%	$120,560,000	65.3%

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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 the University of Idaho (University) and its discretely presented component unit as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the University's financial statements. This report does not include the results of other the auditor's testing of internal control over financial report or compliance and other matters that are reported on separately by other auditors.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as noted in finding 2008-01 and 2008-02.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

Moss Adams LLP

Eugene, Oregon
December 9, 2008

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

Idaho State Board of Education
University of Idaho
Moscow, Idaho

COMPLIANCE

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

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

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

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

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

Moss Adams LLP

Eugene, Oregon
December 9, 2008

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiencies(s) identified that are not considered to be material weaknesses? __X__ yes _____ none reported

Noncompliance material to financial statements noted? _____ yes __X__ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiencies (s) identified that are not considered to be material weaknesses? _____ yes __X__ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes __X__ no

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
TRIO Cluster	
84.042	Student Support Services
84.044	Talent Search
84.047	Upward Bound
84.066	Educational Opportunity Centers
84.217	McNair Post-Baccalaureate Achievement
93.575	Child Care and Development Block Grant
Various	Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs: $ 2,364,758

Auditee qualified as low-risk auditee? __X__ yes _____ no

Section II - Financial Statement Findings

Finding 2008-01 Payroll: Access Controls

Criteria or specific requirement: Per AU section 319 of the American Institute of Certified Public Accountants (AICPA) Professional Standards, specific risks to an entity's internal control include unauthorized access to data that may result in destruction of data or improper changes to data, including the recording of unauthorized or nonexistent transactions or inaccurate recording of transactions.

Condition: University employees with access to the Banner timecard system can modify timecards for other employees outside of their department or area of responsibility. Additionally, timecard entry processes are decentralized and data is manually entered by designated timekeepers into the Banner timecard system after it has been approved by department leaders.

Context: Approximately 200 Banner account holders have access to the timecard system within Banner and each account holder can update and change any timecard, regardless of department affiliation.

Effect: The University's decentralized payroll entry system coupled with the lack of restricted payroll access controls leaves the University vulnerable to errors and irregularities.

Cause: The University is a decentralized entity with various departments throughout campus accessing timekeeping records, and individuals have been granted excessive access to the Banner timecard system.

Recommendation: While it was reported to us that the University has established detective controls through the use of audit logs and exception reports and that the number of accounts with such access was significantly reduced during the audit period, it is recommended that the University further augment existing manual controls with technology controls to limit account access in conjunction with the web-based timekeeping system planned for calendar year 2008.

View of the Responsible Officials and Planned Corrective Actions: University of Idaho management agrees with this finding. Under the current configuration of the University's Banner financial and payroll systems, no limitations for timesheet access can be effected for personnel responsible for timesheet entry. Personnel with timesheet entry access can currently see and/or modify any University employee's timesheet. To address this access control concern, the University is in the process of implementing the Banner Web Time Entry system that will only allow supervisors and timekeepers to access their specific employees' timesheets.

Finding 2008-02 Student Accounts: Segregation of Duties

Criteria or specific requirement: Internal control is a process designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and

regulations. Internal control includes appropriate segregation of duties such that one individual does not have the ability to perform all of the following: initiate, authorize, record and review transactions. Segregation of duties is critical to effective internal control because it reduces the risk of mistakes and inappropriate actions. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business.

Condition: Incompatible duties have been assigned in the University's Student Accounts department allowing individuals who have cash-handling responsibilities to also record accounting entries.

Context: During our review of the University's internal controls over the cashiering and billing processes in Student Accounts, we noted instances of insufficient segregation of duties. These instances include individuals having responsibilities for receiving and depositing cash as well as the ability to make adjustments to student accounts within the accounting system. We also noted that one of the two supervisors in Student Accounts also has access to the vault combination and performs vault counts.

Effect: Without proper segregation of duties, funds are at risk of misuse and could be subject to errors, theft or fraud if proper controls are not in place to prevent such risks from occurring.

Cause: Management has not put in place the proper segregation of duties to ensure that no one individual has access to initiate, authorize, record and review a transaction.

Recommendation: We recommend the University segregate some of these critical duties in the Student Accounts department to ensure that University funds are not at risk of misuse due to error, theft or fraud.

View of the Responsible Officials and Planned Corrective Actions: University of Idaho management agrees with this finding. Management is aware of the current inadequacy of separation of duties within the accounts receivable/cashiering functions. A review is currently being conducted with respect to individual access to various functions in Banner as well as actual handling of cash. The Director of Business Systems and Accounting Services and the Manager of General Accounting will work with the Manager of Accounts Receivable to review existing staffing and individual functions to identify workflow options that adequately address segregation of duties and internal controls to include vault access/cash counts, supervision and review, access to accounts adjustments, and receipt of cash. Management will address these issues and initiate changes by April 30, 2009.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

FINDING 2007-1 —Review and audit of spreadsheet

Condition: During the audit, we identified a $230,868 error in the calculation of deferred revenue. Due to this error, deferred revenue was overstated by $230,868, and student tuition and fees revenue was understated by $230,868.

Recommendation: We recommend that spreadsheet reviewers use formula auditing functions to ensure that arithmetic formula errors are identified.

Status: Procedures for creation and review of spreadsheet and formulas was put into place and performed for fiscal year ending 2008.

FINDING 2007-2 – Access to bank brokerage accounts

Condition: The University's brokerage accounts are permitted to transfer funds only to bank accounts in the name of the Board of Regents of the University of Idaho. The employee responsible for notifying the brokerage firm of these Board of Regent bank accounts is an employee who is also responsible for initiating brokerage account fund transfers.

Recommendation: We recommend the University assign an employee outside of the Trust & Investment Office to provide instructions to their brokers. Those instructions should allow no other University employees permission to direct what bank accounts in the name of the Board of Regents of the University of Idaho may receive brokerage account transfers. That individual should be independent of the investment transfer function.

Status: New standing letters of agreement were issued in May 2008 by the Vice President for Finance and Administration and wire transfer procedures were changed to require a signature of the Vice President or Associate Vice president of Strategic Budgeting and Finance.

FINDING 2007-03 —Submission of Reporting Package and Data Collection Form

Condition: The University did not have procedures in place to ensure the timely filing of the 2005-2006 data collection form. It was determined the data collection form was filed more than 120 days past receipt of the auditor's report.

Recommendation: Moss Adams recommends the University prepare a data collection form draft in conjunction with the preparation of the year-end financial statements. Creating a reminder in a tickler system once the auditor's report has been received can also ensure timely filing with the Federal Audit Clearinghouse.

Status: The Data Collection Form was input into the Federal Audit Clearinghouse within the required thirty day timeline. However, the signed hard copy forms were not sent to the Federal Audit

Clearinghouse until May, 2008 which was past the established thirty day timeline. The University has adapted our year-end process timeline to include the required dates for submission of all required forms to the Federal and State governments so that all filing deadlines will be met.

FINDING 2007-04—Allowable Costs: Internal Controls at the Center for Advanced Microelectronics and Biomolecular Research (Repeat Finding of 2006-06)

Condition: The Center for Advanced Microelectronics and Biomolecular Research **(**CAMBR) was established in 2002 as a research institute of the University located in Post Falls, Idaho. Almost all of CAMBR funding is federal. Prior year review of the internal control environment at CAMBR revealed significant deficiencies in the structure and operation of internal controls of the organization. These deficiencies permitted violation of and noncompliance with OMB Circulars, State of Idaho, and University of Idaho policies. Corrective actions have taken time to implement, and as such oversight and monitoring was considered insufficient for much of 2007.

Recommendation: We understand the CAMBR Business Manager position has been filled and reports to the personnel outside of CAMBR, and the Vice President of Research position will be eventually filled by a permanent employee. We recommend the University continue to undertake a detailed examination of all CAMBR activities, as an inadequate control environment raises concerns about the CAMBR operation, not just the specific allegations investigated in prior years.

Status: The University has filled both the Vice President of Research and Compliance Officer positions, as well as having previously filled the CAMBR Business Manager position. The University will continue to monitor and examine the CAMBR operations on an ongoing basis to ensure that there are no deficiencies or noncompliance with Federal and State laws and regulations, and State of Idaho and University of Idaho policies.

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)		
ADMINISTRATION FOR CHILDREN AND FAMILIES		
Child Care and Development Block Grant		
Federal Pass Through	93.575	1,477,514
NATIONAL INSTITUTES OF HEALTH		
Environmental Health	93.113	44,449
Mental Health Research Grants	93.242	85,364
National Center for Research Resources	93.389	2,100,256
Genetics and Developmental Biology Research	93.862	
TOTAL FEDERAL FINANCIAL ASSISTANCE TO SUBRECIPIENTS		$ 9,027,973

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