

**FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**UNIVERSITY OF IDAHO  
FOUNDATION, INC.**

## UNIVERSITY OF IDAHO FOUNDATION, INC.

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## INDEPENDENT AUDITORS' REPORT

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The Board of Directors and Members  
**University of Idaho Foundation, Inc.**  
Moscow, Idaho

We have audited the accompanying statements of net assets of University of Idaho Foundation, Inc. (the "Foundation"), a component unit of the University of Idaho, as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2007 and 2006, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007, on our consideration of University of Idaho Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

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

*Eide Bailly LLP*

Boise, Idaho  
September 27, 2007

**UNIVERSITY OF IDAHO FOUNDATION, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007 AND 2006**

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The mission of the University of Idaho Foundation, Inc. Moscow, Idaho is to secure, manage, and distribute private support to enhance the growth and development of the University of Idaho. Established in 1970, the Foundation is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. A Board of Directors comprised of up to 25 voting members and a number of non-voting directors governs and conducts the business of the Foundation, meeting at least four times in each fiscal year. The officers of the Foundation are Chairman, Vice-Chairman, Executive Director, Managing Director, Secretary and Treasurer. Committees include: the Executive Committee, Committee on Directors, Operations and Finance Committee, Investment Committee, Audit Committee and other appointed committees as the Chairman determines may be desirable for carrying out the purposes of the Foundation. The Foundation is supported by a professional staff including a Managing Director and Management Assistant in the Foundation Offices in Moscow and Boise; and by University of Idaho professional staff including the Vice President of University Advancement/Executive Director, the Trust & Investment Office, the Development Office, and by constituent development officers.

*Overview*

The Management's Discussion and Analysis is designed to provide an easily readable analysis of the University of Idaho Foundation's financial condition, results of operations, and cash flows based on facts, decisions, and conditions known at the date of the auditors' report. A comparative analysis of financial data is presented.

The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. These statements focus on the financial condition of the Foundation, the results of operations, and cash flows of the Foundation as a whole. There are three financial statements presented: the statement of net assets; the statement of revenues, expenditures and changes in net assets; and the statement of cash flows. They are prepared using the accrual basis of accounting.

*Reporting Entity*

The Foundation is a nonprofit corporation whose mission is to facilitate the solicitation and management of gifts for the benefit of the University. In this capacity, the Foundation is considered to be a component unit of the University. Accordingly, the Foundation is included in the University's financial statements as a discrete component unit. Transactions with the University relate primarily to the disbursement of gift funds.

*Statement of Net Assets*

The statement of net assets outlines the Foundation's financial condition at fiscal year end. The Foundation operates on a fiscal year which begins July 1 and ends June 30. This statement reflects the various assets, liabilities, and net assets of the Foundation as of the fiscal years ended June 30, 2007 and 2006.

From the data presented, readers of the statement of net assets have the information to determine the assets available to continue the operations of the Foundation. They are also able to determine how much the Foundation owes vendors, trust beneficiaries, and lending institutions.

Finally, the statement of net assets provides a snapshot of the net assets (assets minus liabilities) and their availability for expenditure by the Foundation.

**UNIVERSITY OF IDAHO FOUNDATION, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007 AND 2006**

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

- *Restricted Nonexpendable*—Net assets subject to donor stipulations that must be maintained permanently by the Foundation.
- *Restricted Expendable*—Net assets subject to donor stipulations that will be transferred to the University for direct use by a designated program.
- *Unrestricted*—Net assets not subject to donor stipulations which may be expended for any lawful purpose of the Foundation.

The corpus of nonexpendable restricted resources as it pertains to endowments is available only for investment purposes. The Consolidated Investment Trust (“C.I.T.”) is a pooled endowment fund and makes up the majority of the assets of the Foundation. Donors have primarily restricted income derived from these investments to fund scholarships, research, and other programs at the University of Idaho. Upon their transfer, expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors. Unrestricted net assets are available to the Foundation for any lawful purpose of the Foundation.

**Condensed Statements of Net Assets**  
**As of June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>	Change 2006 to 2007	<u>2005</u>	Change 2005 to 2006
<b>ASSETS</b>					
Current assets	\$ 22,518,635	\$ 22,990,402	\$ (471,767)	\$ 17,997,201	\$ 4,993,201
Real estate holdings	4,543,670	19,875,986	(15,332,316)	19,526,879	349,107
Noncurrent investments	186,645,025	175,604,810	11,040,215	166,904,539	8,700,271
Other assets	21,616,856	9,096,469	12,520,387	10,136,432	(1,039,963)
Total Assets	<u>235,324,186</u>	<u>227,567,667</u>	7,756,519	214,565,051	13,002,616
<b>LIABILITIES</b>					
Current liabilities	8,886,164	10,787,628	(1,901,464)	14,313,634	(3,526,006)
Noncurrent liabilities	95,925,665	91,410,046	4,515,619	88,678,229	2,731,817
Total Liabilities	<u>104,811,829</u>	<u>102,197,674</u>	2,614,155	102,991,863	(794,189)
<b>NET ASSETS</b>					
Restricted - nonexpendable	103,226,280	93,102,914	10,123,366	85,502,418	7,600,496
Restricted - expendable	25,495,882	29,933,762	(4,437,880)	30,304,509	(370,747)
Unrestricted	1,790,195	2,333,317	(543,122)	(4,233,739)	6,567,056
Total Net Assets	<u>\$ 130,512,357</u>	<u>\$ 125,369,993</u>	<u>\$ 5,142,364</u>	<u>\$ 111,573,188</u>	<u>\$ 13,796,805</u>

Current Assets were slightly lower than the previous year with an decrease of less than \$.5 million. In FY06 current assets increased nearly \$5 million largely because of the recovery on the University Place project.

**UNIVERSITY OF IDAHO FOUNDATION, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007 AND 2006**

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There was a significant 78% decrease in real estate holdings during fiscal year 07. The decrease is a reflection of the completion and transfer to the University of the J.A. Albertson building project. This was the culmination of a significant and successful project valued at \$14.8 million dollars. The new state of the art building which houses the College of Business and Economics was paid for entirely with private funds. In addition, land given for a retreat site located near Moscow was transferred to the University for development and use.

The market value of the endowments in the Consolidated Investment Trust increased by slightly over \$19 million for the year ended June 30, 2007 and just under \$9.7 million for the year ended June 30, 2006. This accounts for most of the increase in non-current investments as well as the increase in restricted cash.

During the year, restricted cash increased by approximately \$12 million in fiscal year 2007 and \$3.5 million in fiscal year 2006 mainly due to investment allocation decisions in the pooled endowment fund and cash management fund. Because this cash is restricted it is reflected in other assets on this condensed statement.

During fiscal year 2007, the total liabilities of the Foundation increased by approximately \$2.6 million. This was primarily the result of a decrease in notes payable of \$2.7 million offset by an approximate \$4.1 million increase in the total liability that represents the endowment funds held for the University of Idaho and invested by the Foundation, a \$.7 million increase in the liability which represents funds to be transferred to the University of Idaho from fiscal year 2007 endowment earnings, and a \$.5 million increase in the liability for payments due on split interest trusts. In the previous fiscal year, the total liabilities of the Foundation decreased by approximately \$.8 million. This was primarily the result of a decrease in notes payable of \$7.8 million offset by an approximate \$6.0 million increase in the total liability that represents the endowment funds held for the University of Idaho and invested by the Foundation and a \$1.1 million increase in the liability which represents funds to be transferred to the University of Idaho from fiscal year 2006 endowment earnings.

The total net assets of the Foundation increased approximately \$5.1 million during fiscal year 2007. The net increase is a combination of a \$10.1 million dollar increase in restricted nonexpendable assets, a \$4.4 million dollar decrease in the restricted expendable, a \$.6 million decrease in unrestricted net assets. The increase in restricted nonexpendable is the result of new gifts and market appreciation in the endowment funds. The decrease in restricted expendable is due to the distribution of the J.A. Albertson Building and Twin Larch Sanctuary to the University offset by the retirement of debt against the building project. The decrease in the unrestricted balance is mainly attributed to the continuing legal expenses of the University Place lawsuits.

During fiscal year 2006 the increase in total net assets was approximately \$13.8 million. The net increase was a combination of a \$7.6 million dollar increase in restricted nonexpendable assets, a \$370 thousand dollar decrease in the restricted expendable, a \$6.5 million increase in unrestricted net assets. The increase in restricted nonexpendable was the result of new gifts and market appreciation in the endowment funds. The decrease in restricted expendable was due to the removal of restrictions on a significant gift. The increase in the unrestricted balance was mainly the result of a settlement reached in the mediation of the University Place lawsuits.

*Statement of Revenues, Expenditures and Changes in Net Assets*

Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenditures and changes in net assets. The purpose of the statement is to present the revenues received by the Foundation, both operating and non-operating, and the expenses paid by the Foundation. Operating revenues are received for providing services to the various customers and constituencies of an institution. Operating expenses are expenses paid to acquire or produce the goods and services provided in return for the operating revenues. The main purpose of the Foundation is to support the University by accepting and

**UNIVERSITY OF IDAHO FOUNDATION, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007 AND 2006**

managing gifts. Gift and investment income comprise the majority of the revenue received in a given year. Likewise, the primary use of such funds is to transfer them to the University.

**Condensed Statements of Revenues, Expenditures and Changes in Net Assets**  
**As of June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>	<u>Change 2006 to 2007</u>	<u>2005</u>	<u>Change 2005 to 2006</u>
Operating revenues	\$ 40,566,515	\$ 41,522,711	\$ (956,196)	\$ 23,712,869	\$ 17,809,842
Operating expenses	<u>35,360,727</u>	<u>37,502,710</u>	<u>(2,141,983)</u>	<u>23,594,788</u>	<u>13,907,922</u>
Operating income	5,205,788	4,020,001	1,185,787	118,081	3,901,920
Non-operating revenues (expenses)	<u>(63,424)</u>	<u>(130,422)</u>	<u>66,998</u>	<u>5,534,901</u>	<u>(5,665,323)</u>
Income before other expenses	5,142,364	3,889,579	1,252,785	5,652,982	(1,763,403)
Other revenues	<u>-</u>	<u>9,907,226</u>	<u>(9,907,226)</u>	<u>1,819,644</u>	<u>8,087,582</u>
Increase in net assets	5,142,364	13,796,805	(8,654,441)	7,472,626	6,324,179
Net assets, beginning of year	<u>125,369,993</u>	<u>111,573,188</u>	<u>13,796,805</u>	<u>104,100,562</u>	<u>7,472,626</u>
Net assets, end of year	<u>\$ 130,512,357</u>	<u>\$ 125,369,993</u>	<u>\$ 5,142,364</u>	<u>\$ 111,573,188</u>	<u>\$ 13,796,805</u>

The statement of revenues, expenditures and changes in net assets reflects an increase in the net assets at the end of the year. Some items of note presented on this statement are:

Operating Revenue decreased by slightly less than \$1 million a 2% decrease. This relatively flat year was the result of large offsetting changes. There was a \$14.7 million increase in the change in fair value of investments due to an increase in realized capital gains of \$2.3 million and an increase in unrealized gains of \$12.4 million. Combined dividend and interest income increased by \$1.4 million to \$10.1 million which is the combination of having more funds invested coupled with increased investment yields. These increases were offset by a \$16.4 million decrease in gifts. This decrease is the effect of two significant gifts of real property during the previous year. In contrast during FY06 Operating Revenue increased by \$17.8 million a 75% increase. The largest increase was in gift revenue which increased approximately \$16.7 during the year ended June 30, 2006. This increase was the result of two significant gifts of real property. Both properties were designated for use by the University of Idaho and have been transferred to the University. One property had a significant conservation easement attached to the property which has been transferred to the Idaho State Department of Lands. During fiscal year 2006 combined dividend and interest income increased by \$1.4 million to \$8.6 million.

**UNIVERSITY OF IDAHO FOUNDATION, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007 AND 2006**

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Operating expenses decreased by \$2.1 million in fiscal year 2007 which follows an increase of \$13.9 million in fiscal year 2006. Distributions of gift income directly to the University and affiliates remained high at \$20.8 million because of the distribution of the J.A. Albertson building for the College of Business. However this is \$1.7 million less than the amount distributed in the prior year because of two significant gifts of real property that were distributed in 2006. In addition there was a \$1.8 million decrease in the growth in the portion of the Consolidated Investment Trust (C.I.T.) which is held in trust by the Foundation for the University of Idaho. Distributions of \$7.7 million and \$6.9 million respectively for FY07 and FY06, from the C.I.T. represent an increase of over \$.7 million and over \$1.1 million. Both years set records for the largest distribution in the history of the pooled endowment fund. Administrative expense increased by \$.6 million as the Foundation continued the move to more autonomy with the hiring of a Managing Director and the assumption of additional operating costs that were previously paid by the university. Interest expense decreased over each of the prior two years due to the reduction in debt.

Other revenue decreased by \$9.9 million in FY07 following an increase of \$8.0 million in FY06. This is the result of last years receipt from the mediated settlement regarding the University Place project and the resulting cancellation of the disputed notes payable.

*Economic Outlook*

The University of Idaho Foundation continues to fulfill the mission of fundraising and stewardship in support of the University of Idaho. The Foundation, through its professional staff and volunteer leadership, exists to ensure that the University of Idaho will continue to provide excellence in education and innovation.

For further information, please refer to the notes to the financial statements.

**UNIVERSITY OF IDAHO FOUNDATION, INC.**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 12,070,468	\$ 12,778,393
Accrued interest and other receivables	1,899,434	923,330
Pledges receivable, net	492,600	866,972
Investments	8,008,333	8,380,548
Notes receivable	47,800	41,159
Total current assets	<u>22,518,635</u>	<u>22,990,402</u>
<b>NONCURRENT ASSETS</b>		
Restricted cash and cash equivalents	19,378,295	6,622,500
Pledges receivable, net	1,314,692	1,467,692
Investments	186,645,025	175,604,810
Notes receivable	709,121	763,234
Real estate holdings	4,543,670	19,875,986
Other assets	214,748	243,043
Total noncurrent assets	<u>212,805,551</u>	<u>204,577,265</u>
	<u>\$ 235,324,186</u>	<u>\$ 227,567,667</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 110,829	\$ 164,560
Notes payable	-	2,650,000
Liability for split interest trusts	1,117,223	1,059,908
Trust earnings payable to trust beneficiaries	7,658,112	6,913,160
Total current liabilities	<u>8,886,164</u>	<u>10,787,628</u>
<b>NONCURRENT LIABILITIES</b>		
Funds held in trust for University of Idaho	88,788,847	84,671,646
Liability for split interest trusts	7,136,818	6,738,400
Total noncurrent liabilities	<u>95,925,665</u>	<u>91,410,046</u>
Total liabilities	104,811,829	102,197,674
<b>NET ASSETS</b>		
Restricted - nonexpendable	103,226,280	93,102,914
Restricted - expendable	25,495,882	29,933,762
Unrestricted	1,790,195	2,333,317
Total net assets	<u>130,512,357</u>	<u>125,369,993</u>
	<u>\$ 235,324,186</u>	<u>\$ 227,567,667</u>

**UNIVERSITY OF IDAHO FOUNDATION, INC.**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Gifts	\$ 11,265,313	\$ 27,688,021
Dividends	4,885,473	4,667,361
Interest	5,220,894	3,956,655
Change in fair value of investments	19,032,737	4,324,313
Lease and rental income	92,377	69,956
Change in split interest trusts	(286,846)	424,807
Other	356,567	391,598
Total operating revenues	<u>40,566,515</u>	<u>41,522,711</u>
<b>OPERATING EXPENSES</b>		
Distribution of endowment income to trust beneficiaries	7,658,112	6,913,160
Distribution to University of Idaho and affiliates	20,799,019	22,488,548
Distribution of trust income to life income beneficiaries	690,486	652,618
Administrative expense	1,952,984	1,304,670
Property management	94,874	123,187
Change in value of funds held in trust for the University of Idaho	4,117,201	6,004,464
Other	48,051	16,063
Total operating expenses	<u>35,360,727</u>	<u>37,502,710</u>
<b>OPERATING INCOME</b>	<b>5,205,788</b>	<b>4,020,001</b>
<b>NON-OPERATING EXPENSES</b>		
Interest expense	(40,130)	(89,726)
Amortization of note issuance costs	(17,401)	(34,803)
Depreciation expense	(5,893)	(5,893)
Total non-operating expenses	<u>(63,424)</u>	<u>(130,422)</u>
<b>INCOME BEFORE OTHER EXPENSES</b>	<b>5,142,364</b>	<b>3,889,579</b>
<b>OTHER REVENUES</b>		
Recovery on University Place, net of fees	-	9,907,226
Total other revenues	<u>-</u>	<u>9,907,226</u>
<b>INCREASE IN NET ASSETS</b>	<b>5,142,364</b>	<b>13,796,805</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b><u>125,369,993</u></b>	<b><u>111,573,188</u></b>
<b>NET ASSETS, END OF YEAR</b>	<b><u>\$ 130,512,357</u></b>	<b><u>\$ 125,369,993</u></b>

**UNIVERSITY OF IDAHO FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Donations received	\$ 10,087,373	\$ 9,753,937
Investment income	9,130,263	8,425,343
Cash received from lease and rental income	92,377	69,956
Split interest trust obligations	168,887	566,553
Real estate contracts	47,472	214,408
Net contributions (distributions) for the benefit of trust beneficiaries	(6,913,159)	(5,801,703)
Distributions for the benefit of University of Idaho	(6,163,081)	(7,656,166)
Administrative and management fees	(2,047,858)	(1,427,857)
Proceeds from sales and maturities of investments	176,071,083	89,366,491
Purchase of investments and related fees	(166,961,034)	(93,233,582)
Other payments and receipts	283,078	265,680
	<u>13,795,401</u>	<u>543,060</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Recovery on University Place - Boise project	-	2,835,269
Payments of capital financing	(2,667,401)	(784,803)
Interest paid on capital debt	(40,130)	(89,726)
Proceeds from sale of capital assets	960,000	1,005,000
	<u>(1,747,531)</u>	<u>2,965,740</u>
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>12,047,870</b>	<b>3,508,800</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>19,400,893</b>	<b>15,892,093</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 31,448,763</b>	<b>\$ 19,400,893</b>

**UNIVERSITY OF IDAHO FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 5,205,788	\$ 4,020,001
Capital contributions	(1,705,312)	(17,582,609)
Non cash distributions to the University of Idaho	15,326,424	15,485,000
Adjustments to reconcile operating income to net cash provided by operating activities		
Changes in assets and liabilities		
Interest receivable	(976,104)	(198,673)
Pledges receivable	527,372	(351,475)
Split interest trust obligations	455,733	141,746
Other receivables, net and other assets	75,767	334,452
Accounts payable and accrued liabilities	(53,733)	(229,899)
Funds held for others	744,953	1,111,457
Proceeds from sales and maturities of investments	176,071,083	89,366,491
Purchase of investments and related fees	(166,961,034)	(93,233,582)
Change in fair value of investments	(19,032,737)	(4,324,313)
Change in value of funds held in trust for the University of Idaho	<u>4,117,201</u>	<u>6,004,464</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 13,795,401</u>	<u>\$ 543,060</u>
NONCASH ACTIVITIES		
Noncash gifts	\$ 1,705,312	\$ 17,582,609
Write off of University Place agency notes	\$ -	\$ 7,071,957
Transfer of property to University	\$ 15,326,424	\$ 15,485,000

**UNIVERSITY OF IDAHO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The University of Idaho Foundation, Inc., (the “Foundation”) was established to solicit donations and to hold and manage invested donations for the exclusive benefit of the University of Idaho (the “University”). Included within the Foundation is the Consolidated Investment Trust (C.I.T.), which represents funds held in a specific trust for the University. The significant accounting policies followed by the Foundation are described below to enhance the usefulness of the financial statements to the reader.

*Basis of Accounting*

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The statement of revenues, expenses and changes in net assets is a statement of financial activities related to the current reporting period. All significant intra-agency transactions have been eliminated.

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

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined to report by classification and only the net assets are shown.

Restricted resources may only be utilized in accordance with the purposes established by the source of such resources and are in contrast with unrestricted resources over which the Directors of the Foundation retain full control to use in achieving the Foundation’s purposes.

*Cash and Cash Equivalents*

Cash and cash equivalents include cash in banks and temporary investments with an original maturity of three months or less at the date of acquisition. For cash flow purposes the cash balance includes both restricted and unrestricted cash and cash equivalents.

*Investments*

The Foundation accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gains or losses on the carrying value of investments are reported as a component of the change in fair value of investments in the statement of revenues, expenses and changes in net assets.

Current investments are comprised of the investment balances that are not restricted for endowment. This category excludes debt securities.

## NOTES TO FINANCIAL STATEMENTS

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### *Pledges Receivable*

The Foundation reports pledges made by donors that are measurable, verifiable, unconditional, and are probable of collection. Pledges receivable are recorded net of estimated uncollectible amounts. The estimate is determined using historical collection information applied to new pledges.

### *Restricted Cash and Cash Equivalents and Investments*

Cash and cash equivalents and investments that are restricted in accordance with donor stipulations for endowments are classified as noncurrent assets in the statement of net assets.

### *Property*

Property is stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair market value at the date of the gift. Cost includes expenditures for major improvements and the net amount of interest cost associated with significant capital additions. Gains and losses from sales are included in income as they occur. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings.

### *Split Interest Agreements*

Split interest agreements held by the Foundation are irrevocable charitable remainder trusts and charitable gift annuities. Assets and liabilities related to split interest agreements for which the Foundation is trustee and is the designated remainderman for the trusts' assets are included in the accompanying balance sheet. Trust assets are recorded at fair market value and a liability is recorded for the present value of estimated distributions to the beneficiaries. The liability is calculated using life expectancy tables and discount rates published by the Internal Revenue Service.

### *Income Taxes*

The Foundation is a tax-exempt organization under Section 501(c)(3) and, as such, is subject to federal income tax only on net unrelated business income.

### *Revenue Recognition*

All income, gains and losses arising from the sale, collection or disposition of investments and other noncash assets are accounted for in the fund owning such assets.

Noncash tangible assets, other than marketable securities, contributed to the Foundation are recorded on the date legal title passes at the appraised value when it is provided by an independent third party acceptable to Foundation management. If no such independent third-party appraisal is available, the asset is recorded at an objective, verifiable basis which is, in the judgment of Foundation management, a fair value to the Foundation for its purposes. If it is not practicable to determine an objective, verifiable valuation, the contribution is not recorded. Marketable securities contributed to the Foundation are recorded at market value at the date of gift. In-kind contributions of labor and services are not recorded.

## NOTES TO FINANCIAL STATEMENTS

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Revenues of the Foundation that are for its primary purposes, which is to solicit financial support for the University and to manage and invest the resulting charitable gifts, are recorded as operating revenue.

### *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.

### **NOTE 2 – LITIGATION**

The Foundation is party to one lawsuit. A brief description follows.

In July 2004, the Foundation initiated a lawsuit against the original developer of the University Place project alleging breach of warranties and representations contained in a reconciliation agreement. The Foundation seeks to recover approximately \$7 million in damages. In August, 2004, the developer filed an answer to the complaint and asserted several counter-claims, principally that the Foundation breached the reconciliation agreement and owes the developer approximately \$500,000 in past due parking contributions and rent reimbursements.

In November 2006, an Idaho court ruled that the Foundation has a contractual obligation under the reconciliation agreement to make an annual contribution toward parking and infrastructure costs of \$350,000 a year for the next 28 years, which amount will be reduced by the amount the University of Idaho pays to the Capital City Development Corporation (CCDC) for parking access for the Idaho Water Center. The Foundation has appealed the court's ruling to the Idaho Supreme Court.

In addition, the Idaho trial judge awarded legal fees and costs of approximately \$195,000 to CCDC and required the Foundation to pay this judgment immediately. The Foundation and CCDC have negotiated an arrangement to stay this judgment pending the appeal. There have been no accruals recorded in association with this litigation.

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

### **NOTE 3 - CASH AND CASH EQUIVALENTS**

The Foundation 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. Deposits for the year ended June 30, 2007 that are uninsured and uncollateralized are as follows:

Uninsured and uncollateralized	\$ 137,844
Collateral held in the name of the counterparty for benefit of the Foundation	24,402,845

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 4 - PLEDGES RECEIVABLE

For the fiscal years ended June 30, 2007 and 2006, the Foundation recorded \$210,228 and \$1,175,989 respectively, of gift revenue in the form of pledges receivable. An expense in the amount of uncollectible pledges of \$42,046 and \$235,198 was recorded for fiscal years ended June 30, 2007 and 2006, respectively. The estimated collection of these gifts is as follows:

One year or less	\$ 513,662
2009	433,223
2010	310,257
2011	180,349
2012	118,349
Thereafter	328,717
	<u>1,884,557</u>
Less allowance for uncollectible pledges	<u>(77,265)</u>
Pledges receivable	<u>\$ 1,807,292</u>

### NOTE 5 - INVESTMENTS—MARKETABLE SECURITIES

Investments in marketable securities are recorded at fair value as determined by quoted market prices. At June 30, 2007, the fair value of restricted and unrestricted investments was \$190,630,412 and \$4,022,946, respectively. At June 30, 2006, the fair value of restricted and unrestricted investments was \$181,750,596 and \$2,234,762, respectively.

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, 2007:

Investment Type	<u>Fair Value</u>
U.S. Government Agency Obligations	\$ 24,840,842
Corporate Bonds	18,442,501
Preferred Stock	5,475,321
Municipal Securities	3,371,634
U.S. Treasuries	2,730,984
Bond Mutual Funds	17,075,767
Common Stock	114,287,973
International Equity Funds	6,597,102
Mutual Funds	1,347,516
Private Equity	483,718
	<u>\$ 194,653,358</u>

(continued on next page)

## NOTES TO FINANCIAL STATEMENTS

### *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, 2007, the Foundation had the following investments subject to interest rate risk:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
U.S. Corporations	\$ 18,442,501	\$ 323,024	\$ 3,346,012	\$ 4,257,234	\$ 10,516,231
U.S. Government Agency Obligations	24,840,842	37,989	986,461	2,366,329	21,450,063
U.S. Treasuries	2,730,984		1,811,967	204,201	714,816
Municipal Securities	3,371,634	5,013	115,721	796,584	2,454,316
Bond Mutual Funds	17,075,767			17,075,767	
	<u>\$ 66,461,728</u>	<u>\$ 366,026</u>	<u>\$ 6,260,161</u>	<u>\$ 24,700,115</u>	<u>\$ 35,135,426</u>

### *Credit Risk*

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB 40 requires disclosure of credit quality ratings for investments in debt securities. The 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, 2007, the Foundation had the following investment credit risk:

Investment Ratings	Investment Type				Total
	U.S. Government Agency Obligations	Corporate Debt	Municipal Securities	Bond Mutual Fund	
AAA	\$ 24,806,308	\$ 2,889,475	\$ 2,100,000	\$ -	\$ 29,795,783
AA	-	2,701,077	25,208	-	2,726,285
A	-	3,099,341	1,084,338	-	4,183,679
BBB	-	2,180,430	-	-	2,180,430
BB	-	2,584,352	40,467	-	2,624,819
B	-	3,163,832	-	-	3,163,832
CCC	-	1,423,013	-	-	1,423,013
D	-	63,250	-	-	63,250
Not Rated	34,534	337,731	121,621	17,075,767	17,569,653
	<u>\$ 24,840,842</u>	<u>\$ 18,442,501</u>	<u>\$ 3,371,634</u>	<u>\$ 17,075,767</u>	<u>\$ 63,730,744</u>

### *Concentration of Credit Risk*

Per GASB Statement No. 40, Concentration of Credit Risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation has a formal policy addressing

## NOTES TO FINANCIAL STATEMENTS

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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, 2007, 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, 2007 all Foundation funds were held in the name of the counterparty for benefit of the Foundation.

## NOTES TO FINANCIAL STATEMENTS

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### *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:

<u>Currency Type</u>	<u>Fair Value</u>
AUD	\$ 3,545,424
CAD	25,307
CHF	646,606
DKK	10,402
EUR	4,530,957
GBP	10,657,149
HKD	3,379,684
JPY	3,959,368
MYR	353,946
NOK	10,116
NZD	503,533
SEK	406,362
SGD	859,115
	<u>\$ 28,887,969</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6 - NOTES RECEIVABLE

Notes receivable are held in escrow and substantially all are collateralized by real estate. Interest earnings on the contracts are to be used for the purposes specified by the donor. Principal payments on the contracts are added to the corpus of the appropriate endowment as they are received. Notes and other contracts receivable at June 30, consist of the following:

	<u>2007</u>	<u>2006</u>
Note receivable dated March 5, 1993, due in equal installments of principal and interest payments of \$74,704, including interest at 6% per annum, through 2019.	\$ 705,174	\$ 744,660
Note receivable dated February 20, 1985, due in equal monthly installments of principal and interest payments of \$400, including interest at 10% per annum, through 2013.	33,810	37,635
Note receivable dated June 26, 1996, due in equal annual installments of principal and interest payments of \$5,812, including interest at 8.25% per annum, through 2011.	<u>17,937</u>	<u>22,098</u>
	<u>\$ 756,921</u>	<u>\$ 804,393</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 – REAL ESTATE HOLDINGS

Real Estate holdings consisted of the following at June 30:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets not depreciated				
Land	\$ 4,730,701	\$ 932,000	\$ 1,227,000	\$ 4,435,701
Property held for the University of Idaho	14,831,423	-	14,831,423	-
Property held for trust	200,000	-	200,000	-
Total capital assets not depreciated	19,762,124	932,000	16,258,423	4,435,701
Other capital assets				
Buildings	225,250	-	-	225,250
Less accumulated depreciation	(111,388)	(5,893)	-	(117,281)
Other capital assets - net	113,862	(5,893)	-	107,969
Capital assets - net of depreciation	<u>\$ 19,875,986</u>	<u>\$ 926,107</u>	<u>\$ 16,258,423</u>	<u>\$ 4,543,670</u>
	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not depreciated				
Land	\$ 4,575,701	\$ 15,965,000	\$ 15,810,000	\$ 4,730,701
Property held for the University of Idaho	14,831,423	-	-	14,831,423
Property held for trust	-	675,000	475,000	200,000
Total capital assets not depreciated	19,407,124	16,640,000	16,285,000	19,762,124
Other capital assets				
Buildings	225,250	-	-	225,250
Less accumulated depreciation	(105,495)	(5,893)	-	(111,388)
Other capital assets - net	119,755	(5,893)	-	113,862
Capital assets - net of depreciation	<u>\$ 19,526,879</u>	<u>\$ 16,634,107</u>	<u>\$ 16,285,000</u>	<u>\$ 19,875,986</u>

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## NOTES TO FINANCIAL STATEMENTS

### NOTE 8 - DISTRIBUTIONS TO UNIVERSITY OF IDAHO AND AFFILIATES

During fiscal years 2007 and 2006, earnings from endowments invested in C.I.T., direct gifts and other revenues to the Foundation were distributed as follows:

	2007		2006	
	C.I.T. Endowment Income	Gifts and Other Revenues	C.I.T. Endowment Income	Gifts and Other Revenues
Scholarships	\$ 4,323,644	\$ 2,576,779	\$ 3,878,150	\$ 3,033,827
Student loans	197,326	100	187,514	250
Building funds	-	15,741,073	-	280,048
Real property	-	495,000	-	6,965,000
University of Idaho College and Department Operating Accounts				
Academic Excellence	620,960	44,149	583,932	42,082
Agricultural and Life Sciences	252,221	276,795	228,647	265,081
Art and Architecture	12,931	18,510	12,129	-
Athletics	48,923	309,527	43,711	97,576
Business and Economics	297,846	97,455	281,133	216,853
Education	22,626	47,854	16,592	226,589
Engineering	90,831	178,126	79,224	401,406
Law	226,269	203,025	206,007	242,177
Letters, Art and Social Science	369,791	144,838	359,557	480,738
Library	132,338	6,690	123,220	9,387
Natural Resources	130,963	134,129	117,906	646,862
Science	163,128	82,356	146,300	177,899
Other departments	219,429	420,885	190,664	847,252
Life beneficiaries	519,207	-	417,274	-
University of Idaho affiliates	29,679	21,728	41,200	8,555,521
<b>TOTAL DISTRIBUTIONS</b>	<b>\$ 7,658,112</b>	<b>\$ 20,799,019</b>	<b>\$ 6,913,160</b>	<b>\$ 22,488,548</b>

### NOTE 9 - NOTES PAYABLE

Notes payable at June 30 consisted of the following:

	2007	2006
Variable rate demand revenue notes, Series 2000, University of Idaho College of Business Project. Dated November 22, 2000, due January 17, 2007, secured by pledges to the building campaign. Variable rate interest due monthly (4.03% as of June 30, 2006).	\$ -	\$ 2,650,000
	<u>\$ -</u>	<u>\$ 2,650,000</u>

(continued on next page)

## NOTES TO FINANCIAL STATEMENTS

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Activity for the year ended June 30, 2007 was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due Within</u> <u>One Year</u>
Notes payable	\$ 2,650,000	\$ -	\$ (2,650,000)	\$ -	\$ -

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

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due Within</u> <u>One Year</u>
Notes payable	\$ 10,471,957	\$ -	\$ (7,821,957)	\$ 2,650,000	\$ 2,650,000

The debt associated with the construction of the University of Idaho College of Business project is secured by pledges to the building campaign. The note was paid in January 2007.

In April, 2006, as part of a settlement agreement which included the Foundation and the University of Idaho, the notes between the two parties were cancelled.

### NOTE 10 - SPLIT INTEREST AGREEMENTS

At June 30, 2007 and 2006 the Foundation was managing 84 and 83, respectively, charitable gift arrangements of which the underlying assets have a market value of \$15,974,892 and \$14,858,283, at June 30, 2007 and 2006, respectively. The actuarial obligation to pay the trust beneficiaries at June 30, 2007 and 2006 is \$8,254,041 and \$7,798,308, respectively. The assets of the individual trusts are invested and are expected to generate sufficient income to pay this obligation until the termination of the individual trusts. Contributions of \$697,739 and \$906,592 were received in connection with split interest agreements during the years ended June 30, 2007 and 2006, respectively. During the year ended June 30, 2007 three agreements with a market value of \$641,495 terminated.

Activity for the year ended June 30, 2007 was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due Within</u> <u>One Year</u>
Liability for split interest trusts	\$ 7,798,308	\$ 730,732	\$ (274,999)	\$ 8,254,041	\$ 1,117,223

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

## NOTES TO FINANCIAL STATEMENTS

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due Within</u> <u>One Year</u>
Liability for split interest trusts	\$ 7,656,562	\$ 566,553	\$ (424,807)	\$ 7,798,308	\$ 1,059,908

### NOTE 11 - OPERATING LEASE

The Foundation entered into a sublease on October 1, 2002, to lease the parcel of land next to the Idaho Water Center known as parcel 102. The original lease was for 99 years with variable payments. The annual payment obligations are as follows:

2008	\$ 6,331
2009	7,962
2010	8,690
2011	8,974
2012	9,244
2013-2017	62,195
2018-2022	88,200
2023-2027	121,988
2028-2032	90,560
2033-2037	46,219
2038-2042	53,580
2043-2047	62,114
2048-2052	72,008
2053-2057	83,477
2058-2062	96,772
2063-2067	112,185
2068-2072	130,054
2073-2077	150,768
2078-2082	174,782
2083-2087	202,620
2088-2092	234,893
2093-2097	272,306
2098	44,581
	<u>\$ 2,140,503</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 12 - FOUNDATION OPERATING EXPENSES

Certain general, administrative and fundraising expenses of the Foundation are paid by the University. The University also provides occupancy, accounting, gift receipting and investment services to the Foundation. The value of these services is not reflected in the accompanying financial statements since they are not susceptible to objective measurement or valuation.

### NOTE 13 - RELATED PARTIES

The Foundation was established for the purpose of soliciting donations and to hold and manage invested donations for the exclusive benefit of the University, a related party.

### NOTE 14 – 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, 2007, \$3,120,545 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 2007 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, 2007 and 2006, the endowments held by the Foundation had net appreciation on donor restricted endowments of \$17,881,930 and \$4,533,023, respectively. 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.



**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***

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To the Board of Directors  
**University of Idaho Foundation, Inc.**  
Boise, Idaho

We have audited the statement of net assets of University of Idaho Foundation, Inc. as of June 30, 2007 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended and have issued our report thereon dated September 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered University of Idaho Foundation Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University of Idaho Foundation Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University of Idaho Foundation Inc.'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 the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University of Idaho Foundation Inc.'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 of Idaho Foundation Inc.'s financial statements that is more than inconsequential will not be prevented or detected by the University of Idaho Foundation Inc.'s internal control.

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 of Idaho Foundation Inc.'s internal control.

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

This report is intended solely for the information and use of management and the audit committee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the printed text of the firm's name.

Boise, Idaho  
September 27, 2007