University of Idaho

FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004 INDEPENDENT AUDITOR'S REPORT

INCLUDING SINGLE AUDIT REPORTS FOR THE YEAR ENDED JUNE 30, 2005

UNIVERSITY OF IDAHO

TABLE OF CONTENTS

MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Idaho State Board of Education
University of Idaho
Moscow, Idaho

We have audited the accompanying statement of net assets of University of Idaho (University) as of and for the year ended June 30, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of University of Idaho's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of University of Idaho's discretely presented component unit as described in Note 17. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of other auditors. The financial statements of the University of Idaho as of June 30, 2004, were audited by other auditors whose report dated November 12, 2004 expressed an unqualified opinion on those statements based on their audit and the report of other auditors.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of University of Idaho and its discretely presented component unit, as of June 30, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of University of Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MOSS-ADAMS LLP

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 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. 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
September 30, 2005

UNIVERSITY OF IDAHO

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

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, 2005. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. They are prepared using the accrual basis of accounting, whereby revenues are recognized when services are provided and expenses are recognized when goods or services are received, regardless of when cash is exchanged.

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

Statement of Net Assets

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

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

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

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

- *Restricted Nonexpendable*—Net assets subject to donor stipulations requiring the net assets to be maintained permanently by the University. These assets are invested by the Foundation.

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

- *Unrestricted*—Net assets not subject to donor stipulations which may be expended for any lawful purpose of the University.

Condensed Statements of Net Assets
As of June 30, 2005
(Thousands)

	2005	2004	2003
Assets:			
Current assets	$ 39,966	$ 56,518	$ 48,191
Property, plant and equipment - net	306,409	311,705	297,204
Other noncurrent assets	138,583	107,756	123,940
Total assets	484,958	475,979	469,335
Liabilities:			
Current liabilities	45,116	47,307	44,743
Noncurrent liabilities	127,157	133,148	140,059
Total liabilities	172,273	180,455	184,802
Net assets:			
Invested in capital assets—net of debt	171,201	173,804	173,525
Restricted nonexpendable	78,667	71,171	70,747
Restricted expendable	21,252	20,631	21,610
Unrestricted	41,565	29,918	18,650
Total net assets	$ 312,685	$ 295,524	$ 284,532

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

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

In order to accurately reflect the current assets, the University has recorded an allowance of $7,071,957 against two notes receivable from the Foundation that are due December 31, 2005. These notes stem from the University Place project in Boise, ID. The Foundation's ability to pay the notes in accordance with the current terms is uncertain. The University intends to pursue the collection of the notes and believes it may be possible that the Foundation will eventually recover a portion of its losses through legal and other actions and will then be able to repay these notes. The University and the Foundation currently are in litigation regarding the University Place project and the University will continue to monitor the recovery efforts of the Foundation and the collectibility of these notes. For further information please refer to the litigation note to the financial statements.

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

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

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

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

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

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

YEAR ENDED JUNE 30, 2005 COMPARED TO YEAR ENDED JUNE 30, 2004

Significant Changes in the Statement of Net Assets

- Cash and cash equivalents decreased $3.8 million due to management decisions to invest a portion of the cash balances for a longer term during fiscal year 2005.

- Investments at market increased $13.4 million due to conversions from cash to investments reflecting a management decision to capture additional return by investing for a longer duration.

- Notes receivable decreased by approximately $2 million dollars due to a provision for doubtful accounts taken against a note with the Foundation.

- Repurchase agreements declined by $.7 million. These funds were used to complete the 2001 University of Idaho Housing Project.

- Noncurrent accrued salaries and benefits payable decreased $136 thousand. All the University's 2002 Voluntary Separation Retirement Opportunity Program ("VSROP") expenses have been paid except for a small amount that is due in the current year. The payment for the program during fiscal year 2004 was $1.4 million.

- Notes and bonds payable decreased $5.6 million due to annual debt service payments. During the year the University issued bonds in the amount of $30.7 million. This was a refunding issue which retired debt related to five bonds issues.

Statement of Revenues, Expenses and Changes in Net Assets

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

Condensed Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30
(Thousands)

	2005	2004	2003
Operating revenues	$ 170,790	$ 165,932	$ 157,132
Operating expenses	296,438	286,785	277,483
Operating (loss) income	(125,648)	(120,853)	(120,351)
Net nonoperating revenues (expenses)	138,450	125,844	119,772
Income before other revenues and (expenses)	12,802	4,991	(579)
Other revenues and (expenses)	4,359	6,001	4,974
Increase in net assets	17,161	10,992	4,395
Net assets—beginning of year	295,524	284,532	280,137
Net assets—end of year	$ 312,685	$ 295,524	$ 284,532

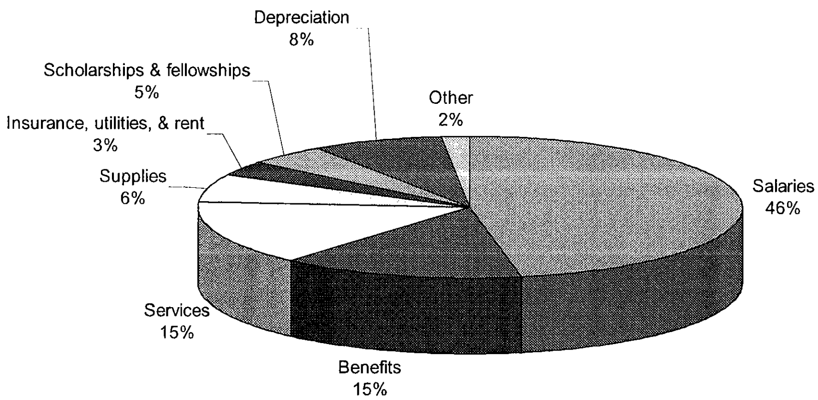
Operating Revenues

Operating revenues are generated through providing services to the various customers and constituencies of the University. Operating revenues include tuition and fees, grant and contract revenues, and sales and service revenue generated by student housing, bookstores and other enterprises. Student enrollment drives a large portion of operating revenues. Trends indicate that in the future a greater proportion of revenues will be obtained from students and other sources to offset a proportional decrease in available state funding.

Operating Expenses

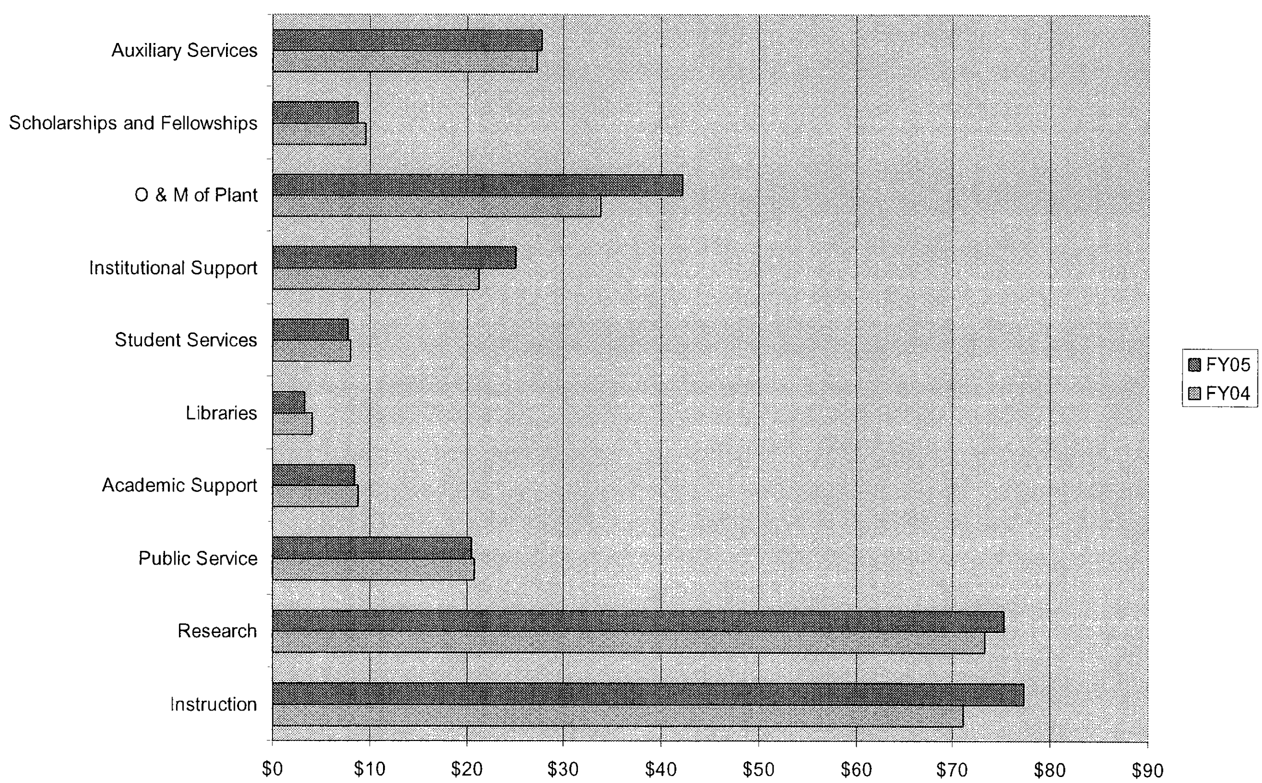
As shown in the following chart, a significant portion of the University's expenses relate to employee compensation and benefits. This relationship is expected to continue, and the proportion may grow as compensation, insurance and other payroll-related costs increase. Due to the volatility of the utilities industry, utilities and plant-related expenses may fluctuate. Additionally, a concerted effort is being made to ensure access to all qualified applicants through endowed scholarships, resulting in increases in financial aid.

Operating Expenses



As illustrated in the following graph, instruction and research activities together constitute nearly half the University's expenses. The cost of investing in the operation and maintenance of plant is the third largest expense category of the University. The costs of providing auxiliary services is the fourth largest cost category and includes Dining and Residence Hall operations, Commons & Student Union operations, Associated Students of University of Idaho, Kibbie Dome, Bookstore, Student Health Services and Athletics.

Expenses by Program (in millions)



Nonoperating Revenues

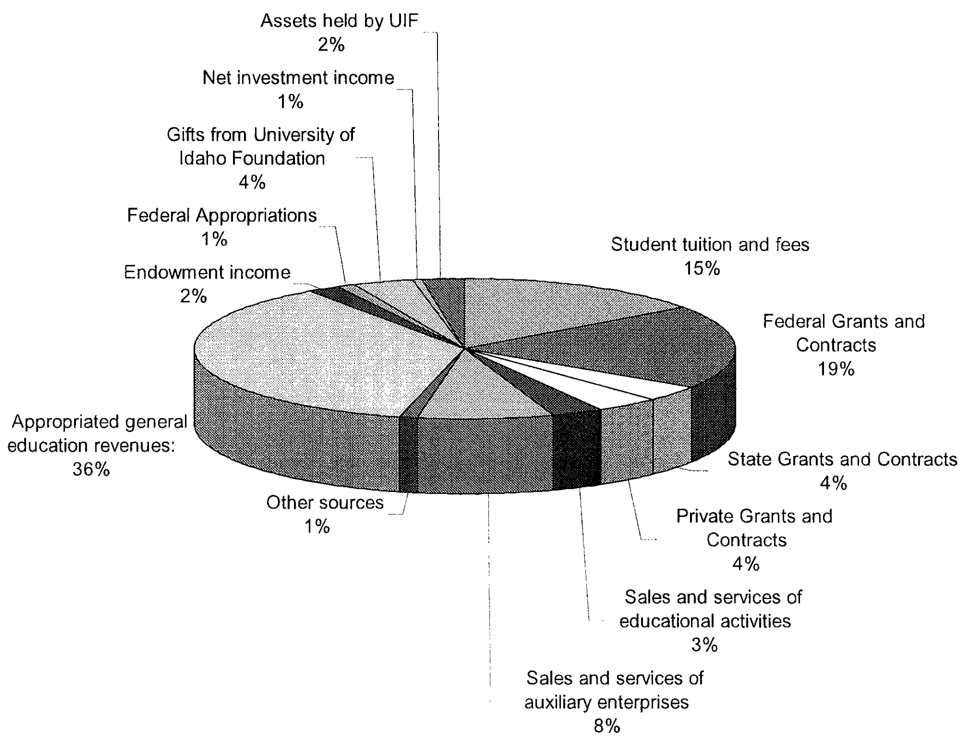
Similar to most public higher education institutions, the University receives significant nonoperating revenues, including state appropriations, which offset the losses generated by operating activities. The operating loss for the year ended June 30, 2005 of $125.6 million was offset by $138.5 million in net nonoperating revenues, principally composed of $114.3 million of state appropriations, $6.7 million of land grant endowment income, $11.1 million of gifts, and $2.2 million of net investment income. Net nonoperating revenues were offset by $5.7 million in interest expense and $2.0 million in provision for doubtful accounts.

Other Revenues and Expenses

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

The following graph illustrates operating revenues, nonoperating revenues and other revenues by source for fiscal year 2005:

Revenues by Source



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

Operating revenues increased by $4.4 million primarily due to the following:

- Student tuition and fee revenue increased $3.4 million due mainly to an overall increase of 8.5% to the fee structure.
- Revenue from auxiliary sales increased by $2.4 million due to the new Living and Learning Center dormitory coming on-line and an increase in summer conference activity.

Operating expenses increased $9.2 million primarily due to the following:

- Depreciation expense increased $5.0 million due mainly to a change in estimated useful lives used in the calculation. Equipment estimated useful lives changed from an average of 10 years to 7 years to more closely align with the useful lives used by the State of Idaho.

- Salaries and benefits expense increased $4 million. During previous fiscal years, the VSROP program created vacancies throughout the University. During fiscal year 2005, some of those positions were filled as well as some key leadership positions. A mid-year salary increase of 2% on average was instituted. In addition, employee and retiree health insurance benefit costs increased by approximately 10 percent.

- During the fiscal year ended June 30, 205, UI revised its estimate of useful lives of equipment. The revisions were made to more accurately measure the useful lives of each asset type. Previously, all equipment had a useful life of 10 years. Equipment useful lives now range from 5 to 30 years with an average of 7 years. The change had the effect of increasing equipment depreciation expense and decreasing the net assets by approximately $5.5 million.

- Insurance, Utilities, and Rent increased $1.7 million in part due to the rent related to the occupation of the Water Center Building and an increase in utilities.

- Scholarship and fellowship expenses decreased $1.1 million.

Nonoperating revenues increased $16.6 million primarily due to the following:

- State appropriated funds increased $4.5 million, a 4% increase. This increase is for all six appropriations received by the University and includes adjustments for inflation, enrollment increases as well as contractual adjustments for WWAMI and WOI medical and veterinary education programs.

- Land Grant Endowment revenue decreased by $1.2 million

- Gift revenue increased $4.1 million.

- The value of the Endowment assets held in trust by the Foundation increased by $7.1 million.

- An increase in the provision for doubtful accounts decreased nonoperating revenues by $2 million.

Other revenues decreased by $1.6 million primarily due to an decrease in capital gifts from the Foundation of $.6 million and a decrease in capital appropriations of $1.3 million due to the completion of the Teaching and Learning Center project.

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, 2005. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting and noncapital financing purposes. The third section, cash flows from capital and related financing activities, deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received. The fifth section reflects the net change in cash position.

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

	2005	2004	2003
Cash provided (used) by:			
Operating activities	$ (103,569)	$ (102,435)	$ (101,144)
Noncapital financing activities	135,810	125,327	117,800
Capital and related financing activities	(24,477)	(33,636)	(37,195)
Investing activities	(11,566)	(2,823)	36,019
Net change in cash	(3,802)	(13,567)	15,480
Cash, beginning of the year	15,977	29,544	14,064
Cash, end of the year	$ 12,175	$ 15,977	$ 29,544

Operating activities used $103.6 million in cash for the year, a slight increase over 2004.

Noncapital financing activities provided $135.8 million in cash for the year, a $10.5 million increase primarily resulting from increased state appropriations and increased gift revenue.

Capital and related financing activities used $24.5 million of cash during the year, $9.2 million less than 2004. This declining trend results from completion of several large building projects.

Investing activities used $11.6 million of cash during the year compared to $2.8 million used in 2004.

In May 2002, GASB issued Statement No. 39, Determining Whether Certain Organizations Are Component Units, an amendment of GASB 14. This Statement clarified the definition of a component unit for financial reporting purposes. As a result, the University is discretely reporting the Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets for the Foundation as part of the financial statements for the University.

At June 30, 2005 the total net assets of the Foundation were $111.6 million, an increase of $7.5 million. Restricted nonexpendable and expendable net assets together total $116.1. These restricted assets largely provide scholarships to students and support to academic departments directly or through the distribution of endowment earnings. The unrestricted assets of the Foundation are a negative $4.2 million as a result of debt associated with the Boise Project. During FY05 this outstanding debt was reduced by $6 million.

As presented in the Foundation financial statements, for the year ended June 30, 2005, operating revenues were $23.7 million just exceeding operating expenses of $23.6 million. However, non-operating and other revenue (expenses) brought the total increase in net assets to $7.5 million.

ECONOMIC OUTLOOK

In fiscal year 2005, the University implemented $4.75 million of permanent base budget reductions and reallocations to re-balance the university's overall fiscal year 2006 fiscal year budget. The actions taken were initiated by the University's President and based in part upon deliberations of the Vision and Resources Task Force convened by the President. In addition to balancing the budget, nearly all colleges and operating units have increased their reserves as a safeguard against the uncertainties of additional program or enrollment changes.

The newly opened Teaching and Learning Center houses over half of the Moscow campus classrooms and has invigorated the central core of campus. This high tech classroom facility is structurally joined with the University Commons building and provides first rate classroom experiences in support of the University's academic mission.

University leadership continues to emphasize accountability and stewardship of University human and financial resources, with a primary focus on maintaining relevance and excellence in programs offered. University leadership is in the process of filling several key management positions and 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 University plans to grow and diversify its revenue bases through increases in externally funded grants and contracts, strong philanthropic support, increased student support and other initiatives. In order to deal with unforeseen events, the University plans to maintain modest financial reserves.

The State of Idaho ended fiscal year 2005 with an approximate $211 million surplus and general fund revenues continue to flow in ahead of expectations. Growth in the State's economy may provide the governor and legislature with additional resources to address the many compelling needs of higher education in Idaho.

UNIVERSITY OF IDAHO

STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

ASSETS	University of Idaho 2005	University of Idaho 2004	Component Unit (Note 17) 2005	Componet Unit (Note 17) 2004
CURRENT ASSETS:				
Cash and cash equivalents	$ 9,523,465	$ 13,050,780	$ 8,280,890	$ 6,092,289
Student loans receivable	1,588,469	1,657,636	-	-
Accounts receivable & unbilled charges - net	24,247,777	24,110,783	172,366	674,690
Due from state agencies	128,214	155,455	-	-
Investments	1,137,897	13,448,480	8,158,946	11,982,581
Interest receivable	398,650	416,750	551,824	515,626
Inventories	1,682,829	1,749,647	-	-
Repurchase agreements	-	712,767	-	-
Pledges receivable - net	-	-	787,608	1,664,308
Notes receivable	-	-	45,100	449,545
Other current assets	1,259,281	1,215,434	-	-
Total current assets	39,966,582	56,517,732	17,996,734	21,379,039
NONCURRENT ASSETS:				
Restricted cash and cash equivalents	2,651,336	2,926,431	7,611,203	5,122,472
Student loans receivable - net	10,176,163	9,927,774	-	-
Investments	45,186,279	19,489,747	166,904,539	151,190,754
Interest receivable	-	-	467	206,922
Assests held in trust by Foundation	78,667,182	71,171,461	-	-
Pledges receivable - net	-	-	1,195,581	2,707,165
Notes receivable	-	2,030,198	973,701	934,321
Deferred bond financing costs	1,886,888	2,067,708	-	-
Property, plant & equipment - net	306,409,023	311,705,296	19,526,879	23,084,585
Other noncurrent assets	14,916	143,231	355,947	476,211
Total noncurrent assets	444,991,787	419,461,846	196,568,317	183,722,430
TOTAL ASSETS	$ 484,958,369	$ 475,979,578	$ 214,565,051	$ 205,101,469

See notes to financial statements.

Continued

UNIVERSITY OF IDAHO

STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

LIABILITIES	University of Idaho 2005	University of Idaho 2004	Component Unit (Note 17) 2005	Componet Unit (Note 17) 2004
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	$ 4,338,662	$ 6,043,574	$ 394,459	$ 335,696
Accrued salaries and benefits payable	25,964,212	24,840,606	-	-
Trust earnings payable to trust beneficiaries	-	-	5,801,703	5,016,553
Accrued interest payable	1,584,924	1,688,233	-	-
Deposits	655,745	634,030	-	-
Deferred revenue	6,533,798	8,022,656	-	-
Funds held in custody for others	737,343	1,067,791	-	-
Obligations under capital leases	70,066	313,776	-	-
Notes and bonds payable	4,955,984	4,696,517	7,071,957	5,041,759
Other liabilities	275,758	-	-	-
Split interest agreements	-	-	1,045,515	964,081
Total current liabilities	45,116,492	47,307,183	14,313,634	11,358,089
NONCURRENT LIABILITIES:				
Accrued salaries and benefits payable	-	135,786	-	-
State teacher education loan advance	146,090	123,475	-	-
Obligations under capital leases	74,106	113,788	-	-
Notes and bonds payable	126,936,461	132,775,078	3,400,000	11,930,198
Assets held in trust for the University	-	-	78,667,182	71,171,461
Split interest agreements	-	-	6,611,047	6,541,159
Total noncurrent liabilities	127,156,657	133,148,127	88,678,229	89,642,818
Total liabilities	172,273,149	180,455,310	102,991,863	101,000,907
NET ASSETS:				
Invested in capital assets-net of related debt	171,201,330	173,803,697	-	3,209,561
Restricted for:	-	-	-	-
Nonexpendable	78,667,182	71,171,461	85,502,418	75,873,832
Expendable	21,252,064	20,631,048	30,304,509	33,401,579
Unrestricted	41,564,644	29,918,062	(4,233,739)	(8,384,410)
Total net assets	312,685,220	295,524,268	111,573,188	104,100,562
TOTAL LIABILITIES AND NET ASSETS	$ 484,958,369	$ 475,979,578	$ 214,565,051	$ 205,101,469

See notes to financial statements.

UNIVERSITY OF IDAHO

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

	University of Idaho 2005	University of Idaho 2004	Component Unit (Note 17) 2005	Component Unit (Note 17) 2004
OPERATING REVENUES:				
Student tuition and fees (net of scholarship discounts & allowances) - Note 1	$ 48,029,987	$ 44,234,698	$ -	$ -
Federal grants and contracts	60,156,155	59,701,267	-	-
State and local grants and contracts	11,259,208	11,046,223	-	-
Private grants and contracts	12,725,677	13,914,957	-	-
Sales and services of educational activities	9,148,657	9,321,494	-	-
Sales and services of auxiliary enterprises	26,011,637	23,590,490	-	-
Interest on loans receivable	173,252	192,655	-	-
Other	3,285,587	3,930,337	196,721	259,288
Gifts	-	-	11,269,351	14,146,658
Total operating revenue	170,790,160	165,932,121	11,466,072	14,405,946
OPERATING EXPENSES:			-	
Salaries	138,794,381	134,723,758	-	-
Benefits	43,177,440	45,407,100	-	-
Services	43,838,313	32,421,892	-	-
Supplies	19,116,886	30,092,895	-	-
Insurance, utilities and rent	9,506,628	7,807,871	-	-
Scholarships and fellowships	14,410,510	15,522,974	-	-
Depreciation	22,344,637	17,291,610	5,893	49,671
Other	5,249,633	3,516,883	892,796	525,688
Administrative expense	-	-	1,280,878	1,208,147
Total operating expenses	296,438,428	286,784,983	2,179,567	1,783,506
OPERATING (LOSS) INCOME	$ (125,648,268)	$ (120,852,862)	$ 9,286,505	$ 12,622,440

See notes to financial statements.

Continued

UNIVERSITY OF IDAHO

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

	University of Idaho 2005	University of Idaho 2004	Component Unit (Note 17) 2005	Component Unit (Note 17) 2004
NONOPERATING REVENUES (EXPENSES):				
State appropriations:				
State general account	$ 114,259,600	$ 109,795,967	$ -	$ -
Land grant endowment income	6,714,256	7,864,827	-	-
Federal appropriations	3,134,133	4,091,430	-	-
Gifts from Foundation	11,137,007	7,035,352	-	-
Private grants and contracts	63,577	445,071	-	-
Net investment income	2,232,059	6,072,598	7,267,277	6,174,223
Net increase in fair value of investments	192,443	15,889	4,615,557	13,400,056
Change in value of assets held in trust for University	7,495,721	425,275	(7,495,721)	(425,275)
Interest (net of capitalized interest)	(5,672,149)	(4,863,085)	(319,115)	(410,987)
Provision for doubtful accounts	(2,030,198)	(5,041,759)	-	-
Distribution of endowment income to trust beneficiaries	-	-	(5,801,703)	(5,016,553)
Distribution to University & affiliates	-	-	(7,237,209)	(9,937,996)
Distribution of trust income to life income beneficiaries	-	-	(672,388)	(631,393)
Lease and rental income	-	-	194,535	487,417
Property management	-	-	(223,516)	(358,996)
Change in split interest trusts	-	-	178,851	(371,910)
Gain on sale of property	-	-	5,894,712	-
Other	923,762	2,193	(34,803)	(34,803)
Net nonoperating revenues (expenses)	138,450,211	125,843,758	(3,633,523)	2,873,783
INCOME BEFORE OTHER REVENUES & (EXPENSES)	12,801,943	4,990,896	5,652,982	15,496,223
OTHER REVENUES AND (EXPENSES):				
Capital appropriations	1,628,961	1,369,406	-	-
Capital grants and contracts	419,023	1,730,325	-	-
Capital gifts from Foundation	2,311,025	2,901,750	-	-
Recovery on impairment of Idaho Water Center	-	-	1,819,644	1,343,342
Write down on Idaho Place Projects	-	-	-	(6,079,042)
Total other revenues and (expenses)	4,359,009	6,001,481	1,819,644	(4,735,700)
INCREASE IN NET ASSETS	17,160,952	10,992,377	7,472,626	10,760,523
NET ASSETS—Beginning of year	295,524,268	284,531,891	104,100,562	93,340,039
NET ASSETS—End of year	$ 312,685,220	$ 295,524,268	$ 111,573,188	$ 104,100,562

See notes to financial statements.

UNIVERSITY OF IDAHO

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

	University of Idaho 2005	University of Idaho 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$ 47,745,318	$ 44,657,195
Grants and contracts	84,141,040	84,285,545
Sales and services - net	34,236,394	32,204,497
Payments to employees	(180,984,001)	(182,999,705)
Payments to suppliers	(79,367,944)	(71,615,708)
Payments for scholarships and fellowships	(14,235,869)	(15,522,975)
Funds held for others	(330,448)	658,922
Loans issued to students and employees	(3,356,156)	(3,283,351)
Collections of loans to students and employees	3,019,847	2,770,153
Other receipts	5,562,854	2,977,931
Net cash provided (used) by operating activities	(103,568,965)	(105,867,996)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Appropriated general education revenues:		
State general account	114,286,841	109,791,362
Land grant endowment income	6,714,256	7,864,827
Federal appropriations	3,585,783	4,091,430
Private grants and contracts	63,577	445,071
Gifts from Foundation	11,137,007	7,035,352
Other receipts (payments)	22,615	(468,579)
Net cash provided by noncapital financing activities	135,810,079	128,759,463
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from capital debt	$ 30,740,000	$ 720,404
Capital grants and contracts	1,264,887	1,730,325
Capital gifts	2,454,256	2,450,638
Capital assets	(16,750,891)	(27,065,483)
Principal paid on capital debt and leases	(36,602,542)	(4,317,012)
Interest paid on capital debt and leases	(5,583,015)	(7,154,752)
Net cash provided (used) by capital financing activities	(24,477,305)	(33,635,880)

See notes to financial statements.

Continued

UNIVERSITY OF IDAHO

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

	University of Idaho 2005	University of Idaho 2004
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	13,023,350	19,863,846
Investment income	1,106,963	6,504,001
Purchase of investments	(25,696,532)	(30,177,705)
Principal received on notes receivable	-	987,166
Net cash provided (used) by investing activities	(11,566,219)	(2,822,692)
NET INCREASE IN CASH	(3,802,410)	(13,567,105)
Cash —Beginning of year	15,977,211	29,544,316
Cash—End of year	$ 12,174,801	$ 15,977,211
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (125,648,268)	$ (120,852,862)
Depreciation expense	22,344,637	17,291,610
Change in receivables - net	2,067,273	(1,045,104)
Change in inventory	66,818	152,632
Change in other assets	(43,847)	(682,023)
Change in deferred financing costs	180,820	-
Change in accounts payable and accrued liabilities	(717,092)	(3,441,194)
Change in deposits	-	62,927
Change in deferred revenue	(1,488,858)	1,987,096
Change in funds held for others	(330,448)	658,922
Net cash provided (used) by operating activities	$ (103,568,965)	$ (105,867,996)
NONCASH TRANSACTIONS:		
Property, plant & equipment acquired through assumption of a liability	$ -	$ 102,708
Capital asset write-off's	869,733	-
PPE acquired through DPW appropriations	-	1,369,406
Provision for doubtful accounts	2,030,198	5,041,759
Donated assets	2,260,025	-
Change in fair value of investments	(15,632)	15,889
Change in fair value of assets held in trust	7,495,721	425,275
Increase in receivables related to nonoperating income	350,107	-

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Idaho (the "University") is a publicly-supported comprehensive land grant institution created in 1889 by a statute of the 15th territorial legislature and is part of the public system of higher education in the State of Idaho. The system is considered part of the State of Idaho financial reporting entity. The Board of Regents, appointed by the Governor and confirmed by the State Senate, directs the University. The significant accounting policies followed by the University are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation—In May 2002, the Governmental Accounting Standards Board ("GASB") issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No.14*, which requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The State of Idaho and the Idaho public colleges and universities implemented this Statement for the fiscal year ended June 30, 2004. The University of Idaho Foundation, Inc. (the "Foundation") is considered a component unit of the University and is discretely presented in the University's financial statements.

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. Statement No. 40 amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The State of Idaho and the Idaho public colleges and universities implemented this Statement for the fiscal year ended June 30, 2005.

Basis of Accounting— For financial statement purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated. The University is presenting its financial statements in accordance with GASB Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities*.

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

Component Unit— The Foundation was established in 1970 to solicit financial support for the University of Idaho and to manage and invest the resulting charitable gifts. The Foundation is a separate corporation made up of over 150 volunteers who are governed by a 25 member Board of Directors elected annually by the Foundation members.

The Foundation receives all gifts to the University and transfers gifts to the donor specified area within the University on a regular schedule. In addition, the Foundation manages endowment funds in a pooled investment fund, the Consolidated Investment Trust ("C.I.T."). Earnings from the endowment are transferred annually to the University. Some funds invested in the C.I.T. are held in trust for the University and are shown as both an asset and liability on the Foundation 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 are 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, 2005 and June 30, 2004, the Foundation distributed $7,237,209 and $9,937,996, respectively, to the University from gifts and other revenues and $5,801,703 and $5,016,553, respectively, from C.I.T. endowment income.

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

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

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

Inventories—Inventories are valued at the lower of cost or market using the first in, first out method.

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

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

Property, Plant and Equipment—Property, plant and equipment are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair value at the date of gift. 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.

Compensated Absences—Included in the accrued salaries and benefits payable at June 30, 2005 and 2004 is $6,885,574, and $7,801,014, respectively, related to compensated absences earned but unused. This amount is also included as a component of benefits expense in the statement of revenues, expenses, and changes in net assets.

Deferred Revenue—Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

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

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

Invested In Capital Assets—Net of Related Debt—This represents the University's investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted—Nonexpendable—Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted—Expendable—Restricted expendable net assets include resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

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 federal appropriations, 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. The scholarship discount for 2005 and 2004 was $12,412,945 and $12,091,008, respectively.

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

Reclassifications—Certain reclassifications have been made in the 2004 financial statements to conform to the 2005 presentation.

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

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

2. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents are deposited with various financial institutions. Custodial credit risk on deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. At June 30, 2005, $4,723,875 of the University's bank balance of $12,174,801 was exposed to custodial credit risk because it was uninsured and uncollateralized. At June 30, 2004, $13,580,213 of the University's bank balance of $15,977,211 was exposed to custodial credit risk because it was uninsured and uncollateralized.

3. INVESTMENTS AND REPURCHASE AGREEMENTS

The general investment policy of the University as adopted by its Board of Regents 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.

Repurchase agreements are collateralized by U.S. Government securities held by the pledging financial institution or financial institution's agent in the University's name.

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.

Custodial Credit Risk

The University's investments described above are categorized below to give an indication of the level of risk assumed by the University at June 30, 2005. Category 1 includes investments that are insured or registered, or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the University's name; or by the counterparty's trust department or agent but not in the University's name.

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

	2004			
	Investment Risk Category			Total Carrying Amount
	1	2	3	
INVESTMENTS:				
Corporate debt securities and preferred stock	$ 19,096,839	$ -	$ -	$ 19,096,839
U.S. government or government	10,074,561	1,144,097	-	11,218,658
guaranteed securities	-	-	-	-
Common stocks	1,250,000	-	-	1,250,000
Mutual funds	1,372,730	-	-	1,372,730
	$ 31,794,130	$ 1,144,097	$ -	$ 32,938,227
REPURCHASE AGREEMENTS HELD IN TRUST		$ 712,767		$ 712,767

Interest Rate Risk

Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate fluctuations affect the fair value of investments. The University does not presently have a formal policy that addresses interest rate risk. As of June 30, 2005, the University had the following investments subject to interest rate risk:

Debt Security Investments at June 30, 2005

Investment Maturities In Years

Investment Type:	Fair Value	<1	1-5	6-10	>10	Total
US Corporations	$ 3,062,676	$ -	$ -	$ 692,750	$ 2,369,926	$ 3,062,676
US Government Agencies	12,703,697	1,137,898	54,544	1,357,346	10,153,909	12,703,697
Total	$ 15,766,373	$ 1,137,898	$ 54,544	$ 2,050,096	$ 12,523,835	$ 15,766,373

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 credit risk ratings listed below are issued upon standards set by Standard and Poor's.) As of June 30, 2005, the University had the following investment credit risk:

	U.S. Corporations	United States Agencies	Total
AAA	$ 32,094,925	$ 12,703,697	$ 44,798,622
A	692,750		692,750
	$ 32,787,675	$ 12,703,697	$ 45,491,372

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
Cohen & Steers REIT Auction Preferred	$ 4,000,000	8.79%
Cohen & Steers RPF Float Auction Preferred	4,100,000	9.01%
PIMCO Corp Oppty Auction Preferred	5,900,000	12.97%
Various (no single issuer exceeds 5% of total)	32,324,176	69.23%
Total	$ 46,324,176	100.00%

4. RECEIVABLES AND UNBILLED CHARGES

Receivables and unbilled charges consisted of the following at June 30, 2005 and June 30, 2004, respectively:

	June 30, 2005		June 30, 2004	
	Current	Noncurrent	Current	Noncurrent
Student tuition and fees	$ 2,185,839	$ -	$ 2,266,049	$ -
Auxiliary enterprises	1,280,111		1,416,971	
Other activities	241,719	14,916	393,361	
Federal appropriations	197,282		169,046	
Federal financial aid funds	44,577		40,956	
Grants and contracts	15,138,136		15,427,933	
Scholarships and fellowships	5,418,113		4,672,098	
Notes receivable	7,197,957	-	5,041,759	2,030,198
	31,703,734	14,916	29,428,173	2,030,198
Less allowance for doubtful accounts	(7,455,957)	-	(5,317,390)	-
Net accounts receivable and unbilled charges	$ 24,247,777	$ 14,916	$ 24,110,783	$ 2,030,198

The University holds an unsecured note receivable in the amount of $5,041,759 from the Foundation, a related party, dated October 14, 2003, due December 31, 2005. This note stems from the University Place project in Boise, ID. Variable rate interest is due at maturity at the Wells Fargo daily sweep rate plus 2% (3.98% as of June 30, 2005 and 2.10% as of June 30, 2004). An allowance for the full amount was recorded as of June 30, 2005 and June 30, 2004. There is not sufficient evidence to support the Foundation being able to pay the note when due. The University believes it may be possible to collect on this note once the Foundation proceeds through legal and other potential recoveries. The University is monitoring the Foundation's legal recovery efforts and intends to vigorously pursue collection of this note.

The University also holds an unsecured note receivable in the amount of $2,030,198 from the Foundation, a related party, dated October 14, 2003, due December 31, 2005. This note stems from the University Place project in Boise, ID. Fixed rate interest due at maturity is 1.00%. An allowance for the full amount was recorded as of June 30, 2005, and no allowance was recorded as of June 30, 2004. There is not sufficient evidence to support the Foundation being able to pay the note when due. The University believes it may be possible to collect on this note once the Foundation proceeds through legal and other potential recoveries. The University is monitoring the Foundation's legal recovery efforts and intends to vigorously pursue collection of this note.

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, 2005 and June 30, 2004. Under this Program, the federal government provides approximately 75% of the funding for the Program with the University providing the balance. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions. In the event the University should withdraw from the Program or the federal government were to cancel the program, the amount the University would be liable for is approximately $10,092,715 at June 30, 2005 and $10,023,893 at June 30, 2004.

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 $1,126,177 at June 30, 2005 and $1,114,323 at June 30, 2004.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2005 and 2004 consisted of the following:

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

In addition to accounts payable for construction in progress, the estimated cost to complete property authorized or under construction at June 30, 2005 is approximately $16,447,200. 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, 2003	Additions	Transfers	Retirements	Balance June 30, 2004
	Year Ended June 30, 2004				
Property, plant and equipment not being depreciated:					
Land	$ 9,159,598	$ 1,053,899	$ -	$ (92,884)	$ 10,120,613
Capitalized collections	2,178,401	17,118	-	(30,000)	2,165,519
Equipment construction in progress	239,485	633,759	(141,192)	(4,718)	727,334
Construction in progress	28,825,622	6,839,833	(24,894,666)	(106,280)	10,664,509
Total property, plant and equipment not being depreciated	$ 40,403,106	$ 8,544,609	$ (25,035,858)	$ (233,882)	$ 23,677,975
Other property, plant and equipment:					
Buildings	$ 303,432,349	$ 14,180,280	$ 25,033,039	$ (2,283,368)	$ 340,362,300
Other improvements	36,184,037	511,504	(138,373)	(40,408)	36,516,760
Furniture and equipment	60,388,470	6,201,642	141,192	(2,057,740)	64,673,564
Library materials	48,698,691	2,589,150	-	(570,180)	50,717,661
Total other property, plant and equipment	448,703,547	23,482,576	25,035,858	(4,951,696)	492,270,285
Less accumulated depreciation:					
Buildings	(100,761,139)	(8,545,502)	(10,213)	2,283,368	(107,033,486)
Other improvements	(16,165,694)	(1,571,497)	10,213	40,408	(17,686,570)
Furniture and equipment	(36,239,574)	(5,002,449)	-	2,057,740	(39,184,283)
Library materials	(38,736,643)	(2,172,162)	-	570,180	(40,338,625)
			-		
Total accumulated depreciation	(191,903,050)	(17,291,610)	-	4,951,696	(204,242,964)
Other property, plant and equipment—net	$ 256,800,497	$ 6,190,966	$ 25,035,858	$ -	$ 288,027,321
Property, plant and equipment summary:					
Property, plant and equipment not being depreciated	$ 40,403,106	$ 8,544,609	$ (25,035,858)	$ (233,882)	$ 23,677,975
Other property, plant and equipment—at cost	448,703,547	23,482,576	25,035,858	(4,951,696)	492,270,285
Total cost of property, plant and equipment	489,106,653	32,027,185	-	(5,185,578)	515,948,260
Less accumulated depreciation	(191,903,050)	(17,291,610)	-	4,951,696	(204,242,964)
Property, plant and equipment—net	$ 297,203,603	$ 14,735,575	$ -	$ (233,882)	$ 311,705,296

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2005 and 2004:

	2005	2004
Operating activities	$ 4,172,641	$ 5,854,674
Taxes payable	10,154	18,460
Foundation payable	155,867	170,440
Total accounts payable and accrued liabilities	$ 4,338,662	$ 6,043,574

8. ACCRUED SALARIES AND BENEFITS PAYABLE

Accrued salaries and benefits payable consisted of the following at June 30, 2005 and 2004:

	2005	2004
Payroll and leave payable	$ 25,817,289	$ 22,173,634
Early retirement program—VSROP	146,923	2,802,758
	$ 25,964,212	$ 24,976,392

9. OPERATING LEASES

The University has entered into various noncancellable operating lease agreements covering certain equipment assets. The lease terms range from one to five years. The expense for operating leases was $802,322 for the year ended June 30, 2005 and $854,793 for the year ended June 30, 2004.

Future minimum lease payments on noncancellable leases at June 30, 2005 are as follows:

2006	$ 321,557
2007	160,831
2008	111,089
2009	23,521
2010	6,000
Total future minimum obligations	$ 622,998

10. LONG-TERM LIABILITIES

Long-term liability activity for year ended June 30, 2005 and 2004 is as follows:

	Ending Balance June 30, 2004	Additions	Reductions	Ending Balance June 30, 2005	Amounts Due within One Year
Bonds and notes payable and capital lease obligations:					
Bonds payable	$ 135,526,384	$ 29,299,872	$ 34,247,453	$ 130,578,803	$ 4,726,419
Notes payable	1,945,211	63,458	695,027	1,313,642	229,565
Capital lease obligations	427,564	31,705	315,097	144,172	70,066
Total bonds, notes and capital leases	137,899,159	29,395,035	35,257,577	132,036,617	5,026,050
Other liabilities:					
Accounts payable and accrued liabilities	-	-	-	-	-
Early retirement accrued liability	2,802,758	-	2,802,758	-	-
State teacher loan cancellation deposits	123,475	22,615	-	146,090	-
Total other liabilities	2,926,233	22,615	2,802,758	146,090	-
Long-term liabilities	$ 140,825,392	$ 29,417,650	$ 38,060,335	$ 132,182,707	$ 5,026,050

	Ending Balance June 30, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts Due within One Year
Bonds and notes payable and capital lease obligations:					
Bonds payable	$ 139,162,391	$ -	$ 3,636,007	$ 135,526,384	$ 4,345,000
Notes payable	1,591,226	720,404	366,419	1,945,211	351,517
Capital lease obligations	607,128	135,021	314,585	427,564	313,776
Total bonds, notes and capital leases	141,360,745	855,425	4,317,011	137,899,159	5,010,293
Other liabilities:					
Accounts payable and accrued liabilities	117,191	-	117,191	-	-
Early retirement accrued liability	4,629,483	434,699	2,261,424	2,802,758	2,666,972
State teacher loan cancellation deposits	130,779	29,540	36,844	123,475	
Split-interest agreements	161,248	-	161,248	-	-
Total other liabilities	5,038,701	464,239	2,576,707	2,926,233	2,666,972
Long-term liabilities	$ 146,399,446	$ 1,319,664	$ 6,893,718	$ 140,825,392	$ 7,677,265

11. NOTES AND BONDS PAYABLE

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

Description	Original Balance	Balance Outstanding 2005
Student Fee Refunding Bonds, Series 1996, consisting of serial bonds due in annual installments increasing periodically from $530,000 to a maximum of $860,000, plus interest from 5.05% to 5.80% through the year 2013, collateralized by a pledge of net revenues and certain student fees of the University.	$9,285,000	$5,510,000
Student Fee Revenue Bonds, Series 1996, originally consisting of serial bonds due in annual installments ranging from $435,000 to a maximum of $605,000, plus interest from 5.75% to 5.85% through the year 2011, collateralized initially by a pledge of the University's Student Matriculation Fee and other pledged net revenues. The 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 $2,700,000 and the University has only one remaining annual installment of $455,000, plus interest of 5.75%.	7,965,000	455,000
Student Fee Refunding Revenue Bonds, Series 1997B, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from $690,000 to a maximum of $1,220,000, plus interest from 5.00% to 5.70% through the year 2016, collateralized initially by a pledge of the University's Student Matriculation Fee and other pledged net revenues. The 2005A General Revenue Refunding Bonds extended the general pledge to these Bonds.	12,380,000	10,395,000
Student Fee Revenue Bonds (University Commons Project) Series 1997, originally consisting of serial bonds due in annual installments commencing in 1999 and increasing periodically from $130,000 to a maximum of $1,650,000, plus interest from 4.85% to 5.7% through the year 2022, collateralized by a pledge of certain student fees, and certain other pledged revenue. A portion of these bonds are considered extinguished through defeasance by the 2005A General Revenue Refunding Bonds. The defeased amount is $12,965,000 and the University's remaining annual installments range from $140,000 to a maximum of $145,000, plus interest from 4.95% to 5.50%.	14,100,000	285,000

Description	Original Balance	Balance Outstanding 2005
Student Fee Revenue Bonds (University Commons Supplemental Project) Series 1997, originally consisting of serial bonds due in annual installments commencing in 2000 and increasing periodically from $175,000 to a maximum of $405,000, plus interest from 4.60% to 5.35% through the year 2022, collateralized by a pledge of certain student fees, and certain other pledged revenue. A portion of these bonds are considered extinguished through defeasance by the 2005A General Revenue Refunding Bonds. The defeased amount is $4,120,000 and the University's remaining annual installments range from $180,000 to a maximum of $200,000, plus interest from 4.65% to 5.00%.	$5,620,000	$570,000
Student Fee Revenue Bonds (Recreation Center Project), Series 1999, consisting of serial bonds due in annual installments commencing in 2002 and increasing periodically from $470,000 to a maximum of $1,425,000, plus interest from 3.85% to 6.50% through the year 2025, collateralized by a pledge of certain student fees, and certain other pledged revenue	20,115,000	18,515,000
Student Fee Revenue Bonds, Series 1999A, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from $40,000 to a maximum of $105,000, plus interest from 4.00% to 5.25% through the year 2025, collateralized initially by a pledge of the University's Student Matriculation Fee and other pledged net revenues. 2005A General Revenue Refunding Bonds extended the general pledge to these Bonds.	1,470,000	1,355,000
Student Fee Revenue Bonds, Series 1999B, 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.	6,150,000	5,680,000
Student Fee Revenue Bonds, Series 1999C, originally consisting of serial bonds due in annual installments commencing in 2001 and increasing periodically from $245,000 to a maximum of $515,000, plus interest from 4.65% to 5.70% through the year 2019, collateralized initially by a pledge of University's Student Matriculation Fee and other pledged revenues. 2005A General Revenue Refunding Bonds extended the general pledge to these Bonds. A portion of these bonds are considered extinguished through defeasance by the 2005A General Revenue Refunding Bonds. The defeased amount is $4,065,000 and the University's remaining annual installments range from $260,000 to a maximum of $295,000, plus interest from 4.75% to 5.625%.	6,305,000	1,110,000

Description	Original Balance	Balance Outstanding 2005
Student Fee Revenue Bonds, Series 1999D, originally consisting of serial bonds due in annual installments commencing in 2023 and increasing periodically from $1,385,000 to a maximum of $1,630,000, plus interest from 5.85% to 6.00% through the year 2026, collateralized by a pledge of net revenues of certain student fees, and certain other pledged revenues. These bonds are considered extinguished through defeasance by the 2005A General Revenue Refunding Bonds. The defeased amount is $6,020,000 and the University has no remaining annual installments.	6,020,000	0
Student Fee Revenue Bonds, Series 2001, consisting of serial bonds due in annual installments commencing in 2005 and increasing periodically from $250,000 to a maximum of $2,125,000, plus interest from 3.50% to 5.40% through the year 2041, collateralized initially by a pledge of net revenues of the University's Student Matriculation Fee. 2005A General Revenue Refunding Bonds extended the general pledge to these Bonds.	40,930,000	40,680,000
Student Fee Refunding and Revenue Bonds, Series 2003, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from $20,000 to a maximum of $1,525,000, plus interest from 4.00% to 5.25% through the year 2014, collateralized initially by a pledge of University's Student Matriculation Fee. 2005A General Revenue Refunding Bonds extended the general pledge to these Bonds.	17,585,000	15,485,000
General Revenue Refunding Bonds, Series 2005A, consisting of bonds due in annual installments commencing in 2005 and fluctuating periodically from a minimum of $15,000 to a maximum of $2,265,000, plus interest from 3% to 5% through the year 2026, collateralized by a pledge of all revenues of the University with the exception of general account appropriated funds of the State of Idaho and restricted gift and grant revenues. Revenues pledged to the Recreation Center Bonds and to the Activity Center Bonds are pledged to the 2005A bonds on a subordinate basis until the retirement of the Recreation Center Bonds and Activity Center Bonds.	30,740,000	30,725,000
Other indebtedness, consisting of notes payable with interest rates ranging from 3.8% to 5% due through the year 2019	2,790,768	1,313,642
Total	180,952,086	132,078,642
Premium on Bonds		3,048,337
Deferred amount on Refunding – 2005A		(3,234,534)
TOTAL	**$180,952,086**	**$131,892,445**

There are a number of limitations and restrictions contained in the various bond indentures.

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

	Interest	Principal
2006	$ 6,653,644	$ 4,955,984
2007	6,417,119	5,100,292
2008	6,167,124	6,113,066
2009	5,904,091	5,453,257
2010	5,650,431	5,708,599
2011 – 2015	23,930,180	28,129,650
2016 – 2020	16,510,156	26,056,370
2021 – 2025	10,270,305	24,520,320
2026 – 2030	5,886,773	7,594,673
2031 – 2035	4,203,360	7,014,063
2036 – 2040	2,100,060	9,119,063
2041 – 2045	114,750	2,127,108
	$ 93,807,993	$131,892,445

Bond Refunding - On February 10, 2005 the University issued General Revenue Bonds of $30,740,000 (par value) with interest rates of 3.00% to 5.00% to advance refund the following bonds:

	Refunded Principal	Redemption Premium	Interest Rates	Maturity Dates	Call Dates
1996 TIP	$ 2,700,000	$ 27,000	5.580%	April 1, 2011	April 1, 2006
1997 Commons Project	12,965,000	129,650	5.500 - 5.700%	April 1, 2013-17 & 2022	April 1, 2007
1997 Commons Supp.	4,120,000	41,200	4.900 - 5.350%	April 1, 2009-12 & 2017 & 2022	April 1, 2008
1999C	4,065,000	40,650	5.625 - 5.700%	April 1, 2014 & 2019	April 1, 2009
1999D	6,020,000	60,200	5.850 - 6.000%	April 1, 2024 & 2026	April 1, 2009
Total	$29,870,000	$298,700			

The 2005A General Revenue Bonds were issued with a net premium of $1,883,640 and, after paying issuance costs of $447,502 and establishing a debt service reserve account of $699,661, the net proceeds were $31,476,477. The net proceeds along with additional funds of $1,208,164 were used to purchase U.S. government securities and those securities were deposited in an escrow account to provide debt service payments until the final refunded bonds are called on April 1, 2009. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the University's financial statements.

As a result of the advance refunding the University reduced its total debt service requirements by $2,490,635 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $1,737,018.

Pledged Revenues – As stated in the bond descriptions above, the University has pledged certain revenues as collateral for debt instruments. The pledged revenue amounts for the year ended June 30, 2005 are as follows:

	Matriculation Fee and General Revenue System Series 1996 TIP, 1997B, 1999A, 1999B, 1999C, 2001, 2003 & 2005A	**Activity Center Fee System Series 1996, 1997 Commons, Commons Supplemental, & Series 1999D**	**Student Recreation Center System Student Recreation Center Series 1999**	**Total**
Pledged Revenues				
Student matriculation fee	$ 25,551,608	$	$ 38,385	$ 25,589,993
Residence hall system	7,158,419			7,158,419
Apartment housing system	1,854,317			1,854,317
Food service (meal plan)	3,317,706			3,317,706
Food service (institutional food service system)		645,026		645,026
Bookstore		7,628,121		7,628,121
Parking system	1,190,807			1,190,807
Telecommunication system ecommunicaitons system	3,262,837			3,262,837
Other student fees and tuition	1,110,617	2,742,735	1,667,855	5,521,207
Investment income	61,254	20,337	334	81,925
Total pledged revenues	$ 43,507,565	$ 11,036,219	$ 1,706,574	$ 56,250,358

12. CAPITAL LEASES

The University has entered into various capital lease agreements covering certain computer and telecommunication assets and maintenance. At June 30, 2005 and 2004, assets under capital leases totaled $1,083,056 and $1,098,305, respectively, and are included in property, plant and equipment. Future minimum lease obligations under these agreements for the year ending June 30, 2005 are as follows:

2006	$ 75,084
2007	43,003
2008	34,309
Total minimum obligations	$ 152,396
Less amount representing interest	(8,224)
Present value of minimum obligations	$ 144,172

13. RETIREMENT PLANS

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

After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each year of credited service, the annual service retirement allowance is 1.917% or 2.225% (depending upon employee classification) of the average monthly salary for the highest consecutive 42 months.

For the years ended June 30, 2005 and 2004, the required contribution rate as determined by PERSI was 9.77% and 5.86% of covered payroll for the University and employees, respectively. The University's contributions required and paid were $5,244,318 and $4,984,862, for the years ended June 30, 2005 and 2004, respectively.

Optional Retirement Plan—Effective July1, 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.

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 62 years of age. The contribution requirement (and amount paid) for the years ended June 30, 2005 and 2004 were $8,886,361 and $8,698,483, respectively, that consisted of $4,670,037 from the University and $4,216,324 from employees for 2005 and $4,571,295 from the University and $4,127,188 from employees for 2004.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute to PERSI 3.03% of the annual covered payroll. These annual supplemental payments are required through July 1, 2015. During the years ended June 30, 2005 and 2004, the supplemental funding payments made to PERSI were $1,831,227 and $1,784,474. This amount is not included in the regular University PERSI contribution discussed previously.

Early Retirement Program — During fiscal year 2002, the University offered the Voluntary Separation and Retirement Opportunities Program ("VSROP"). The purpose of VSROP was to afford eligible faculty and staff members who desired to leave or retire from the University an opportunity to do so with additional economic incentives. This was a one-time program and is not expected to become an on-going feature of University benefits. The University accepted enrollment in VSROP from February 1, 2002 to April 2, 2002 only. Included in accrued salaries and benefits payable at June 30, 2005 and 2004 is $146,923 (undiscounted) and $2,802,758 (undiscounted), respectively, associated with this program.

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

The University partially funds these obligations by depositing a percentage of employee gross payrolls into a designated university budget. This percentage was 1.5% at June 30, 2005 and June 30, 2004. The University had expenses totaling $2,975,588 in fiscal 2005 to purchase insurance for 707 retired employees and expenses totaling $2,941,547 in fiscal 2004 to purchase insurance for 712 retired employees receiving these benefits. As of June 30, 2004, approximately $4,288,113 is available to fund these obligations, in Fiscal 2004 the amount available was $2,670,534.

The GASB has issued Statement No. 45 that will require the University to record these obligations on an actuarially determined basis. An actuarially determined valuation of this obligation will likely be significantly higher than the amount currently accrued. During fiscal year 2005 the President appointed a task force of faculty, staff, and retirees to recommend changes to the post retirement benefit plan.

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 2005 and 2004. The following table shows natural classifications with functional classifications:

Expenses 2005	Salaries	Benefits	Services	Supplies	Ins, Utilities, Rent	Sch. & Fellow	Depreciation	Other	Totals
Instruction	$ 43,376,295	$ 13,724,897	$ 9,619,108	$ 4,134,395	$ 848,819	$ 4,484,621	$ -	$ 1,102,996	$ 77,291,131
Research	42,660,758	12,666,073	11,677,488	6,147,836	700,344	911,472	-	523,756	75,287,727
Public Service	12,150,700	3,617,928	2,749,058	958,378	282,897	254,148	-	406,857	20,419,966
Academic Support	5,358,542	1,706,259	632,537	595,811	89,129	5,700	-	52,973	8,440,951
Libraries	2,230,050	767,289	469,135	(188,616)	-	-	-	6,789	3,284,647
Student Services	4,831,759	1,709,879	620,591	360,593	42,411	49,094	-	136,318	7,750,645
Institutional Support	11,434,625	4,601,126	5,742,102	2,427,083	294,343	6,140	-	541,879	25,047,298
Plant Operations	6,378,068	2,663,681	8,474,416	(5,939,508)	6,534,785	2,514	22,344,637	1,678,102	42,136,695
Scholarships and Fellowships	907,685	1,175	6,726	-	-	7,968,203	-	200,145	9,083,934
Auxiliaries	9,465,899	1,719,133	3,847,152	10,620,914	713,900	728,618	-	599,818	27,695,434
	$ 138,794,381	$ 43,177,440	$ 43,838,313	$ 19,116,886	$ 9,506,628	$ 14,410,510	$ 22,344,637	$ 5,249,633	$ 296,438,428

Expenses 2004	Salaries	Benefits	Services	Supplies	Ins, Utilities, Rent	Sch. & Fellow	Depreciation	Other	Totals
Instruction	$ 43,403,205	$ 16,792,768	$ 8,433,677	$ 3,880,000	$ 303,464	$ 454,611	$ -	$ 880,509	$ 74,148,234
Research	40,626,314	11,180,342	13,124,323	6,972,952	777,024	269,850	-	382,995	73,333,800
Public Service	11,607,033	3,742,859	3,470,681	1,004,514	165,915	221,014	-	501,963	20,713,979
Academic Support	5,193,736	1,596,213	979,785	823,166	76,721	82,545	-	30,633	8,782,799
Libraries	2,082,962	772,159	793,643	410,792	-	-	-	-	4,059,556
Student Services	4,689,768	1,714,894	1,056,896	396,010	41,129	34,097	-	73,475	8,006,269
Institutional Support	10,782,977	3,093,369	1,703,955	1,355,742	3,222,350	178,129	-	853,895	21,190,417
Plant Operations	6,684,565	2,980,763	1,086,302	3,289,852	2,097,008	-	17,291,610	348,239	33,778,339
Scholarships and Fellowships	1,175,872	1,668	5,955	-	-	14,271,403	-	155,999	15,610,897
Auxiliaries	8,477,326	3,532,065	1,766,675	11,959,867	1,124,260	11,325	-	289,175	27,160,693
	$ 134,723,758	$ 45,407,100	$ 32,421,892	$ 30,092,895	$ 7,807,871	$ 15,522,974	$ 17,291,610	$ 3,516,883	$ 286,784,983

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, the University's administration believes any ultimate liability in these matters will not materially affect the financial position of the University.

Litigation

The University of Idaho is party to two lawsuits related to the University Place project in Boise, Idaho.

In May 2005, the Foundation initiated a legal malpractice action against two law firms and several individual lawyers in those firms. Thereafter, the University joined in the litigation with respect to one of the law firms and individual attorneys in that firm. Both firms have filed counterclaims and cross-claims against the University. Specific damage amounts are not alleged; however, the Foundation's initial claims seek in excess of $25 million.

In March 2004, the Foundation filed a claim with an insurance company for losses sustained as a result of errors and omissions of individuals in regard to the University Place project. The University of Idaho subsequently filed a similar claim with the insurance carrier. Both the University and the Foundation are named insureds under this policy, which provides first party coverage for the failure of state employees and volunteers to perform their duties faithfully. A joint proof of loss was submitted to the carrier in November, 2004 seeking to recover $10 million. The insurance company denied coverage in April, 2005. In June, 2005, the Foundation and the University jointly filed a lawsuit in state court seeking a determination of coverage under the policy.

The litigation against the law firms, the insurance company and separate litigation filed by the Foundation against the original developer of the University Place project has been consolidated. A trial is scheduled to commence in January 2007 in the consolidated case.

No specific damage amounts have been alleged in the claims that give rise to the contingent liability on counterclaims, therefore the estimated amount or range of loss is indeterminable.

16. RECLASSIFICATION OF NET ASSETS AND SCHOLARSHIP ALLOWANCE

During a review of net asset classifications, it was determined that unspent bond proceeds were previously classified as capital assets and should have been classified as restricted – expendable assets. This requires a reclassification of previously stated net assets. The effect of the reclassification is to decrease invested in capital assets – net of related debt and increase restricted – expendable net assets by equal amounts. There is no impact on the change in net assets of previous years.

The University has corrected the classification of amounts between invested in capital assets – net of related debt and restricted – expendable net assets as of June 30, 2004 as follows:

	Invested in capital assets - net of related debt	Restricted - Nonexpendable	Restricted - Expendable	Unrestricted	Total
Net assets, June 30, 2004 as previously classified	$ 179,046,309	$ 71,171,461	$ 15,388,436	$ 29,918,062	$ 295,524,268
Reclassification	(5,242,612)	-	5,242,612	-	-
Net assets, June 30, 2004 as reclassified	$ 173,803,697	$ 71,171,461	$ 20,631,048	$ 29,918,062	$ 295,524,268

During a review of revenue and expense classifications, it was determined that there was a misclassification in the scholarship allowance calculation in the year ended June 30, 2004. This requires a reclassification of previously classified operating revenues and expenses. The effect of the reclassification is to increase student tuition and fee revenue, increase benefits expense and increase scholarships expense. There is no impact on the change in net assets of previous years.

The University has corrected the amounts of the operating revenue and expense balances as of June 30, 2004 as follows:

	Student Tuition & Fee Revenue	Benefits Expense	Scholarship Expense
June 30, 2004 previously classified	$ 35,126,457	$ 42,355,153	$ 9,466,680
Reclassification	9,108,241	3,051,947	6,056,294
June 30, 2004 reclassified	$ 44,234,698	$ 45,407,100	$ 15,522,974

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. The Foundation is made up of over 150 volunteers who are governed by a 25 member Board of Directors elected annually by the Foundation members. The Foundation is supported by professional staff of the University in the Foundation Office, Trust & Investment Office, the Development Office, and throughout the colleges. Separate audited financial statements are prepared for the Foundation and may be obtained by contacting University of Idaho Foundation, PO Box 443143, Moscow, Idaho 83844-3143.

The majority of the resources, or income earned from those resources, that the Foundation holds and invests are restricted by donors to the activities of the University. 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, 2005 and 2004 are as follows:

University Place In Boise

Over the past several years the Foundation has assisted the University in developing the University Place project in Boise, Idaho. The Foundation's involvement was at the request of the University administration to help them in their goal of consolidating the programs offered by the University in the Treasure Valley. During fiscal year 2004, approximately $6.1 million of predevelopment costs associated with the Health Professions Center were written off. The Foundation has been focused the past two years on maximizing the recovery of some of the predevelopment cost and repayment of related debt. During fiscal year 2005 and 2004 the Foundation received $1.8 million and $4.9 million, respectively, in construction savings reimbursements from the Idaho State Building Authority and funds from the garage equalization fund.

Investments

Investments in marketable securities are recorded at fair value as determined by quoted market prices. At June 30, 2005, the fair value of restricted and unrestricted investments was $171,347,476 and $3,716,009 respectively. At June 30, 2004, the fair value of restricted and unrestricted investments was $156,501,865 and $6,671,470 respectively.

The majority of investments held by the Foundation are part of the pooled endowment fund referred to as the Consolidated 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, 2005:

Investment Type	Fair Value
U.S. Government Treasury and Agency Obligations	$25,419,753
Corporate Debt and Preferred Stock	46,103,191
Common Stock	102,228,872
Mutual Funds	1,311,669
	$ 175,063,485

Interest Rate Risk

Interest rate risk is defined by GASB Statement No. 40 as the risk a government agency may face should Interest rate fluctuations affect the fair value of investments. The Foundation does not presently have a formal policy that addresses interest rate risk. As of June 30, 2005, 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	$ 20,900,368	$ 444,492	$ 3,827,226	$ 4,154,506	$ 12,474,144
U.S. Gov. Agency Obligations	22,666,501	1,312,031	134,059	2,015,733	19,204,678
U.S. Treasuries	2,753,252	176,552	1,127,618	348,248	1,100,834
Other Corporate Debt	175,930	-	-	24,500	151,430
	$ 46,496,051	$ 1,933,075	$ 5,088,903	$ 6,542,987	$ 32,931,086

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, 2005, the Foundation had the following investment credit risk:

Credit Rating	**Fair Value**
AAA	$ 30,618,821
AA	1,629,395
A	6,407,024
BBB	14,588,782
BB	737,840
CCC	863,070
Not Rated	16,678,012
	$ 71,522,944

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.)

Issuer	Fair Value	% of Total Investments
Common Fund Multi-Strategy Bond Fund	$ 10,615,298	6.06%
Various (no single issuer exceeds 5% of total)	164,448,187	93.94%
Total	$ 175,063,485	100.00%

Distributions To University Of Idaho And Affiliates

During fiscal years 2005 and 2004, earnings from endowments held in the C.I.T., direct gifts and other revenues to the Foundation were distributed as follows:

	2005		2004	
	C.I.T. Endowment Income	Gifts and Other Revenues	C.I.T. Endowment Income	Gifts and Other Revenues
Scholarships	$3,180,512	$2,372,617	$2,722,298	$2,162,847
Student loans	168,923	300	146,776	0
Building funds	0	1,660,554	0	2,514,057
Real Property	0	604,660	0	
University of Idaho College and Department Operating Accounts:				
Academic Excellence	516,455	40,622	445,143	63,634
Agricultural and Life Sciences	201,783	265,894	168,316	1,084,919
Athletics	37,644	173,869	35,868	289,577
Business and Economics	235,185	167,353	209,391	190,854
Education	10,939	115,285	6,268	89,779
Engineering	62,440	373,522	60,030	423,311
Law	181,603	197,890	156,505	198,525
Letters, Arts & Social Sciences	327,115	449,462	277,731	306,746
Library	108,884	10,028	96,970	10,076
Natural Resources	101,424	264,309	91,072	936,632
Science	115,929	193,323	106,947	1,005,463
Other departments	169,462	300,247	151,281	648,571
Life beneficiaries	345,287		312,362	
University of Idaho affiliates	38,118	47,274	29,595	13,005
	$5,801,703	$7,237,209	$5,016,553	$9,937,996

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

	2005	2,004
Unsecured note payable to the University of Idaho, a related party, dated October 14, 2003, due December 31, 2005. Variable rate interest due at maturity at Wells Fargo daily sweep rate plus 2% (3.98% as of June 30, 2005). Proceeds were used to finance University Place in Boise.	$ 5,041,759	$ 5,041,759
Unsecured note payable to a third party, dated January 17, 2003, due January 17, 2006. Fixed rate interest due quarterly at 3.85%. Proceeds were used to refinance another note, which was originally used to finance University Place in Boise.	0	6,000,000
Variable rate demand revenue notes, Series 2000, University of Idaho College of Business Project. Dated November 22, 2000, due January 1, 2007, secured by pledges to the building campaign. Variable rate interest due monthly (2.33% as of June 30, 2005). Proceeds were used to finance J.A. Albertson Building at UI Campus. Original note amount was $9,205,000.	3,400,000	3,900,000
Unsecured note payable to the University of Idaho, a related party, dated October 14, 2003, due December 31, 2005. Fixed rate interest due at maturity at 1%. Proceeds were used to finance University Place in Boise.	2,030,198	2,030,198
	$ 10,471,957	$ 16,971,957

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

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

Activity for the year ended June 30, 2004 is as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Notes payable	$ 18,962,823	$ -	$ (1,990,866)	$ 16,971,957	$ 5,041,759

Principal and interest payment on notes payable are due as follows for the year ended June 30, 2005:

	Interest	Principal
2006	$ 152,393	$ 7,071,957
2007	39,610	3,400,000
Total	$ 192,003	$ 10,471,957

The Foundation's debt obligations exceed its unrestricted assets. Plans to manage current debt are as follows. The debt associated with the construction of the University of Idaho College of Business project is secured by pledges to the building campaign. The obligation on the note exceeds the pledges. The note is paid down annually based upon the pledges collected during the period.

No funding source has been identified for the repayment of the $5,041,759 and $2,030,198 notes payable to the University due December 31, 2005. The Foundation is pursuing all avenues of recovery and settlement of this note.

18. RELATED ORGANIZATIONS

The Idaho Research Foundation, Inc. (the "Research Foundation") is a separate legal entity that provides technology transfer services to the University. On January 17, 2002, the University executed a revolving line-of-credit agreement with the Research Foundation not to exceed $200,000. As of June 30, 2005 and 2004, the Research Foundation has drawn $126,000 on the line-of-credit. Interest of 5% is due annually on the outstanding balance. The note had an original due date of June 30, 2005 but has been extended without the ability to take further draws. Payment of all outstanding interest and principal is due June 30, 2006. 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 intercollegiate athletic department. Contributions received by the University from this organization are recorded as gifts. Unaudited net assets of the Boosters at June 30, 2005 and 2004 were $321,439 and $213,598, 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.

* * * * * *

MOSS-ADAMS LLP

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Idaho State Board of Education
University of Idaho
Moscow, Idaho

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

Internal control over financial reporting

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain additional matters that we reported to management of the University in a separate letter dated September 30, 2005.

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

Moss Adams LLP

Eugene, Oregon
September 30, 2005

SINGLE AUDIT INFORMATION

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 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, 2005. 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 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 on 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, 2005. However, the results of our auditing procedures disclosed certain instances of noncompliance with those requirements that are required to be reported under OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, and 2005-07.

INTERNAL CONTROL OVER COMPLIANCE

The management of the University is responsible for establishing and maintaining effective internal control over compliance with 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 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, and 2005-07.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses.

This report is intended solely for the information and use of the Idaho State Board of Higher 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
February 28, 2006

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__ none reported
• Reportable condition(s) identified that are not considered to be material weaknesses?	____ yes	__X__ none reported
Noncompliance material to financial statements noted?	____ yes	__X__ no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	____ yes	__X__ none reported
• Reportable condition(s) identified that are not considered to be material weaknesses?	__X__ yes	____ 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 OMB Circular A-133?	__X__ yes	____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.500	U.S. Department of Agriculture Cooperative Extension Service
	U.S. Department of Education Student Financial Aid Cluster
84.007	Supplemental Educational Opportunity Grant Program
84.033	Federal Work-Study Program
84.063	Pell Grant Program
84.038	Federal Perkins Loan Program
84.246	Federal Direct Lending Program

CFDA Number(s) cont.	Name of Federal Program or Cluster cont.
Various	Research & Development Cluster
	U.S. Department of Education
	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
	U.S. Department of Health and Human Services
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: $2,410,573

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

II. FINANCIAL STATEMENT FINDINGS

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2005-01—Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Federal Program: General—Schedule of Expenditures of Federal Awards

Federal Agency: Office of Management and Budget (OMB)

Award Year: 2004-2005

Criteria –OMB Circular A-133, Section 300, requires a recipient of Federal awards to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Additionally, Section 310 requires recipients to prepare a Schedule of Expenditures of Federal Awards for the period covered by the organization's financial statements.

Condition: The University did not have procedures in place to ensure the completeness of the SEFA. Amounts identified as Federal funds passed through from the State of Idaho were not reconciled to University records for inclusion in the SEFA. Additionally, amounts received through Congressional appropriations to land grant institutions were not initially reported in the SEFA. Further, amounts received from pass-through entities other than educational institutions were not examined for determination of the amount of Federal funds involved. Rather, the University treated all funds received as Federal if the pass-through entity indicated there were any Federal funds associated with the grant or award.

Questioned Costs – None

Context – The exclusion of the Congressional appropriations understated certain amounts reported on the SEFA. The treatment of all pass-through awards with any Federal funds as all Federal funds overstated certain amounts reported on the SEFA. The lack of reconciliation to a report issued by the State of Idaho could under-state or over-state the amounts reported on the SEFA. However, the University was not aware of the existence of this report until the audit and corrected the SEFA once notified.

Effect – Due to the absence of a thorough and complete process for preparing the SEFA, the University did not identify all Federal funds received or expended in accordance with Circular A-133. Additionally, it indicated the University did not have a mechanism for determining the correctness of the amounts reported on the SEFA.

Cause – The absence of a thorough and complete process for preparing the SEFA appears to be due to personnel changes in key positions and organizational shifts in the responsibility for preparation of the Schedule, coupled with incorrect historical practices.

Recommendation – Moss Adams recommends the University develop and implement policies to ensure the preparation of the SEFA is complete and thorough. Such a policy should include mechanisms for the timely and accurate identification of federal funds received from all sources. Additionally, responsibility for preparation of the Schedule should be considered from an institution-wide perspective, rather than on a component basis.

FINDING 2005-02—Cash Management: Return of Excess Interest Earnings

Federal Program: Research and Development (R&D) Cluster

Federal Agency: Department of Health and Human Services (DHHS)

Award Year: 2004-2005

Criteria –OMB Circular A-110, Section 22, outlines requirements for the return of excess interest earnings on Federal funds received in advance. Such interest earnings in excess of $250 per annum are to be remitted to the Department of Health and Human Services. The Circular further indicates state universities are to comply with the provisions the Cash Management Improvement Act (CMIA), as it pertains to interest. The agreement between the State of Idaho and the US Treasury implementing the CMIA excludes state universities from all other provisions of the Act. The CMIA outlines procedures and methods for the calculation of interest liabilities of both the state entity and the Federal government. Interest liabilities of the state entity can be offset by interest liabilities of the Federal government for funds not subject to standard processing methods. Accordingly, interest liabilities arising from interest earned on grant funds provided in advance can be offset by amounts owed to the institution by Federal agencies for reimbursement of expenditures outside the normal processing methods.

Condition: The University did not have procedures in place to identify or track interest earnings on Federal grant funds provided to the institution in advance. Such funds totaled approximately $1.67 million from over

100 grants at June 30, 2005. Similarly, there were no procedures to identify and track offsetting amounts from other-than-normal un-reimbursed expenditures. As a result, net excess interest earnings were not identified and remitted to DHHS on an annual basis.

Questioned Costs – Unknown. Limitations within the University's financial system precluded the determination of historical information in the categories needed to determine Federal funds advanced and expenditures not reimbursed. Such information was needed to estimate the net interest liability. The University has established procedures to identify and track this information on a prospective basis.

Context – The lack of a complete and thorough process means the University cannot reasonably determine whether or not there was an interest liability owed DHHS. It is possible, for a given period, that the amount of un-reimbursed expenditures could exceed the amount of funds received in advance, with the result of no net interest liability for the institution. However, there was no way to ascertain that with any certainty.

Effect – The absence of a process to identify and monitor excess interest earnings permitted the possibility of a liability to the Federal government in an undetermined amount.

Cause – The absence of a process to identify and monitor excess interest earnings appeared to be due to a lack of awareness of cash management requirements for state institutions of higher education.

Recommendation – Moss Adams recommends the University develop and implement policies to ensure the timely and accurate determination of interest earnings from Federal funds received in advance as well as expenditures not reimbursed by Federal agencies outside the normal drawdown timeframes. As required, we further recommend remittance of net interest earnings from these sources in excess of $250 annually to DHHS.

FINDING 2005-03—Subrecipient Monitoring: Review of Subcontractor Invoices and Subcontractor Audit Reports

Federal Program: Research and Development (R&D) Cluster

Federal Agency: Department of Health and Human Services (DHHS)—Cognizant Agency

Award Year: 2004-2005

Criteria – OMB Circular A-133, Section 400(d) outlines the responsibilities of recipients of Federal awards regarding funds passed-through to other organizations. Specifically, the pass-through entity is to: (1) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contract or grant agreements and that performance goals are achieved; and (2) ensure that subrecipients, as qualified, meet the audit requirements of Circular A-133, and to review subrecipient audit findings and corrective action. In a university setting, subcontractors are most often other institutions.

Condition – Review and approval of several subcontractor invoices for payment for work performed on Federal awards were done by administrative or fiscal personnel, not by the grant Principal Investigator (PI) or other qualified research personnel. Secondly, the process for obtaining and reviewing subcontractor audit reports was not timely or complete in fiscal year 2005.

Questioned Costs – None.

Context – Review and approval of subcontractor invoices performed by administrative or fiscal personnel raises questions about the technical skills and abilities of those individuals to gauge the adequacy and correctness of research work performed by the subcontractor, typically research staff at other institutions. Unlike other grant expenditures, subcontractor invoices, by their very nature, are not reviewed in the electronic queue process by any office beyond the using department or college. Most grant agreements, as well as the University of Idaho Faculty and Staff Handbook, assign the responsibility for monitoring the work of subcontractors to the PI. Accordingly, requests for payment to subcontractors should show evidence of PI or designated research staff review and approval. In a sample of 13 grants with subcontractors, 6 had review and approval of subcontractor requests for payment done by other than the PI or designated research staff; rather, the review was performed by administrative or fiscal personnel.

The University initiated a project in April 2005 to obtain subcontractor audit reports or certificates of no audit issues from subcontractors. Approximately 90 letters were sent to subcontractors. As of September, 2005, only half of the responses had been received and no follow up had occurred. Of the responses received, a substantial number of subcontractors indicated their audits were not yet complete, and that results would be forwarded at a later date. Again, even though those dates had passed, no follow up action was taken by the University. Lastly, two respondents indicated their audits disclosed instances of material non-compliance, material weaknesses, or reportable conditions in internal control, and attached a copy of the audit report. The University did not review those reports for applicability to the awards passed through or for the adequacy of corrective action.

Effect – Monitoring of subcontractor performance, in terms of work performed and audit results, was either not effectively performed or was performed by personnel not skilled in the research areas. Accordingly, funds passed through to the associated subcontractors may not have been used in compliance with grant provisions or could be inappropriate for the services performed.

Cause – Inadequate or incomplete review of subcontractor invoices appears to be due to a lack of clear understanding as to what personnel should be doing the review and approval. The lack of timely or complete monitoring of subcontractor audits appears to be due to personnel turnover and staffing constraints within the University Research Office.

Recommendation - Moss Adams recommends the University develop and implement a policy to specify, by level or position, review and approval responsibilities for subcontractor requests for payment, with consideration of the technical skills required and the presence or absence of other reviews external to the using organization for this type of expenditure. Secondly, we recommend the University review the existing policies for monitoring subcontractor audits, and take appropriate action to ensure compliance with those policies in the future.

FINDING 2005-04—Allowable Costs: Personnel Level of Effort Reporting

Criteria-- OMB Circular A-21, Section J.8., provides guidance on payroll distribution requirements for salaries and wages charged to federal grants. A key provision of this requirement is that amounts charged must be based upon actual effort, not budget or estimates. To provide institutions flexibility in meeting these requirements, the Circular outlines several acceptable methods of documenting and reporting amounts charged to grants. The University of Idaho operates under the After-the-Fact Activity Records method, where the distribution of salaries and wages of professorial and professional staff is based on an after-the-fact reporting of the percentage distribution of activity of employees. Charges may initially be made on the basis of estimates, but must be adjusted if there are significant differences in the activity records. For professorial and professional staff, activity reports must be prepared each academic term, but no less frequently than every six months. The University uses a Personnel Activity Report (PAR) to comply with this requirement, with semi-annual completion required, matching the two semester academic year of the institution.

Condition – From a sample of expenditures charged to federal grants, our testing revealed 3 instances out of a population of 23 required reports where the PAR was not completed. Additionally, the procedures in place at the University for monitoring this aspect of compliance by the Office of Sponsored Programs (OSP) were not completed in FY 2005.

Questioned Costs- None.

Context – The instances of noncompliance across different grants indicate an institution-wide lack of understanding by research personnel of the purpose and use of the PAR and the importance of a system of personnel activity reporting to granting agencies. The lack of appropriate follow up by University Administration to ensure compliance compounds the issue.

Effect-- The noncompliance and associated lack of oversight by the University resulted in the potential for mischarging individual grants, in those situations where actual effort differed from planned effort.

Cause - The instances of noncompliance with the PAR requirement appears to be due to a lack of emphasis within the associated departments and colleges of the University. The failure of the oversight process within OSP appears to be due to personnel turnover and establishment of higher priorities.

Recommendation - We recommend the University develop policies and implement procedures to strengthen the personnel effort reporting system. We understand transition to on-line submission of the reports is scheduled in the near future; we recommend concurrent review of the reporting procedures to ensure complete and timely compliance with Circular A-21.

FINDING 2005-05—Allowable Costs: Internal Controls at the Center for Advanced Microelectronics and Biomolecular Research

Criteria—OMB Circular A-110, Section 21, requires recipients of federal awards to operate financial management systems that provide "effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes." OMB Circular A-133, section 300, requires recipients of federal awards to "maintain internal control over federal programs that provide reasonable assurance that the [recipient] is managing federal awards in compliance with laws, regulations, and the provisions of grants and contracts." Section 105 of Circular A-133 provides further definition to internal controls over the compliance requirements for federal programs, with emphasis on proper recording and accounting for transactions; compliance with laws, regulations, and provisions of grant agreements; maintaining accountability over assets; and safeguards against unauthorized use of funds and other assets. OMB Circular A-21 provides cost principles for educational institutions, with specific guidance on the reasonableness, allowability and allocation of costs.

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. 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. Specific instances involved improper timekeeping for CAMBR employees, use of University employees and equipment for private-commercial purposes, charging unallowable moving costs to federal grants, inappropriate charging of personnel fringe benefits to federal grants, and violation of nepotism policies. Additionally, oversight and monitoring of CAMBR activities by the University was insufficient to identify and correct the noncompliance and policy violations.

Questioned Costs- Undetermined.

Context – Allegations of improper management, misuse of federal funds, and the private use of University employees and funds at CAMBR prompted an internal investigation of CAMBR internal controls by the University. The investigation substantiated all of the instances cited in the *Conditions* paragraph above, plus numerous lesser violations. Subsequent review by the external auditors further substantiated the inadequate internal control environment at CAMBR. The lack of adequate internal controls crossed several fiscal years and affected multiple grants, either through direct or indirect charges to the grants.

Effect-- The inadequate internal control environment at CAMBR and associated lack of oversight by the University resulted in instances of employee salaries, fringe benefits, and equipment costs being improperly charged to federal grants.

Cause – The geographical separation of CAMBR from the main University campus and the lack of formal oversight by the University Research Office contributed to the weak control environment. In addition, CAMBR management was either unaware or did not enforce established policies as required by University, Federal or State regulations.

Recommendations – We recommend the University expedite the establishment of a Compliance Officer position within the University Research Office as a top priority. That position's primary responsibility would be to oversee the operations of the several research centers and institutes of the University. Secondly, we recommend the University 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 this year.

FINDING 2005-06 - Return of Title IV Funds for Unofficial Withdrawals

Federal Program: Student Financial Aid Cluster

Federal Agency: U.S. Department of Education

Award Year: 2004-2005

Criteria – Per the 2004-05 Federal Student Aid Handbook, Vol. 5, Chap. 2a, an institution must have a procedure for determining whether a Federal Student Aid recipient, who began attendance during a period, completed the period, or should be treated as a withdrawal. If a student who began attendance, and has not officially withdrawn, fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period. A school that is not required to take attendance may use either the midpoint of the period (as described in 34CFR 668.22(.c)) or a student's last day of attendance at, or participation in, any academically related activity as the student's withdrawal date.

Furthermore, as described in 34CFR 668.22(j)(2) a school must determine the withdrawal date (for a student who withdrew without providing notification) within 30 calendar days from the earlier of (1) the end of the payment period or period of enrollment, as applicable, (2) the end of the academic year, or (3) the end of the student's educational program.

Condition – The University of Idaho has considered students who received all failing grades to have completed the semester attending classes while not passing the class. Due to this policy, the University did not evaluate or perform Return of Title IV refund calculations on Federal Student Aid recipients who fail to receive a passing grade.

Questioned Costs - Undetermined

Context – None of the students who had not earned a passing grade as of the end of the payment period had been considered for Return of Title IV funds calculation.

Effect – Based on the policy used, the attendance of students throughout the term had not been established. Therefore, the University of Idaho was not able to determine the extent of Title IV funds required to be returned to the U.S. Department of Education.

Cause – The instances of no return of Title IV funds being calculated or returned appeared to be due to misinterpretation of the U.S. Department of Education guidelines.

Recommendation - Moss Adams recommends the University develop and implement a policy to ensure that at the end of each payment period or period of enrollment the University determines unofficial withdrawal status for students with no passing grades. This determination should be done within 30 days of the end of the semester. Furthermore, it is recommended the policy ensure that the University performs a Return of Title IV funds calculation for those students determined to be unofficially withdrawn and any funds due to the U.S. Department of Education are returned within 30 days of making such determination.

FINDING 2005-07—Allowable Costs: Retirement Contributions

Federal Program: Cooperative Extension Service (Smith Lever), CFDA #10.500

Federal Agency: United States Department of Agriculture (USDA)

Award Year: 2004-2005

Criteria—United States Code, Title 7, Chapter 13, Section 331 provides guidance on retirement contributions made to land-grant college employees. It states contributions to employee retirement accounts from federal funds will not exceed 5 percent of that portion of the employee's salary paid from federal funds. This guidance parallels the Administrative Handbook for Cooperative Extension Work, section K 2.d, issued by the USDA, that states only employees receiving salary payments from federal funds are eligible for employer contributions and contributions to a state retirement system are limited to an amount not to exceed 5 percent of the salary paid from these federal funds. Additionally, OMB Circular A-133, section 300, requires recipients of federal awards to "maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of grants and contracts."

Condition – The University has not established internal controls to provide reasonable assurance of compliance with the 5% retirement contribution limit. As a result, the University did not comply with the requirement. The University charged approximately $164,000 of retirement contributions to the CES program. This amount was 11% of the total salaries of approximately $1,475,000 charged to the program. Per the above criteria, the maximum allowed for retirement contributions for that salary amount is 5%, or approximately $74,000. The University charged approximately $90,000 (6%) in excess of the maximum allowed.

Questioned Costs- $90,000 for FY 2005.

Context – The University adopted a very narrow interpretation of this compliance requirement leading to a conclusion that the requirement was not applicable to the operation of the CES program at the University of Idaho.

Effect— Because the University misinterpreted the federal requirement, the University inappropriately charged an excess of approximately $90,000 to CES federal funds for retirement contributions.

Cause – The University did not fully understand the requirement relating to maximum retirement contribution amounts for the CES federal program. Consequently, it had not established internal controls to monitor retirement contributions funded directly with federal CES funds.

Recommendation - We recommend the University develop policies and procedures to track compliance with the maximum retirement contribution, as stipulated by the United States Code and USDA Administrative Handbook for the CES program. In addition, we recommend the University reimburse the federal government for the questioned costs of approximately $90,000 for FY 2005.

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF AGRICULTURE				
DEPARTMENT OF AGRICULTURE	10.	1,966,050	53,207	2,019,257
Federal Pass Through	10.	277,437	138,244	415,681
AGRICULTURE RESEARCH SERVICE				
Agricultural Research-Basic and Applied Research	10.001	1,547,923		1,547,923
Federal Pass Through	10.001	202,712		202,712
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
Plant and Animal Disease, Pest Control, and Animal Care	10.025		87,662	87,662
Federal Pass Through	10.025	4,257	43,660	47,917
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE				
Grants for Agricultural Research, Special Research Grants	10.200	1,953,642		1,953,642
Federal Pass Through	10.200	911,225	1,053	912,278
Cooperative Forestry Research	10.202	453,026		453,026
Hatch Act Appropriation	10.203	929,469		929,469
Grants for Agricultural Research, Competitive Research	10.206	962,090		962,090
Federal Pass Through	10.206	100,014		100,014
Animal Health and Disease Research	10.207	48,370		48,370
Small Business Innovation Research				
Federal Pass Through	10.212	3		3
Higher Education Challenge Grants	10.217	12,075	130,761	142,836
Federal Pass Through	10.217		13,549	13,549
Biotechnology Risk Assessment Research	10.219	72,148		72,148
Higher Education Multicultural Scholars Program	10.220		28,856	28,856
Initiative for Future Agriculture and Food Systems	10.302	189,069		189,069
Federal Pass Through	10.302	209,446	35,202	244,648
Integrated Programs	10.303	115,912	714,108	830,020
Federal Pass Through	10.303	60,908	107,595	168,503
Homeland Security_Agriculture				
Federal Pass Through	10.304	23,090		23,090
Cooperative Extension Service	10.500	36,638	2,915,814	2,952,452
Federal Pass Through	10.500	134,511	256,110	390,621

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF AGRICULTURE (Continued)				
RISK MANAGEMENT AGENCY				
Crop Insurance	10.450	126,985	3,296	130,281
Partnership Agreements to Develop Non-Insurance Risk Management Tools for Producers				
Federal Pass Through	10.456		10,526	10,526
FOOD AND CONSUMER SERVICE				
Child and Adult Care Food Programs				
Federal Pass Through	10.558		24,013	24,013
State Administrative Matching Grants for Food Stamp Program				
Federal Pass Through	10.561		532,533	532,533
FOOD AND NUTRITION SERVICE				
Team Nutrition Grants				
Federal Pass Through	10.574	1,591		1,591
FOREST SERVICE				
Forestry Research	10.652	5,774		5,774
Federal Pass Through	10.652	15,673		15,673
Cooperative Forestry Assistance	10.664	88,156		88,156
Federal Pass Through	10.664	39,739	11,812	51,551
NATIONAL SHEEP INDUSTRY IMPROVEMENT CENTER				
National Sheep Industry Improvement Center	10.774		856	856
NATURAL RESOURCES CONSERVATION SERVICE				
Soil & Water Conservation	10.902	157		157
Plant Materials for Conservation	10.905		2,000	2,000
FOREIGN AGRICULTURAL SERVICE				
Scientific Cooperation & Research	10.961	5,124		5,124
Total - Department of Agriculture		**10,493,214**	**5,110,857**	**15,604,071**

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF COMMERCE				
DEPARTMENT OF COMMERCE	11.	208,464		208,464
ECONOMIC DEVELOPMENT ADMINISTRATION				
Economic Development Technical Assistance				
Federal Pass Through	11.303	53,502		53,502
Economic Development Advisory Service	11.307		71,094	71,094
Federal Pass Through	11.307	30,420		30,420
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION				
National Marine Aquaculture Initiative				
Federal Pass Through	11.417	1,594		1,594
Climate and Atmospheric Research	11.431	44,888		44,888
Pacific Coast Salmon Recovery: Pacific Salmon Treaty Program				
Federal Pass Through	11.438	86,689		86,689
Unallied Science Program				
Federal Pass Through	11.472	32,891		32,891
NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY				
Manufacturing Extension Partnership				
Federal Pass Through	11.611	240,923		240,923
Total - Department of Commerce		**699,371**	**71,094**	**770,465**
DEPARTMENT OF DEFENSE				
DEPARTMENT OF DEFENSE	12.	685,540	23,538	709,078
Federal Pass Through	12.	429,856		429,856
OFFICE OF NAVAL RESEARCH, DEPARTMENT OF THE NAVY				
Basic and Applied Scientific Research	12.300	2,922,760		2,922,760
Federal Pass Through	12.300	122,263		122,263

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF DEFENSE (Continued)				
ARMY RESEARCH OFFICE, ARMY MATERIAL COMMAND				
Basic Scientific Research	12.431	245,884		245,884
Federal Pass Through	12.431	2,087		2,087
DEPARTMENT OF THE AIR FORCE, HQ AIR FORCE MATERIAL COMMAND,				
Air Force Defense Research Sciences Program	12.800	626,126		626,126
NATIONAL SECURITY AGENCY				
Mathematical Sciences Grants Program	12.901		9,148	9,148
DEFENSE ADVANCED RESEARCH PROJECTS AGENCY				
Research and Technology Development	12.910	2,036,188		2,036,188
Total - Department of Defense		**7,070,704**	**32,686**	**7,103,390**
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT	14.		767	767
Community Development Block Grants/Economic Development Initiative	14.246	45,463	140,312	185,775
Federal Pass Through	14.246		1,481	1,481
Total - Department of Housing and Urban Development		**45,463**	**142,560**	**188,023**

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF THE INTERIOR				
DEPARTMENT OF INTERIOR	15.	1,570,996	541,584	2,112,580
Federal Pass Through	15.	820,707	16,786	837,493
Department of Interior	15.DAC	17,818		17,818
Department of Interior				
Federal Pass Through	15.DAH	5,866		5,866
Department of Interior				
Federal Pass Through	15.DAK	13,081		13,081
Department of Interior	15.DAV	84,292		84,292
BUREAU OF INDIAN AFFAIRS				
Tribal Self-Governance				
Federal Pass Through	15.022	11,290		11,290
Agriculture on Indian Lands	15.034	3,726		3,726
BUREAU OF LAND MANAGEMENT				
Cultural Resource Management				
Federal Pass Through	15.224	3,466		3,466
Federal Land Policy and Management	15.DDG	39,938		39,938
US FISH AND WILDLIFE SERVICE				
Fish and Wildlife Management Assistance				
Federal Pass Through	15.608	46,371		46,371
Wildlife Restoration				
Federal Pass Through	15.611	103,110		103,110
Cooperative Endangered Species Conservation Fund				
Federal Pass Through	15.615	3,565		3,565
Landowner Incentive				
Federal Pass Through	15.633	3,249		3,249
State Wildlife Grants				
Federal Pass Through	15.634	18,975		18,975

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF THE INTERIOR (Continued)				
GEOLOGICAL SURVEY				
Assistance to State Water Resources Research Institutes	15.805	152,032		152,032
Geological Survey Research and Data Acquisition	15.808	1,694,601	22,997	1,717,598
National Spatial Data Infrastructure Competitive Cooperative Agreements Program	15.809		42,132	42,132
National Cooperative Geologic Mapping Program	15.810	224,369		224,369
Gap Analysis Program	15.811	1,592		1,592
Cooperative Research Units Program	15.812	5,597		5,597
NATIONAL PARK SERVICE				
Historic Preservation Fund Grants-In-Aid				
Federal Pass Through	15.904		(69)	(69)
Outdoor Recreation Acquisition, Development and Planning	15.916	448,635		448,635
Total - Department of the Interior		**5,273,276**	**623,430**	**5,896,706**
DEPARTMENT OF JUSTICE				
DEPARTMENT OF JUSTICE	16.000		133,708	133,708
Total - Department of Justice			**133,708**	**133,708**
DEPARTMENT OF LABOR				
Department of Labor	17.000		108,366	108,366
EMPLOYMENT AND TRAINING ADMINISTRATION				
Pilots, Demonstrations, and Research Projects	17.261		685,743	685,743
MINE SAFETY AND HEALTH ADMINISTRATION				
Mine Health and Safety Grants	17.600		114,304	114,304
Total - Department of Labor			**908,413**	**908,413**

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF TRANSPORTATION				
DEPARTMENT OF TRANSPORTATION				
Federal Pass Through	20.	129,726	146,575	276,301
FEDERAL HIGHWAY ADMINISTRATION				
Highway Planning and Construction				
Federal Pass Through	20.205	409,924	330,170	740,094
RESEARCH AND SPECIAL PROGRAMS ADMINISTRATION				
University Transportation Centers Program	20.701	786,075		786,075
Total - Department of Transportation		**1,325,725**	**476,745**	**1,802,470**
DEPARTMENT OF TREASURY				
DEPARTMENT OF TREASURY	21.		63,991	63,991
Total - Department of Treasury			**63,991**	**63,991**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION	43.	3,224,001	378,788	3,602,789
Federal Pass Through	43.	511,945	31,660	543,605
Aerospace Education Services Program				
Federal Pass Through	43.001		64,814	64,814
Total - National Aeronautics and Space Administration		**3,735,946**	**475,262**	**4,211,208**
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES				
Promotion of the Arts: Partnership Agreements				
Federal Pass Through	45.025		5,625	5,625

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
NATIONAL FOUNDATION ON THE ARTS & HUMANITIES (Continued)				
INSTITUTE OF MUSEUM & LIBRARY SERVICES				
National Leadership Grants	45.312		254,249	254,249
NATIONAL ENDOWMENT FOR THE ARTS				
Promotion of the Arts State and Regional Program	45.007			
Federal Pass Through	45.007		6,638	6,638
Promotion of the Arts-Grants to Organizations & Individuals	45.024		14,747	14,747
NATIONAL ENDOWMENT FOR THE HUMANITIES				
Promotion of the Humanities Federal-State Partnership				
Federal Pass Through	45.129		3,157	3,157
Promotion of the Humanities _ Public Programs	45.164		201	201
Total - National Foundation on the Arts and Humanities			**284,617**	**284,617**
NATIONAL SCIENCE FOUNDATION				
National Science Foundation	47.	67,872		67,872
Federal Pass Through	47.	90,774	21,471	112,245
Engineering Grants	47.041	286,422	134,839	421,261
Federal Pass Through	47.041	28,953		28,953
Mathematical and Physical Sciences	47.049	662,556		662,556
Geosciences	47.050	933,627		933,627
Computer and Information Science and Engineering	47.070	221,808		221,808
Biological Sciences	47.074	689,743		689,743
Federal Pass Through	47.074	23,429		23,429
Social Behavioral and Economic Sciences	47.075	39,400		39,400
Education and Human Resources	47.076	3,231,356	1,029,819	4,261,175
Federal Pass Through	47.076	1,367	38,911	40,278
Academic Research Facilities and Instrumentation				
Polar Sciences	47.078	30,743		30,743
Total - National Science Foundation		**6,308,050**	**1,225,040**	**7,533,090**

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
ENVIRONMENTAL PROTECTION AGENCY				
ENVIRONMENTAL PROTECTION AGENCY	66.	3,140		3,140
Federal Pass Through	66.	137		137
Surveys, Studies, Investigations and Special Purpose Grants	66.606		32,851	32,851
Federal Pass Through	66.606	84,909		84,909
OFFICE OF WATER				
Capitalization Grants for Ddrinking Water State Revolving Funds				
Federal Pass Through	66.468	72,463		72,463
OFFICE OF RESEARCH AND DEVELOPMENT				
Environmental Protection Consolidated Research	66.500	133,164		133,164
OFFICE OF SOLID WASTE AND EMERGENCY RESPONSE				
State and Tribal Underground Storage Tanks Program				
Federal Pass Through	66.804		11,127	11,127
OFFICE OF ENVIRONMENTAL EDUCATION				
Environmental Education Grants	66.951		36,932	36,932
Total - Environmental Protection Agency		**293,813**	**80,910**	**374,723**

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF ENERGY				
DEPARTMENT OF ENERGY	81.	280,645		280,645
Federal Pass Through	81.	892,865	2,077,889	2,970,754
OFFICE OF ENERGY EFFICIENCY AND RENEWABLE ENERGY				
State Energy Program				
Federal Pass Through	81.041	5,000		5,000
Regional Biomass Energy Programs				
Federal Pass Through	81.079	376		376
Conservation Research and Development				
Federal Pass Through	81.086	39,013		39,013
Energy Efficiency & Renewable Energy Information Dissemination				
Federal Pass Through	81.117	2,000		2,000
OFFICE OF SCIENCE				
Office of Science Financial Assistance Program	81.049	198,619		198,619
Office of Science and Technology for Environmental Management				
Federal Pass Through	81.104		290,734	290,734
Total - Department of Energy		**1,418,518**	**2,368,623**	**3,787,141**
FEDERAL EMERGENCY MANAGEMENT AGENCY				
FEDERAL EMERGENCY MANAGEMENT AGENCY				
Federal Pass Through	83.	46,681		46,681
Total - Federal Emergency Management Agency		**46,681**		**46,681**

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF EDUCATION				
DEPARTMENT OF EDUCATION	84.		77,986	77,986
Federal Pass Through	84.		700,157	700,157
Department of Education				
Federal Pass Through	84.928A		33,624	33,624
NATIONAL INSTITUTE FOR LITERACY	84.257		204,999	204,999
OFFICE OF VOCATIONAL AND ADULT EDUCATION				
Adult Education - State Grant Program				
Federal Pass Through	84.002		59,397	59,397
OFFICE OF STUDENT FINANCIAL ASSISTANCE				
Federal Supplemental Educational Opportunity Grants	84.007		516,409	516,409
Federal Work-Study Program	84.033		604,692	604,692
Federal Perkins Loan Program-Federal Capital Contributions	84.038		92,026	92,026
Federal Pell Grant Program	84.063		9,556,845	9,556,845
Leveraging Educational Assistance Partnership (Former SSIG)	84.069		218,258	218,258
Federal Direct Loan	84.268		46,667,201	46,667,201
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES				
Special Education Grants to States				
Federal Pass Through	84.027		58,871	58,871
Federal Pass Through	84.027A		271,061	271,061
Assistive Technology	84.224		397,939	397,939
Division of Monitoring and State Improvement				
Federal Pass Through	84.323		89,688	89,688
Special Education: Research & Innovation to Improve Services and Results for Children with Disabilities	84.324		(1,119)	(1,119)
Special Education: Technical Assistance & Dissemination to Improve Services & Results for Children with Disabilities	84.326		102,189	102,189

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF EDUCATION (Continued)				
OFFICE OF ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION				
TRIO - Student Support Services	84.042		278,474	278,474
TRIO - Talent Search	84.044		310,249	310,249
TRIO - Upward Bound	84.047		1,043,091	1,043,091
Department of Education	84.047M		12	12
TRIO: Educational Opportunity Centers	84.066		461,219	461,219
Higher Education_TRIO Staff Training Program	84.103		282,714	282,714
Fund for the Improvement of Postsecondary Education	84.116	894,957	113,794	1,008,751
TRIO _ McNair Post-Baccalaureate Achievement	84.217		242,441	242,441
OFFICE OF ASSISTANT SECRETARY FOR VOCATIONAL AND				
ADULT EDUCATION				
Vocational Education - Basic Grants to States				
Federal Pass Through	84.048		65,955	65,955
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION				
Migrant Education-College Assistance Migrant Program	84.149		327,466	327,466
Safe and Drug-Free Schools and Communities: National Programs	84.184		814	814
Even Start - State Educational Agencies				
Federal Pass Through	84.213		208,444	208,444
Twenty-First Century Community Learning Centers				
Federal Pass Through	84.287		(318)	(318)
OFFICE OF ASSISTANT SECRETARY FOR EDU-CATIONAL RESEACH & IMPROV.				
Fund for the Improvement of Education	84.215		2,480	2,480
OFFICE OF THE ASSISTANT SECRETARY FOR EDUCATION				
RESEARCH, STATISTICS, AND IMPROVEMENT				
Technology Innovation Challenge Grants				
Federal Pass Through	84.303		134,189	134,189
Total - Department of Education		**894,957**	**63,121,247**	**64,016,204**

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
DEPARTMENT OF HEALTH AND HUMAN SERVICES	93.	189,999		189,999
Federal Pass Through	93.	92,831	7,898	100,729
Disease Prevention and Health Promotion Services				
Federal Pass Through	93.043		19,249	19,249
HEALTH RESOURCES AND SERVICES ADMINISTRATION				
Injury Prevention and Control Research and State and Community				
Federal Pass Through	93.136		5,266	5,266
CENTERS FOR DISEASE CONTROL AND PREVENTION, PUBLIC HEALTH SERVICE				
Centers for Disease Control and Prevention Investigations	93.283	64,036		64,036
ADMINISTRATION FOR CHILDREN AND FAMILIES				
Temporary Assistance for Needy Families				
Federal Pass Through	93.558		635,106	635,106
Child Care and Development Block Grant				
Federal Pass Through	93.575		2,658,727	2,658,727
Developmental Disabilities Basic Support & Advocacy Grants				
Federal Pass Through	93.630		49,120	49,120
Developmental Disabilities Projects of National Significance	93.631		184,232	184,232
Developmental Disabilities University Affiliated Programs	93.632		435,570	435,570

UNIVERSITY OF IDAHO

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)				
NATIONAL INSTITUTES OF HEALTH				
Institute of Environmental Health Services	93.113	522,699		522,699
Mental Health Research Grants	93.242	176,514		176,514
Drug Abuse Research Programs				
Federal Pass Through	93.279	64,362		64,362
Research Infrastructure	93.389	6,991,790	79,144	7,070,934
Federal Pass Through	93.389	61,568		61,568
Academic Research Enhancement Award	93.390	19,155		19,155
Extramural Research Programs in the Neurosciences & Neurological Disorders	93.853	161,308		161,308
Biological Basis Research in the Neurosciences	93.854	34,648		34,648
Microbiology and Infectious Diseases Research	93.856	586,595		586,595
Federal Pass Through	93.856	534,885		534,885
Biomedical Research and Research Training	93.859	42,593		42,593
Genetics and Developmental Biology Research	93.862	253,423		253,423
Aging Research	93.866	208,366		208,366
Federal Pass Through	93.866	215		215
Vision Research	93.867	205,966		205,966
HEALTH CARE FINANCING ADMINISTRATION				
Medical Assistance Program				
Federal Pass Through	93.778		127,189	127,189
CENTERS FOR MEDICARE & MEDICAID SERVICES				
CMS Research, Demonstrations & Evaluations				
Federal Pass Through	93.779		81,645	81,645
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION				
Block Grants for Prevention and Treatment of Substance Abuse				
Federal Pass Through	93.959	13,742		13,742
Total Department of Health and Human Services		**10,224,695**	**4,283,146**	**14,507,841**

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Americorps				
Federal Pass Through	94.006		132,990	132,990
Planning and Program Development Grants				
Federal Pass Through	94.007		1,335	1,335
Total Corporation for National and Community Service			**134,325**	**134,325**
TOTAL FEDERAL FINANCIAL ASSISTANCE		**47,830,413**	**79,536,654**	**127,367,067**

UNIVERSITY OF IDAHO

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

1. Basis of Presentation

   The accompanying schedule of expenditures of federal awards includes federal grant activity of the University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profict organizations. Therefore, some amounts presented on this schedule may differ from amounts presented in, or used in the preparation of , the basic financial statements.

2. University Administered Loan Programs

   The University administers the Federal Perkins Loan Program (CDFA number 84.038). The outstanding student loan balance and total loan distbursements were $11,916,754 and $2,908,919 for the year ended June 30, 2005

   The above expenditures for the Federal Perkins Loan Program include loans to students and administrative cost allowances. The expenditures reported in the Schedule of Expenditures of Federal Awards represent the administrative cost allowance and the Federal capital contribution for the year reported.

3. Subrecipients

   Of the federal expenditures presented in the schedule, the University provided federal awards to subrecipients as follows:

FEDERAL GRANT/PROGRAM TITLE	**CFDA NUMBER**	**PAYMENTS TO SUBRECIPIENTS**
DEPARTMENT OF AGRICULTURE		
DEPARTMENT OF AGRICULTURE	10.	23,764
Federal Pass Through	10.	2,958
AGRICULTURE RESEARCH SERVICE		
Agricultural Research-Basic and Applied Research	10.001	13,296
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE		
Grants for Agricultural Research, Special Research Grants	10.200	918,389
Federal Pass Through	10.200	32,436
Grants for Agricultural Research, Competitive Research	10.206	84,094
Higher Education Challenge Grants	10.217	54,902
Initiative for Future Agriculture and Food Systems	10.302	137,657
Integrated Programs	10.303	357,627
Federal Pass Through	10.303	5,551
Federal Pass Through	10.500	47,630

UNIVERSITY OF IDAHO

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	CFDA NUMBER	PAYMENTS TO SUBRECIPIENTS
OFFICE OF NAVAL RESEARCH, DEPARTMENT OF THE NAVY		
Basic and Applied Scientific Research	12.300	323,444
DEPARTMENT OF THE AIR FORCE, HQ AIR FORCE MATERIAL COMMAND,		
Air Force Defense Research Sciences Program	12.800	7,292
DEFENSE ADVANCED RESEARCH PROJECTS AGENCY		
Research and Technology Development	12.910	87,947
DEPARTMENT OF THE INTERIOR		
DEPARTMENT OF INTERIOR		
Federal Pass Through	15.	44,000
US FISH AND WILDLIFE SERVICE		
Federal Pass Through	15.608	12,751
GEOLOGICAL SURVEY		
Assistance to State Water Resources Research Institutes	15.805	29,718
NATIONAL PARK SERVICE		
Outdoor Recreation Acquisition, Development and Planning	15.916	79,764
DEPARTMENT OF LABOR		
Department of Labor	17.000	76,582
DEPARTMENT OF TRANSPORTATION		
Federal Pass Through	20.	28,294
FEDERAL HIGHWAY ADMINISTRATION		
Federal Pass Through	20.205	10,000

UNIVERSITY OF IDAHO

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	CFDA NUMBER	PAYMENTS TO SUBRECIPIENTS
RESEARCH AND SPECIAL PROGRAMS ADMINISTRATION		
University Transportation Centers Program	20.701	50,020
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION	43.	625,165
Federal Pass Through	43.	10,000
NATIONAL SCIENCE FOUNDATION		
National Science Foundation	47.	6,286
Engineering Grants	47.041	26,782
Mathematical and Physical Sciences	47.049	29,387
Education and Human Resources	47.076	676,973
DEPARTMENT OF EDUCATION		
Federal Pass Through	84.	47,982
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES		
Assistive Technology	84.224	128,955
OFFICE OF ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION		
Fund for the Improvement of Postsecondary Education	84.116	58,034
CENTERS FOR DISEASE CONTROL AND PREVENTION, PUBLIC HEALTH SERVICE		
ADMINISTRATION FOR CHILDREN AND FAMILIES		
Federal Pass Through	93.558	43,183
Federal Pass Through	93.575	1,733,599

UNIVERSITY OF IDAHO

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

FEDERAL GRANT/PROGRAM TITLE	CFDA NUMBER	PAYMENTS TO SUBRECIPIENTS
NATIONAL INSTITUTES OF HEALTH		
Institute of Environmental Health Services	93.113	129,180
Mental Health Research Grants	93.242	77,236
Research Infrastructure	93.389	1,964,843
Genetics and Developmental Biology Research	93.862	41,992
TOTAL FEDERAL FINANCIAL ASSISTANCE		**8,027,713**