



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

INCLUDING SINGLE AUDIT REPORTS FOR
THE YEAR ENDED JUNE 30, 2006

UNIVERSITY OF IDAHO

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INDEPENDENT AUDITOR'S REPORT

Idaho State Board of Education
University of Idaho
Moscow, Idaho

We have audited the accompanying financial statements of the University of Idaho as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the University of Idaho's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Idaho's discretely presented component unit as described in Note 15. Those financial statements were audited by other auditors whose report thereon 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.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Idaho and its discretely presented component unit, as of June 30, 2006 and 2005, and the changes in their financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2006 on our consideration of the University of Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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 of the University of Idaho. 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.



Eugene, Oregon
September 21, 2006

UNIVERSITY OF IDAHO

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

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

OVERVIEW

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

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

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

Statement of Net Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant Changes in the Statement of Net Assets

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

Statement of Revenues, Expenses and Changes in Net Assets

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

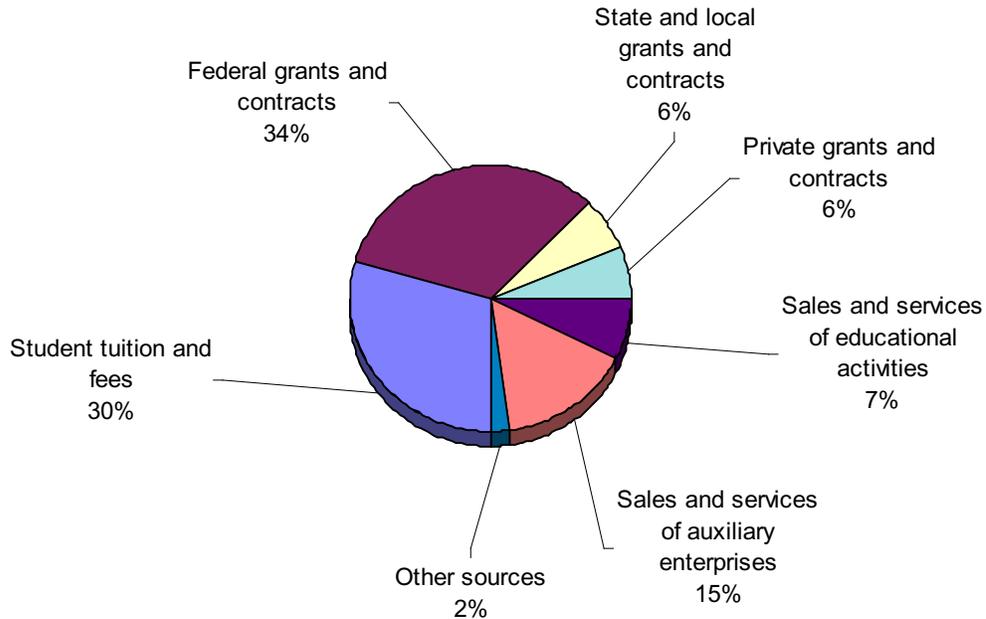
Condensed Statement of Revenues, Expenses and Changes in Net Assets Fiscal Year Ended June 30 (Thousands)

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

Operating Revenues

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

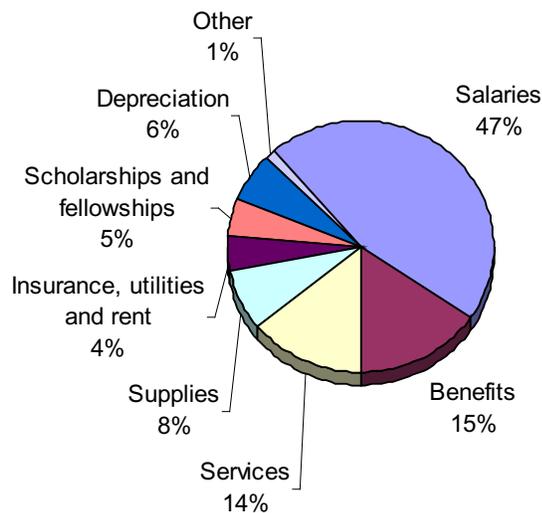
Operating Revenues



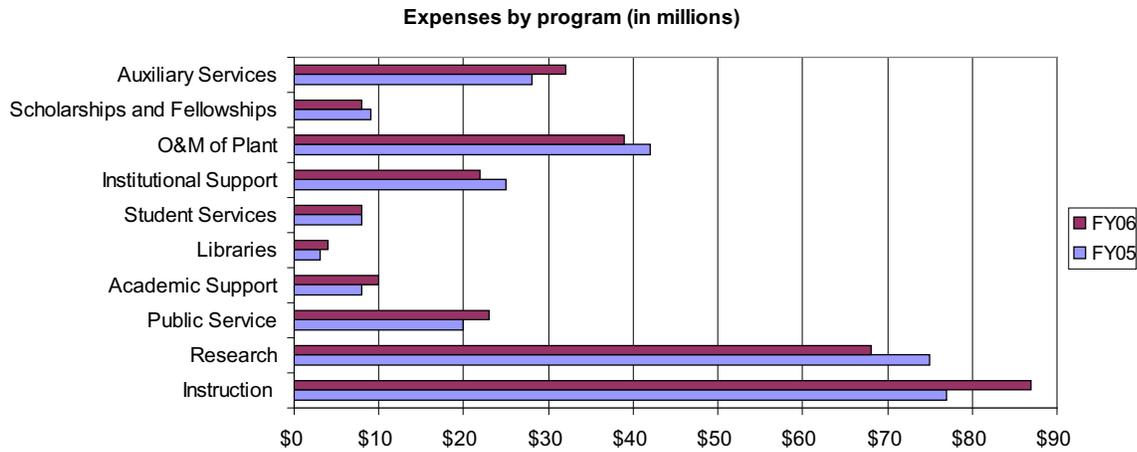
Operating Expenses

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

Operating Expenses



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



Nonoperating Revenues

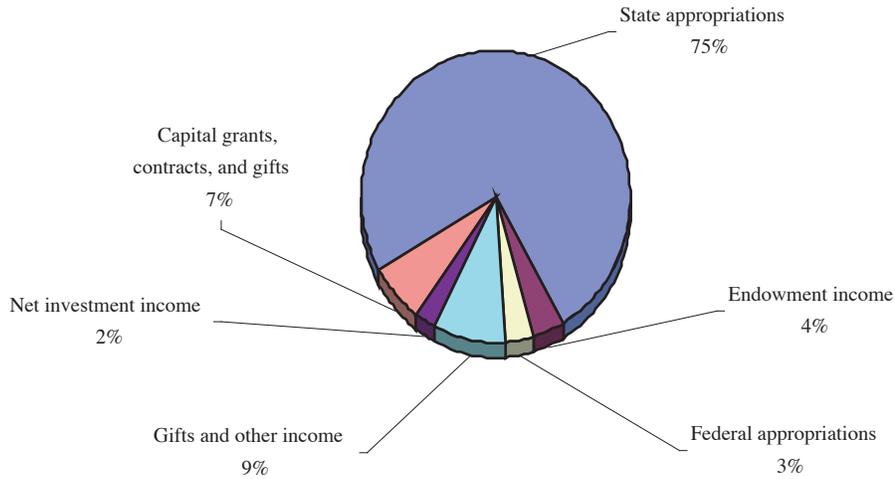
Similar to most public higher education institutions, the University receives significant non-operating revenues, including state appropriations, which offset the losses generated by operating activities. The operating loss for the year ended June 30, 2006 of \$125.5 million was offset by \$148.0 million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

Other Revenues

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

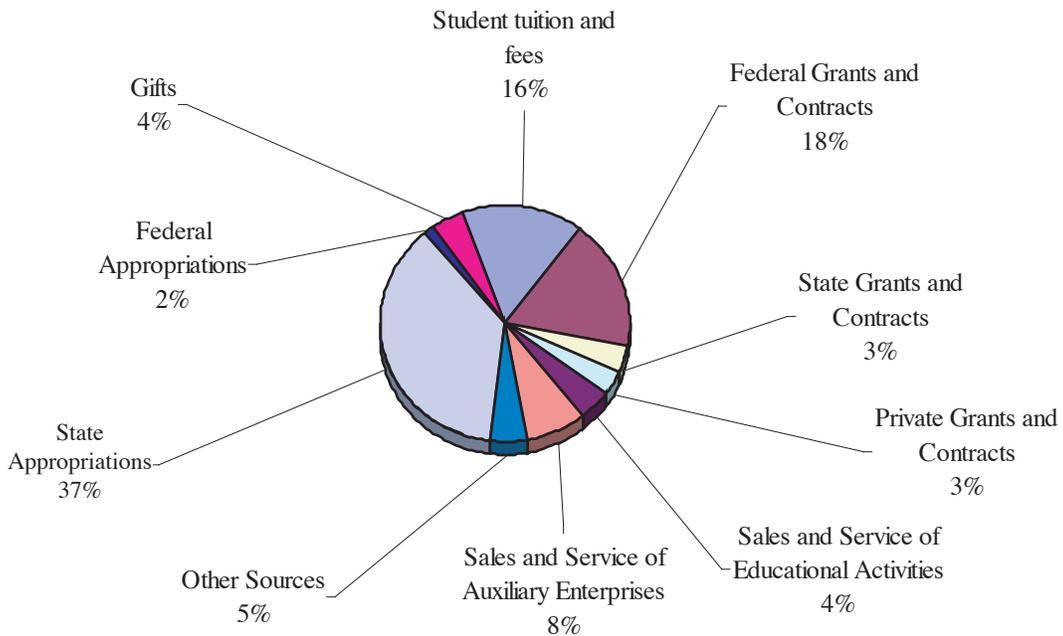
The following chart illustrates percentages of the University nonoperating revenue and other revenue.

Nonoperating and Other Revenue



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

Total Revenue



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

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

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

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

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

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

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

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

Statement of Cash Flows

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

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

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

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

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

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

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

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

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

Capital Asset and Debt Management

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

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

Accumulated Depreciation - Property, Plant, and Equipment

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

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

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

ECONOMIC OUTLOOK

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

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

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

UNIVERSITY OF IDAHO

STATEMENT OF NET ASSETS

JUNE 30, 2006 AND 2005

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

See notes to financial statements.

Continued

UNIVERSITY OF IDAHO

STATEMENT OF NET ASSETS

JUNE 30, 2006 AND 2005

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

See notes to financial statements.

UNIVERSITY OF IDAHO

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

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

See notes to financial statements.

Continued

UNIVERSITY OF IDAHO

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

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

See notes to financial statements.

UNIVERSITY OF IDAHO

STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

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

See notes to financial statements.

Continued

UNIVERSITY OF IDAHO

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005

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

See notes to financial statements.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

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

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

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

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

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

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

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

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

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

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

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

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

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

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

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

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

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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

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

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

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

Nonoperating Revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state and federal appropriations and investment income.

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

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

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

employment healthcare and other non-pension benefits (“OPEB”) and include disclosures regarding its OPEB plans. OPEB costs are likely to be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of Statement No. 45 may be applied prospectively and do not require the University to fund its OPEB plans. The University may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded liability is required to be amortized over future periods. The requirements of this Statement for the University are effective for the fiscal year ending June 30, 2008. The University has not completed the process of evaluating the impact that will result from adopting this Statement and is therefore unable to disclose the impact that adopting the Statement will have on its financial statements.

2. CASH AND CASH EQUIVALENTS

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

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

3. INVESTMENTS

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

- FDIC passbook savings accounts.
- Certificates of deposit.
- U.S. securities.
- Federal funds repurchase agreements.
- Reverse repurchase agreements.
- Federal agency securities.
- Large money market funds.
- Bankers acceptances.
- Corporate bonds of Aa grade or better.
- Mortgage backed securities of Aa grade or better.
- Commercial paper of prime or equivalent grade.

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

Custodial Credit Risk

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

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

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

Interest Rate Risk

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

Debt Security Investments at June 30, 2006

Investment Maturities In Years

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

Credit Risk

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

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

Concentration of Credit Risk

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

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

4. RECEIVABLES AND UNBILLED CHARGES

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

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

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

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

5. STUDENT LOANS RECEIVABLE

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

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. The allowance for uncollectible loans was \$1,078,707 at June 30, 2006 and \$1,126,177 at June 30, 2005.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

6. CAPITAL ASSETS

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

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

UNIVERSITY OF IDAHO

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

8. OPERATING LEASES

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

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

9. LONG-TERM LIABILITIES

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

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

10. NOTES AND BONDS PAYABLE

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

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

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

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

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

11. CAPITAL LEASES

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

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

12. RETIREMENT PLANS

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

After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each year of credited service, the annual service retirement allowance is 2% of the average monthly salary for the highest consecutive 42 months.

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

Optional Retirement Plan—Effective July 1, 1990, the Idaho State Legislature authorized the Board of Regents to establish an Optional Retirement Plan (ORP), a defined contribution plan, for faculty and exempt employees. The employee contribution requirement for the ORP is based on a percentage of total payroll. Employer contributions are determined by the State of Idaho. The plan provisions were established by and may be amended by the State of Idaho

New faculty and exempt employees hired July 1, 1990 or thereafter automatically enroll in the ORP and select their vendor option. Faculty and exempt employees hired before July 1, 1990 had a one-time opportunity to enroll in the ORP. Enrollees in the ORP no longer belong to PERSI. Vendor options include Teachers Insurance and Annuity Association - College Retirement Equities Fund and Variable Annuity Life Insurance Company.

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or any portion thereof upon attaining 55 years of age. The contribution requirement (and amount paid) for the year ended June 30, 2006 and 2005 was \$9,116,733 and \$8,886,361, respectively, that consisted of \$4,791,086 from the University and \$4,325,647 from employees for 2006 and \$4,670,037 from the University and \$4,216,324 from employees for 2005.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute to PERSI 3.03% of the annual covered payroll. These annual supplemental payments are required through July 1, 2015. During the years ended June 30, 2006 and 2005, the supplemental funding payments made to PERSI were \$1,880,248 and \$1,831,227. This amount is not included in the regular University PERSI contribution discussed previously.

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

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

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

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

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

13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

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

	Salaries	Benefits	Services	Supplies	Ins, Utilities, Rent	Sch. & Fellow	Depreciation	Other	Totals
Expenses 2006									
Instruction	\$ 48,579,801	\$ 17,832,837	\$ 9,713,628	\$ 4,465,968	\$ 575,590	\$ 4,392,440	\$ -	\$ 1,258,342	\$ 86,818,606
Research	37,659,881	10,554,813	13,070,995	4,712,723	800,831	1,102,715	-	309,949	68,211,907
Public Service	12,872,200	4,273,889	3,509,184	1,030,582	253,367	539,667	-	661,569	23,140,458
Academic Support	5,777,486	2,060,110	1,099,847	1,052,846	148,885	87,951	-	237,718	10,464,843
Libraries	2,279,371	855,187	679,543	411,453	(20)	-	-	24,404	4,249,938
Student Services	4,382,744	1,640,443	1,153,575	406,708	60,017	12,982	-	120,159	7,776,628
Institutional Support	10,422,358	3,803,410	6,755,953	368,899	304,206	59,684	-	411,626	22,126,136
Plant Operations	5,570,629	2,560,974	1,873,636	1,153,224	9,112,132	2,821	18,812,934	673,322	39,759,671
Scholarships and Fellowships	450,552	(91)	-	-	-	7,259,107	-	69,366	7,778,935
Auxiliaries	9,695,665	3,235,164	4,874,182	10,427,299	1,985,148	876,970	-	754,950	31,849,378
	<u>\$ 137,690,687</u>	<u>\$ 46,816,736</u>	<u>\$ 42,730,543</u>	<u>\$ 24,029,702</u>	<u>\$ 13,240,156</u>	<u>\$ 14,334,337</u>	<u>\$ 18,812,934</u>	<u>\$ 4,521,405</u>	<u>\$ 302,176,500</u>
Expenses 2005									
Instruction	\$ 43,376,295	\$ 13,724,897	\$ 9,619,108	\$ 4,134,395	\$ 848,819	\$ 4,484,621	\$ -	\$ 1,102,996	\$ 77,129,131
Research	42,660,758	12,666,073	11,677,488	6,147,836	700,344	911,472	-	523,756	75,287,727
Public Service	12,150,700	3,617,928	2,749,058	958,897	282,897	254,148	-	406,857	20,419,966
Academic Support	5,358,542	1,706,259	632,537	595,811	89,129	5,700	-	52,973	8,440,951
Libraries	2,230,050	767,289	469,135	(188,616)	-	-	-	6,789	3,284,647
Student Services	4,831,759	1,709,879	620,591	360,593	42,411	49,094	-	136,318	7,750,645
Institutional Support	11,434,625	4,601,126	5,742,083	2,427,083	294,343	6,140	-	541,879	25,047,298
Plant Operations	6,378,068	2,663,681	8,474,416	(5,939,508)	6,534,785	2,514	22,344,637	1,678,102	42,136,695
Scholarships and Fellowships	907,685	1,175	6,726	-	-	7,968,203	-	200,145	9,083,934
Auxiliaries	9,465,899	1,719,133	3,847,152	10,620,914	713,901	728,618	-	599,818	27,695,434
	<u>\$ 138,794,381</u>	<u>\$ 43,177,440</u>	<u>\$ 43,838,313</u>	<u>\$ 19,116,886</u>	<u>\$ 9,506,628</u>	<u>\$ 14,410,510</u>	<u>\$ 22,344,637</u>	<u>\$ 5,249,633</u>	<u>\$ 296,438,428</u>

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

14. CONTINGENCIES AND LEGAL MATTERS

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

15. COMPONENT UNIT

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

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

UNIVERSITY PLACE IN BOISE

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

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

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

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

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

Interest Rate Risk

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

Credit Risk

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

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

Concentration of Credit Risk

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

- Not more than 5% of the total equity portfolio valued at market may be invested in the common stock of any one corporation.
- Not more than 5% of the total outstanding shares of any one company may be held.
- Not more than 20% of the equity portfolio valued at market may be held in any one industry category.
- Not more than 15% of the equity portfolio valued at market may be invested in securities issued as American 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.)

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

Distributions To University Of Idaho And Affiliates

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

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

UNIVERSITY OF IDAHO

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006 AND 2005

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

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

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

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

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

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

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

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

UNIVERSITY OF IDAHO

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

16. RELATED ORGANIZATIONS

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

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

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

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

Idaho State Board of Education
University of Idaho
Moscow, Idaho

We have audited the financial statements of University of Idaho as of and for the year ended June 30, 2006, and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered University of Idaho's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University of Idaho's ability to initiate, record, process, and record financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Schedule of Findings and Questioned Costs as item 2006-01, which is included in our audit in accordance with OMB Circular A-133 for the year ended June 30, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and other matters

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

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

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



Eugene, Oregon
September 21, 2006

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

Idaho State Board of Education
University of Idaho
Moscow, Idaho

Compliance

We have audited the compliance of the University of Idaho 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, 2006. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of University of Idaho's management. Our responsibility is to express an opinion on University of Idaho'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 of Idaho'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, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2006-03, 2006-04, 2006-05.

Internal Control Over Compliance

The management of the University of Idaho 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 of Idaho'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 2006-02, 2006-03, 2006-04, 2006-05, 2006-06.

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 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.



Eugene, Oregon
September 21, 2006

UNIVERSITY OF IDAHO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 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 none reported
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes none reported
- Reportable condition(s) identified that are not considered to be material weaknesses? 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? 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

84.007

U.S. Department of Education
Student Financial Assistance Cluster

84.033

Supplemental Educational Opportunity Grant Program

84.063

Federal Work-Study Program

84.038

Pell Grant Program

84.268

Federal Perkins Loan Program

Federal Direct Lending Program

UNIVERSITY OF IDAHO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

CFDA

Number(s) cont.

Name of Federal Program or Cluster cont.

Various

Research & Development Cluster

Dollar threshold used to distinguish between
type A and type B programs:

\$2,396,082

Auditee qualified as low-risk auditee?

yes

no

II. FINANCIAL STATEMENT FINDINGS

Finding 2006-01: General Ledger Access / Segregation of Duties

Criteria – Reportable conditions are matters involving significant deficiencies in the design or operation of internal control that could adversely affect the University’s ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition and Context – During our audit of the University’s June 30, 2006 financial statements, we noted a sizable number of individuals who had journal entry rule code access within the general ledger. The listing of individuals who had this access included people who rarely post journal entries, IT personnel and one former employee. In addition, we noted instances wherein certain employees had the ability to initiate journal entries as well as check signing authority, thus creating improper segregation of duties related to internal controls.

Effect – Inadequate internal controls over general ledger access and appropriate segregation of duties can create an environment wherein a misstatement, an error, or fraudulent activity could occur that is more than inconsequential and not be prevented or detected.

Cause – The absence of regular monitoring of individuals with general ledger access and check signing authority appears to be due to personnel changes and organizational shifts in responsibility.

Recommendation – We recommend the University implement policies and procedures to limit the number of University personnel with the authority to post journal entries as well as to create clearly defined segregation of duties within the University’s internal control environment.

University’s Response – Agree. In June, 2006 the University began the process of implementing policies and procedures to limit the number of personnel who can post journal entries. In addition, journal entry approval processes have been significantly improved. The University Controller, the General Accounting Manager, and an Accountant in the Controller’s office are the only individuals who are authorized to approve journal entries. Finally, the University Controller is developing policies and procedures that will clearly delineate and define responsibilities across the University to assure appropriate segregation of duties. Financial training programs for personnel in the divisions

UNIVERSITY OF IDAHO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

and colleges will commence in the Spring, 2007 and will include in depth training on establishing and maintaining an adequate system of internal controls. Implementation date: March 31, 2007.

III. FEDERAL AWARD FINDINGS

FINDING 2006-02—Preparation of the Schedule of Expenditures of Federal Awards (SEFA) - (Repeat finding 2005-01)

Federal Program: General—Schedule of Expenditures of Federal Awards

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

Award Year: 2004-2005 and 2005-2006

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 completely reconciled to University records for inclusion in the SEFA. It was determined the federal funds were materially correctly stated. 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 treatment of all pass-through awards with any Federal funds as all Federal funds overstated certain amounts reported on the SEFA. The lack of a complete reconciliation to a report issued by the State of Idaho could under-state or over-state the amounts reported on the SEFA.

Effect – Due to the absence of a thorough and complete process for preparing the SEFA, 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 continue developing and implementing 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.

University's Response (Unaudited) - Agree. The University is formalizing policies and procedures to ensure the SEFA is complete and accurate. These policies and procedures will include mechanisms for the timely

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YEAR ENDED JUNE 30, 2006

and accurate identification of federal funds received from all sources. Formal policies and procedures will be completed by March 31, 2007. In addition, the University has now shifted the preparation from a component basis to a university-wide basis.

FINDING 2006-03—Subrecipient Monitoring: Review of Subcontractor Invoices and Subcontractor Audit Reports (Repeat Finding of 2005-03)

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

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

Award Year: 2004-2005, 2005-06

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 performed 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 2006.

Questioned Costs – None.

Context – The prior year finding was not finalized until February 28, 2006; consequently the University's corrective action was not in place for more than half of the current year. In a sample of 6 current year grants with subcontractors, 5 had review and approval of subcontractor requests for payment performed by other than the PI or designated research staff; rather, the review was performed by administrative or fiscal personnel. 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 2006 the University identified subcontract audit reports or certificates were needed from approximately 80 subcontractors. As of August, 2006, 14 of those subcontractors had not been sent a letter. Of the responses received, seven 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.

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YEAR ENDED JUNE 30, 2006

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 and 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 continue implementing policies 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 continue implementing policies for monitoring subcontractor audits, and take appropriate action to ensure compliance with those policies in the future.

University's Response (Unaudited) - The University Administrative Procedure Manual (APM) Chapter 45.15 Section E-2 addresses review and approval responsibilities for subcontractor requests for payment. This policy was created on May 23, 2006. In addition, OSP has updated the policy and procedure for monitoring subcontractor audits. The draft policy is published on the Office of Sponsored Programs (OSP) home page. The OSP has completed additional revisions which will be incorporated into the APM upon formal approval.

FINDING 2006-04—Allowable Costs: Personnel Level of Effort Reporting (Repeat Finding of 2005-04)

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

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

Award Year: 2004-2005, 2005-2006

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 – Our testing revealed 65 out of approximately 1,270 PARs for the period July 1, 2005 through December 31, 2005 had not been completed as of August 2006. Additionally, under the new electronically developed PAR system, the second semester PARs cannot be completed until the first semester PARs have been all completed. As such no PARs for the period January 1, 2006 through June 30, 2006 had been

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

completed as of August 2006.

Questioned Costs- None.

Context – The prior year finding was not finalized until February 28, 2006; consequently the University’s corrective action was not in place for more than half of the current year. Furthermore, the implementation of an electronic PAR system has taken time to fully integrate. As a result on-line approval of all electronic reports was not timely.

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 delay in the current year reporting within OSP appears to be due to personnel turnover and establishment of higher priorities.

Recommendation - We recommend the University continue implementing procedures to strengthen the personnel effort reporting system. We understand transition to on-line submission of the reports has been a work in progress; we recommend concurrent review of the reporting procedures to ensure complete and timely compliance with Circular A-21.

University’s Response (Unaudited) - Agree. An electronic Personnel Activity Reporting (PAR) system was implemented in May, 2006 which has allowed the University to streamline and strengthen the personnel effort reporting system. We will review the results of the process for the PARs which were requested at the end of October for the period January, 2006 – June, 2006 and will make any modifications needed for the period covering July 1, 2006 - December 31, 2006.

FINDING 2006-05—Reporting: Timeliness of Report Filing

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

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

Award Year: 2005-2006

Criteria –OMB Circular A-110, Section 52, requires recipients to submit the SF-269 Financial Status Report or SF-269A Financial Status Report (Short Form) no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports. Extensions of reporting due dates may be approved by the Federal awarding agency upon request of the recipient.

Condition: The University did not have procedures in place to ensure timely reporting of financial reports.

Questioned Costs – None

Context – From a sample of financial reports filed with Federal awarding agencies, two out of twenty financial reports were filed more than one month late. No extensions for the reporting due dates were requested from the Federal awarding agency. Filing requirements are indicated either as a general requirement by the Federal awarding agency or specifically in the grant award document.

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YEAR ENDED JUNE 30, 2006

Effect –Late filing can jeopardize future funding.

Cause – The absence of a thorough and complete process for preparing timely financial reports appears to be due to personnel changes in key positions and delays in implementation of database tracking system.

Recommendation – Moss Adams recommends the University create a tickler system to ensure timely filing of required reports, with periodic review by grant managers and research officials.

University's Response (Unaudited) - Agree. The Office of Sponsored Programs will work with grant managers and research officials to create a system that will ensure that procedures are in place to ensure timely filing of financial reports. The system will be in place by December 31, 2006.

FINDING 2006-06—Allowable Costs: Internal Controls at the Center for Advanced Microelectronics and Biomolecular Research (Repeat Finding of 2005-05)

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

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

Award Year: 2004-2005, 2005-2006

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 controls 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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

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.

University Response (Unaudited) – Agree. This finding is partially resolved. A detailed examination of all CAMBR activities has been conducted and is ongoing. A business manager position with a reporting line to the University Controller as well as to the CAMBR Director is in the final stages of a search as of early November, 2006. The establishment of a Compliance Officer position within the University Research Office has not been completed due to the lack of funds. Through the use of faculty committees and existing specialized staff we are managing research compliance issues.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

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

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.

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.

University Response – Agree. This finding is partially resolved. The University is working on written policies and procedures to ensure that the preparation of the SEFA is complete and thorough. To ensure that federal funds received from all sources are included, the Office of Sponsored Programs will work with the Idaho State Controller’s Office to reconcile all funds that flow through the State. The University has restructured the responsibility for the SEFA to lie with the Controller so that it is prepared with an institution-wide perspective.

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

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.

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.

University Response – Agree. This finding is fully resolved. The University has developed and implemented policies to ensure that interest earnings are calculated properly and that excess interest earnings are submitted to the Department of Health and Human Services on a yearly basis. On June 16, 2006 the University wired \$163,426.92 to the Department of Health and Human Services in resolution of outstanding interest payments for FY 2003, FY 2004, and FY 2005 per an agreement negotiated with the Department of Health and Human Services – Division of Cost Allocation. On October 4, 2006, we wired \$60,208.81 to return the excess interest earned for FY 2006.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

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

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.

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.

University Response – Agree. This finding is full resolved. The University Administrative Procedure Manual (APM) Chapter 45.15 Section E-2 addresses review and approval responsibilities for subcontractor requests for payment. This APM was created on May 23, 2006. The Office of Sponsored Programs (OSP) has updated the policy and procedure for monitoring subcontractor audits. The draft policy is published on the OSP home page. OSP implemented those procedures in May, 2006.

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

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.

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.

University Response – Agree. This finding is partially resolved. New policies have been developed and are in the process of final review. In addition, an electronic PAR system was implemented in May, 2006 which has allowed the University to streamline and strengthen the personnel effort reporting system. We will review the results of the process for the PAR's which were requested at the end of October for the period January, 2006 - June, 2006 and will make any modifications needed for the period covering July 1, 2006 - December 31, 2006.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

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

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.

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.

University Response – Agree. This finding is partially resolved. A detailed examination of all CAMBR activities has been conducted and is ongoing. A business manager position with a reporting line to the University Controller as well as to the CAMBR Director is in the final stages of a search as of early November, 2006. The establishment of a Compliance Officer position within the University Research Office has not been completed due to lack of funds. Through the use of faculty committees and existing specialized staff we are managing research compliance issues.

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

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.

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.

University Response – Agree. This finding is fully resolved. The University has implemented a policy to ensure the correct determination within thirty days of the end of the semester of the unofficial withdrawal status for students with no passing grades.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

FINDING 2005-07 – Allowable Costs: Retirement Contributions

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.

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 Response – Agree. This finding is fully resolved. As of FY 2006, the University charges only the maximum allowed retirement contribution to the CES programs. The University requested forgiveness on the potential payback for past years. This request was based on the premise that, because the University receives \$10M in state funds for the extension service and only \$2.5M in Smith-Lever funds, the University could have easily identified state expenditures that would have been allowed on the Smith-Lever funds that would have been substituted for the difference in the retirement payment. The Branch Chief, Policy, Oversight, and Funds Management Branch for CREES granted the request.

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Schedule of Expenditures of Federal Awards
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<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF AGRICULTURE				
DEPARTMENT OF AGRICULTURE	10.	1,630,622	42,024	1,672,646
Federal Pass Through	10.	197,503	74,237	271,740
AGRICULTURE RESEARCH SERVICE				
Agricultural Research-Basic and Applied Research	10.001	1,425,529	779	1,426,308
Federal Pass Through	10.001	299,491		299,491
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
Plant and Animal Disease, Pest Control, and Animal Care	10.025	27,500	97,990	125,490
Federal Pass Through	10.025	4,763		4,763
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE				
Grants for Agricultural Research, Special Research Grants	10.200	2,511,886	12,627	2,524,513
Federal Pass Through	10.200	745,257	78,259	823,516
Cooperative Forestry Research	10.202	475,313		475,313
Hatch Act Appropriation	10.203	1,359,112		1,359,112
Grants for Agricultural Research, Competitive Research	10.206	971,364		971,364
Federal Pass Through	10.206	56,889		56,889
Animal Health and Disease Research	10.207	58,382		58,382
Small Business Innovation Research	10.212			
Federal Pass Through	10.212			
Higher Education Challenge Grants	10.217	52,937	112,032	164,969
Federal Pass Through	10.217		13,833	13,833
Biotechnology Risk Assessment Research	10.219	45,769		45,769
Higher Education Multicultural Scholars Program	10.220		11,921	11,921
Initiative for Future Agriculture and Food Systems	10.302	33,415		33,415
Federal Pass Through	10.302	136,226		136,226
Integrated Programs	10.303	830,870	70,505	901,375
Federal Pass Through	10.303	63,256	188,409	251,665
Homeland Security_Agriculture	10.304			
Federal Pass Through	10.304	63,057		63,057
Cooperative Extension Service	10.500	11,341	4,239,423	4,250,764
Federal Pass Through	10.500	58,145	263,128	321,273

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF AGRICULTURE (Continued)				
RISK MANAGEMENT AGENCY				
Crop Insurance	10.450	28,820		28,820
Federal Pass Through	10.450			
Community Outreach & Assist Partnership Prgm	10.455			
Federal Pass Through	10.455		5,796	5,796
Partnership Agreements to Develop Non-Insurance Risk Management	10.456			
Federal Pass Through	10.456		26,216	26,216
Commodity Partnerships for Risk Management Educ	10.457			
Federal Pass Through	10.457		4,765	4,765
FOOD AND CONSUMER SERVICE				
Child and Adult Care Food Programs	10.558			
Federal Pass Through	10.558	30,887		30,887
State Administrative Matching Grants for Food Stamp Program	10.561			
Federal Pass Through	10.561		549,533	549,533
FOOD AND NUTRITION SERVICE				
Team Nutrition Grants	10.574			
Federal Pass Through	10.574			
FOREST SERVICE				
Forestry Research	10.652	42,101		42,101
Federal Pass Through	10.652			
Cooperative Forestry Assistance	10.664	54,263		54,263
Federal Pass Through	10.664	31,701	5,430	37,131
NATIONAL SHEEP INDUSTRY IMPROVEMENT CENTER				
National Sheep Industry Improvement Center	10.774		31,562	31,562
NATURAL RESOURCES CONSERVATION SERVICE				
Soil & Water Conservation	10.902	17,062		17,062
Plant Materials for Conservation	10.905			
River Basin Surveys & Investigations	10.906	69,571		69,571
Snow Survey & Water Supply Forecasting	10.907	14,345		14,345
Environmental Quality Incentives Program	10.912			
Federal Pass Through	10.912	9,980		9,980

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Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	FEDERAL CFDA NUMBER	RESEARCH EXPENDITURES	NON-RESEARCH EXPENDITURES	TOTAL EXPENDITURES
DEPARTMENT OF AGRICULTURE (Continued)				
FOREIGN AGRICULTURAL SERVICE				
Technical Agricultural Assistance	10.960			
Federal Pass Through	10.960		28,165	28,165
Scientific Cooperation & Research	10.961	13,992		13,992
Total - Department of Agriculture		11,371,349	5,856,634	17,227,983

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF COMMERCE				
DEPARTMENT OF COMMERCE	11.	177,368		177,368
ECONOMIC DEVELOPMENT ADMINISTRATION				
Economic Development Technical Assistance	11.303			
Federal Pass Through	11.303	(30,653)	45,681	15,028
Economic Development Advisory Service	11.307		672	672
Federal Pass Through	11.307			
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION				
National Marine Aquaculture Initiative	11.417			
Federal Pass Through	11.417			
Climate and Atmospheric Research	11.431	39,486		39,486
Pacific Coast Salmon Recovery: Pacific Salmon Treaty Program	11.438			
Federal Pass Through	11.438	56,720		56,720
Cooperative Science & Education Program	11.455	1,568		1,568
Unallied Science Program	11.472			
Federal Pass Through	11.472	131,760		131,760
Coastal Services Center	11.473	107,530		107,530
NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY				
Manufacturing Extension Partnership	11.611			
Federal Pass Through	11.611	367,719	161,344	529,063
Total - Department of Commerce		851,498	207,697	1,059,195
DEPARTMENT OF DEFENSE				
DEPARTMENT OF DEFENSE	12.	725,407	524	725,931
Federal Pass Through	12.	465,885		465,885
OFFICE OF NAVAL RESEARCH, DEPARTMENT OF THE NAVY				
Basic and Applied Scientific Research	12.300	2,560,618		2,560,618
Federal Pass Through	12.300	74,856		74,856

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF DEFENSE (Continued)				
ARMY RESEARCH OFFICE, ARMY MATERIAL COMMAND				
Basic Scientific Research	12.431	845		845
Federal Pass Through	12.431	43,763		43,763
DEPARTMENT OF THE AIR FORCE, HQ AIR FORCE MATERIAL COMMAND,				
Air Force Defense Research Sciences Program	12.800	309,472		309,472
NATIONAL SECURITY AGENCY				
Mathematical Sciences Grants Program	12.901			
DEFENSE ADVANCED RESEARCH PROJECTS AGENCY				
Research and Technology Development	12.910	1,491,596		1,491,596
Total - Department of Defense		5,672,442	524	5,672,966
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Community Development Block Grants/Economic Development Initiative	14.246	1,353	887	2,240
Federal Pass Through	14.246		16,344	16,344
Total - Department of Housing and Urban Development		1,353	17,231	18,584

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF THE INTERIOR				
DEPARTMENT OF INTERIOR	15.	1,459,472	534,243	1,993,715
Federal Pass Through	15.	588,651	25,849	614,500
Department of Interior	15.DAC	3,625		3,625
Department of Interior	15.DAH			
Federal Pass Through	15.DAH			
Department of Interior	15.DAK			
Federal Pass Through	15.DAK	8,978		8,978
Department of Interior	15.DAV	31,036		31,036
BUREAU OF INDIAN AFFAIRS				
Tribal Self-Governance	15.022			
Federal Pass Through	15.022	2,960		2,960
Agriculture on Indian Lands	15.034			
BUREAU OF LAND MANAGEMENT				
Cultural Resource Management	15.224	5,702		5,702
Federal Pass Through	15.224			
National Fire Plan-Wildland Urban	15.228			
Interface Comm Fire Asst				
Federal Pass Through	15.228	14,034		14,034
Federal Land Policy and Management	15.DDG	9,646		9,646
US FISH AND WILDLIFE SERVICE				
Sport Fish Restoration	15.605			
Federal Pass Through	15.605	788		788
Fish and Wildlife Management Assistance	15.608			
Federal Pass Through	15.608	25,174		25,174
Wildlife Restoration	15.611			
Federal Pass Through	15.611	53,574		53,574
Cooperative Endangered Species Conservation Fund	15.615			
Federal Pass Through	15.615			
Landowner Incentive	15.633			
Federal Pass Through	15.633	7,431		7,431
State Wildlife Grants	15.634			
Federal Pass Through	15.634	55,735		55,735

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF THE INTERIOR (Continued)				
GEOLOGICAL SURVEY				
Assistance to State Water Resources Research Institutes	15.805	113,630		113,630
Geological Survey Research and Data Acquisition	15.808	1,003,263	3	1,003,266
National Spatial Data Infrastructure Competitive Cooperative Agreements Program	15.809		62,691	62,691
National Cooperative Geologic Mapping Program	15.810	189,908		189,908
Gap Analysis Program	15.811	189,339		189,339
Cooperative Research Units Program	15.812	4,407		4,407
NATIONAL PARK SERVICE				
Historic Preservation Fund Grants-In-Aid	15.904			
Federal Pass Through	15.904		965	965
Outdoor Recreation Acquisition, Development and Planning	15.916	489,672		489,672
Total - Department of the Interior		4,257,025	623,751	4,880,776
DEPARTMENT OF JUSTICE				
DEPARTMENT OF JUSTICE	16.000		105,375	105,375
Federal Pass Through	16.000			
OFFICE OF JUSTICE PROGRAMS				
Crime Victim Assistance/Discretionary Grants	16.582			
Federal Pass Through	16.582		77,351	77,351
JUVENILE JUSTICE & DELIQUENCY PREVENTION				
National Institute for Juvenile Justice & Delinquency	16.542			
Federal Pass Through	16.542		23,489	23,489
Enforcing Underage Drinking Laws Program	16.727			
Federal Pass Through	16.727	11,409		11,409
Total - Department of Justice		11,409	206,215	217,624
DEPARTMENT OF LABOR				
Department of Labor	17.000			
Federal Pass Through	17.000			
EMPLOYMENT AND TRAINING ADMINISTRATION				
Pilots, Demonstrations, and Research Projects	17.261		642,305	642,305
MINE SAFETY AND HEALTH ADMINISTRATION				
Mine Health and Safety Grants	17.600		84,853	84,853
Total - Department of Labor			727,158	727,158

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF TRANSPORTATION				
DEPARTMENT OF TRANSPORTATION	20.			
Federal Pass Through	20.	243,838	167,816	411,654
FEDERAL HIGHWAY ADMINISTRATION				
Highway Planning and Construction	20.205			
Federal Pass Through	20.205	237,953	156,466	394,419
RESEARCH AND SPECIAL PROGRAMS ADMINISTRATION				
University Transportation Centers Program	20.701	810,536		810,536
Total - Department of Transportation		1,292,327	324,282	1,616,609
DEPARTMENT OF TREASURY				
DEPARTMENT OF TREASURY	21.		49,819	49,819
INTERNAL REVENUE SERVICE				
Low-Income Taxpayer Clinics	21.008		29,859	29,859
Total - Department of Treasury			79,678	79,678
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION	43.	4,009,752	489,525	4,499,277
Federal Pass Through	43.	352,865	69,050	421,915
Aerospace Education Services Program	43.001			
Federal Pass Through	43.001		45,405	45,405
Total - National Aeronautics and Space Administration		4,362,617	603,980	4,966,597
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES				
NATIONAL FOUNDATION ON THE ARTS AND THE HUMAN	45.000			
Federal Pass Through	45.000		941	941
Promotion of the Arts: Partnership Agreements	45.025			
Federal Pass Through	45.025		7,125	7,125

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
NATIONAL FOUNDATION ON THE ARTS & HUMANITIES (Continued)				
INSTITUTE OF MUSEUM & LIBRARY SERVICES				
National Leadership Grants	45.312		342,251	342,251
Federal Pass Through	45.312			
NATIONAL ENDOWMENT FOR THE ARTS				
Promotion of the Arts State and Regional Program	45.007			
Federal Pass Through	45.007			
Promotion of the Arts-Grants to Organizations & Individuals	45.024		8,910	8,910
NATIONAL ENDOWMENT FOR THE HUMANITIES				
Promotion of the Humanities Federal-State Partnership	45.129		3,475	3,475
Federal Pass Through	45.129		506	506
Promotion of the Humanities _ Public Programs	45.164			
Promotion of the Humanities _ We the People	45.168		68,525	68,525
Total - National Foundation on the Arts and Humanities			431,733	431,733
NATIONAL SCIENCE FOUNDATION				
National Science Foundation	47.	266,172		266,172
Federal Pass Through	47.	202,057	25,445	227,502
Engineering Grants	47.041	252,388	25,341	227,729
Federal Pass Through	47.041	76,786		76,786
Mathematical and Physical Sciences	47.049	500,222		500,222
Geosciences	47.050	622,741		622,741
Computer and Information Science and Engineering	47.070	62,245		62,245
Biological Sciences	47.074	676,315	254,775	931,090
Federal Pass Through	47.074	18,290		18,290
Social Behavioral and Economic Sciences	47.075	35,531		35,531
Education and Human Resources	47.076	2,769,683	559,109	3,328,792
Federal Pass Through	47.076		2,444	2,444
Academic Research Facilities and Instrumentation	47.077			
Polar Sciences	47.078	34,006		34,006
Total - National Science Foundation		5,516,436	867,114	6,383,550

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Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
ENVIRONMENTAL PROTECTION AGENCY				
ENVIRONMENTAL PROTECTION AGENCY	66.	28,973		28,973
Federal Pass Through	66.			
Surveys, Studies, Investigations and Special Purpose Grants	66.606			
Federal Pass Through	66.606	157,314		157,314
OFFICE OF WATER				
Nonpoint Source Implementation Grants	66.460			
Federal Pass Through	66.460	14,123		14,123
Capitalization Grants for Drinking Water State Revolving Funds	66.468			
Federal Pass Through	66.468	36,159	8,815	44,975
OFFICE OF RESEARCH AND DEVELOPMENT				
Environmental Protection Consolidated Research	66.500	88,898		88,898
OFFICE OF SOLID WASTE AND EMERGENCY RESPONSE				
State and Tribal Underground Storage Tanks Program	66.804			
Federal Pass Through	66.804		5,095	5,095
OFFICE OF ENVIRONMENTAL EDUCATION				
Environmental Education Grants	66.951			
Total - Environmental Protection Agency		325,468	13,910	339,378

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF ENERGY				
DEPARTMENT OF ENERGY	81.	256,312		256,312
Federal Pass Through	81.	698,979	1,674,797	2,373,776
OFFICE OF ENERGY EFFICIENCY AND RENEWABLE ENERGY				
State Energy Program	81.041			
Federal Pass Through	81.041			
Regional Biomass Energy Programs	81.079			
Federal Pass Through	81.079	12,644		12,644
Conservation Research and Development	81.086			
Federal Pass Through	81.086			
Energy Efficiency & Renewable Energy Information Dissemination	81.117			
Federal Pass Through	81.117			
State Energy Program Special Projects	81.119			
Federal Pass Through	81.119	3,999		3,999
OFFICE OF SCIENCE				
Office of Science Financial Assistance Program	81.049	147,249		147,249
Office of Science and Technology for Environmental Management	81.104			
Federal Pass Through	81.104		153,866	153,866
OFFICE OF FOSSIL ENERGY				
Fossil Energy Research & Development	81.089			
Federal Pass Through	81.089	5,177		5,177
OFFICE OF NUCLEAR ENERGY				
Nuclear Energy Research, Development & Demo	81.121	40,045		40,045
Total - Department of Energy		1,164,405	1,828,663	2,993,068
FEDERAL EMERGENCY MANAGEMENT AGENCY				
FEDERAL EMERGENCY MANAGEMENT AGENCY	83.			
Federal Pass Through	83.	31,678		31,678
Total - Federal Emergency Management Agency		31,678		31,678

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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF EDUCATION				
DEPARTMENT OF EDUCATION	84.		14,788	14,788
Federal Pass Through	84.		748,731	748,731
Department of Education				
Federal Pass Through	84.928A		47,384	47,384
NATIONAL INSTITUTE FOR LITERACY	84.257		69,005	69,005
OFFICE OF VOCATIONAL AND ADULT EDUCATION				
Adult Education - State Grant Program	84.002			
Federal Pass Through	84.002			
OFFICE OF STUDENT FINANCIAL ASSISTANCE				
Federal Supplemental Educational Opportunity Grants	84.007		371,157	371,157
Federal Work-Study Program	84.033		526,484	526,484
Federal Perkins Loan Program-Federal Capital Contributions	84.038			
Federal Pell Grant Program	84.063		8,734,700	8,734,700
Leveraging Educational Assistance Partnership (Former SSIG)	84.069		12,091	12,091
Federal Direct Loan	84.268		45,774,617	45,774,617
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES				
Special Education Grants to States	84.027			
Federal Pass Through	84.027		20,533	20,533
Federal Pass Through	84.027A		109,539	109,539
Assistive Technology	84.224		482,945	482,945
Division of Monitoring and State Improvement	84.323			
Federal Pass Through	84.323		79,891	79,891
Special Education: Research & Innovation to Improve Services and Results for Children with Disabilities	84.324			
Special Education: Technical Assistance & Dissemination to Improve Services & Results for Children with Disabilities	84.326		82,662	82,662

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Schedule of Expenditures of Federal Awards
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<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF EDUCATION (Continued)				
OFFICE OF ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION				
TRIO - Student Support Services	84.042		327,290	327,290
TRIO - Talent Search	84.044		339,545	339,545
TRIO - Upward Bound	84.047		1,088,218	1,088,218
Department of Education	84.047M			
TRIO: Educational Opportunity Centers	84.066		452,337	452,337
Higher Education_TRIO Staff Training Program	84.103		533,476	533,476
Fund for the Improvement of Postsecondary Education	84.116	389,408	174,589	563,997
TRIO _ McNair Post-Baccalaureate Achievement	84.217		231,721	231,721
Teacher Quality Enhancement Grants for States and Partnerships	84.336			
Federal Pass Through	84.336		45,810	45,810
OFFICE OF ASSISTANT SECRETARY FOR VOCATIONAL AND ADULT EDUCATION				
Vocational Education - Basic Grants to States	84.048			
Federal Pass Through	84.048		131,541	131,541
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION				
Migrant Education-College Assistance Migrant Program	84.149		389,825	389,825
Safe and Drug-Free Schools and Communities: National Programs	84.184			
Even Start - State Educational Agencies	84.213			
Federal Pass Through	84.213		202,134	202,134
Twenty-First Century Community Learning Centers	84.287			
Federal Pass Through	84.287			
Comprehensive School Reform Demonstration	84.332			
Federal Pass Through	84.332		9,514	9,514
Improving Teacher Quality State Grants	84.367			
Federal Pass Through	84.367		5,400	5,400
OFFICE OF ASSISTANT SECRETARY FOR EDUCATIONAL RESEACH & IMPROV.				
Fund for the Improvement of Education	84.215		393,948	393,958
OFFICE OF THE ASSISTANT SECRETARY FOR EDUCA- TION RESEARCH, STATISTICS, AND IMPROVEMENT				
Technology Innovation Challenge Grants	84.303			
Federal Pass Through	84.303			
Total - Department of Education		389,408	61,399,875	61,789,283

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**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006**

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
DEPARTMENT OF HEALTH AND HUMAN SERVICES	93.	326,862		326,862
Federal Pass Through	93.	23,804	20,943	44,747
Disease Prevention and Health Promotion Services	93.043			
Federal Pass Through	93.043		(963)	(963)
HEALTH RESOURCES AND SERVICES ADMINISTRATION				
Injury Prevention and Control Research and State and Community	93.136			
Federal Pass Through	93.136		(109)	(109)
CENTERS FOR DISEASE CONTROL AND PREVENTION, PUBLIC HEALTH SERVICE				
Centers for Disease Control and Prevention Investigations	93.283			
ADMINISTRATION FOR CHILDREN AND FAMILIES				
Temporary Assistance for Needy Families	93.558			
Federal Pass Through	93.558		609,022	609,022
Child Care and Development Block Grant	93.575			
Federal Pass Through	93.575		2,765,593	2,765,593
Developmental Disabilities Basic Support & Advocacy Grants	93.630			
Federal Pass Through	93.630		36,258	36,258
Developmental Disabilities Projects of National Significance	93.631		283,360	283,360
Developmental Disabilities University Affiliated Programs	93.632		496,553	496,553

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Schedule of Expenditures of Federal Awards
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<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)				
NATIONAL INSTITUTES OF HEALTH				
Institute of Environmental Health Services	93.113	325,808		325,808
Mental Health Research Grants	93.242	178,628		178,628
Drug Abuse Research Programs	93.279			
Federal Pass Through	93.279	12,930		12,930
Research Infrastructure	93.389	7,773,030	1,647,024	9,420,054
Federal Pass Through	93.389	238,411		238,411
Academic Research Enhancement Award	93.390			
Extramural Research Programs in the Neurosciences & Neurological Disorders	93.853	114,379		114,379
Biological Basis Research in the Neurosciences	93.854	1,414		1,414
Microbiology and Infectious Diseases Research	93.856	623,270		623,270
Federal Pass Through	93.856	394,938		394,938
Biomedical Research and Research Training	93.859	398,722		398,722
Genetics and Developmental Biology Research	93.862	278,297		278,297
Aging Research	93.866			
Federal Pass Through	93.866			
Vision Research	93.867	304,080		304,080
HEALTH CARE FINANCING ADMINISTRATION				
Medical Assistance Program	93.778			
Federal Pass Through	93.778		103,922	103,922
CENTERS FOR MEDICARE & MEDICAID SERVICES				
CMS Research, Demonstrations & Evaluations	93.779			
Federal Pass Through	93.779		18,355	18,355
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION				
Block Grants for Prevention and Treatment of Substance Abuse	93.959			
Federal Pass Through	93.959	24,178	3,840	28,018
Total Department of Health and Human Services		11,018,751	5,983,798	17,002,549

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**Schedule of Expenditures of Federal Awards
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<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RESEARCH EXPENDITURES</u>	<u>NON-RESEARCH EXPENDITURES</u>	<u>TOTAL EXPENDITURES</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Americorps	94.006			
Federal Pass Through	94.006		205,595	205,595
Planning and Program Development Grants	94.007			
Federal Pass Through	94.007			
Total Corporation for National and Community Service			205,595	205,595
TOTAL FEDERAL FINANCIAL ASSISTANCE		46,266,166	79,377,838	125,644,004

UNIVERSITY OF IDAHO

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

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-Profit 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 disbursements were \$11,398,781 and \$2,821,231 for the year ended June 30, 2006

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. The federal capital contribution was discontinued for FY 2006.

3. Subrecipients

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

UNIVERSITY OF IDAHO

**Notes to Schedule of Expenditures of Federal Awards
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<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PAYMENTS TO SUBRECIPIENTS</u>
DEPARTMENT OF AGRICULTURE		
DEPARTMENT OF AGRICULTURE	10.	33,899
AGRICULTURE RESEARCH SERVICE		
Agricultural Research-Basic and Applied Research	10.001	19,705
ANIMAL AND PLANT HEALTH INSPECTION SERVICE		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	25,000
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE		
Grants for Agricultural Research, Special Research Grants	10.200	1,434,806
Federal Pass Through	10.200	39,405
Grants for Agricultural Research, Competitive Research	10.206	53,401
Higher Education Challenge Grants	10.217	95,170
Initiative for Future Agriculture and Food Systems	10.302	929
Integrated Programs	10.303	339,782
Federal Pass Through	10.303	17,604
Cooperative Extension Service	10.500	10,240
Federal Pass Through	10.500	36,211
NATURAL RESOURCES CONVERSATION SERVICE		
River Basin Surveys & Investigations	10.906	23,063
FOREIGN AGRICULTURAL SERVICE		
Scientific Cooperation & Research	10.961	5,015

UNIVERSITY OF IDAHO

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PAYMENTS TO SUBRECIPIENTS</u>
OFFICE OF NAVAL RESEARCH, DEPARTMENT OF THE NAVY Basic and Applied Scientific Research	12.300	294,822
DEFENSE ADVANCED RESEARCH PROJECTS AGENCY Research and Technology Development	12.910	110,504
US FISH AND WILDLIFE SERVICE Federal Pass Through	15.608	6,046
GEOLOGICAL SURVEY Assistance to State Water Resources Research Institutes	15.805	2,000
NATIONAL PARK SERVICE Outdoor Recreation Acquisition, Development and Planning	15.916	3,922
DEPARTMENT OF TRANSPORTATION Federal Pass Through	20.	54,429
FEDERAL HIGHWAY ADMINISTRATION Federal Pass Through	20.205	20,000

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**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006**

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PAYMENTS TO SUBRECIPIENTS</u>
RESEARCH AND SPECIAL PROGRAMS ADMINISTRATION		
University Transportation Centers Program	20.701	66,061
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION	43.	644,212
NATIONAL SCIENCE FOUNDATION		
National Science Foundation	47.	42,724
Engineering Grants	47.041	5,286
Mathematical and Physical Sciences	47.049	27,208
Biological Sciences	47.074	118,465
Education and Human Resources	47.076	591,060
DEPARTMENT OF EDUCATION		
Federal Pass Through	84.	19,558
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES		
Assistive Technology	84.224	124,940
OFFICE OF ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION		
Fund for the Improvement of Postsecondary Education	84.116	25,127
OFFICE OF ASSISTANT SECRETARY FOR EDUCA- TIONAL RESEARCH & IMPROVEMENT		
Fund for the Improvement of Education	84.215	111,508
ADMINISTRATION FOR CHILDREN AND FAMILIES		
Federal Pass Through	93.558	41,542
Federal Pass Through	93.575	1,731,570

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Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>FEDERAL GRANT/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PAYMENTS TO SUBRECIPIENTS</u>
NATIONAL INSTITUTES OF HEALTH		
Institute of Environmental Health Services	93.113	108,638
Mental Health Research Grants	93.242	117,891
Research Infrastructure	93.389	2,924,316
Genetics and Developmental Biology Research	93.862	56,959
Federal Pass Through	94.007	
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>9,383,018</u>