

Idaho State University

*Financial Statements for the Year Ended
June 30, 2004 and Independent Auditors'
Report, Including Single Audit Report for the
Year Ended June 30, 2004*

IDAHO STATE UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

State Board of Education

We have audited the accompanying statement of net assets of Idaho State University (the "University") and its discretely presented component unit as of June 30, 2004 and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Idaho State University and its discretely presented component unit as of June 30, 2004 and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. 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.

As discussed in Note 1, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14*.

Our audit was performed for the purpose of forming opinions on the basic financial statements of the University, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This schedule is the responsibility of the University's management. 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, when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2004 on our consideration of the University'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 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.

Deloitte & Touche LLP

November 4, 2004

**IDAHO STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

INTRODUCTION

This discussion and analysis provides a comprehensive overview of the financial position and activities of Idaho State University (the "University" or "ISU") for the fiscal year ended June 30, 2004. Management has prepared this analysis, which should be read in conjunction with the financial statements and related footnote disclosures that appear in the sections that follow this discussion.

The University is a comprehensive public institution of higher learning located in Pocatello, Idaho. It has served the citizens of Idaho since 1901, when it was first established as the Academy of Idaho. The University provides both general education and specialized programs in arts, humanities, sciences, the professions and technologies, and contributes to the state and nation through related research and public service programs. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels through the Colleges of Arts and Sciences, Business, Education, Engineering, Health Professions, Pharmacy, Technology and the Graduate School. Through its programs in Pharmacy, Health Professions, the Family Practice Medical Residency and the Idaho Dental Education Program, the University is a center for education in the health professions in Idaho.

2004 IN REVIEW

The University has experienced a varied financial picture during the past decade, but continues its long history of fiscal responsibility and solvency. During this time, focus on integrating financial planning into the institutional strategic plan has been continuous. The State appropriated budget reflects the priorities of the Idaho State Legislature and the State Board of Education ("SBOE") and, more directly, those of the State's revenue status, which during the past three years has decreased or remained flat. However, in fiscal year 2004 the State's revenue status improved, in part due to an improving economy and in part due to the temporary sales tax increase enacted at the end of fiscal year 2003 (set to expire in 2006). Despite fluctuations in state funding, the University continues to accommodate its role and mission and satisfy the demands of its modest but continuing enrollment growth, by carefully managing expenditures, exercising necessary cost-cutting efforts and improving the viability of nonstate supported activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The University's financial report is prepared in accordance with Governmental Accounting Standards Board ("GASB") principles for public colleges and universities and includes three basic financial statements: the *Statement of Net Assets*; the *Statement of Revenues, Expenses and Changes in Net Assets*; and the *Statement of Cash Flows*. Each of these statements will be discussed in greater detail in the sections that follow.

Among others, the University reports the results of operations according to GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which is the current standard for financial reporting for public colleges and universities. This statement requires that the financial statements to be presented on a consolidated basis to focus on the University as a whole.

In fiscal year 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The statement, which amends GASB Statement No. 14, *The Financial Reporting Entity*, provides guidance to determine whether certain organizations for which the primary unit is not financially accountable should be reported as component units, based on the nature and significance of

their relationship with the primary unit. Generally, Statement No. 39 requires reporting as a discretely presented component unit. Based on GASB No. 39, the Idaho State University Foundation, Inc. is an affiliated organization that meets the criteria for discrete, component unit presentation. The GASB classification of the Foundation for the University's financial reporting purposes does not affect its legal or organizational relationship to the University. The Foundation maintains separately audited financial statements available at the Idaho State University Financial Offices at Campus Box 8219, Pocatello, Idaho 83209.

STATEMENT OF NET ASSETS

The *Statement of Net Assets* is the University's balance sheet. It reflects the total assets, liabilities and net assets (equity) of the University as of June 30, 2004. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at market value. Capital assets, which include the University's land, buildings, improvements and equipment are shown net of accumulated depreciation.

The University's net assets are one indicator of the current financial condition of the University. Over time, and when considered with nonfinancial facts such as enrollment levels or the condition of facilities, changes in net assets provide information pertinent to the improvement or erosion of the University's financial condition. The *Statement of Net Assets* also discloses information about the nature of the assets and their availability for use by the University.

A summarized report of the University's assets, liabilities and net assets at June 30, 2004 follows:

Summary Statement of Net Assets

Assets:	
Current assets	\$ 61,731,702
Noncurrent assets	<u>147,328,610</u>
Total assets	<u>209,060,312</u>
Liabilities:	
Current liabilities	27,575,418
Noncurrent liabilities	<u>47,171,157</u>
Total liabilities	<u>74,746,575</u>
Net assets:	
Invested in capital assets—net of related debt	75,255,243
Restricted—expendable	3,303,211
Unrestricted	<u>55,755,283</u>
Total net assets	<u>\$ 134,313,737</u>

The University's *Statement of Net Assets* at June 30, 2004 shows that while dealing with diminished state funding, the University maintained a strong financial position. This financial health is reflected in an overall increase in net assets of 12.6%.

Current assets, consisting primarily of cash and cash equivalents, accounts and loans receivable, and investments and inventory, totaled \$61.7 million at June 30, 2004 as compared to \$46.8 million at June 30, 2003, an increase of \$14.9 million. Cash and cash equivalents for current operations totaled \$50 million at

June 30, 2004 and \$37.9 million at June 30, 2003. The increase of \$12.1 million accounts for most of the change in current assets and consists primarily of bond and grant proceeds from external sources to fund the energy conservation project and grants, as well as a 10% increase in student fees.

Current liabilities, consisting primarily of accrued compensation, deferred revenue, accounts payable and other liabilities, totaled \$27.6 million at June 30, 2004 as compared to \$22.7 million at June 30, 2003. The increase of \$4.9 million is attributable to payables related to ongoing construction in progress, a 2% increase in salary and wage costs, and grant and contract revenue deferrals.

Capital Asset and Debt Activities

Noncurrent assets, consist primarily of capital assets net of accumulated depreciation and assets held by trustees. At June 30, 2004, they totaled \$147.3 million compared to \$114.9 million at June 30, 2003, an increase of \$32.4 million. This increase results from continued construction in progress on the L.E. and Thelma E. Stephens Performing Arts Center and disbursement of bond proceeds related to the Rendezvous Building. When completed early in 2005, the Performing Arts Center will be an impressive 110,000 square foot teaching and performing arts facility on campus. This facility is funded from donations to the Idaho State University Foundation. The Rendezvous Building, a unique multipurpose educational, residential and social complex occupying 255,000 square feet on five levels, is scheduled for completion in the fall of 2007. It will be centrally located and will become a gathering place for the campus community. The project is funded by tax-exempt revenue bonds.

Notes and bonds payable, totaled \$47.2 million at June 30, 2004, as compared to \$18.9 million at June 30, 2003. This significant \$28.2 million change is directly related to the Series 2003 General Refunding and Improvement Revenue Bonds issued to fund the University's share of the Rendezvous Center, implement the Energy Improvement Project, and refund two outstanding bank notes and certain outstanding bonds to take advantage of the favorable interest rates.

The University continues to effectively manage its capital and debt activities to sustain the renewal and continued development of essential capital assets. As recently as September of 2004, the University received a municipal bond credit rating of "A" from Moody's Investors Service, Inc. and Standard & Poor's Rating Services.

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. They are divided into three major categories on the *Statement of Net Assets*. The first category, *Invested in Capital Assets - Net of Related Debt*, consists of the University's capital (assets net of accumulated depreciation) and outstanding debt attributable to the acquisition, construction or improvement of those assets. The second net asset category is *Restricted - expendable*. These include assets that are available for expenditure by the University, but only in harmony with the time or purpose restrictions placed on the assets by the donors and/or external funding entities. The final category is *Unrestricted* which consist of assets that are available for expenditure by the institution for any lawful purpose.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The *Statement of Revenues, Expenses and Changes in Net Assets* is the University's income statement and presents the results of operations for the current fiscal year. It details how net assets have increased or decreased during the year ended June 30, 2004. GASB requires subtotals for operating income or loss and

income or loss before revenue and expense. It should be noted that the required subtotal for operating income or loss will generally reflect a “loss” for state-supported colleges and universities. This is primarily due to the way operating and nonoperating items are defined under GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Operating expenses include virtually all university expenses, except for interest on long-term debt. Operating revenues, however, exclude certain significant revenue streams that ISU and other public higher education institutions have traditionally relied upon to fund current operations, including state appropriations, gifts and investment income.

Taken together, the *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* provide information that help answer the question, “As a whole, is Idaho State University financially stronger or weaker as a result of the year’s activities?”

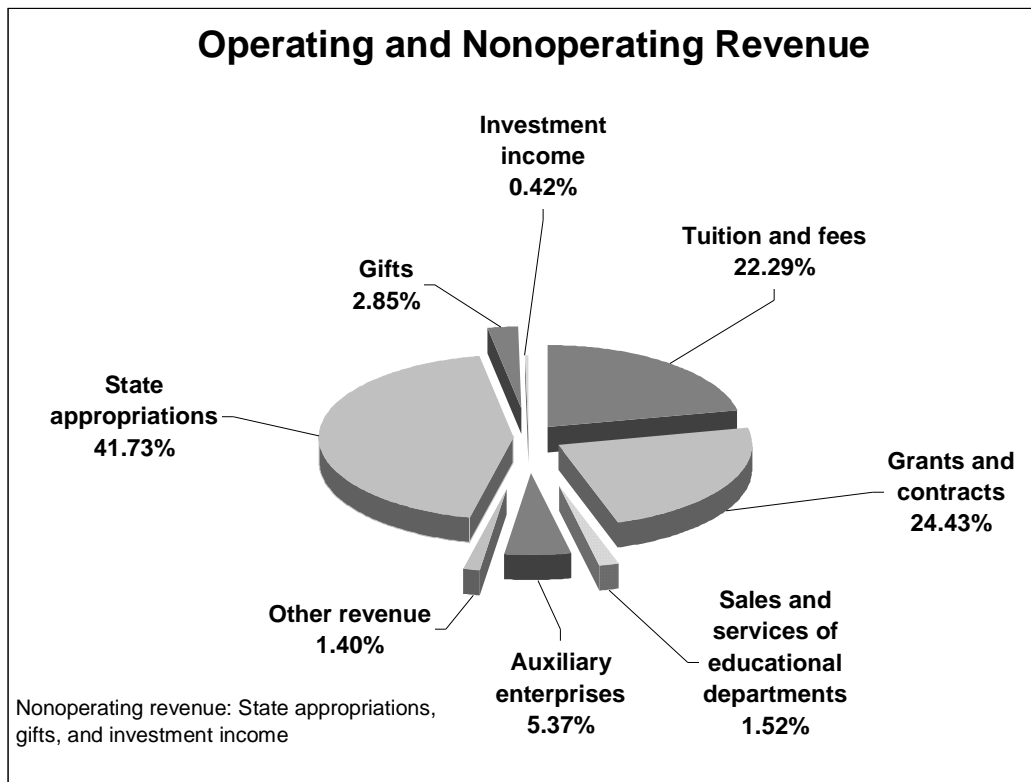
A summarized statement of the University’s revenues, expenses and changes in net assets for the year ended June 30, 2004 is as follows:

Summary Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues:	
Student tuition and fees (net of scholarship discounts and allowances)	\$ 38,868,197
Federal grants and contracts	29,925,270
State and local grants and contracts	7,591,353
Nongovernment grants and contracts	5,079,596
Sales and services of educational departments	2,642,914
Auxiliary enterprises sales and services	9,368,162
Other operating revenue	<u>2,444,625</u>
Total operating revenues	95,920,117
Operating expenses	<u>169,216,829</u>
Operating loss	(73,296,712)
Nonoperating revenues (expenses):	
State appropriations	72,761,641
Gifts	4,970,084
Net Investment income	725,021
Interest on capital asset related debt	<u>(1,887,785)</u>
Net nonoperating revenues	<u>76,568,961</u>
Capital appropriations	1,583,546
Capital gifts	10,277,131
Gain (loss on disposal of fixed assets)	<u>(80,875)</u>
Total capital revenues	<u>11,779,802</u>
Increase in net assets	15,052,051
Net assets—beginning of year	<u>119,261,686</u>
Net assets—end of year	<u><u>\$ 134,313,737</u></u>

Revenue

The diverse revenue streams that supplement student fees at Idaho State University are one of its strengths. These revenue streams include support from state appropriations, the Idaho State University Foundation, governments, gifts and other sponsored programs. The University continues to locate and develop funding sources consistent with its overall mission to augment student fees and minimize the rising costs of education. The following graphic illustrates revenues by source (both operating and nonoperating), to fund the University's activities for the fiscal year ended June 30, 2004. Note that state appropriations, which are a significant and recurring source of revenue to the University are considered nonoperating, as defined by GASB Statement No. 35.



State appropriations and student fees are the primary sources of funding for the University's academic programs. In fiscal year 2004, student fees, net of allowances for scholarships and fellowships, increased \$4.0 million to \$38.8 million, an 11.5% increase over 2003. Following a reduction in fiscal year 2003, total state appropriations grew in fiscal year 2004 by \$3.2 million to \$72.8 million or 4.5%.

The University receives grant and contract revenues from government and private sources. These sources typically provide for the recovery of direct and indirect costs expended by the University. Revenues from grants and contracts increased \$5.6 million, or 15.1% to \$42.6 million. The growth in grant and contract revenues is attributable to increasing success in obtaining grant awards with, among others, the Department of Defense, the Center for Disabilities and TELE-IDA. Fiscal year 2004 also saw a rise in nongovernment grants and in Pell grants awarded to students.

Capital appropriations from the State of Idaho remained flat throughout fiscal year 2004, totaling \$1.6 million. Capital gifts and grants fell to \$10.3 million due primarily to the completion of the University's

major capital campaign. In part, the campaign was intended to fund construction of the L.E. and Thelma E. Stephens Performing Arts Center. As noted previously, the center is scheduled to open in early 2005.

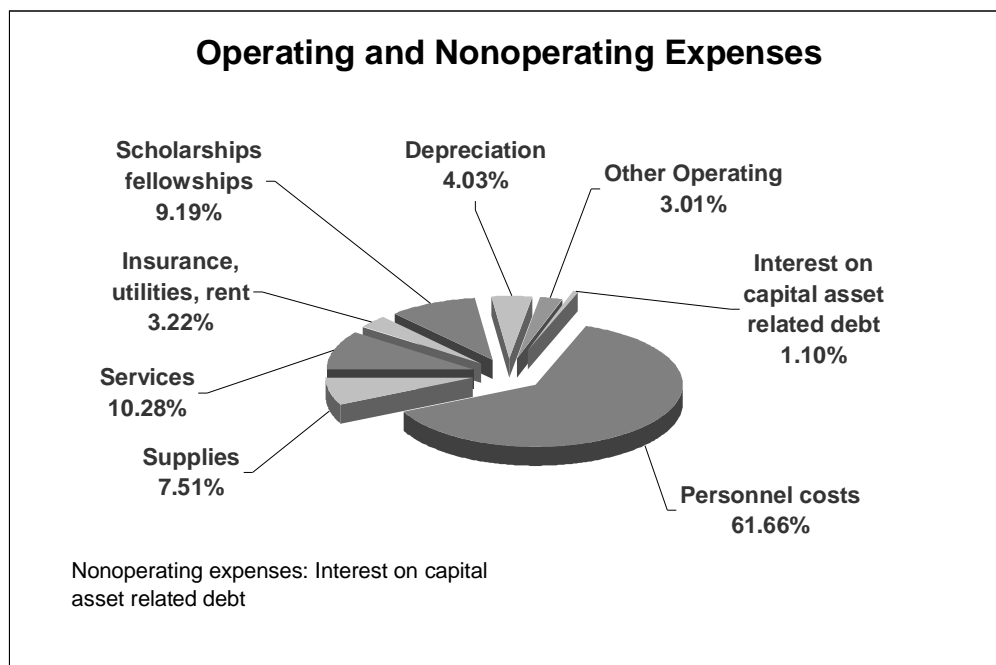
Expenses

A summary of the University’s expenses for the year ended June 30, 2004 follows:

Summary Statement of Expenses

Operating:	
Personnel costs	\$ 105,499,440
Services	17,590,190
Supplies	12,849,716
Insurance, utilities and rent	5,512,291
Scholarships and fellowships	15,731,492
Depreciation	6,888,948
Miscellaneous	<u>5,144,752</u>
Total operating expenses	<u>169,216,829</u>
Nonoperating—interest on capital asset related debt	<u>1,887,785</u>
Total expenses	<u>\$ 171,104,614</u>

The following is a graphic illustration of total expenses by natural classification:



Overall, operating expenses increased only \$12.2 million, or less than 7.8% to \$169.2 million in fiscal year 2004. This increase is primarily the result of personnel and supply costs related to a 15.1% rise in grant activity at the University.

In addition to their natural (object) classification, it is useful and informative to review operating expenses by function. A summary of the University's expenses by functional classification for the year ended June 30, 2004 is as follows:

Summary Statement of Expenses by Function

Instruction	\$ 69,407,823
Research	12,274,164
Public services	4,392,164
Academic support	8,144,778
Libraries	2,304,074
Student services	7,220,555
Institutional support	11,148,924
Maintenance and operations	11,736,644
Auxiliary enterprises	19,967,263
Scholarships and fellowships	15,731,492
Depreciation	<u>6,888,948</u>
 Total expenses	 <u>\$ 169,216,829</u>

STATEMENT OF CASH FLOWS

Another important factor to consider when evaluating the financial viability of the University is the ability to meet financial obligations as they mature. The *Statement of Cash Flows* provides information that allows the reader to evaluate the University's ability to meet its financial obligations on a current basis. It provides useful information about the University's financial results by breaking out the major sources and uses of cash into four categories.

- Operating Activities—Displays the net cash flow to conduct the operating activities of the institution;
- Noncapital Financing Activities—Reflects the net cash flow related to nonoperating, noninvesting and noncapital financing activities;
- Financing Activities—Includes payments for the acquisition of capital assets, proceeds from long-term debt and debt repayments; and
- Investing Activities—Purchases and sales of investments are reflected as investing activities.

The bottom section of the statement reconciles the net cash used on the *Statement of Cash Flows* to the operating income or loss reflected on the *Statement of Revenues, Expenses and Changes in Net Assets*.

A summary of the *Statement of Cash Flows* for the year ended June 30, 2004 is as follows:

Summary Statement of Cash Flows

Cash (used in) provided by:	
Operating activities	\$ (65,169,475)
Noncapital financing activities	77,218,250
Financing activities	(260,144)
Investing activities	<u>329,728</u>
Net increase in cash	12,118,359
Cash and cash equivalents—beginning of year	<u>37,893,781</u>
Cash and cash equivalents—end of year	<u>\$ 50,012,140</u>

For purposes of the *Statement of Cash Flows*, the University considers all highly liquid investments with an original remaining maturity of three months or less to be cash equivalents.

ECONOMIC FACTORS GOING FORWARD

An essential element for Idaho State University's future is its continuing relationship with the State of Idaho. The University is a state-owned public institution that, during the current fiscal year, received approximately 41.7% of its overall revenue through state appropriations (down from 43.5% in FY 2003). The state has experienced revenue shortfalls during the past several years due to a general decline in the state's economy. These shortfalls have resulted in flat or slightly higher revenue appropriations to the University and a corresponding decrease in the percentage of the University's total funding derived from the state. This trend is not unique to public institutions in Idaho. Nationwide, higher education institutions must cope with the decline in state funding and the need to shift to other funding sources. While fiscal year 2004 saw the beginning of what is anticipated to be a turnaround in the Idaho economy, the University continues to strive to deliver quality education and at the same time to manage student fees and other revenue sources. However, there is a direct correlation between state appropriations and the University's ability to control student fee growth. As appropriations are the single largest revenue sources for the University, declines in appropriations often result in increases in student fees.

As a labor-intensive organization with salaries and benefits comprising 61.7% of total expenditures, the University faces competitive pressures related to attracting and retaining faculty and staff. Furthermore, the costs of the University's health benefits continue to escalate. The University's success in meeting these and other fiscal challenges will largely depend upon the ability of the State of Idaho to provide adequate financial support through state appropriations. The 1% increase in the state sales tax enacted at the end of fiscal year 2003 eased the situation, but it is scheduled to expire in 2006. These appropriation declines have created economic hardships at the University that will take time to remedy. However, as noted previously, current revenue projections indicate the economic situation in Idaho is stabilizing, so the outlook is more optimistic than it was at the end of last year.

Looking forward to fiscal 2005, there continues to be many encouraging and positive activities at Idaho State University. Student enrollment continues its modest, but steady rise. We have made significant progress in restoring most of the adjunct instructor positions that had to be cut in prior years.

Research activity through sponsored programs and external funding has reached new highs at the University.

The L.E. and Thelma E. Stephens Performing Arts Center is scheduled for completion in February of 2005 and will provide a unique campus and community venue for teaching and the arts. Its magnificent architectural design will make it the most extraordinary building of its kind in Idaho, boasting three versatile performance venues, as well as auxiliary spaces designed for academic work and community enjoyment. This facility is funded from donations to the Idaho State University Foundation.

Construction has begun on the \$38.8 million Rendezvous Building, a unique multipurpose educational, residential and social complex that will become a gathering place for the campus community. The complex will promote an enhanced collegial atmosphere that integrates upper and lower campuses in a facility where students and faculty can meet both in the classroom and in a social setting. In addition to apartments and a dining hall, the Rendezvous will include a large computer center, large meeting room with partitions for conversion into three small meeting rooms, and retail space housing an ISU Spirit Shop, an adjunct operation of the ISU Bookstore.

The University has completed negotiations and received approval to buy the Fred H. Tingey Administration Building located on 22 acres of land adjacent to ISU's campus at University Place in Idaho Falls. It is anticipated that lease revenues and related savings will adequately service the related bond debt.

Over time, the University expects to realize operating cost savings from its Energy Improvement Project that will clearly exceed the costs of this bonded project.

In conclusion, while it is not possible to reliably predict the level of economic support the state will provide to the Idaho State University in the future, the state is committed to providing quality education to its citizens through its public institutions of higher education. Management believes the University's financial condition is strong and improving and that the institution is sufficiently resilient to weather foreseeable economic conditions and continue to accommodate and promote its academic mission.

The audited financial statements included in this report, along with the accompanying notes to the financial statements, provide pertinent information and details related to the financial activities discussed and analyzed in this analysis.

IDAHO STATE UNIVERSITY

STATEMENT OF NET ASSETS JUNE 30, 2004

ASSETS	University	Component Unit
CURRENT ASSETS:		
Cash and cash equivalents	\$ 50,012,140	\$ 8,729,397
Student loans receivable	508,248	
Accounts receivable and unbilled charges, less allowance for doubtful accounts of \$539,438	6,016,145	
Gift pledges receivable		2,311,552
Due from state agencies	3,807,340	
Interest receivable	10,833	717
Inventories	257,958	
Investments	643,451	
Deferred expenses	<u>475,587</u>	<u>280,542</u>
Total current assets	<u>61,731,702</u>	<u>11,322,208</u>
NONCURRENT ASSETS:		
Investments	666,944	30,238,929
Student loans receivable, less allowance for doubtful loans of \$381,794	1,516,948	
Investments held in trust	21,800,829	
Property held for resale		1,125,372
Property, plant and equipment—net	<u>123,343,889</u>	<u> </u>
Total noncurrent assets	<u>147,328,610</u>	<u>31,364,301</u>
TOTAL	<u><u>\$ 209,060,312</u></u>	<u><u>\$ 42,686,509</u></u>

See notes to financial statements.

LIABILITIES AND NET ASSETS	University	Component Unit
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 6,367,525	\$ 211,420
Due to Idaho State University		1,286,614
Accrued salaries and benefits payable	12,965,624	
Deposits	110,465	
Funds held in custody for others	407,209	5,154,176
Deferred revenue	5,821,438	
Accrued interest payable	558,749	
Notes and bonds payable	<u>1,344,408</u>	
Total current liabilities	27,575,418	6,652,210
NONCURRENT LIABILITIES—Notes and bonds payable	<u>47,171,157</u>	<u>22,170,000</u>
TOTAL LIABILITIES	<u>74,746,575</u>	<u>28,822,210</u>
NET ASSETS:		
Invested in capital assets—net of related debt	75,255,243	
Restricted—expendable	3,303,211	4,922,213
Restricted—expendable Performing Arts Center		(16,697,459)
Restricted—endowments		24,121,325
Unrestricted	<u>55,755,283</u>	<u>1,518,220</u>
Total net assets	<u>134,313,737</u>	<u>13,864,299</u>
TOTAL	<u>\$ 209,060,312</u>	<u>\$ 42,686,509</u>

IDAHO STATE UNIVERSITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2004

	University	Component Unit
OPERATING REVENUES:		
Student fees (net of scholarship discounts and allowances of \$14,524,341)	\$ 38,868,197	\$ -
Federal grants and contracts	29,925,270	
State and local grants and contracts	7,591,353	
Private grants and contracts	5,079,596	
Sales and services of educational activities	2,642,914	
Sales and services of auxiliary enterprises	9,368,162	
Other	2,444,625	
Gifts and contributions		<u>3,706,103</u>
Total operating revenues	<u>95,920,117</u>	<u>3,706,103</u>
OPERATING EXPENSES:		
Personnel costs	105,499,440	
Services	17,590,190	128,496
Supplies	12,849,716	461
Insurance, utilities and rent	5,512,291	176,610
Scholarships and fellowships	15,731,492	
Depreciation	6,888,948	
Miscellaneous	5,144,752	<u>282,768</u>
Total operating expenses	<u>169,216,829</u>	<u>588,335</u>
OPERATING INCOME (LOSS)	<u>(73,296,712)</u>	<u>3,117,768</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations:		
State general account—general education	59,034,400	
Endowment income	2,518,547	
Other state appropriations—Idaho dental education program	1,832,080	
Professional technical education	9,376,614	
Gifts, including \$2,448,142 from Idaho State University Foundation	4,970,084	
Net investment income	725,021	851,227
Interest on capital asset related debt	(1,887,785)	(226,418)
Net increase in fair value of investments		2,033,691
Payments to Idaho State University		(12,656,773)
Other distributions		<u>(13,587)</u>
Net nonoperating revenues (expenses)	<u>76,568,961</u>	<u>(10,011,860)</u>
INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES	3,272,249	(6,894,092)
OTHER REVENUES AND EXPENSES:		
Capital appropriations	1,583,546	
Capital gifts (including \$10,208,631 from Idaho State University Foundation)	10,277,131	
Loss on disposal of property, plant and equipment	(80,875)	
Net other revenues and expenses	<u>11,779,802</u>	
INCREASE (DECREASE) IN NET ASSETS	15,052,051	(6,894,092)
NET ASSETS—Beginning of year	<u>119,261,686</u>	<u>20,758,391</u>
NET ASSETS—End of year	<u>\$ 134,313,737</u>	<u>\$ 13,864,299</u>

See notes to financial statements.

IDAHO STATE UNIVERSITY

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2004

	University
CASH FLOWS FROM OPERATING ACTIVITIES:	
Student fees	\$ 29,738,186
Grants and Contracts	41,902,744
Sales and services of educational departments	2,746,236
Sales and services of auxiliary enterprises	9,761,872
Payments to employees	(104,860,729)
Payments to suppliers	(32,226,056)
Payments for scholarships and fellowships	(9,945,453)
Loans issued to students	(625,276)
Collections on loans to students	677,678
Other operating payments	<u>(2,338,677)</u>
Net cash used in operating activities	<u>(65,169,475)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	72,249,553
Gifts	4,714,411
Agency account receipts	37,144,720
Agency account payments	(36,877,860)
Direct lending receipts	44,078,436
Direct lending payments	<u>(44,091,010)</u>
Net cash provided by noncapital financing activities	<u>77,218,250</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Capital gifts and grants	5,683,888
Capital purchases	(11,976,036)
Bond proceeds	6,041,388
Principal paid on capital debt	(9,134)
Interest on capital asset related debt	<u>(250)</u>
Net cash used in financing activities	<u>(260,144)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment maturity proceeds	1,259,784
Investment purchases	(1,310,395)
Investment income	<u>380,339</u>
Net cash provided by investing activities	<u>329,728</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,118,359
CASH AND CASH EQUIVALENTS—Beginning of year	<u>37,893,781</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 50,012,140</u>

(Continued)

IDAHO STATE UNIVERSITY

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2004

	University
RECONCILIATION OF NET OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (73,296,712)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	6,888,948
Maintenance costs paid by Department of Public Works (“DPW”) and other	1,404,767
Change in assets and liabilities:	
Student loans receivable	64,182
Accounts receivable and unbilled charges—net	(2,651,709)
Inventories	5,365
Accounts payable and accrued liabilities	63,475
Accrued salaries and benefits payable	993,812
Deposits	6,253
Deferred revenue	<u>1,352,144</u>
Net cash used in operating activities	<u>\$ (65,169,475)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS—Property, plant and equipment acquired through DPW appropriations	<u>\$ 337,583</u>
See notes to financial statements.	(Concluded)

IDAHO STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Idaho State University (the “University”) 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 affirmed by the legislature, directs the system. The University is located in Pocatello, Idaho. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation—In June 1999, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*. These statements establish financial reporting requirements for state and local governments and public colleges and universities throughout the United States. The State and the Idaho public colleges and universities implemented these statements for the fiscal year ended June 30, 2002.

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Statement No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting as a discretely presented component unit. The provisions of Statement No. 39 are effective for financial statement periods beginning after June 15, 2003. The University implemented this statement for the fiscal year ended June 30, 2004 and made the determination that the Idaho State University Foundation, Inc. is an affiliated organization that meets the criteria for discrete component unit presentation.

Basis of Accounting—For financial reporting 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 has the option to apply all Financial Accounting Standards Board (“FASB”) pronouncements issued after November 30, 1989, unless FASB conflicts with the GASB. The University has elected not to apply FASB pronouncements issued after the applicable date.

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

Student Loans Receivable—Loans receivable from students bear interest at rates ranging from 3% to 7% and are generally payable to the University in installments over a 5 to 10 year period commencing 6 or 9 months after the date of separation from the University.

Accounts Receivable and Unbilled Charges—Accounts receivable consists of fees charged to students as well as auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Idaho. Accounts receivable also include amounts due from the Federal government, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University’s grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories—Inventories are valued at the lower of first-in, first-out (“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 change in fair value of investments in the statements of revenues, expenses and changes in net assets.

Noncurrent Investments—Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the statement of net assets.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 12-25 years for land improvements, 10 years for library books and 5 to 13 years for equipment.

The University has an Idaho Museum of Natural History collection that it does not capitalize. This collection adheres to the University’s policy to (a) maintain them for public exhibition, education or research; (b) protect, keep unencumbered, care for and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at time of purchase as an alternative to capitalization.

Deferred Revenues—Deferred revenues include 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 revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences—Employee vacation pay that is earned but unused is accrued at year-end for financial statement purposes. Included in accrued salaries and benefits payable in the statement of net assets, is \$3,221,347 at June 30, 2004.

Noncurrent Liabilities—Noncurrent liabilities include principal amounts of revenue bonds payable, notes payable with contractual maturities greater than one 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 total investment in capital assets, net of 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, Expendable—Restricted expendable net assets include resources in 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 fees, state appropriations and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions related to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, expense allocation decisions are made on a program-by-program basis. The University does not have a policy regarding the preferred usage of unrestricted or restricted net assets.

Income Taxes—The University, as a political subdivision of the State of Idaho, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

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

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

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

Scholarship Discounts and Allowances—Student fee revenues are reported net of scholarship discounts and allowances in the statements 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 other 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 student fees and related charges, the University has recorded a scholarship discount and allowance.

New Accounting Standards—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. Statement No. 40 amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*. The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The University has not completed the process of evaluating the impact that will result from adopting this Statement. The requirements of this Statement are effective for the University’s fiscal year ending June 30, 2005.

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

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement generally requires that the University account for and report the cost and obligations related to postemployment healthcare and other nonpension benefits (“OPEB”) and include disclosures regarding its OPEB plans. OPEB costs are likely to be based on actuarially determined amounts that, if 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, OTHER DEPOSITS AND INVESTMENTS

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. Such deposits for the year ended June 30, 2004 are categorized below to give an indication of the level of risk assumed by the University at year end. Category 1 includes deposits that are insured or collateralized with securities held by the University or its agent in the University’s name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution’s trust department or agent in the University’s name. Category 3 includes uninsured deposits, which are uncollateralized. Balances of deposits by such categories at June 30, 2004 consisted of the following:

Category 1	\$ 100,000
Category 2	40,877,281
Category 3	217,669
Cash equity with the state treasurer (not categorized)	8,731,675
Cash on hand (not categorized)	<u>85,515</u>
Total	<u>\$50,012,140</u>

Of the cash and cash equivalents reported on the statement of net assets at June 30, 2004, \$1,298,608 is restricted by donors, granting agencies or other contractual agreements. Book value of deposits does not materially differ from the bank balance of deposits.

Investments—The general investment policy of the University as adopted by the State Board of Education (the “Board”) 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.

Funds may be invested in 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 and commercial paper of prime or equivalent grade. Authority to make investments in any other form requires prior Board approval. Such Board approval may be in the form of general authority to invest or reinvest cash, securities and other assets.

Covenants of certain bond resolutions restrict investment of funds to U.S. Government or government guaranteed securities. Repurchase agreements are collateralized by U.S. Government securities held by the pledging financial institution or financial institution’s agent in the University’s name.

Investments Held in Trust included cash and cash equivalents and government securities held in the University’s name and are recorded at fair value. The entire amount of these investments are restricted by bond indentures or other contractual agreements.

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, 2004. 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.

	2004			Total
	Investment Risk Category			
	1	2	3	
Investments—U.S. government or government guaranteed securities	<u>\$ 1,310,395</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,310,395</u>
	<u>\$ 1,310,395</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,310,395</u>
Investments held in trust—U.S. government or government guaranteed securities	<u>\$21,800,829</u>	<u>\$ -</u>	<u>-</u>	<u>\$21,800,829</u>
	<u>\$21,800,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$21,800,829</u>

3. ACCOUNTS RECEIVABLE AND UNBILLED CHARGES AND DUE FROM STATE AGENCIES

Accounts receivable and unbilled charges and due from state agencies consisted of the following at June 30, 2004:

Operating:	
Student tuition fees	\$ 24,110
Federal grants and contracts	3,409,873
State and local grants and contracts	526,326
Nongovernment grants and contracts	969,090
Sales and services of educational departments	267,208
Auxiliary enterprises sales and services	456,037
Other operating revenue	557,137
Services and supplies	18,375
Perkins	111,623
Revolving	1,522,408
Less allowance for doubtful accounts	<u>(539,438)</u>
Net operating accounts receivable and unbilled charges and due from state agencies	7,322,749
Nonoperating:	
State appropriations	645,991
Gifts	128,790
Capital appropriations	
Capital gifts and grants (see Note 10)	1,212,681
Agency	<u>513,274</u>
Net nonoperating accounts receivable	<u>2,500,736</u>
Total accounts receivable and unbilled charges and due from state agencies	<u><u>\$9,823,485</u></u>

4. STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2004. Under this Program, the federal government provides approximately 75% of the funding for the Program with the University providing the balance. A borrower may have all or part of their loan (including interest) canceled for engaging in teaching, public service, service in the Peace Corps or ACTION, or service in the military. The Department of Education reimburses the University every award year for the principal and interest canceled in its Perkins Loan Fund for all of the cancellation provisions except death, total and permanent disability and bankruptcy. The school must deposit this reimbursement into its Perkins loan fund. Schools are not required to deposit reimbursements for loans made prior to July 1, 1972 into the Perkins Fund as these reimbursements are considered institutional funds. In the event the University should withdraw from the Federal Perkins Loan Program or the government were to cancel the Program, the amount the University would be liable for as of June 30, 2004 is \$2,183,255.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are 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. At June 30, 2004, the allowance for uncollectible loans was approximately \$381,794.

5. PROPERTY, PLANT AND EQUIPMENT

Following are the changes in property, plant and equipment for the year ended June 30:

Property, Plant and Equipment Summary	2004				Balance at June 30, 2004
	Balance at June 30, 2003	Additions	Retirements	Transfers	
Property, plant and equipment:					
Land	\$ 2,524,093	\$ -	\$ -	\$ -	\$ 2,524,093
Construction in progress	<u>18,686,872</u>	<u>14,146,948</u>			<u>32,833,820</u>
Total property, plant and equipment not being depreciated	<u>\$ 21,210,965</u>	<u>\$ 14,146,948</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,357,913</u>
Other property, plant and equipment:					
Buildings and improvements	\$ 119,526,461	\$ 337,582	\$ (388,826)	\$ -	\$ 119,475,217
Furniture, fixtures and equipment	27,429,913	2,381,695	(540,196)		29,271,412
Library materials	<u>28,955,517</u>	<u>1,945,544</u>			<u>30,901,061</u>
Total other property, plant and equipment	175,911,891	4,664,821	(929,022)		179,647,690
Less accumulated depreciation:					
Buildings and improvements	(45,802,728)	(3,248,106)	312,082		(48,738,752)
Furniture, fixtures and equipment	(18,013,528)	(2,119,569)	506,455		(19,626,642)
Library materials	<u>(21,775,047)</u>	<u>(1,521,273)</u>			<u>(23,296,320)</u>
Total accumulated depreciation	<u>(85,591,303)</u>	<u>(6,888,948)</u>	<u>818,537</u>		<u>(91,661,714)</u>
Other property, plant and equipment net of accumulated depreciation	<u>\$ 90,320,588</u>	<u>\$ (2,224,127)</u>	<u>\$ (110,485)</u>	<u>\$ -</u>	<u>\$ 87,985,976</u>
Property, Plant and Equipment Summary:					
Property, plant and equipment not being depreciated	\$ 21,210,965	\$ 14,146,948	\$ -	\$ -	\$ 35,357,913
Other property, plant and equipment at cost	<u>175,911,891</u>	<u>4,664,821</u>	<u>(929,022)</u>		<u>179,647,690</u>
Total property, plant and equipment	197,122,856	18,811,769	(929,022)		215,005,603
Less accumulated depreciation	<u>(85,591,303)</u>	<u>(6,888,948)</u>	<u>818,537</u>		<u>(91,661,714)</u>
Property, plant and equipment—net	<u>\$ 111,531,553</u>	<u>\$ 11,922,821</u>	<u>\$ (110,485)</u>	<u>\$ -</u>	<u>\$ 123,343,889</u>

The University also has a collection of historical artifacts located at the Museum of Natural History whose value is uncertain.

In addition to accounts payable for construction in progress, the estimated cost to complete property authorized or under construction at June 30, 2004 is approximately \$40,000,000. These costs will be financed by available resources of the Idaho State University through General Refunding and Improvement Revenue Bonds, Series 2003 and 2004A (see Note 11).

6. DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2004:

Prepaid fees	\$ 2,752,788
Auxiliary enterprises	47,240
Grants and contracts	<u>3,021,410</u>
	<u>\$ 5,821,438</u>

7. NONCURRENT LIABILITIES

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

Description	Balance Outstanding June 30, 2003	Additions	Reductions	Balance Outstanding June 30, 2004	Amounts Due Within One Year
Student Facilities Fee Revenue Bonds, Series 1993 (original balance of \$3,000,000), consisting of serial and term bonds (either directly or through sinking funds) in annual amounts increasing periodically from \$145,000 to a maximum of \$245,000 plus interest from 5% to 5.40% through the year 2014. All bonds are collateralized by certain student fees and other revenues. These bonds were refunded by the Series 2003 bonds.	\$ 2,080,000	\$ -	\$ 2,080,000	\$ -	\$ -
Student Facilities Fee Revenue Bonds, Series 1995 (original balance of \$6,250,000), consisting of serial and term bonds (either directly or through sinking funds) in annual amounts increasing periodically from \$190,000 to a maximum of \$455,000 plus interest from 4.95% to 5.80% through the year 2020. All bonds are collateralized by certain student fees and other revenues. These bonds were refunded by the Series 2003 bonds.	5,145,000	-	5,145,000	-	-
Student Facilities Fee Revenue Bonds, Series 1998 (original balance of \$12,400,000), consisting of serial and term bonds (either directly or through sinking funds) in annual amounts increasing periodically from \$585,000 to a maximum of \$920,000 plus interest from 4.875% to 5.00% through the year 2022. All bonds are collateralized by certain student fees and other revenues.	11,385,000		585,000	10,800,000	620,000
General Refunding and Improvement Revenue Bonds, Series 2003, consisting of serial bonds payable in annual amounts increasing periodically from \$730,000 to a maximum of \$3,115,000 plus interest from 3.00% to 5.00% through the year 2023. All bonds are collateralized by certain student fees and other revenues.	-	35,895,000	730,000	35,165,000	715,000

(Continued)

Description	Balance Outstanding June 30, 2003	Additions	Reductions	Balance Outstanding June 30, 2004	Amounts due Within One Year
Note payable to City of Pocatello (original balance of \$150,000), due in annual installments of \$11,570 through 2010, interest at 3.00%, unsecured.	\$ 81,221	\$ -	\$ 9,134	\$ 72,087	\$ 9,408
Note payable to a bank (original balance of \$550,000), due in monthly installments of \$5,950 through 2004, interest at 5.43%, collateralized by certain student fees and other revenues. This note was refunded by the Series 2003 bonds.	97,039	-	97,039	-	-
Note payable to a bank (original balance of \$1,525,000), due in semi-annual amounts increasing periodically from \$45,000 to a maximum of \$695,000 through 2009, interest at 4.99%, collateralized by revenue from the West Campus apartments and other housing revenue. This note was refunded by the Series 2003 bonds.	1,225,000	-	1,225,000	-	-
Premium on bonds	20,013,260	35,895,000	9,871,173	46,037,087	1,344,408
Discount on bonds	-	2,617,551 (139,073)	-	2,617,551 (139,073)	-
	<u>\$ 20,013,260</u>	<u>\$ 38,373,478</u>	<u>\$ 9,871,173</u>	<u>\$ 48,515,565</u>	<u>\$ 1,344,408</u>

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

Principal and interest maturities on notes and bonds payable for the years ending June 30 are as follows:

	Notes		Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 9,408	\$ 2,163	\$ 1,335,000	\$ 2,213,772
2006	9,690	1,880	1,735,000	2,156,963
2007	9,981	1,590	1,810,000	2,085,950
2008	10,280	1,290	1,890,000	2,000,475
2009-2013	32,728	1,982	10,935,000	8,533,343
2014-2018			13,480,000	5,584,335
2019-2023			14,780,000	2,102,725
	<u>\$ 72,087</u>	<u>\$ 8,905</u>	<u>\$ 45,965,000</u>	<u>\$ 24,677,563</u>

See Note 11 for bonds issued subsequent to year-end.

Pledged Revenue—As disclosed, the University currently has two bond issues outstanding the Student Facilities Fee Revenue Bond (“Series 1998”) and the General Refunding and Improvement Revenue Bonds, Series 2003. The University has pledged certain revenues as collateral for these bonds. The pledged revenue amounts as of June 30 are as follows:

	2004		Total
	Student Facilities Fee Revenue Bond	Student Facility Fee Revenue Bond	
	Series 1998	Series 2003	
Pledged revenues:			
Matriculation Fee	\$ -	\$ 24,022,563	\$ 24,022,563
Student facilities fee	2,975,366	479,898	3,455,264
Net revenue of student housing system		(254,094)	(254,094)
Investment income	5,000	1,003	6,003
	<u>\$2,980,366</u>	<u>\$24,249,370</u>	<u>\$27,229,736</u>

As indicated, the Student Facilities Fee is pledged for Series 1998 and Series 2003 bonds. The Net Revenue of the Housing System is pledged for the Series 2003 bond.

8. LEASE OBLIGATIONS

The University is a lessor under a ground lease agreement with Portneuf Medical Center (lessee). The lease is for 20 years with a renewal option for an additional 20 years exercisable in the final year of the original lease term. Rent for the leased premises for the initial term and optional lease term includes the use of the weight room/trainer’s room space and \$1 per year payable on the date of the execution of the lease and annually thereafter on the anniversary date of such execution. The lease allows for the construction of a sports medicine facility (the “Facility”) on the premises.

The University is a lessee under a weight room/trainer’s room space/common areas lease with Portneuf Medical Center (lessor). The lease is for 20 years with a renewal option for an additional 20 years exercisable if the lessor exercises its option to renew as provided in the ground lease. Rent for the weight room/trainer’s room space portion of the lease is \$1 per year. Rent for the shared usage of the common areas is \$14,000 per year. Rents for the initial term and optional lease term are payable on the date of the execution of the lease and annually thereafter on the anniversary date of such execution. Upon the expiration of the lease term, the Facility shall become the property of the University. All fixtures, equipment and personal property installed within the Facility during the lease term remain the property of Portneuf Medical Center and will be removed upon expiration of the lease term. For financial reporting purposes, this transaction has been treated as an operating lease.

The lease requires the University to fund repairs and maintenance on the weight room/trainer’s room space and 50% of the common areas. The repair and maintenance of the equipment is the sole responsibility of the University.

Future minimum lease payments at June 30, 2004 are as follows:

Fiscal Years	
2005	\$ 14,001
2006	14,001
2007	14,001
2008	14,001
2009–2013	<u>70,005</u>
	<u>\$ 126,009</u>

In 2002, the University entered into a lease agreement for space, located at 12301 West Explorer Drive in Boise, ID, with Wild Shamrock LLP commencing January 14, 2002 and originally ending 36 months from the commencement date. Two subsequent amendments have extended the lease to August 31, 2007 and DBSI Genesis LLC is the successor in interest to Wild Shamrock LLP. The University may, at the expiration of the term of the lease and without renewing the lease, continue its occupancy on a month-to-month basis upon the terms and conditions set forth in the lease agreement for a period not to exceed one year. The lessor may terminate month to month occupancy upon ninety days prior written notice to the University.

The University shall pay a fixed payment in monthly installments for the term of the lease. The payment is computed at a rate of \$14.50 per square foot per year for months 1–12, \$15.00 per square foot per year for months 13–24, \$15.50 per square foot per year for months 25–36, \$16.00 per square foot per year for months 37–48, \$16.50 per square foot per year for months 49–60 and \$17.00 per square foot per year for months 61–67. The amount of the space rented was initially 17,052 square feet. This was increased to 21,142 square feet on May 14, 2002, 23,968 square feet on August 1, 2003 and 29,126 square feet on March 1, 2004. The rent expense for the facility for the year ended June 30, 2004 was \$391,163.

Future minimum lease payments at June 30, 2004 are as follows:

2005	\$ 457,521
2006	472,084
2007	486,647
2008	<u>82,524</u>
	<u>\$ 1,498,776</u>

9. 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. It is a defined benefit plan requiring that both the member and the employer contribute. The plan 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. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other 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 5 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 month of credited service, the annual service retirement allowance is 1.917% or 2.225% (depending upon employee classification) of the average monthly salary for the highest consecutive 42 months.

For the year ended June 30, 2004, the required contribution rate for general employees was 9.77% and 5.86% of covered payroll for the University and its employees, respectively. The University contributions required and paid were \$2,510,855, \$2,910,200 and \$3,071,353 for the years ended June 30, 2004, 2003 and 2002, respectively.

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

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

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or any portion thereof upon attaining 55 years of age. The contribution requirement (and amount paid) for the year ended June 30, 2004 was \$5,974,907, that consisted of \$3,139,593 from the University and \$2,835,315 from employees. These contributions represented approximately 7.72% of covered payroll.

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 year ended June 30, 2004, this supplemental funding payment made to PERSI were \$1,232,575. These amounts are not included in the regular University PERSI contribution discussed previously.

Postretirement Benefits other Than Pensions—Employees who 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 .65% of employee gross payroll to PERSI, who administers the plan as a cost-sharing, multiple-employer plan. The total contributions for the year ended June 30, 2004 were \$431,691.

The University also offers a life insurance plan for retired employees. During the year ended June 30, 2004, the University made expenditures totaling \$135,101 to purchase life insurance for 249 retired employees receiving these benefits. This program is accounted for by the University on a pay-as-you-go basis; however, the GASB has issued Statement No. 45 that will require the University to record this obligation on an actuarially determined basis. An actuarially determined valuation of this obligation would likely be significantly higher than the amount currently accrued.

10. COMPONENT UNIT

The Idaho State University Foundation, Inc. (the “Foundation”) was established for the purpose of soliciting donations and to hold and manage invested donations for the exclusive benefit of the University. Separate audited financial statements are prepared for the Foundation and may be obtained by contacting Idaho State University Financial Services, Campus Box 8219, Pocatello, Idaho 83209.

Cash and Cash Equivalents—Cash and cash equivalents are deposited with various financial institutions. Such deposits for the year ended June 30, 2004 are categorized below to give an indication of the level of risk assumed by the Foundation at year end. Category 1 includes deposits that are insured or collateralized with securities held by the Foundation or its agent in the Foundation’s name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution’s trust department or agent in the Foundation’s name. Category 3 includes uninsured deposits which are uncollateralized. Balances of deposits by such categories at June 30, 2004 consisted of the following:

Category 1	\$ 200,000
Category 2	<u>8,529,397</u>
Total	<u><u>\$8,729,397</u></u>

Of the cash and cash equivalents reported on the statement of net assets at June 30, 2004, \$8,615,117 is restricted by donors, granting agencies or other contractual agreements. Book value of deposits does not materially differ from the bank balance of deposits.

Investments in Securities—Investments are carried at fair value. Equity securities are valued at fair value as reported by the Trustee. U.S. government securities are valued at the reported bid price on the last business day of the year. The debt securities are valued at the sales price quotation as of the last business day of the year. The change in the fair value of the investments is reflected in the accompanying statement of revenues, expenditures and changes in fund balances.

The Foundation’s investments described above are categorized below to give an indication of the level of risk assumed by the Foundation at June 30, 2004. Category 1 includes investments that are insured or registered, or for which the securities are held by the Foundation or its agent in the Foundation’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 Foundation’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the Foundation’s name; or by the counterparty’s trust department or agent but not in the Foundation’s name.

Investments by category were as follows at June 30, 2004:

	Investment Risk Category			Total
	1	2	3	
Fixed income securities	\$ -	\$12,461,039	\$ -	\$12,461,039
Equity securities	<u> </u>	<u>17,777,890</u>	<u> </u>	<u>17,777,890</u>
	<u><u>\$ -</u></u>	<u><u>\$30,238,929</u></u>	<u><u>\$ -</u></u>	<u><u>\$30,238,929</u></u>

Due to Idaho State University—At June 30, 2004, the University had recorded a receivable from the Foundation for \$1,281,278, of which \$1,212,681 related to the construction of the L.E. and Thelma E. Stephens Performing Arts Center. This receivable is reflected in accounts receivable and unbilled charges on the statement of net assets.

Multi-Mode Variable Rate Revenue Bonds—A Multi-Mode Variable Rate Revenue Bond for the construction, furnishing, equipping and improving certain real and personal property comprising the L.E. and Thelma Stephens Performing Arts Center was issued on May 30, 2001 in the amount of \$22,170,000. The Bonds mature on May 1, 2021 and are secured solely by donations, pledges and other funds held under the Bond Indenture. Interest payments are made monthly with the first mandatory bond redemption of \$1,290,000 due on May 1, 2005. Total interest expense during 2004 was \$226,418.

For the period from and including the date of the issuance and delivery of the Bonds, the Bonds will bear interest at interest rates determined for the Weekly Rate until converted to another permitted interest rate. The Interest Rate Mode for the Bonds may be changed from time to time and from the Weekly Rate, the Semi-Annual Rate and the Long-Term Rate. Each interest rate for an Interest Rate Mode for the Bonds will be determined by the Remarketing Agent, initially Wells Fargo Brokerage Services, LLC. The interest rate at June 30, 2004 was 1.10%.

Principal maturities on bonds payable for the year ending June 30 are as follows:

2005	\$ 1,290,000
2006	1,305,000
2007	1,305,000
2008	1,305,000
2009–2013	6,525,000
2014–2018	6,525,000
2019-2022	<u>3,915,000</u>
	<u>\$22,170,000</u>

Upon completion, the Performing Arts Center will be used by Idaho State University for academic purposes and for other University sponsored activities. In addition, the ongoing operational costs of the facility will be funded by the University. In recognition of the intended use of the facility by the University, the ongoing costs of construction are recorded on the University’s financial statements as gifts from the Idaho State University Foundation and construction in progress and on the Foundation’s financial statements as payments to Idaho State University. Such contributions will create a deficit balance on the Foundation’s financial statements in Restricted, expendable net assets until future pledges are collected to repay the revenue bonds.

The Foundation has approximately \$19.8 million of pledges that have not been recorded in the financial statements that are designated for the Performing Arts Center. These pledges are not included because they do not meet all of the criteria in GASB 33 for revenue recognition.

Net Assets—The Foundation’s net assets are classified as follows:

Restricted Expendable—Restricted expendable net assets include resources in which the Foundation is legally or contractually obligated to spend resources in accordance with donor-imposed restrictions.

Restricted, Expendable Performing Arts Center—Restricted expendable, Performing Arts Center net asset are those resources which have been designated by donors to support the construction of the Performing Arts Center. This category is stated separately to more clearly present the net assets of the Foundation.

Unrestricted—Unrestricted net assets represent resources derived from gifts, dividends and investment income that are not subject to donor-imposed restrictions.

Restricted Endowments—represents net assets that are subject to donor-imposed stipulations that must be maintained permanently by the Foundation.

Classification of Revenues—The Foundation has classified the revenues that are generated in pursuit of its purpose, which is to solicit financial support for Idaho State University and to manage and invest the resulting charitable gifts, as operating revenues.

11. SUBSEQUENT EVENTS

In August, the University issued General Refunding and Improvement Revenue Bonds, Series 2004A in the amount of \$4,980,000. The Series 2004A Bonds were issued to provide additional funding for project costs for a housing, student services and classroom facility known as the “Rendezvous Project.”

In October, the University issued General Refunding and Improvement Revenue Bonds, Series 2004B and 2004C (taxable) in the amount of \$3,305,000 and \$2,305,000, respectively. The Series 2004B and 2004C (taxable) were issued to provide additional funding for project costs associated with the Idaho Falls campus.

12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

The following table shows natural classifications with functional classifications:

	2004							Operating Expenses Totals
	Personnel Costs	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	
Instruction	\$ 58,538,244	\$ 5,079,746	\$ 4,390,763	\$ 212,132	\$ -	\$ -	\$ 1,186,938	\$ 69,407,823
Research	8,257,443	2,025,726	1,488,360	133,999			368,636	12,274,164
Public services	3,104,264	291,470	512,463	15,417			468,550	4,392,164
Academic support	5,869,794	893,099	1,170,485	60,917			150,483	8,144,778
Libraries	2,005,772	175,781	88,338	554			33,629	2,304,074
Student services	5,823,366	670,792	457,832	10,003			258,562	7,220,555
Institutional support	8,141,608	1,669,381	1,061,818	(192,467)			468,584	11,148,924
Maintenance and operations	4,614,433	2,433,065	661,007	4,045,668			(17,529)	11,736,644
Auxiliary enterprises	9,144,516	4,351,130	3,018,650	1,226,068			2,226,899	19,967,263
Scholarships and fellowships					15,731,492			15,731,492
Depreciation						6,888,948		6,888,948
Total expenses	<u>\$ 105,499,440</u>	<u>\$ 17,590,190</u>	<u>\$ 12,849,716</u>	<u>\$ 5,512,291</u>	<u>\$ 15,731,492</u>	<u>\$ 6,888,948</u>	<u>\$ 5,144,752</u>	<u>\$ 169,216,829</u>

13. CONTINGENCIES AND LEGAL MATTERS

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

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

* * * * *

INDEPENDENT AUDITORS' 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

State Board of Education

We have audited the financial statements of Idaho State University (the "University") as of and for the year ended June 30, 2004, and have issued our report thereon dated November 4, 2004. 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.

Internal Control over Financial Reporting

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the 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.



November 4, 2004

SINGLE AUDIT INFORMATION

IDAHO STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Grant/Program Title	Federal CFDA Number		Expenditures
DEPARTMENT OF AGRICULTURE:			
Ecophysiology/Spotted Knapweed	10.206	(1)	\$ 41,948
Rodnick-Niacin	10.206	(1)	27,720
R.U.S. Grant	10.855		103,258
Pass Through Payments from the State of Idaho:			
Delehandy/Raven Removal	10.028	(1)	24,794
McGonigle - Onions	10.200	(1)	7,492
Hispanic Health - WIN	10.302		792
Three Rivers Project	10.672	(1)	18,348
Early Learning Center	10.558		75,140
ISU Preschool	10.558		708
Upward Bound	10.559	(3)	<u>6,316</u>
Total Department of Agriculture			<u>306,516</u>
DEPARTMENT OF COMMERCE:			
BISIS KABA	11.000	(1)	129,232
Sea Lion Project	11.432	(1)	205,251
Pass Through Payments from the State of Idaho:			
Idaho Manufacturing Alliance/EDA	11.303		12,944
Idaho Manufacturing Alliance	11.611		<u>101,091</u>
Total Department of Commerce			<u>448,518</u>
DEPARTMENT OF DEFENSE:			
DOD RADIATION RESEARCH	12.000	(1)	932,842
NJATEC	12.900		469,896
KRILOFF-NSA	12.901	(1)	<u>19,530</u>
Total Department of Defense			<u>1,422,268</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Performing Arts Center	14.246		321,894
Pass Through Payments from the State of Idaho:			
Idaho Virtual Incubator (IVI)	14.246		<u>50,060</u>
Total Department of Housing and Urban Development			<u>371,954</u>

(Continued)

IDAHO STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Grant/Program Title	Federal CFDA Number		Expenditures
DEPARTMENT OF THE INTERIOR:			
BML Jaguar Cave Fossil Analysis	15.224	(1)	\$ 4,113
Peterson/Great Divide	15.808	(1)	48,817
U.S.G.S. Projects	15.808	(1)	46,154
USGS Big Lost Trough Geostats	15.808	(1)	36,118
EDMAP Northern Henderson Creek	15.810	(1)	11,701
Swallow Canyon EDMAP	15.810	(1)	1,211
Nonvascular Plants Invert/Mamm	15.AAK	(1)	782
Wolverine - NPS	15.ABI	(1)	2,917
Cook - NPS Denali	15.ABN	(1)	87,860
BLM Blackfoot Watershed Project	15.DAM	(1)	19,452
Great Yellowstone Network H.I.	15.DAV	(1)	26,470
EST, Amphibian Detectability	15.DAV	(1)	6,361
Cook - NPS Swan	15.DAV	(1)	18,000
Huntly - Kipuka Plants	15.DAV	(1)	20,468
Urban Interface	15.DDG		18,373
Pass Through Payments from the State of Idaho:			
Keeley - Greg	15.605	(1)	24,679
Teton River Fishery	15.605	(1)	5,099
Jenkins Crotalus	15.634	(1)	14,354
ITDGIS	15.808	(1)	<u>820</u>
Total Department of the Interior			<u>393,749</u>
DEPARTMENT OF JUSTICE:			
Prevent Violence Against Women	16.525		80,371
Pass Through Payments from the State of Idaho:			
Homeland Security Program	16.007		204,085
Homeland Security Program Part II	16.007		43,314
Homeland Security Program	16.007		121,924
Security/Anti-Terrorism Plan	16.579		<u>13,900</u>
Total Department of Justice			<u>463,594</u>
DEPARTMENT OF LABOR:			
Pass Through Payments from the State of Idaho:			
WIA/QI	17.258		4,180
On-line Med Transcription	17.259		6,015
Assoc Degree in Nursing	17.267		<u>51,244</u>
Total Department of Labor			<u>61,439</u>

(Continued)

IDAHO STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Grant/Program Title	Federal CFDA Number		Expenditures
DEPARTMENT OF STATE:			
Pass Through Payments from the State of Idaho: Student Affairs NAFSA	19.420		\$ <u>900</u>
Total Department of State			<u>900</u>
DEPARTMENT OF TRANSPORTATION:			
Pass Through Payments from the State of Idaho: ID Dept/Transport Internship	20.205		<u>15,320</u>
Total Department of Transportation			<u>15,320</u>
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:			
NASA - Wildlife	43.000		76,124
NASA - Weeds	43.000	(1)	350,432
Pass Through Payments from the State of Idaho:			
Chalcopyrite Disposition	43.000	(1)	692
Pak-NASA	43.000	(1)	8,137
NASA Synthtc Aperture Radar	43.000	(1)	193,806
Invasive Plant Species/NASA	43.000	(1)	63,328
Post-Doc Support Award	43.000		838
Geospatial Training & Cooperation	43.000	(1)	15,324
P-12 Microgrant Outreach	43.000		10,763
ISGC SPG	43.000		1,000
Liquid/Vapor Interface Sensor	43.000	(1)	1,995
NASA-Swan Valley	43.000	(1)	<u>17,462</u>
Total National Aeronautics and Space Administration			<u>739,901</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES:			
Pass Through Payments from the State of Idaho:			
Idaho Yesterdays	45.129	(1)	798
Horseshoes	45.129		<u>2,683</u>
Total National Endowment for the Humanities			<u>3,481</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES:			
MAP III	45.302		2,070
VIMNH	45.312	(1)	6,108
Pass Through Payments from the State of Idaho:			
Digital Standards Grant	45.310	(1)	<u>1,318</u>
Total Institute of Museum and Library Services			<u>9,496</u>

(Continued)

IDAHO STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Grant/Program Title	Federal CFDA Number		Expenditures
NATIONAL SCIENCE FOUNDATION:			
Structural Dynamics Laboratory	47.041	(1)	\$ 44,986
NSF - REU	47.049		23,725
Harmonious Calibration	47.049	(1)	5,593
NSF Grant	47.049	(1)	24,914
NSF Zircon Analyses	47.050	(1)	26,524
Digital Geology of Idaho	47.050	(1)	3,683
Beringian Coevolution Project	47.074	(1)	573
Drosophila Chromosome Structure	47.074	(1)	58,147
Hybrid - Keeley	47.074	(1)	61,114
Cook - UMEB	47.074	(1)	18,407
Cook UMEB Students	47.074	(1)	9,255
Groome/Deactivation	47.074	(1)	27,562
Complexity Across Boundaries	47.074	(1)	201,248
Biocomplexity Project	47.075	(1)	12,963
RSmith Biomethods CCLI	47.076		32,520
RSmithGK12	47.076	(1)	13,704
Scholarship For Service	47.076		113,717
CSEMS Scholarships	47.076		51,563
Alaska Peninsula Project	47.078	(1)	27,202
Hot Springs Project	47.078	(1)	8,681
Sanak Island Project	47.078	(1)	145,573
Pass Through Payments from the State of Idaho:			
Biocomplexity	47.076	(1)	163,551
Chem EPSCoR-Rodriguez/Pak	47.076	(1)	114,235
NSF EPSCoR4	47.076	(1)	64,253
Neuro-Fuzzy Soft Computing	47.076	(1)	40,141
NFS EPSCoR-4	47.076	(1)	97,758
NSF EPSCoR PHD Fellowships	47.076	(1)	15,273
NSF EPSCoR IV-Faculty Start Up	47.076	(1)	21,777
NSF EPSCoR IV-Instrumentation	47.076	(1)	<u>36,162</u>
Total National Science Foundation			<u>1,464,804</u>
SMALL BUSINESS ADMINISTRATION:			
Pass Through Payments from the State of Idaho:			
SBDC - Pocatello Grant	59.037		56,369
SBDC - Idaho Falls Grant	59.037		63,629
Drug-Free Workplace	59.037		<u>16</u>
Total Small Business Administration			<u>120,014</u>

(Continued)

IDAHO STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Grant/Program Title	Federal CFDA Number		Expenditures
ENVIRONMENTAL PROTECTION AGENCY:			
Pass Through Payments from the State of Idaho:			
ID Dept/IDEQ Internship	66.419		\$ 4,212
ID Dept/IDEQ Internship	66.432		9,828
EPA Stream Project	66.500	(1)	<u>17,918</u>
Total Environmental Protection Agency			<u>31,958</u>
DEPARTMENT OF ENERGY:			
Triple AAA Program at IAC	81.049	(1)	1,505,775
University Reactor Sharing	81.114		6,041
Reactor Security/Control Upgrade	81.114	(1)	4,704
Passive Safety Systems Designs	81.114	(1)	61,221
University Reactor Support	81.114	(1)	13,949
Pass Through Payments from the State of Idaho:			
Gateway Project	81.041		9,926
INRA Subsurface Sci Grad Program	81.104		196,600
INRA SSGP - Classroom	81.104		16,177
INRA SSGP Field Trip '04	81.104		21,642
Nuclear Infrastructure and Education	81.114	(1)	12,440
INEEL Oversight Environmental Analysis	81.502	(1)	<u>391,062</u>
Total Department of Energy			<u>2,239,537</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY:			
Pass Through Payments from the State of Idaho			
Fire Service Training	83.010		<u>1,992</u>
Total Department of Federal Emergency Management Agency			<u>1,992</u>
DEPARTMENT OF EDUCATION:			
SEOG	84.007	(2)	426,081
College Work Study Program - America Reads Program	84.033	(2)	19,450
College Work Study Program - General	84.033	(2)	752,558
Student Support Services	84.042A	(3)	246,804
TRIO Pell Supplement	84.042A	(3)	32,706
Educational Talent Search	84.044A	(3)	494,593
Upward Bound	84.047A	(3)	(23,426)
Upward Bound	84.047A	(3)	355,982
Pell Grant - Prior Year Collection	84.063	(2)	33,095
Pell Grant-Aid Year 2002-2003	84.063	(2)	(21,389)
Pell Grant-Aid Year 2003-2004	84.063	(2)	16,762,495

(Continued)

IDAHO STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Grant/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION (Cont'd):		
IRA - COB	84.153A	\$ 51,835
Federal Direct Lending/SUB 2003	84.268 (2)	18,809
Federal Direct Lending/UNSUB 2003	84.268 (2)	(16,240)
Federal Direct Lending/SUB 2004	84.268 (2)	25,070,490
Federal Direct Lending/UNSUB 2004	84.268 (2)	18,382,916
Federal Direct Lending/PLUS 2004	84.268 (2)	437,583
I-HIP III	84.325A	410,281
Child Care for Student Service	84.335A	110,020
Pass Through Payments from the State of Idaho:		
Adult Basic Education	84.002	353,739
ABE/10% Set Aside Grant	84.002	2,874
ABE Staff Development	84.002	12,020
E1/Civics Grant	84.002	9,745
Migrant Leadership Institute	84.011	48,942
Regional Special Ed Consultant	84.027	413,473
Title IIC Counselor	84.048A	172,657
Tech General Ed	84.048A	179,898
Sex Equity	84.048A	11,918
Resource Center	84.048A	48,105
Diversity/Retention Specialists	84.048A	126,393
Carl Perkins Support	84.048A	23,167
Area V Tech Prep Consortium	84.048A	45,783
AT Teacher Education Rev. and Transfer	84.048A	238
Leveraging Education Assist Partnership/LEAP	84.069A	25,402
SLEAP grant	84.069	11,355
Poc Speech and Hearing Clinic	84.181	2,742
Robert C Byrd Honors Scholarship	84.185	10,500
Automotive Equipment	84.243A	10,125
Area V Tech Prep Consortium	84.243A	67,829
Center for New Directions	84.243A	650
TP Individual Training - Soda	84.243A	2,085
TP AG Welding - Westside	84.243A	2,500
TP Cabinet & Millwork - Blackfoot	84.243A	2,680
TP Learn Key Training - Blackfoot	84.243A	2,450
TP Health Professions - Snake River	84.243A	972
TP Welding Program - Blackfoot	84.243A	2,542
GRAD	84.323A	10,000
SIG Scholarships	84.323A	4,108
Renaissance Group	84.336B (1)	51,269
Reading First	84.357A	<u>11,853</u>
Total Department of Education		65,212,657

(Continued)

IDAHO STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Grant/Program Title	Federal CFDA Number		Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
TIICC-TELE IDA	93.211	(1)	\$ 1,555,137
Child Trauma Center	93.243	(1)	172,976
Advanced Education Nursing	93.247		31,889
Alcohol & ERT	93.273	(1)	29,069
Ethanol/Gender Select Effects	93.273	(1)	97,284
Mucoadhasive Buprenorphine	93.279	(1)	2,084
Professional Nursing Traineeship 1993	93.358		15,911
Targeted Tamoxifen/Breast Cancer	93.390	(1)	11,861
Ionotropic NI7DA Receptor Anta	93.853	(1)	9,176
Digital Health Library	93.879		98,923
Multidisc Women's Health Initiative	93.884		125,983
Physicians Assistants	93.886		169,665
DHHS Equipment	93.887	(1)	170,937
SANE/SART Regional Development	93.912		134,403
Ryan White III - DFM	93.918	(1)	48,281
Schps/Disadvtdg PA Students	93.925	(2)	40,556
Schps/Disadvtdg PT Students	93.925	(2)	13,518
SDS - Pharmacy	93.925	(2)	25,536
Pass Through Payments from the State of Idaho:			
NRHA	93.129		4,138
Rape Prevention and Education	93.136		17,099
C.W. HOG/CRPF	93.184		5,805
TBI implementation	93.234	(1)	143,986
Hispanic Health - One to One	93.283		1,389
RITG	93.192		384
Rural Health Grant	93.192		104,799
BRIN	93.389	(1)	811,779
BRIN Seed Grant/Mthomas	93.389	(1)	53,460
BRIM Seed Grant/Leung	93.389	(1)	4,946
BRIN Seed Grant/Bhushan	93.389	(1)	12,541
BRIN Seed Grant/Lai	93.389	(1)	19,827
BRIN Seed Grant/CK Daniels	93.389	(1)	17,684
BRIN Seed Grant/Hill	93.389	(1)	6,270
BRIN Seed Grant/Winston	93.389	(1)	4,794
BRIN Seed Grant/R Williams	93.389	(1)	2,152
BRIN Seed Grant/Rodnick	93.389	(1)	43,045
BRIN Seed Grant/Matocq	93.389	(1)	30,901
BRIN Seed Grant/Brandon	93.389	(1)	9,833
BRIN Seed Grant/Curt Anderson	93.389	(1)	8,479
BRIN Seed Grant/Scalarone	93.389	(1)	4,706
JET	93.558		72,185

(Continued)

IDAHO STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Grant/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Cont'd):		
NAMI	93.560	\$ 121,049
DD Council	93.630 (1)	12,500
Title IV-E	93.658	65,658
Title IV -E Supervision/Training	93.658	41,847
Child Development Cntr Trnship	93.778 (4)	14,542
Center For Disability Evaluation	93.778 (4)	1,037,183
Drug Utilization Review	93.778 (4)	283,474
Real Choices	93.779 (1)	338,617
Energy Metab/Temp Lobe Epileps	93.854 (1)	17,246
NRHA	93.913	2,500
IRH/CHP Local	93.913	6,000
Ryan White III Grant	93.918A	63,445
Genesis Project	93.940	22,817
HIV Training Program	93.940	47,730
Project W.I.S.E.	93.940	27,840
Genesis Project	93.940	16,764
Five Feathers	93.959	36,989
CAC/CDT	93.959	<u>26,321</u>
Total Department of Health and Human Services		<u>6,316,113</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:		
Pass Through Payments from the State of Idaho:		
ICHC Year 3	94.006	22,636
ICHC Year 4	94.006	<u>77,454</u>
Total Corporation for National and Community Service		<u>100,090</u>
TOTAL FEDERAL EXPENDITURES		<u>\$79,724,302</u>

- (1) Research and Development grants combined and tested as a major program (Concluded)
- (2) Student Financial Aid programs combined and tested as a major program
- (3) TRIO grants combined and tested as a major program
- (4) Medical Assistance grants combined and tested as a major program

IDAHO STATE UNIVERSITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the 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 in 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 (CFDA number 84.038). The outstanding loan balance and total loan disbursements were \$2,385,742 and \$468,528, respectively, for the year ended June 30, 2004. The cumulative administrative costs allowance as of the year ended June 30, 2004 was \$563,824.

Funds distributed as agent for the Federal Direct Lending Program of \$43,893,558 are not included in the revenues or expenses of the University.

3. FEDERAL WORK STUDY

The University participates in the Federal Work Study program (FWS). A portion of the federal award amount for this program is used by the University to fund America Reads. Under the America Reads waiver provided by the U.S. Department of Education, the federal government waives the 25% matching requirement and pays 100% of the wages of FWS students who serve as reading mentors or tutors to preschool and elementary school children.

4. SUBRECIPIENTS

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

Program Title	Federal CFDA Number	Subrecipients	Amounts Provided to Subrecipients
Complexity Across Boundaries	47.074	University of Colorado at Boulder	\$ 63,922
		University of Iowa	48,191
		Montana State University	39,417
		University of Wyoming	2,951
		Yellowstone Ecological Research Center	50,250

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

State Board of Education

Compliance

We have audited the compliance of the Idaho State University (the "University") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The University's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the 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.

Deloitte & Touche LLP

November 4, 2004

IDAHO STATE UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2004

PART I—SUMMARY OF AUDITORS' RESULTS SECTION

1. The independent auditors' report on the basic financial statements expressed an unqualified opinion.
2. No reportable conditions or material weaknesses in internal control over financial reporting were identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions or material weaknesses in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The organization's major programs were:

Name of Federal Program or Cluster	CFDA Number
Research and Development	A clustered program
Student Financial Aid	A clustered program
TRIO	A clustered program
Medical Assistance	A clustered program

8. A threshold of \$1,074,922 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II—FINANCIAL STATEMENT FINDINGS SECTION

No findings related to the financial statements were noted which would be required to be reported under generally accepted government auditing standards (GAGAS).

PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No findings or questioned costs for major programs were noted which would be required to be reported under the requirements of OMB Circular A-133.

IDAHO STATE UNIVERSITY

STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2004

DEPARTMENT OF EDUCATION—Finding 03-1

Name of Federal Program or Cluster	CFDA Number
Student Financial Aid	A clustered program

Compliance

- Condition:** One student was inappropriately deemed eligible for federal aid, due to the student's incorrect entry of parent income into the federal aid system. The federal tax return provided by the student's parents indicated that the parents' income was \$113,690. The amount entered into the federal aid system and used to calculate the student's EFC was \$11,369. The student entered the incorrect amount into the FAFSA system which was transmitted to the University. Due to the error, the student received \$7,527 in federal aid. The student would have been eligible for only a \$2,625 unsubsidized direct loan if the error had not been made.
- Cause:** The parents' federal tax return was requested by the University in accordance with the SAR code from the federal aid system. In the review of the parents' tax returns performed by the SFA department, SFA personnel failed to recognize the error.
- Criteria:** Supporting documentation of student information selected by the central processor for verification should be obtained and reviewed by the University. The University should verify that the information entered by the student matches the supporting documentation provided. In addition, SFA award amounts should be based on financial need. The total SFA award should not exceed the student's financial need.
- Effect:** The student received more student financial aid than what the student was eligible for.
- Recommendation:** All information selected by the central processor for verification should be carefully verified by SFA personnel. Supporting documentation should be obtained and reviewed with a high level of scrutiny. The SFA award should not exceed the student's actual financial need.

IDAHO STATE UNIVERSITY

STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2004

Questioned Costs: The difference between the actual award \$(7,527) and the appropriate award \$(2,625) is \$4,902, within a sampled population tested of \$311,036. The total SFA reported is \$57,375,685.

Name of Contact Person: Doug Severs, Director of Financial Aid

Corrective Action Plan

Corrective Action: As noted above, a mistake was made by the student and/or parents when inputting the data into the FAFSA system. The mistake involved omitting a "1" in their adjusted gross income of \$111,369. The financial aid counselor that reviewed the adjusted gross income and tax information for the subject student failed to notice the mistake. We believe this is a unique instance by one of our counselors and is not typical of the quality of our verification of financial aid application information.

Parent application problems such as this have been a problem nationally. Since this mistake was made, the Federal Department of Education has improved its system edit process by coding logic errors like this as invalid records. Had this improvement been in place at the time this application was processed, this entry would have been flagged.

Status: Closed.

ISU reviewed this error with our counseling staff to reinforce the importance of verification at a high quality level to help avoid such issues. We contacted the Federal Department of Education Region X office to determine how to handle the issue. Accordingly, the Pell Grant was paid back to the government. The subsidized federal direct student loan was changed to unsubsidized. All funds owed to the government relating to Work-Study have been returned, and we set up repayment terms with the student.

In addition, since this error occurred, the Federal Department of Education has improved its system edit process by coding logic errors like this as invalid records. Had this improvement been in place at the time this application was processed, this entry would have been flagged.

IDAHO STATE UNIVERSITY

STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2004

DEPARTMENT OF EDUCATION—Finding 03-2

Name of Federal Program or Cluster	CFDA Number
Student Financial Aid	A clustered program

Compliance

Condition:	The University failed to return funds to the federal program after a student became ineligible for the aid by withdrawing from school. The student received \$4,408 in federal aid, but then withdrew previous to the start of the semester.
Cause:	The failure to return the funds was a clerical error as the information sheet to process the return was inadvertently stapled to the back of another form.
Criteria:	If the total amount of Title IV aid earned by the student is less than the amount that was disbursed to or on behalf of the student as of the date of the institution's determination that the student withdrew, the difference must be returned to Title IV programs. When a return is required, the University must return the lesser of: (1) the total amount of unearned Title IV assistance; or (2) an amount equal to the total institutional charges incurred by the student for the enrollment period multiplied by the percentage of Title IV assistance that has not been earned by the student.
Effect:	The University failed to return unearned Title IV assistance to the Title IV programs.
Recommendation:	All unearned Title IV assistance should be returned to the Title IV programs as required. Care should be taken in the processing of returns to ensure that all necessary returns are processed.
Questioned Costs:	\$4,408, within a sampled population tested of \$94,234. The total Title IV funds for students who withdrew, dropped out, were expelled, or otherwise did not complete a school term is \$3,470,449.
Name of Contact Person:	Doug Severs, Director of Financial Aid

IDAHO STATE UNIVERSITY

STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2004

Corrective Action Plan

Corrective Action: Process a refund of the funds to the Title IV programs.

Status: Closed.

As soon as this item came to the attention of the University, a refund of the funds was sent to the Title IV programs.