BOISE STATE UNIVERSITY
INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

BOISE STATE UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

Idaho State Board of Education
Boise State University
Boise, Idaho

We have audited the accompanying statement of net assets of Boise State University (University) as of and for the year ended June 30, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Boise State University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Boise State University's discretely presented component units as described in Note 12. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of other auditors. The financial statements of the University as of June 30, 2004, were audited by other auditors whose report dated October 22, 2004, expressed an unqualified opinion on those statements based on their audit and the report of other auditors.

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

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

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

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

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

Moss Adams LLP

Eugene, Oregon
September 30, 2005

BOISE STATE UNIVERSITY

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

Management's Discussion and Analysis ("MD&A") presents an overview of the financial performance of Boise State University (the "University") based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements. The MD&A discusses financial performance during the current year in comparison to prior years with emphasis on the current year.

Overview of the Financial Statements and Financial Analysis

The financial statements for the fiscal years ended June 30, 2005 and June 30, 2004 are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles. There are three financial statements presented: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

The University adopted GASB Statement No. 40, "*Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*" during the current fiscal year. This statement requires disclosure of risks associated with particular investments as these risks have the potential result of losses. Required disclosures include:

1. Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

2. Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

This is a year of transition to a new reporting structure under GASB 40 and as such, comparative data for the prior year is not provided. Comparative data will be provided beginning with fiscal year 2006 financial statements, where applicable.

The University has adopted GASB Statement No. 39 "*Determining Whether Certain Organizations are Component Units an amendment of GASB 14*". This statement requires disclosure, as a component unit, any significant organizations that raise and hold economic resources for the direct benefit of the University. Organizations that are legally separate, tax-exempt entities that satisfy the criteria of GASB 39 should be discretely presented as component units. The Boise State University Foundation, Inc. and the Bronco Athletic Association, Inc. are considered component units of the University.

Statement of Net Assets

The statement of net assets presents the assets, liabilities and net assets of the University as of the current fiscal year-end in comparative format with the prior fiscal year-end. The purpose of the statement of net assets is to present to the readers of the financial statements a point-in-time fiscal snapshot of the University. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent) and net assets (assets minus liabilities). The difference between current and noncurrent classification is discussed in the footnotes to the financial statements.

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

Net assets are divided into four major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in capital assets. The second net asset category is restricted, nonexpendable net assets. Restricted nonexpendable net assets are those that are required to be retained in perpetuity. The next net asset category is restricted expendable net assets. Restricted expendable net assets are available for expenditures by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the institution.

Summary Statements of Net Assets
Fiscal Years Ended June 30
(Dollars in Thousands)

	2005	2004	2003
ASSETS:			
Current assets	$ 90,897	$ 75,113	$ 67,919
Capital Assets, net	241,693	230,152	191,939
Other assets	50,196	56,702	60,148
Total assets	$ 382,786	$ 361,967	$ 320,006
LIABILITIES:			
Current liabilities	$ 30,003	$ 28,345	$ 23,288
Noncurrent liabilities	141,153	133,866	106,678
Total liabilities	171,156	162,211	129,966
NET ASSETS:			
Invested in capital assets, net of related debt	141,294	122,398	118,421
Restricted, expendable	9,895	18,583	16,627
Restricted, nonexpendable			
Unrestricted	60,441	58,775	54,992
Total net assets	211,630	199,756	190,040
Total liabilities and net assets	$ 382,786	$ 361,967	$ 320,006

The University's total assets increased during fiscal year 2005 by $20,818,629 to $382,786,051. Approximately $11 million of this increase relates to physical infrastructure in the form of invested bond proceeds and additions to capital assets. The second area of increase relates to student growth. Increases in student receivables, student loans and receivables from the State of Idaho related to student fees created approximately $9.5 million in new assets. Liabilities also increased by $8,944,961 to $171,156,462 at June 30, 2005. This increase is primarily due to the issuance of Series 2005A Bonds in fiscal year 2005, which are designated for various construction projects in line with the University's master plan.

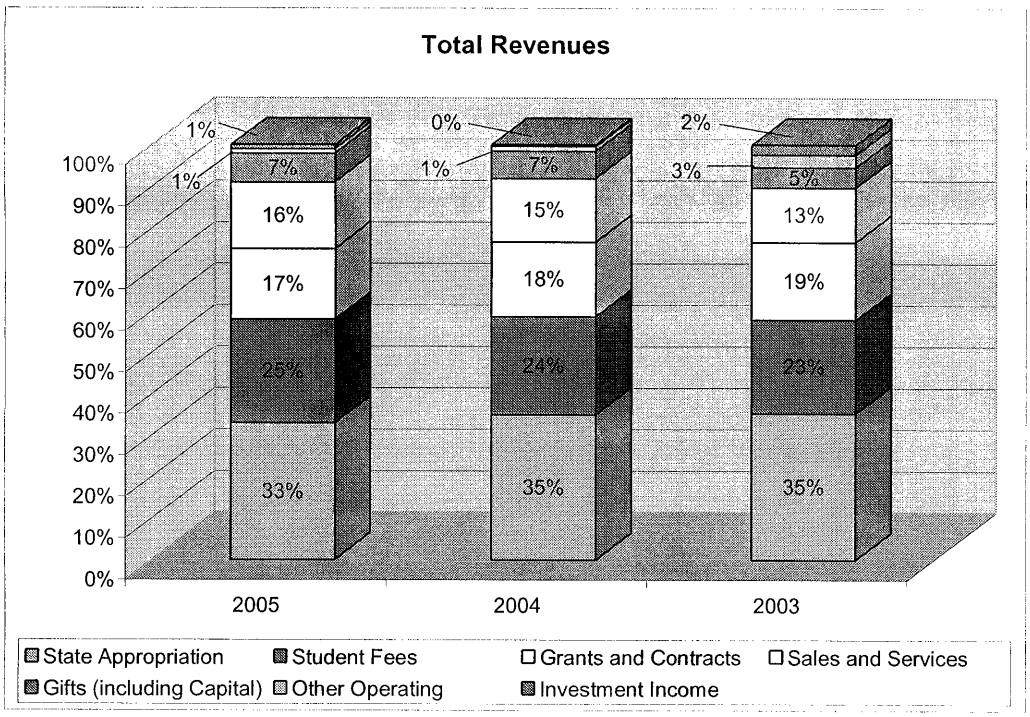
Net assets, by definition, also increased by $11,873,668 to $211,629,589 during fiscal year 2005 from $199,755,921 in fiscal year 2004. A shift in category of net assets from restricted to capital, net of related debt is the result of the spending of bonded proceeds on construction projects.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenses and changes in net assets. The purpose of the statement is to present the revenues (operating and nonoperating) received by the University, and its component units, and the expenses (operating and nonoperating) paid by the institution and its component units and any other revenues, expenses, gains and losses received or spent by the University and its component units. The University will always reflect a net operating loss because state general fund appropriations are not reported as operating revenues.

Generally speaking, operating revenues are generated by providing services to the various customers, students and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the services provided in return for operating revenues and to carry out the functions of the University. Nonoperating revenues are revenues received for which services are not provided. For example, state general funds are nonoperating because

the Idaho State Legislative process provides them to the University without the Legislature directly receiving services for those revenues. GASB No. 34 "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*" and GASB No. 35 "*Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*" defines those revenues to be nonoperating.



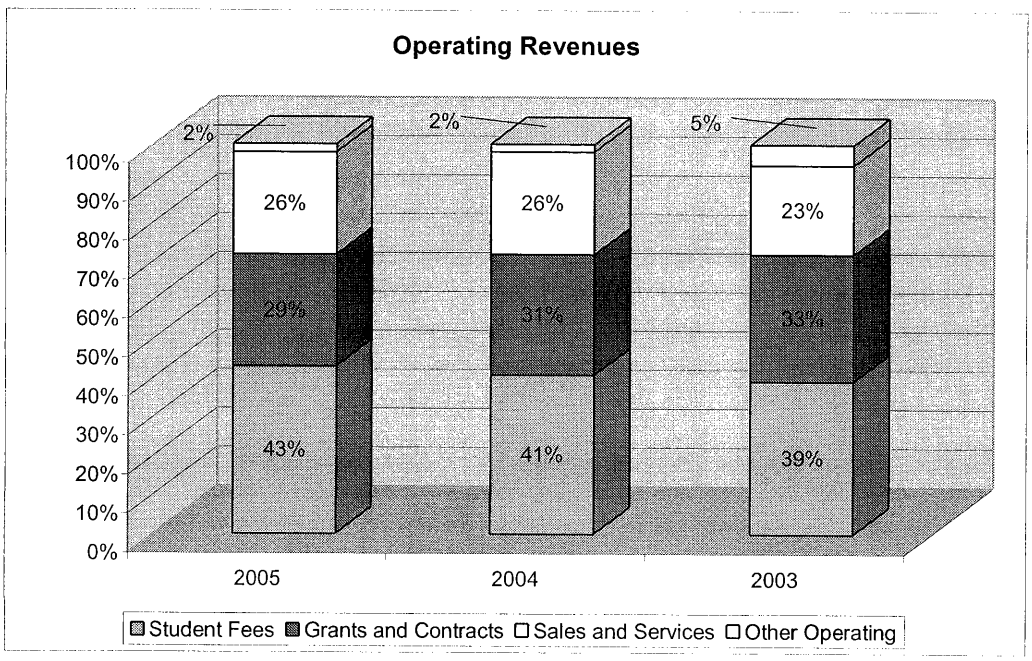
Summary Statements of Revenues, Expenses, and Changes in Net
Fiscal Years Ended June 30
(Dollars in Thousands)

	2005	2004	2003
Operating revenues	$ 134,025	$ 122,259	$ 115,470
Operating expenses	208,577	194,334	184,247
Operating loss	(74,552)	(72,075)	(68,777)
Non-operating revenues and expenses	79,644	77,165	78,407
Income before other revenues, expenses, gains or losses	5,092	5,090	9,630
Other Revenues and Expenses	6,782	4,626	871
Increase in net assets	11,874	9,716	10,501
Net assets—Beginning of year	199,756	190,040	179,539
Net assets—End of year	$ 211,630	$ 199,756	$ 190,040

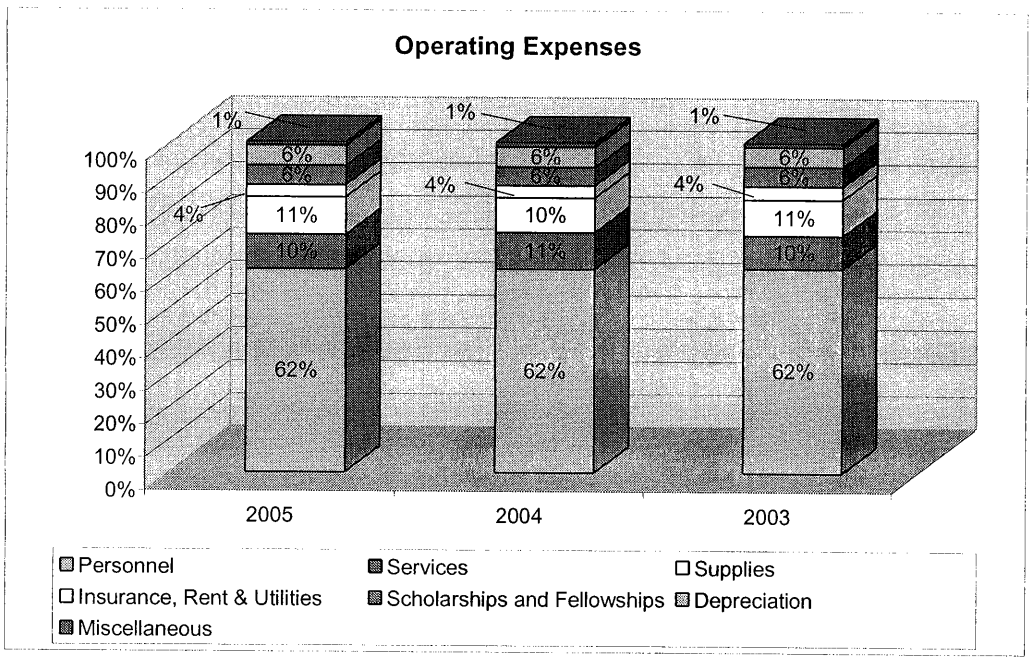
The statement of revenues, expenses, and changes in net assets reflects an overall increase in net assets during fiscal year 2005. Operating revenues increased by $11,766,214 to $134,025,366 from $122,259,152 in fiscal years 2005 and 2004, respectively. The increase in operating revenue is principally due to increased student fee revenue and improved ticket sales in auxiliary units.

Operating expenses also increased by $14,243,552 to $208,577,533 from $194,333,981 in fiscal years 2005 from 2004, respectively. The bulk of this increase relates to personnel expenses as a result of raises and increased number of personnel and expenses related to purchases necessary to support a growing student enrollment. Scholarships awarded and disbursed to students were also higher during the current fiscal year.

The overall resulting net income increased net assets by $11,873,668 in fiscal year 2005 to $211,629,589.



The largest portion of operating revenues comes from student fees at 43%. This is a result of a combination of increased enrollments and tuition and fees. Grants and contracts comprise 29% of operating revenues with an increase in state, local and private grant funding. Sales and services of educational and auxiliary units generated 26% of operating revenues and relate to ticket sales and rental revenues. The University also received revenues in other operating categories equal to 2%.



The resulting net operating loss is offset by approximately $79.6 million of net nonoperating revenues. In addition to the state general fund appropriation of approximately $75.9 million, gifts of $8.6 million were received and used primarily for scholarships. Fiscal year 2005 state appropriated revenue increased by 2.8% from that received in fiscal year 2004.

Statement of Cash Flows

The final statement presented by the University is the statement of cash flows. The statement of cash flows presents detailed information about the cash activity of the University during the year. The statement of cash flows is not presented for component units. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used in operating activities to operating income or loss reflected on the statement of revenues, expenses and changes in net assets.

Summary Statements of Cash Flows
Fiscal Years Ended June 30
(Dollars in Thousands)

	2005	2004	2003
Cash provided (used) by:			
Operating activities	$ (72,137)	$ (59,619)	$ (61,489)
Noncapital financing activities	84,672	83,077	79,315
Capital and related financing activities	(17,926)	(23,838)	(26,312)
Investing activities	875	589	11,214
Net change in cash	(4,516)	209	2,728
Cash—Beginning of year	35,507	35,298	32,570
Cash—End of year	$ 30,991	$ 35,507	$ 35,298

Overall net change in cash was a decrease of approximately $4.5 million. The most significant cash outflows related to operational activities such as personnel, payments to suppliers and for scholarships. The most noteworthy cash inflows were from student fees and sales and services related to auxiliary enterprises.

Capital Asset and Debt Administration

In fiscal year 2005, construction was completed on many projects including housing projects funded by Series 2002 Bonds and a facility west of the campus intended to provide educational opportunities to communities that lie west of Boise. The University also continued to acquire land within the designated expansion zone.

In fiscal year 2005, the University issued Series 2005A Bonds to finance the construction of new buildings as well as refund specified bonds. The specific projects include expanding the scope of the proposed student services building and constructing an athletics indoor practice facility. The remaining proceeds were used to refund portions of the Series 1996, 1998, 2001 and 2002 Bonds.

Economic Outlook

The economic outlook for the University appears strong. The State of Idaho concluded the fiscal year in a better-than-expected position, which has allowed employee raises and bonuses for the second straight year. Additionally, changes in flexibility related to student fees will allow Boise State to more fully utilize fiscal resources. During 2005, legislation was adopted to amend state laws on tuition and student fees. Prior to 2005, state laws prohibited the imposition of charges for tuition to Idaho residents attending state-supported colleges and universities. Those statutes define "tuition" as the direct costs of instruction, in contrast to mandatory student fees, which are defined as those charges assessed for facilities and services other than the cost of instruction. Recently, the University determined that this distinction was becoming problematic because the additional instructional needs resulting from increases in enrollment are approaching a level that cannot be adequately funded without using student fee revenues

for such needs. Accordingly, the State Board of Education ("SBOE") sponsored legislation allowing for the charging of tuition and the application of the revenues from tuition or fees for any purpose, whether directly instructional in nature or to pay for other facilities and services. This legislation was signed into law by the Governor, and took effect July 1, 2005. While the University's intention is not to charge an additional fee, the change in state law allows for more flexibility in how collected dollars are spent.

SBOE policy is to not increase total fees in any single fiscal year by an amount exceeding 10%, unless otherwise approved by the Board. At their April 2005 meeting, the SBOE adopted a 10% increase in total fees to become effective in the Fall of 2005. Application and admission information as of the date of the financial statements indicate enrollments continue the overall trend of increasing.

BOISE STATE UNIVERSITY

STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND JUNE 30, 2004

ASSETS	2005 University	2004 University	2005 Component Units	2004 Component Units
CURRENT ASSETS:				
Cash and cash equivalents	$ 30,991,466	$ 35,506,789	$ 5,643,392	$ 1,670,572
Student loans receivable	1,936,782	1,936,334		
Accounts receivable and unbilled charges, net	16,438,710	13,391,706	1,404,569	1,129,171
Due from state agencies	19,990,406	14,483,921		
Interest receivable	268,933	386,653	288,924	191,045
Inventories	2,111,524	2,367,115		
Investments	17,898,522	5,997,640	1,400,000	2,600,182
Due from Boise State Foundation	259,060	531,000		
Other current assets	1,001,635	511,774	357,123	285,649
Total current assets	90,897,038	75,112,932	9,094,008	5,876,619
NONCURRENT ASSETS:				
Restricted cash			6,112,618	5,099,286
Accounts receivable			3,294,641	2,712,317
Student loans receivable, net	8,005,591	5,507,685		
Investments	32,861,791	44,274,271	55,082,305	46,693,101
Investments held in trust	4,704,965	3,363,931	807,720	831,355
Investment in lease			3,723,174	3,977,450
Deferred bond financing costs	3,951,553	3,183,225		
Capital Assets, net	241,692,716	230,151,565	11,798,787	10,903,628
Other noncurrent assets	672,397	373,813	733,314	736,792
Total noncurrent assets	291,889,013	286,854,490	81,552,559	70,953,929
TOTAL ASSETS	$ 382,786,051	$ 361,967,422	$ 90,646,567	$ 76,830,548

See notes to financial statements.

BOISE STATE UNIVERSITY

STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2005 AND JUNE 30, 2004

	2005 University	2004 University	2005 Component Units	2004 Component Units
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	$ 4,862,441	$ 4,670,231	$ 579,465	$ 269,515
Accrued salaries and benefits payable	13,310,225	12,723,653		
Accrued interest payable	1,604,959	1,556,703	49,874	51,098
Deferred revenue	5,060,056	5,007,633	1,613,524	1,360,413
Current portion of long-term debt	4,880,478	4,245,473	235,000	230,000
Other current liabilities	285,352	142,257	62,889	58,648
Total current liabilities	30,003,511	28,345,950	2,540,752	1,969,674
NONCURRENT LIABILITIES:				
Deferred revenue			753,560	830,167
Long-term debt	138,612,715	132,526,012	4,632,523	5,756,900
Amounts held in custody for others			716,583	967,608
Other noncurrent liabilities	2,540,236	1,339,539	565,623	610,046
Total noncurrent liabilities	141,152,951	133,865,551	6,668,289	8,164,721
TOTAL LIABILITIES	171,156,462	162,211,501	9,209,041	10,134,395
NET ASSETS:				
Invested in capital assets, net of related debt	141,293,657	122,397,657	11,023,787	9,238,628
Restricted, expendable	9,894,806	18,583,364	24,734,541	16,558,287
Restricted, nonexpendable			42,735,000	37,459,639
Unrestricted	60,441,126	58,774,900	2,944,198	3,439,599
TOTAL NET ASSETS	211,629,589	199,755,921	81,437,526	66,696,153
TOTAL LIABILITIES AND NET ASSETS	$ 382,786,051	$ 361,967,422	$ 90,646,567	$ 76,830,548

See notes to financial statements.

BOISE STATE UNIVERSITY

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

	2005 University	2004 University	2005 Component Units	2004 Component Units
OPERATING REVENUES:				
Student fees (net of scholarship discounts & allowances of $11,802,241 & $11,721,114)	$ 57,494,051	$ 49,796,368	$	$
Federal grants and contracts	27,011,662	27,366,252		
State and local grants and contracts	8,265,231	7,749,896		
Private grants and contracts	3,238,594	2,761,136		
Sales and services of educational activities	1,179,787	1,516,483		
Sales and services of auxiliary enterprises	34,003,966	30,732,425		
Gifts			17,243,919	11,397,032
Other	2,832,075	2,336,592	629,039	197,106
Total operating revenues	134,025,366	122,259,152	17,872,958	11,594,138
OPERATING EXPENSES:				
Personnel cost	128,467,171	119,963,321	1,019,080	880,517
Services	21,755,771	21,739,097	457,775	174,505
Supplies	23,677,965	20,398,149	63,925	173,286
Insurance, utilities and rent	7,766,499	7,155,719	23,822	97,646
Scholarships and fellowships	12,103,385	10,934,183		
Depreciation	12,851,153	11,908,205	258,515	299,259
Miscellaneous	1,955,589	2,235,307	154,329	51,467
Total operating expenses	208,577,533	194,333,981	1,977,449	1,676,680
OPERATING (LOSS) INCOME	(74,552,167)	(72,074,829)	15,895,509	9,917,458
NONOPERATING REVENUES (EXPENSES):				
State appropriations	75,965,550	73,868,900	429,643	398,458
Gifts (includes gifts from Component Units equal to $6,375,986 and $8,021,404 for FY 05 and FY 04)	8,648,326	9,208,641		
Payments to BSU			(6,375,986)	(8,021,404)
Net investment income	2,153,739	1,990,755	2,021,371	1,848,675
Change in fair value of investments	432,974	(1,328,721)	2,493,070	4,543,071
Interest (net of capitalized interest of $24,784 & $63,181)	(6,606,812)	(5,511,946)	(222,296)	(218,461)
Gain (loss) on retirement of Capital Assets	(865,545)	(872,663)	549,755	10,990
Other	(84,730)	(190,044)	(49,696)	(925)
Net nonoperating revenues (expenses)	79,643,502	77,164,922	(1,154,139)	(1,439,596)
INCOME BEFORE OTHER REVENUES AND EXPENSES	5,091,335	5,090,093	14,741,370	8,477,862
OTHER REVENUES AND EXPENSES:				
Capital gifts	6,782,333	4,626,274		
INCREASE IN NET ASSETS	11,873,668	9,716,367	14,741,370	8,477,862
NET ASSETS—Beginning of year	199,755,921	190,039,554	66,696,153	58,218,291
NET ASSETS—End of year	$ 211,629,589	$ 199,755,921	$ 81,437,523	$ 66,696,153

See notes to financial statements.

BOISE STATE UNIVERSITY

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

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student fees	$ 53,340,756	$ 47,978,579
Grants and contracts	38,885,968	37,805,910
Sales and services of educational activities	1,179,787	2,383,265
Sales and services of auxiliary enterprises	34,037,296	30,570,288
Other operating receipts	2,802,853	2,742,473
Payments to employees	(127,969,786)	(117,874,135)
Payments for services	(21,377,370)	(21,633,279)
Payments to suppliers	(23,607,654)	(20,893,688)
Payments for insurance, utilities and rent	(7,587,189)	(7,199,280)
Payments for scholarships and fellowships	(12,039,588)	(10,925,951)
Loans issued to students	(4,550,401)	(1,407,183)
Collections of loans to students	1,919,047	1,796,267
Payments to state for appropriated student fees	(43,784,541)	(33,753,408)
Payments from state for appropriated student fees	38,278,056	32,985,169
Other payments	(1,663,909)	(2,194,186)
Net cash used in operating activities	(72,136,675)	(59,619,159)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	75,965,550	73,868,900
Gifts	8,706,522	9,208,641
Direct lending receipts	43,236,138	43,320,469
Direct lending payments	(43,236,138)	(43,320,469)
Net cash provided by noncapital financing activities	84,672,072	83,077,541
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and gifts	6,782,333	4,626,274
Purchases of capital assets	(24,106,389)	(50,929,669)
Proceeds from long-term debt	23,137,003	32,265,554
Principal paid on long-term debt and leases	(16,348,865)	(3,235,873)
Interest paid on long-term debt and leases	(6,624,985)	(5,594,735)
Payments for bond issuance costs	(853,059)	(431,061)
Other	88,247	(538,595)
Net cash used in capital and related financing activities	(17,925,715)	(23,838,105)

See notes to financial statements.

BOISE STATE UNIVERSITY

STATEMENTS OF CASH FLOWS (CONTINUED)
FISCAL YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004

	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(106,889,858)	(87,720,175)
Proceeds from sales and maturities of investments	105,493,306	86,297,354
Investment income	2,271,547	2,011,508
Net cash provided by investing activities	874,995	588,687
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,515,323)	208,964
CASH AND CASH EQUIVALENTS—Beginning of year	35,506,789	35,297,825
CASH AND CASH EQUIVALENTS—End of year	$ 30,991,466	$ 35,506,789
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES:		
Operating loss	$ (74,552,167)	$ (72,074,829)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	12,851,153	11,908,205
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(2,908,746)	(2,651,411)
Student loans receivable, net	(2,498,354)	486,221
Due from State agencies	(5,506,485)	(768,239)
Inventories	255,591	(648,234)
Other assets	(735,244)	560,301
Accounts payable and accrued liabilities	391,240	1,875,827
Accrued salaries and benefits payable	400,335	286,561
Deferred revenue	22,907	1,421,411
Other liabilities	143,095	(14,972)
Net cash used in operating activities	$ (72,136,675)	$ (59,619,159)
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:		
Defeasance of debt	$ 12,035,716	
Donated assets	$ 5,582,001	$ 2,228,118
Capital assets acquired through DPW appropriations		$ 2,272,579

See notes to financial statements.

BOISE STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — 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 reporting entity, and is directed by the State Board of Education ("SBOE"), a body that is appointed by the Governor and confirmed by the legislature. The University's financial statements are prepared in accordance with pronouncements of the Governmental Accounting Standards Board ("GASB") and in accordance with Generally Accepted Accounting Principles ("GAAP").

The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation — The University has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3* for the year ended June 30, 2005. 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 adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, beginning with the year ending June 30, 2004. Statement No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity*, to require reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a government unit. Component units with greater than five percent of the University's net assets are considered significant and are included in this disclosure. The Boise State University Foundation, Inc. (The "Foundation") and the Bronco Athletic Association, Inc. (The "Association") are considered to fit the definition described above and are discretely presented as required by GASB Statement No. 39.

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 in accordance with GAAP. 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 GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash and 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. Cash balances that are restricted and not expected to be expended within the subsequent fiscal year are classified as noncurrent assets.

Inventories — Inventories, consisting primarily of bookstore 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 gains or losses on the carrying value of investments are reported as a component of change in fair value of investments in the statement of revenues, expenses, and changes in net assets.

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 as well as investment amounts with maturities that exceed one year, are classified as noncurrent assets in the statement of net assets

The University deposits funds for investment with the Idaho State Treasury. Funds deposited with the State Treasury can be subject to securities lending transactions initiated by the State Treasury. As of June 30, 2005 the University was not able to determine the extent those transactions occurred during the fiscal year.

Capital Assets, net — Capital assets are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair value at the date of gift. 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 40 to 50 years for buildings, 20 to 25 years for land improvements, 10 years for library books, and 5 to 13 years for equipment.

The University has certain collections that it did not capitalize, including the Nell Shipman Film collection and Albertson's Library Special Collections. These collections adhere 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 the time purchased rather than capitalized.

Accrued Salaries and Benefits Payable — Included in current accrued benefits payable in the statement of net assets, and as a component of personnel cost in the statement of revenues, expenses, and changes in net assets is $4,357,616 and $3,970,073 for fiscal years 2005 and 2004, respectively.

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

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

> *Invested in Capital Assets, Net of Related Debt* — This represents the University's 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 in accordance with restrictions imposed by external third parties.

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

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 to meet current expenses for any lawful purpose, and in accordance with SBOE policy.

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.

Income and Unrelated Business 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. The University is liable for tax on its unrelated business income. Defined by GAAP, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the performance by the organization of its exempt purpose or function except that the organization needs the profits derived from this activity. The University did not incur unrelated business income taxes in the fiscal years ended June 30, 2005 or 2004.

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 (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 Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state general appropriations and investment income.

Scholarship Discounts and Allowances — Student fee revenues, and certain other revenues from students, 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 or allowance.

Use of Accounting Estimates — The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements, and revenues and expenses during the year. Actual results could differ from those estimates.

Reclassifications — Certain prior year balances have been reclassified to conform to the current year presentation.

New Accounting Standards — 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

Deposits — Cash and cash equivalents are deposited with US Bank and/or the Local Government Investment Pool ("LGIP") and are carried at cost. Custodial risk is the risk that in the event of a financial institution failure, the State's deposits may not be returned. The State's policy for managing custodial risk can be found in the Idaho Code, Section 67-2739. Management believes the University is in compliance with the policy.

Cash that is restricted in purpose from an external source and is not expected to be utilized within the next fiscal year is reported on the financial statements as restricted cash and as a noncurrent asset.

Basis of Custodial Credit Risk	June 30, 2005
Insured	$ 100,000
Uncollateralized	159,476
Collateralized by Securities held by the pledging financial institution	30,731,990
TOTAL	$ 30,991,466

Investments — Idaho Code, Section 67-1210 limits credit risk by restricting the investment activities of the LGIP and state agencies. Idaho Code gives the SBOE the authority to establish investment policies for the Colleges and Universities. Section V Subsection D of the Idaho State Board of Education Governing Policies and Procedures authorizes investments among some, but not all, of the investment types authorized for the State Treasurer.

General investment policy of the University as adopted by the SBOE 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. Management believes the University is in compliance with the policy.

Covenants of certain bond resolutions also restrict investment of related funds to U.S. Government or government guaranteed securities.

Investments also consist of U.S. Treasury strips. The University invests in interest-only strips (a derivative) to maximize yields. These investments are based on cash flows from interest payments on underlying U.S. Treasury Securities. The underlying securities are guaranteed by the U.S. Government. Therefore, these investments do not present the same level of risk as do other forms of derivatives.

Investments Held in Trust represent government securities held in the University's name. The entire amount of these investments is restricted by bond indentures or other contractual agreements.

Credit Risk of Debt Securities — The risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard and Poor's, and Fitch's. Ratings, as of June 30, 2005, are presented below using the Moody's scale.

Investment Type	Fair Value	AAA	A1	A2	A3	Aa1	Aa3	Aaa
Cash in Investment Balances	$ 17,364,976	$ 17,364,976	$	$	$	$	$	$
Commercial Paper	1,253,428	474,216	191,033	163,349	49,380	113,976	156,673	104,801
US Treasury Notes	7,873,615	7,873,615						
Federal Farm Credit Bank	3,910,000	3,910,000						
Federal Home Loan Bank	7,503,242	7,503,242						
Federal Home Loan Mortg Corp	1,439,440	1,439,440						
Federal National Mortg Assoc	16,120,577	16,120,577						
Total Rated Debt Securities	$ 55,465,278	$ 54,686,066	$ 191,033	$ 163,349	$ 49,380	$ 113,976	$ 156,673	$ 104,801

Interest Rate Risk — Investments in debt securities that are fixed for longer periods are likely to experience greater variability in their fair values due to future changes in interest rates.

		Investment Maturities In Years		
Investment Type	**Fair Value**	**Less Than 1**	**1 to 5**	**6 to 10**
Cash in Investment Balances	$ 17,364,976	$ 17,364,976	$	$
Commercial Paper	1,253,428		579,916	673,512
US Treasury Notes	7,873,615	650,783	5,010,271	2,212,560
Federal Farm Credit Bank	3,910,000		3,910,000	
Federal Home Loan Bank	7,503,242	298,688	7,152,835	51,719
Federal Home Loan Mortg Corp	1,439,440	399,500	502,892	537,048
Federal National Mortg Assoc	16,120,577	12,600,435	3,386,794	133,349
Total Rated Debt Securities	$ 55,465,278	$ 31,314,382	$ 20,542,708	$ 3,608,188

Concentration of Credit Risk — When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration of risk is present. The Governmental Accounting Standards Board has adopted a principle that governments should provide note disclosure when five percent of the total government investments are concentrated in any one issuer. Ninety-eight percent of debt rated securities are rated AAA, mitigating the risk of concentration.

Investment Type	June 30, 2005 Fair Value	Percentage of Total Investments
Cash in Investment Balances	$ 17,364,976	31%
Commercial Paper	1,253,428	2%
US Treasury Notes	7,873,615	14%
Federal Farm Credit Bank	3,910,000	7%
Federal Home Loan Bank	7,503,242	14%
Federal Home Loan Mortg Corp	1,439,440	3%
Federal National Mortg Assoc	16,120,577	29%
Total Rated Debt Securities	$ 55,465,278	100%

The University is subject to policies as defined by the State of Idaho with respect to investments. The University has not adopted a formal policy addressing interest rate and concentration of credit risk.

3. ACCOUNTS RECEIVABLE AND UNBILLED CHARGES, NET

Accounts receivable and unbilled charges refer to the portions due to the University as of June 30 by various customers, students and constituencies of the University as a result of providing services to said groups.

	2005	2004
Student fees	$ 11,870,373	$ 6,896,695
Auxiliary enterprises and other operating activities	1,720,195	2,364,884
Federal, state, and private grants and contracts	677,949	730,001
Unbilled charges	4,202,327	4,520,756
	18,470,844	14,512,336
Less allowance for doubtful accounts	(2,032,134)	(1,120,630)
Accounts receivable and unbilled charges, net	$ 16,438,710	$ 13,391,706

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, 2005 and 2004. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

Loans receivable from students bear interest at rates ranging from 5% to 10% and are generally repayable in installments to the University over a 5 to 10 year period commencing 6 or 9 months after the date of separation from the University. The University outsources the loan servicing to a third party vendor.

As the University determines that loans are non-collectible and not eligible for reimbursements by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for non-collectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. The allowance for non-collectible loans was $42,086 and $51,696 for fiscal years ending June 30, 2005 and 2004, respectively.

In the event the University should withdraw from the Federal Perkins loan program or the Federal government were to cancel the program, the University would be required to repay $8,209,463 as of June 30, 2005.

5. CAPITAL ASSETS, NET

Following are the changes in capital assets for the years ended June 30, 2005 and 2004 (dollars in thousands):

	2005				
	Balance July 1, 2004	Additions	Transfers	Retirements	Balance June 30, 2005
Capital assets not being depreciated:					
Land	$ 21,105	$ 2,202	$	$	$ 23,307
Construction in progress	29,713	15,894	(38,338)		7,269
Total assets not being depreciated	50,818	18,096	(38,338)		30,576
Other Capital assets:					
Buildings and improvements	216,714	420	38,338		255,472
Furniture and equipment	50,579	4,181		(1,414)	53,346
Library materials	28,324	2,573		(1,260)	29,637
Total other Capital assets	295,617	7,174	38,338	(2,674)	338,455
Less accumulated depreciation:					
Buildings and improvements	(69,703)	(6,462)			(76,165)
Furniture and equipment	(27,048)	(4,660)		913	(30,795)
Library materials	(19,532)	(1,729)		883	(20,378)
Total accumulated depreciation	(116,283)	(12,851)		1,796	(127,338)
Other Capital assets, net	179,334	(5,677)	38,338	(878)	211,117
Capital assets summary:					
Capital assets not being depreciated	50,818	18,096	(38,338)		30,576
Other Capital assets at cost	295,617	7,174	38,338	(2,674)	338,455
Total cost of Capital assets	346,435	25,270		(2,674)	369,031
Less accumulated depreciation	(116,283)	(12,851)		1,796	(127,338)
Capital assets, net	$ 230,152	$ 12,419		$ (878)	$ 241,693

	2004				
	Balance July 1, 2003	Additions	Transfers	Retirements	Balance June 30, 2004
Capital assets not being depreciated:					
Land	$ 13,077	$ 8,028	$	$	$ 21,105
Construction in progress	11,427	29,995	(11,709)		29,713
Total assets not being depreciated	24,504	38,023	(11,709)		50,818
Other Capital assets:					
Buildings and improvements	198,249	6,772	11,709	(16)	216,714
Furniture and equipment	48,587	3,524		(1,532)	50,579
Library materials	26,869	2,611		(1,156)	28,324
Total other Capital assets	273,705	12,907	11,709	(2,704)	295,617
Less accumulated depreciation:					
Buildings and improvements	(64,056)	(5,666)		19	(69,703)
Furniture and equipment	(23,513)	(4,600)		1,065	(27,048)
Library materials	(18,701)	(1,642)		811	(19,532)
Total accumulated depreciation	(106,270)	(11,908)		1,895	(116,283)
Other Capital assets, net	167,435	999	11,709	(809)	179,334
Capital assets summary:					
Capital assets not being depreciated	24,504	38,023	(11,709)		50,818
Other Capital assets at cost	273,705	12,907	11,709	(2,704)	295,617
Total cost of Capital assets	298,209	50,930		(2,704)	346,435
Less accumulated depreciation	(106,270)	(11,908)		1,895	(116,283)
Capital assets, net	$ 191,939	$ 39,022		$ (809)	$ 230,152

In addition to accounts payable for construction costs, the estimated cost to complete property authorized or under construction at June 30, 2005 is $41,095,680. These costs will be paid from available reserves and construction proceeds from outstanding debt.

6. DEFERRED REVENUE

Deferred revenues include amounts received for fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period and the portion of summer school revenues related to the number of days of instruction in the subsequent fiscal year. Deferred revenue consists of the following at June 30:

	2005	2004
Summer school	$ 2,393,007	$ 2,135,230
Prepaid ticket sales	2,667,049	2,872,403
	$ 5,060,056	$ 5,007,633

7. LONG-TERM LIABILITIES

Following are the changes in long-term debt and other liabilities for the fiscal years ended June 30, 2005 and 2004 (dollars in thousands):

	2005				
	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Amounts due within one year
Long-term debt:					
Revenue bonds payable	$ 123,197	$ 23,137	$ (15,072)	$ 131,262	$ 3,615
Notes payable	8,394		(941)	7,453	843
Capital lease obligations	5,180		(402)	4,778	422
Total long-term debt	136,771	23,137	(16,415)	143,493	4,880
Other liabilities:					
Miscellaneous		12		12	
Capital projects	1,340	2,571	(1,383)	2,528	
Total other liabilities	1,340	2,583	(1,383)	2,540	-
Long-term liabilities	$ 138,111	$ 25,720	$ (17,798)	$ 146,033	$ 4,880

	2004				
	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts due within one year
Long-term debt:					
Revenue bonds payable	$ 93,454	$ 32,265	$ (2,522)	$ 123,197	$ 2,969
Notes payable	9,150		(756)	8,394	874
Capital lease obligations	5,558		(378)	5,180	402
Total long-term debt	108,162	32,265	(3,656)	136,771	4,245
Other liabilities:					
Capital projects	1,610	1,392	(1,662)	1,340	
Total other liabilities	1,610	1,392	(1,662)	1,340	-
Long-term liabilities	$ 109,772	$ 33,657	$ (5,318)	$ 138,111	$ 4,245

8. REVENUE BONDS AND NOTES PAYABLE

The University is required by bonding resolution to establish a Rebate Fund to be held and administered by the University, separate and apart from other funds and accounts of the University. The University shall make deposits into the Rebate Fund of all amounts necessary to make payments of rebatable arbitrage to the United States. There was no arbitrage liability in fiscal years ending June 30, 2005 and 2004.

The University issued $21,925,000 of General Revenue Bonds (Series 2005A) and $31,480,000 of General Revenue and Refunding Bonds (Series 2004A) during the periods ended June 30, 2005 and 2004, respectively. Proceeds of the 2005 Bonds in the amount of $8,900,000 were received by the University for designated projects and proceeds of $12,602,023 were deposited in trust to refund portions of the 1996 Student Fee Refunding Revenue Bonds, the 1998 Student Fee Refunding Revenue Bonds, the 2001 Student Fee Refunding and Improvement Revenue Bonds, and the 2002 Student Union and Housing System Refunding and Improvement Revenue Bonds. The aggregate difference in debt service between the refunding debt and refunded debt was $458,812 and the net present value of the savings due to refunding was $354,618. Proceeds of the 2004 Bond in the amount of $29,120,000 were received by the University for designated projects.

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

Description	Balance Outstanding 2005	Balance Outstanding 2004
Student Union and Housing System Refunding and Improvement Bonds, Series 2002, original face value of $38,255,000, due in annual principal amounts ranging from $30,000 to a maximum of $3,355,000, plus interest paid semi-annually from 4.00% to 5.375% through year 2031 collateralized by a pledge of the net revenues of the Student Union and Housing System and certain student fees.	$ 36,815,000	$ 37,365,000
General Revenue Bonds, Series 2004A, original face value of $31,480,000, due in annual principal amounts ranging from $645,000 to a maximum of $2,205,000, plus interest paid semi-annually from 2.50% to 5.00% through year 2034 collateralized by a pledge of student fees, enterprise revenues, and funds and accounts held under the Resolution.	31,115,000	31,480,000
General Revenue Bonds, Series 2005A, original face value of $21,925,000, due in annual principal amounts ranging from $60,000 to a maximum of $2,695,000, plus interest paid semi-annually from 3.00% to 5.00% through year 2033 collateralized by a pledge of student fees, enterprise revenues, and funds and accounts held under the Resolution.	21,925,000	
Student Fee Refunding and Improvement Revenue Bonds, Series 1998, original face value of $24,060,000, due in annual principal amounts ranging from $345,000 to a maximum of $2,105,000, plus interest paid semi-annually from 4.40% to 5.15% through the year 2023, collateralized by a pledge of the net revenues of the Student Building System and certain student fees.	14,400,000	22,860,000
Student Union and Housing System Refunding Bonds, Series 1998, original face value of $7,860,000, due in annual principal amounts ranging from $50,000 to a maximum of $1,170,000, plus interest paid semi-annually from 4.55% to 5.125% through the year 2015, collateralized by a pledge of the net revenues of the Student Union and Housing System and certain student fees.	7,565,000	7,615,000
Student Union and Housing System Refunding Revenue Bonds, Series 2003, original face value of $6,620,000, due in annual principal amounts ranging from $145,000 to a maximum of $1,715,000, plus interest paid semi-annually from 2.25% to 5.00% through year 2017, collateralized by a pledge of the net revenues of the Student Union and Housing System and certain student fees.	6,155,000	6,395,000

Description	Balance Outstanding 2005	Balance Outstanding 2004
Student Fee Refunding Revenue Bonds, Series 1996, original face value of $14,115,000, due in annual principal amounts ranging from $1,175,000 to a maximum of $1,500,000, plus interest paid semi-annually from 4.95% to 5.35% through the year 2010, collateralized by a pledge of the net revenues of the Student Building System and certain student fees.	5,075,000	7,695,000
Student Fee Refunding Revenue Bonds, Series 1999, original face value of $4,480,000, due in annual principal amounts ranging from $260,000 to a maximum of $420,000, plus interest paid semi-annually from 4.50% to 5.20% through the year 2017, collateralized by a pledge of the net revenues of the Student Building System and certain student fees.	3,895,000	4,140,000
Student Building Fee Refunding Revenue Bonds, Series 2001 original face value of $4,455,000 due in annual principal amounts ranging from $180,000 to a maximum of $360,000, plus interest paid semi-annually from 4.00% to 5.10% through the year 2021, collateralized by a pledge of the net revenues of the Student Building System and certain student fees.	1,900,000	4,290,000
Note payable to bank due in equal monthly installments based upon a 20-year amortization of the note, commencing July 1, 1996, plus fixed interest at 4.32%, final payment due December 1, 2005. The note provides for borrowings not to exceed $5,000,000.	3,479,913	3,729,825
Secured note payable to Boise State University Foundation, Inc., a related party, dated September 28, 2001, due in annual principal payments of $50,000. Interest is due annually at a variable rate to prime less 50 basis points not to exceed 8% or be less than 3% (3.75% as of June 30 2004). Proceeds were used by the University's radio station for transmission rights. The note is secured by funds held by the Foundation.		100,000
Uncollateralized line of credit payable to bank due in equal quarterly installments based upon an eight year amortization of the note, commencing November 1, 2003, including interest at variable rates equal to 49% of the lender's prime rate 1.98% at June 30, 2005), final payment due August 1, 2011. The line of credit provides for borrowing not to exceed $5,000,000.	3,972,735	4,564,088
	136,297,648	130,233,913
Premium on bonds	2,417,488	1,357,631
	$ 138,715,136	$ 131,591,544

Management believes the University is in compliance with all bond covenants as of June 30, 2005 and 2004.

Principal and interest maturities on notes and bonds payable are as follows for the year ending June 30, 2005:

	Principal	Interest	Total
2006	$ 4,458,144	$ 6,286,465	$ 10,744,609
2007	5,115,957	6,208,182	11,324,139
2008	5,364,704	5,998,747	11,363,451
2009	5,619,460	5,778,441	11,397,901
2010	5,885,242	5,545,037	11,430,279
2011-2015	26,905,658	24,273,545	51,179,203
2016-2020	31,453,483	17,286,881	48,740,364
2021-2025	25,680,000	9,638,001	35,318,001
2026-2030	20,510,000	4,395,170	24,905,170
2031-2034	5,305,000	420,111	5,725,111
	$ 136,297,648	$ 85,830,580	$ 222,128,228

At June 30, 2005, debt in the amount of $11,950,000 is considered extinguished through refunding of prior issues by a portion of the current issues. Sufficient proceeds were invested by the trustee in government securities and placed in escrow to assure timely payment of the maturities of these prior issues. Neither the debt nor the escrowed assets are reflected in the University's financial statements.

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

	Series 2004(A) Series 2005(A)	Series 1998, 2002, and 2003	Series 1994, 1996, 1998, 1999, 2001	Total
Student fees	$ 57,925,321	$ 5,194,279	$ 6,176,692	$ 69,296,292
Rentals	1,912,577	5,043,054		6,955,631
Meal plans		1,341,243		1,341,243
Other	2,099,753	273,770	458,552	2,832,075
Sales & Service Rev	26,152,919	733,960		26,886,879
F&A Recover Revenues	1,852,148			1,852,148
Investment income	1,950,476	341,182	295,054	2,586,712
	$ 91,893,194	$ 12,927,488	$ 6,930,298	$ 111,750,980

Funds held in trust – Escrow funds are held in trust at U. S. Bank in the amount of $12,602,023 for the payment of maturities on refunded bonds. The balance is not reflected in the University's financial statements.

9. CAPITAL LEASE OBLIGATIONS

The University has entered into various capital lease agreements covering buildings and equipment. Assets under capital lease total approximately $3,657,000 and $3,887,000 for June 30, 2005 and 2004, respectively, for buildings and improvements. Equipment under capital lease was approximately $1,121,000 and $1,293,000 for June 30, 2005 and 2004, respectively. The University leases a building for $1 annually from the Boise State University Foundation through the SBOE. These amounts are included in capital assets. Future minimum lease obligations under these agreements are as follows for the year ending June 30, 2005:

	Building	Equipment	Total
2006	$ 424,289	$ 288,267	$ 712,556
2007	430,548	288,267	718,815
2008	425,696	288,267	713,963
2009	424,901	288,267	713,168
2010	423,014	288,267	711,281
2011-2015	2,147,764		2,147,764
2016-2019	837,489		837,489
Total minimum obligations	5,113,701	1,441,335	6,555,036
Less interest	(1,456,902)	(320,077)	(1,776,979)
Present value of minimum obligations	$ 3,656,799	$ 1,121,258	$ 4,778,057

10. 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 60 months 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 2.00% of the average monthly salary for the highest consecutive 42 months.

The required contribution rate for general employees was 10.39%, 9.77%, and 9.77% for the University and 6.23%, 5.86%, and 5.86% of covered payroll for the employees for the three years ended June 30, 2005, 2004, and 2003, respectively. The University contributions required and paid were $3,052,342, $2,799,452 and $2,910,200 for the three years ended June 30, 2005, 2004, and 2003, respectively.

Optional Retirement Plan — Effective July 1, 1990, the Idaho State Legislature authorized the SBOE 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 years ended June 30, 2005 and 2004 was $7,705,777 and $6,903,703, which consisted of $4,049,101 and $3,627,648 from the University and $3,656,676 and $3,276,056 from employees. These contributions represented approximately 7.72% from the University and 6.97% from employees for both years ended June 30, 2005 and 2004.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute to PERSI 3.03% of the annual covered payroll. These annual supplemental payments are required through July 1, 2015. During the years ended June 30, 2005 and 2004, this supplemental funding payment made to PERSI was $1,583,547 and $1,424,342, respectively. This amount is 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, with limits based on years of service, to continue their medical insurance coverage through the University. The University partially funds these obligations by depositing .65% of employee gross payroll with PERSI, who administers the plan as a cost-sharing, multiple-employer plan. The total contributions for the years ended June 30, 2005 and 2004 were $531,596 and $491,809, respectively.

The University also offers a life insurance plan for retired employees. During the years ended June 30, 2005 and 2004, the University made expenditures totaling $147,540 and $145,127, respectively, to purchase life insurance for approximately 241 retired employees. All eligible employees are receiving these benefits. This program is accounted for by the University on a pay-as-you-go basis; however, the GASB is studying a new accounting standard (GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*") that would 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.

PERSI issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employee Retirement System of Idaho, P.O. Box 83720, Boise, ID 83720-0078.

11. RISK MANAGEMENT

The University participates in the State of Idaho risk management and group insurance programs. Payments are made to the risk management fund based on rates determined by a five-year trend of experience modification factors, which are determined by a combination of loss experience, exposure, and asset value covered. Payments made to the group insurance fund are based on actuarial estimates of the amounts needed to pay for negotiated coverage and projected claims experience. Premiums are billed on a calendar year beginning January 1.

Premiums are then adjusted as necessary within the final quarter of the calendar year. The University billed premiums are estimated to be $780,000 for calendar year 2005, and were $685,930 and $569,081 for calendar years 2004 and 2003, respectively.

12. COMPONENT UNITS

Financial Statements — Financial statements of the component units may be obtained from the Vice President for Finance and Administration at the University. Component unit's financial statements are prepared in accordance with GASB pronouncements and in accordance with GAAP.

Boise State University Foundation, Inc — The Boise 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. The net assets of the Foundation represent 78% of the combined component unit as presented in the financial statements and, as such, the Foundation has been determined by management to be a major component unit. Condensed financial statement data is as follows:

FOUNDATION

CONDENSED STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND JUNE 30, 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,336,707	$ 1,645,417
Short term investments		1,300,182
Accounts receivable and other	1,395,465	1,393,264
Total current assets	6,732,172	4,338,863
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	6,112,618	5,099,286
Investments	55,082,305	46,693,101
Capital assets	10,168,528	9,312,171
Investment in lease	3,723,174	3,977,450
Accounts receivable and other	2,811,334	3,639,397
Total noncurrent assets	77,897,959	68,721,405
TOTAL ASSETS	$ 84,630,131	$ 73,060,268
LIABILITIES		
CURRENT LIABILITIES	$ 996,286	$ 648,998
NONCURRENT LIABILITIES		
Bonds and certificates payable	4,632,523	5,756,900
Amounts held in custody for others	14,193,269	9,987,976
Other	1,319,183	1,440,213
Total noncurrent liabilities	20,144,975	17,185,089
TOTAL LIABILITIES	21,141,261	17,834,087
NET ASSETS		
Invested in capital assets - net of related debt	9,393,528	7,647,171
Restricted - nonexpendable	34,861,921	30,158,893
Restricted - expendable	16,391,539	14,026,109
Unrestricted	2,841,882	3,394,008
Total net assets	63,488,870	55,226,181
TOTAL LIABILITIES AND NET ASSETS	$ 84,630,131	$ 73,060,268

FOUNDATION

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

	2005	2004
OPERATING REVENUES:		
Gifts	$ 8,072,015	$ 8,188,387
Miscellaneous income	629,039	197,106
Total operating revenues	8,701,054	8,385,493
OPERATING EXPENSES:	1,317,934	1,209,031
OPERATING INCOME (LOSS)	7,383,120	7,176,462
NONOPERATING REVENUES (EXPENSES)		
Payments to BSU	(3,540,727)	(5,393,791)
Other	4,420,296	5,389,726
Net nonoperating revenues	879,569	(4,065)
INCREASE IN NET ASSETS	8,262,689	7,172,397
NET ASSETS—Beginning of year	55,226,181	48,053,784
NET ASSETS—End of year	$ 63,488,870	$ 55,226,181

(a) Cash, Cash Equivalents, and Other Deposits and Investment

The Foundation, through it's Board of Directors (the "Board"), appoints an investment committee that determines investment guidelines, sets the spending rules, and engages the investment manager(s) and custodian(s). The Board oversees and approves all investment and asset allocation policies proposed by the Investment Committee. Furthermore, the Board and the Investment Committee acknowledge and understand their fiduciary roles and will always seek to act prudently in the best interests of the Foundation.

The Investment Committee is also to monitor and review the actions of the investment manager(s) and custodian(s), make recommendations on investment policy, and oversee the management of all other assets of the Foundation. The Investment Committee reports regularly to the Board of Directors.

The overall investment policy is to maximize the return on investments within an acceptable range of risks. Appropriate levels of investment risk will be determined by guidelines and influenced by spending rules. The principal of the Endowment should be protected over time with a spending rule set to maintain the purchasing power of returns from the assets. The Component Units invest in investments that are allowed by State of Idaho law.

Basis of Custodial Credit	June 30, 2005
Uninsured and Uncollateralized	$ 6,099,937

Credit Risk — The risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard and Poor's, and Fitch's. The ratings as of June 30, 2005 are presented below using the Moody's scale.

Rating	US Treasury Bonds	Corporate Bonds	Public University Bonds	Student Portfolio	Foundation Endowment	Equity Funds and Annuities	Fair Value
Aaa	$ 531,469	$	$ 50,000	$ 4,164	$ 10,790,078	$	$ 11,375,711
Aa1		1,053,015					1,053,015
Aa2		508,669		3,348	740,005		1,252,022
Aa3		1,052,789					1,052,789
A1		931,231					931,231
A2					1,148,580		1,148,580
Baa1				2,764			2,764
Baa2					1,225,723		1,225,723
Ba3				7,353			7,353
B1				2,936			2,936
Unrated					381,431	33,873,119	34,254,550
Total	$ 531,469	$ 3,545,704	$ 50,000	$ 20,565	$ 14,285,817	$ 33,873,119	$ 52,306,674

The student portfolio is part of a pooled mutual fund portfolio and consists of funds from a private donor that a selected group of students invest. There are no restrictions to the student portfolio, except that they are purchasing mutual funds. They are studied and reviewed by an upper-division portfolio class each semester.

Interest Rate Risk — Investments in debt securities that are fixed for a longer period of time are likely to experience greater variability in their fair values due to future changes in interest rates. Maturities by investment type as of June 30, 2005 are as follows:

Investment Type	Fair Value	< 1 yr	1-3 yr	3-10 yr	>10 yr	Not Rated
US Treasury Bonds	$ 531,469	$	$	$	$ 531,469	$
Corporate Bonds	3,545,704	3,545,704				
Public University Bonds	50,000	50,000				
Bond Mutual Funds	14,306,382	67,240	3,047,259	9,181,836	2,010,047	
Total Rated Securities	18,433,555	3,662,944	3,047,259	9,181,836	2,541,516	
Other Unrated Securities						
Equity Mutual Funds	33,446,247					33,446,247
Private Equity Fund	107,603					107,603
Insurance Annuitites	319,269					319,269
Total Unrated Securities	33,873,119					33,873,119
Total Investments	$ 52,306,674	$ 3,662,944	$ 3,047,259	$ 9,181,836	$ 2,541,516	$ 33,873,119

Concentration of Credit Risk — When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies

when concentration of risk is present. The Governmental Accounting Standards Board has adopted a principle that governments should provide note disclosure when 5 percent of the total government investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure.

Investment Type	June 30, 2005 Fair Value	% of Total Funds
US Treasury Bonds	$ 531,469	1.0%
Corporate Bonds	3,545,704	6.8%
Public University Bonds	50,000	0.1%
Bond Mutual Funds	14,306,382	27.4%
Equity Mutual Funds	33,446,247	63.9%
Private Equity Fund	107,603	0.2%
Insurance Annuities	319,269	0.6%
Total Investment Securites	$ 52,306,674	100.0%

(b) Capital Assets, net

During 2005, the Foundation received a donation of land valued at $1,132,000, which will be sold with the proceeds to be used to fund the construction of a West Campus Building. During the year, the Foundation also completed a sale of land previously held with the book value of $22,073 for a gain of $549,755.

(c) Amounts Held in Custody for Others

The Bronco Athletic Association, Inc. (the "Association") transferred assets to the Foundation for investment and management, which are included in amounts held in custody for others. Included in amounts held in custody for others on behalf of the Association is $13,476,686.

(d) Donated Services

The University provided staffing and other general office support of the Foundation totaling $429,643 and $398,458 in fiscal years ending June 30, 2005 and 2004, respectively. Additionally, volunteers make substantial contributions of time to support the Foundation for which no value is assigned. The value of volunteer services is not reflected in the accompanying financial statements since they are not susceptible to objective measurement or valuation.

Other Component Unit — The Association is a fund raising organization that provides financial assistance and services to the University intercollegiate athletic department. Contributions received by the University from this organization are recorded as gifts. Net assets of the Association at June 30, 2005 are $17,948,656 of which $16,216,081 is restricted to uses designated by the donors and $1,630,259 is invested in capital assets. Unrestricted net assets are $102,316. Net assets at June 30, 2004 were $11,469,972 of which $9,832,924 was restricted to uses designated by the donors and $1,591,457 was invested in capital assets. Unrestricted net assets were $45,591.

13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS (DOLLARS IN THOUSANDS):

	2005											
Operating Expenses	**Instruction**	**Research**	**Public Service**	**Libraries**	**Student Services**	**Plant Operations**	Institutional Support	**Academic Support**	**Auxiliary Enterprises**	Scholarships	**Depreciation**	**Total**
Personnel cost	$ 64,639	$ 6,711	$ 6,079	$ 3,328	$ 5,525	$ 4,831	$ 8,586	$ 8,563	$ 19,037	$ 1,168	$	$ 128,467
Services	3,301	2,256	2,052	213	857	1,942	2,957	1,099	7,044	35		21,756
Supplies	4,090	950	949	201	508	1,164	1,305	1,586	12,916	9		23,678
Insurance, utilities and rent	1,034	175	516	45	131	2,537	344	318	2,651	15		7,766
Scholarships and fellowships	893	160	154				5	6	2,825	8,061		12,104
Depreciation											12,851	12,851
Miscellaneous	335	80	332		33	7	201	61	903	4		1,956
Total operating expenses	$ 74,292	$ 10,332	$ 10,082	$ 3,787	$ 7,054	$ 10,481	$ 13,398	$ 11,633	$ 45,376	$ 9,292	$ 12,851	$ 208,578

	2004											
Operating Expenses	**Instruction**	**Research**	**Public Service**	**Libraries**	**Student Services**	**Plant Operations**	Institutional Support	**Academic Support**	**Auxiliary Enterprises**	**Scholarships**	**Depreciation**	**Total**
Personnel cost	$ 62,687	$ 5,550	$ 5,055	$ 3,130	$ 6,915	$ 4,237	$ 8,630	$ 7,661	$ 14,843	$ 1,256	$	$ 119,964
Services	3,221	1,733	2,892	279	863	1,766	3,094	1,039	6,822	30		21,739
Supplies	3,866	1,115	795	180	516	826	446	831	11,817	6		20,398
Insurance, utilities and rent	863	32	546	40	282	2,498	672	307	1,916			7,156
Scholarships and fellowships	839	302	69		16		23	17	2,283	7,385		10,934
Depreciation											11,908	11,908
Miscellaneous	553	33	262	1	47	4	293	47	858	137		2,235
Total operating expenses	$ 72,029	$ 8,765	$ 9,619	$ 3,630	$ 8,639	$ 9,331	$ 13,158	$ 9,902	$ 38,539	$ 8,814	$ 11,908	$ 194,334

14. CONTINGENCIES AND LEGAL MATTERS

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

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

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

Idaho State Board of Education
Boise State University
Boise, Idaho

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

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

Moss Adams LLP

Eugene, Oregon
September 30, 2005