

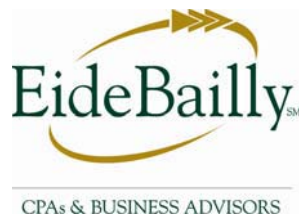
**FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

IDAHO STATE UNIVERSITY FOUNDATION

IDAHO STATE UNIVERSITY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Idaho State University Foundation
Pocatello, Idaho

We have audited the accompanying statements of financial position of Idaho State University Foundation (the "Foundation"), as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Idaho State University Foundation as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Boise, Idaho
September 15, 2009

IDAHO STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,946,782 | \$ 3,417,462 |
| Cash and cash equivalents-restricted | 2,293,577 | 2,359,381 |
| Investments | 33,793,520 | 40,132,126 |
| Gift Pledges receivable | 4,451,631 | 5,310,954 |
| Cash surrender value | 28,514 | 9,425 |
| Miscellaneous receivables | 86,013 | 13,352 |
| Capitalized bond issuance costs, net | 210,437 | 238,276 |
| Property held for sale and investments | 2,338,871 | 2,319,371 |
| | <u>\$46,149,345</u> | <u>\$ 53,800,347</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 81,376 | \$ 364,247 |
| Scholarships and other payables to ISU | - | 532,949 |
| Obligations to beneficiaries under split-interest agreements | 1,303,742 | 1,860,483 |
| Funds held in custody for others | 36,461 | 49,074 |
| Long-term debt | 10,810,000 | 10,910,000 |
| | <u>12,231,579</u> | <u>13,716,753</u> |
| NET ASSETS | | |
| Unrestricted | (12,752,489) | (8,876,441) |
| Temporarily restricted | 20,352,900 | 26,198,106 |
| Permanently restricted | 26,317,355 | 22,761,929 |
| | <u>33,917,766</u> | <u>40,083,594</u> |
| | <u>\$46,149,345</u> | <u>\$ 53,800,347</u> |

IDAHO STATE UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-----------------|---------------------------|---------------------------|---------------|
| REVENUES | | | | |
| Contributions and gifts | \$ 2,704,067 | \$ 2,217,268 | \$ 3,479,481 | \$ 8,400,816 |
| Contributed services | 690,340 | - | - | 690,340 |
| Interest and dividends | 233,815 | 510,820 | - | 744,635 |
| Net realized/unrealized loss on investments | (3,192,272) | (5,049,244) | - | (8,241,516) |
| Fees, charges, and miscellaneous | 692,228 | 4,556 | - | 696,784 |
| Net change in value of annuity and life insurance | - | (27,443) | 75,945 | 48,502 |
| Total revenues and (losses) | 1,128,178 | (2,344,043) | 3,555,426 | 2,339,561 |
| Board and donor designated transfers | (256,723) | 256,723 | - | - |
| Net assets released from program restrictions | 3,757,886 | (3,757,886) | - | - |
| Total revenues | 4,629,341 | (5,845,206) | 3,555,426 | 2,339,561 |
| EXPENSES | | | | |
| Program support to ISU | | | | |
| Donations/transfers | 2,545,811 | - | - | 2,545,811 |
| Scholarships | 1,655,246 | - | - | 1,655,246 |
| Athletic | 216,642 | - | - | 216,642 |
| ISU department support | 2,002,005 | - | - | 2,002,005 |
| Support services | | | | |
| Management and general | 1,395,365 | - | - | 1,395,365 |
| Fundraising | 690,320 | - | - | 690,320 |
| Total expenses | 8,505,389 | - | - | 8,505,389 |
| CHANGE IN NET ASSETS | (3,876,048) | (5,845,206) | 3,555,426 | (6,165,828) |
| NET ASSETS, beginning of year | (8,876,441) | 26,198,106 | 22,761,929 | 40,083,594 |
| NET ASSETS, end of year | \$ (12,752,489) | \$ 20,352,900 | \$ 26,317,355 | \$ 33,917,766 |

See Notes to Financial Statements

IDAHO STATE UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|------------------------------|-----------------------------|-----------------------------|-----------------------------|
| REVENUES | | | | |
| Contributions and gifts | \$ 2,558,533 | \$ 4,477,234 | \$ 1,163,743 | \$ 8,199,510 |
| Contributed services | 670,670 | - | - | 670,670 |
| Interest and dividends | 117,033 | 786,247 | - | 903,280 |
| Net realized/unrealized gains/(loss) on investments | 217,277 | (1,245,807) | - | (1,028,530) |
| Fees, charges, and miscellaneous | 772,799 | - | - | 772,799 |
| Net change in value of annuity and life insurance | - | 104,644 | 5,943 | 110,587 |
| Total revenues and gains | <u>4,336,312</u> | <u>4,122,318</u> | <u>1,169,686</u> | <u>9,628,316</u> |
| Board and donor designated transfers | (2,003,535) | 2,003,535 | - | - |
| Net assets released from program restrictions | 4,167,149 | (4,167,149) | - | - |
| Total revenues | <u>6,499,926</u> | <u>1,958,704</u> | <u>1,169,686</u> | <u>9,628,316</u> |
| EXPENSES | | | | |
| Program support to ISU | | | | |
| Donations/transfers | 2,212,110 | - | - | 2,212,110 |
| Scholarships | 1,528,449 | - | - | 1,528,449 |
| Athletic | 559,844 | - | - | 559,844 |
| ISU department support | 1,228,609 | - | - | 1,228,609 |
| Support services | | | | |
| Management and general | 1,336,644 | - | - | 1,336,644 |
| Fundraising | 942,347 | - | - | 942,347 |
| Total expenses | <u>7,808,003</u> | <u>-</u> | <u>-</u> | <u>7,808,003</u> |
| CHANGE IN NET ASSETS | (1,308,077) | 1,958,704 | 1,169,686 | 1,820,313 |
| NET ASSETS, beginning of year | <u>(7,568,364)</u> | <u>24,239,402</u> | <u>21,592,243</u> | <u>38,263,281</u> |
| NET ASSETS, end of year | <u><u>\$ (8,876,441)</u></u> | <u><u>\$ 26,198,106</u></u> | <u><u>\$ 22,761,929</u></u> | <u><u>\$ 40,083,594</u></u> |

IDAHO STATE UNIVERSITY FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|--|-----------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (6,165,828) | \$ 1,820,313 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Contributions restricted for long-term purposes | (3,479,481) | (1,163,743) |
| Unrealized loss on investments | 8,175,778 | 1,013,255 |
| Realized loss on investments | 65,738 | 15,275 |
| Donated assets held for sale | (47,500) | (1,200,000) |
| Change in value of split interest agreements | (48,502) | (1,624) |
| Payments to beneficiaries | (296,660) | (319,119) |
| Other | (17,217) | (24,840) |
| Amortization expense | 27,839 | 52,388 |
| Changes in deferred and accrual accounts | | |
| Obligations to beneficiaries | 556,741 | - |
| Restricted cash | (65,804) | (431,132) |
| Gift pledges receivable | 859,323 | 1,283,323 |
| Miscellaneous receivable | (72,661) | (13,352) |
| Accounts payable | (282,871) | 124,932 |
| Scholarships and other payables to ISU | (532,949) | 532,948 |
| Funds held for others | (12,613) | (8,385) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (1,336,667) | 1,680,239 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 847,882 | 4,427,765 |
| Purchase of investments | (3,361,376) | (4,805,361) |
| NET CASH USED BY INVESTING ACTIVITIES | (2,513,494) | (377,596) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions restricted for permanent endowment | 3,479,481 | 1,163,743 |
| Payment on bonds payable | (100,000) | (100,000) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 3,379,481 | 1,063,743 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (470,680) | 2,366,386 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 3,417,462 | 1,051,076 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 2,946,782 | \$ 3,417,462 |
| SUPPLEMENTAL DISCLOSURES | | |
| Cash paid for interest | \$ 141,095 | \$ 318,230 |

IDAHO STATE UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – FOUNDATION OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Foundation Operations

The Idaho State University Foundation (the Foundation) was established in March, 1967 to provide support for the private fundraising efforts of the Idaho State University (the University) and to manage privately donated funds. The Foundation is a not-for-profit corporation incorporated in accordance with the laws of the State of Idaho and managed by a volunteer Board of Trustees. Under the Idaho State Board of Education's administrative rules the Foundation must be independent of, and cannot be controlled by, the University. A memorandum of understanding between the Foundation and the University defines the relationship between the two entities in accordance to the State Board of Education's rules.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with Generally Accepted Accounting Principles in the United States of America, whereby revenue is recorded when earned and expenses are recorded when materials or services are received. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Permanently Restricted Net Assets – Net assets are subject to donor-imposed restrictions that they be maintained permanently by the Foundation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates used in the financial statements relate to the present value of the pledges receivable and the obligations under the split interest agreements.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all cash on deposit in demand savings and time deposits with an original maturity date of three months or less to be cash equivalents. Cash and cash equivalents held by investment managers are considered investments as the funds have been designated by the Foundation for investment purposes. Cash deposits at times during the years ended June 30, 2009 and 2008 exceeded FDIC insured limits.

Restricted Cash

Restricted cash consists primarily of assets held by Wells Fargo Bank relating to the pledges received for future payments of the outstanding bond payments.

Investments

Investments are recorded in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Investments in equity and debt securities that have readily determinable fair values are recorded at quoted market prices. Investment securities without quoted market prices are valued at estimated fair value using appropriate valuation methods that consider the underlying assets and financial reports.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect account balances and the amounts reported in the accompanying financial statements.

Assessments

All endowment funds are charged an annual administrative fee of 1.5%. New restricted gifts are charged an start-up administration fee of 3-5% depending upon size.

Pledges Receivable

Unconditional promises to give (pledges) are recognized as an asset and contribution revenue in the period the promise is received. Pledges to be received after one year are discounted at rates commensurate with risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

Contributions

Contributions of property and security are recorded at their fair market value on the date received. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted. Contributed services revenue consists of development activities instrumental to the Foundation that are paid by the University.

NOTES TO FINANCIAL STATEMENTS

Donated Materials and Services

Donated materials and services are reflected as contributions at their estimated values at date of receipt. Contributed professional services are recognized if the service received (a) create or enhance long-lived assets or (b) require specialized skills, provided by an individual possessing those skills, and would typically need to be purchased if not provided by donation. The Foundation's office resides in the Idaho State University's administration building. The space is donated by Idaho State University as well as the employee's services that are used to run the Foundation. These items represent in-kind donations that are recognized as revenues with a corresponding expense.

Property and Equipment

Currently the Foundation has no property and equipment; however, property and equipment, if it were to be purchased by the Foundation, would be stated at cost less accumulated depreciation. Donations of property and equipment would be recorded at fair market value on the date received. Expenses for maintenance, repairs and minor replacements would be charged to operations. The Foundation policy is to capitalize property purchases and significant expenses for major replacements and improvements in excess of \$1,000. Depreciation would be computed using the straight-line method over estimated useful lives of assets, which range from three to fifty years.

Obligations Under Split Interest Agreements

The Foundation administers such life income agreements as charitable remainder trusts where an income beneficiary is the lifetime recipient of income and the Foundation is the remainder beneficiary. Upon receipt of the gift, a liability is established for the estimated net present value of the lifetime recipient's interest using applicable mortality tables and a discount rate commensurate with the risks involved. A contribution is recognized for the estimated remainder interest.

Land Held for Sale and Investment

Certain assets are received from donors and are held for resale or investment. Such assets are recorded at their approximate fair market values at date of donation.

Income Taxes

The Foundation is a not-for-profit entity exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a public charity under Section 509(a)(1). Accordingly, no provision for income taxes is made in these financial statements.

Fair Value Measurements

The Foundation has determined the fair value of certain assets and liabilities in accordance with the provisions of FASB Statement No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles.

Statement No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques

NOTES TO FINANCIAL STATEMENTS

maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are other quoted prices include within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Endowment

The Foundation's endowment consists of approximately 600 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors, are classified and reported based upon the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Idaho Prudent Management of Institutional Funds Act (IPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily net assets until those amounts are appropriated for expenditures by the Foundation in a manner that is consistent with the standard of prudence prescribed by IPMIFA. In accordance with IPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund or endowment
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation.

Donor imposed restrictions requiring earnings to be contributed back to the corpus are not formally complied with by the Foundation. The Foundation address this indirectly through the strategy established through its investment and spending policies.

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or IPMIFA requires the Foundation to maintain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$3,119,186 as of June 30, 2009. There were no such deficiencies as of June 30, 2008.

NOTES TO FINANCIAL STATEMENTS

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and scholarships supported by its endowment while seeking to maintain the fair value of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide both a reasonably predicted income stream and principle appreciation that exceeds inflation. The Foundation expects its endowment funds, over time, to provide an average minimum rate of return equal to the annual change in the United States Consumer Price Index plus the institution's spending rate percentage and management fee, and 50 basis points.

To satisfy its long term-rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity -based investment to achieve its long -term return objectives within the prudent risk constraints.

The Foundation has a policy of appropriating for annual distribution 4.5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distributions planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average rate of at least .5% plus the change in the Consumer Price Index annually. This is consistent with objectives to maintain the principal of the endowment assets in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Reclassification

Certain reclassifications have been made to the 2008 financial statement presentation to correspond to the current year's format. Total net assets available for benefits and the change in net assets available for benefits are unchanged as a result of these reclassifications.

NOTE 2 – FAIR VALUE OF ASSETS AND LIABILITIES

| | <u>2009</u> | <u>2008</u> |
|---|----------------------------|----------------------------|
| Investment securities | \$ 33,793,520 | \$ 40,132,126 |
| Gift pledges receivable | <u>4,451,631</u> | <u>5,310,954</u> |
| Total assets | <u><u>38,245,151</u></u> | <u><u>45,443,080</u></u> |
| Obligations to beneficiaries under split-interest agreements | <u>1,303,742</u> | <u>1,860,483</u> |
| Total liabilities | <u><u>\$ 1,303,742</u></u> | <u><u>\$ 1,860,483</u></u> |

NOTES TO FINANCIAL STATEMENTS

The following details each major category of investments and the related fair market values at June 30:

| | <u>2009</u> |
|---|----------------------|
| Mutual funds | \$ 1,390,360 |
| Fixed income investments | 74,772 |
| Co-mingled and pooled marketable investment funds | 29,889,410 |
| Derivatives with synthetic long/short positions | <u>2,438,978</u> |
| | <u>\$ 33,793,520</u> |

The related fair value of these assets and liabilities as of June 30, 2009 are determined as follows:

| | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | <u>Total</u> |
|---|---|---|---|----------------------|
| Mutual funds | \$ 1,390,360 | \$ - | \$ - | \$ 1,390,360 |
| Fixed income investments | 74,772 | - | - | 74,772 |
| Co-mingled and pooled marketable investment funds | - | 29,889,410 | - | 29,889,410 |
| Derivatives with synthetic long/short positions | - | - | 2,438,978 | 2,438,978 |
| Gift Pledges receivable | - | - | 4,451,631 | 4,451,631 |
| | <u>\$ 1,465,132</u> | <u>\$ 29,889,410</u> | <u>\$ 6,890,609</u> | <u>\$ 38,245,151</u> |
| Obligations to beneficiaries under split-interest agreements | \$ - | \$ - | \$ 1,303,742 | \$ 1,303,742 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,303,742</u> | <u>\$ 1,303,742</u> |

The fair value for mutual funds and fixed income investments are determined based on quoted market prices. For co-mingled and pooled marketable investment funds, fair value is obtained by using a direct look through basis to the underlying direct assets holding. At this level, the underlying assets have a direct market reference price that is traceable. For alternative and derivative investment funds, fair value is determined with independent, 3rd part valuations occurring monthly to every six months depending upon the investment type. Pledges receivable value is determined at the present value of expected future cash flows. Annuities obligation under split interest agreements are determined at the present value of expected future outflows.

NOTES TO FINANCIAL STATEMENTS

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

| | Derivatives with synthetic long/short positions | Gift Pledges receivable | Present value of annuity payments |
|---|---|-----------------------------|---|
| | <u> </u> | <u> </u> | <u> </u> |
| Beginning balance | \$ 2,692,804 | \$ 5,310,954 | \$ 1,860,483 |
| Total gains and losses (realized/unrealized) | | | |
| Included in earnings (or changes in net assets) | (1,394,036) | 57,700 | (556,741) |
| Calls/transfers in/out of level 3 | 1,140,210 | (917,023) | - |
| Ending balance | <u>\$ 2,438,978</u> | <u>\$ 4,451,631</u> | <u>\$ 1,303,742</u> |

NOTE 3 – GIFT PLEDGES RECEIVABLE

Gift pledges receivable are unconditional promises to give, to be received by the Foundation in future years. Management considers them fully collectible. These receivables are reflected at the present value of estimated future cash flows using a discount rate based on Treasury bond rates at the date of the pledge ranging from 4% to 6.2% as of June 30, 2009. Substantially all of the gift pledge receivables as of June 30, 2009 are restricted for repayment of the multi-mode variable rate revenue bonds. Receivable maturities as of June 30, 2009 are:

| | |
|------------------------------------|---------------------|
| Receivables in less than one year | \$ 1,172,257 |
| Receivable in one to five years | 1,314,782 |
| Receivable in more than five years | <u>4,824,927</u> |
| | 7,311,966 |
| Less present value discounting | <u>(2,860,335)</u> |
| | <u>\$ 4,451,631</u> |

Conditional promises are only payable upon the occurrence of an uncertain future event and therefore are not recorded in the accompanying financial statements. The Foundation deems all pledge receivables to be collectible.

NOTE 4 – SPLIT INTEREST AGREEMENT OBLIGATIONS

Assets held in the charitable remainder trusts totaled \$4,123,023 and \$5,606,431 at June 30, 2009 and 2008, respectively, and are included in investments in the accompanying Statements of Financial Position.

NOTES TO FINANCIAL STATEMENTS

Estimated future maturities of annuity obligations for each of the next five years and in the aggregate are as follows:

| | | |
|--------------------------------|----|------------------|
| 2010 | \$ | 206,700 |
| 2011 | | 206,700 |
| 2012 | | 206,700 |
| 2013 | | 206,700 |
| 2014 | | 206,700 |
| Thereafter | | <u>592,500</u> |
| | | 1,626,000 |
| Less present value discounting | | <u>(322,258)</u> |
| | \$ | <u>1,303,742</u> |

NOTE 5 – 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 fully mature on May 1, 2021 and are secured by donations, pledges and other funds held under the Bond Indenture. Debt balance at June 30, 2009 was \$10,810,000. Interest payments are made monthly with a mandatory bond redemption of \$100,000 due annually at May 1. Total interest expense and fees during 2009 and 2008 were \$286,301 and \$318,230, respectively. In May, 2009, a principle payment of \$100,000 was made from cash reserves.

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, 2009 was .27%.

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

| | | |
|------------|----|-------------------|
| 2010 | \$ | 100,000 |
| 2011 | | 150,000 |
| 2012 | | 150,000 |
| 2013 | | 150,000 |
| 2014 | | 150,000 |
| Thereafter | | <u>10,110,000</u> |
| | \$ | <u>10,810,000</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CAPITALIZED BOND ISSUANCE COSTS

Capitalized bond issuance costs consist of legal costs, underwriting fees, printing and other costs incurred to obtain, secure and rate the multi-mode variable rate revenue Bonds issued for the construction of the L.E. and Thelma Stephens Performing Arts Center on May 30, 2001. The issuance costs for the multi-mode variable rate bonds have an original cost of \$570,000 at May 30, 2001 and are amortized over the term of the bonds using the effective interest rate method. Accumulated amortization of these bond costs at the end of June 30, 2009 and 2008 were \$359,563 and \$331,724, respectively.

NOTE 7 – NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are primarily available to support the University by providing funds for student scholarships, capital improvements, research, other educational purposes and discretionary spending. Discretionary spending net assets are gifts that were designated by the donor to be spent by a specific area or school for general needs. Temporarily restricted net assets that are available for specific program services totaled \$20,352,900 and \$26,198,106 at June 30, 2009 and 2008, respectively.

Permanently Restricted for Endowment

At June 30, 2009 and 2008, the Foundation held \$26,317,355 and \$22,761,929, respectively in true endowment funds. The investment income earned on these permanently restricted net assets is generally restricted as to purpose and is recorded as temporarily restricted net assets.

Negative Unrestricted Net Assets

At June 30, 2009 and 2008, the Foundation had negative restricted assets of \$12,752,489 and \$8,876,441, respectively. These unrestricted net assets are negative primarily due to the Foundation gifting the Performing Arts Center to Idaho State University while still holding bond debt to fund the construction. The bond debt is collateralized by the pledges receivable.

NOTE 8 – DONATED MATERIALS AND SERVICES

Donated materials and services for the years ended June 30 were:

| | <u>2009</u> | <u>2008</u> |
|------------------------------|-------------------|-------------------|
| Salaries and Benefits | \$ 463,600 | \$ 453,892 |
| Materials and supplies | 131,279 | 119,064 |
| Office space | 22,000 | 22,000 |
| Other miscellaneous expenses | 73,461 | 75,714 |
| | <u>\$ 690,340</u> | <u>\$ 670,670</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – ENDOWMENT FUNDS

The endowment fund net asset composition is as follows:

| At June 30, 2009 | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------------|---------------------------|---------------------------|----------------------|
| Donor restricted endowment funds | <u>\$ 7,037,571</u> | <u>\$ 26,317,355</u> | <u>\$ 33,354,926</u> |
| | <u>\$ 7,037,571</u> | <u>\$ 26,317,355</u> | <u>\$ 33,354,926</u> |
| At June 30, 2008 | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | <u>\$ 16,998,391</u> | <u>\$ 22,761,929</u> | <u>\$ 39,760,320</u> |
| | <u>\$ 16,998,391</u> | <u>\$ 22,761,929</u> | <u>\$ 39,760,320</u> |

NOTES TO FINANCIAL STATEMENTS

Changes in Endowment Net Assets are as follows:

| | June 30, 2009 | | |
|---|---------------------------|---------------------------|----------------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Endowment assets, Beginning of year July 1, 2008 | \$ 16,998,391 | \$ 22,761,929 | \$ 39,760,320 |
| Investment return: | | | |
| Investment income | 488,915 | - | 488,915 |
| Net realized and unrealized appreciation (depreciation) | (7,787,795) | - | (7,787,795) |
| Contributions | 445,204 | 3,479,481 | 3,924,685 |
| Appropriation of endowment assets for expenditures | (3,178,202) | - | (3,178,202) |
| Other changes | 71,058 | 75,945 | 147,003 |
| Endowment assets, End of year June 30, 2009 | <u>\$ 7,037,571</u> | <u>\$ 26,317,355</u> | <u>\$ 33,354,926</u> |
| | June 30, 2008 | | |
| | Temporarily Restricted | Permanently Restricted | Total |
| Endowment assets, Beginning of year July 1, 2007 | \$ 14,962,578 | \$ 21,592,243 | \$ 36,554,821 |
| Investment return: | | | |
| Investment income | 726,348 | - | 726,348 |
| Net realized and unrealized appreciation (depreciation) | (1,207,448) | - | (1,207,448) |
| Contributions | 2,536,412 | 1,163,743 | 3,700,155 |
| Appropriation of endowment assets for expenditures | (2,023,034) | - | (2,023,034) |
| Other changes | 2,003,535 | 5,943 | 2,009,478 |
| Endowment assets, End of year June 30, 2008 | <u>\$ 16,998,391</u> | <u>\$ 22,761,929</u> | <u>\$ 39,760,320</u> |

THE IDAHO STATE UNIVERSITY FOUNDATION
SUPPLEMENTARY INFORMATION



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
Idaho State University Foundation
Pocatello, Idaho

Our report on the audit of the financial statements of the Idaho State University Foundation for the year June 30, 2009, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on the following pages is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information for the year ended June 30, 2009, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Boise, Idaho

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**IDAHO STATE UNIVERSITY FOUNDATION
SUPPLEMENTARY SCHEDULE
JUNE 30, 2009 AND 2008**

ADDITIONAL INFORMATION ON DEPOSITS & INVESTMENTS

The Governmental Accounting Standards Board (GASB) provides for the accounting and reporting framework for those entities that meet the definitional criteria established by GASB.

While the Idaho State University Foundation statements do not fall under GASB and therefore we are not presenting statements in accordance to GASB criteria, we are providing certain information relative to the foundation's deposits and investments under the GASB reporting guidelines to assist readers in their analysis of the foundation's financial statements.

Deposits

The Foundation maintains an Escrow/Reserve account for the Performing Arts Center. This account is invested in a Money Market Mutual Fund. It is not FDIC insured and may lose value. The June 30, 2009 and 2008 balances were \$2,293,577 and \$2,359,381, respectively. The foundation investment policy does not address custodial credit risk, as defined by GASB.

Investments

Investments are carried at fair value. Equity securities are valued at fair value as reported by the Investment Managers/Custodians. The change in fair value of the investments is reflected in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances.

The Foundation, through the Board of Directors, 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 acknowledges and understands its fiduciary role and will always seek to act prudently in the best interests of The Foundation.

The role of 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.

Concentration of Credit Risk

Concentration of credit risk for investments is the risk of loss attributable to the magnitude of an investment in a single issuer. The foundation investment policy sets a target distribution for investment types to minimize this risk which is 25-30% for bonds, cash and cash equivalents are 70-80% for equity strategies, including private placements, hedge and commodity strategies.

IDAHO STATE UNIVERSITY FOUNDATION
SUPPLEMENTARY SCHEDULE
JUNE 30, 2009 AND 2008

At June 30, 2009 the distribution of investments was:

| <i>Investment Manager</i> | <i>Portfolio</i> | <i>Benchmark</i> | <i>Amount</i> | |
|---|---|--------------------------|---------------------|-----|
| Fixed Income: | Inter. & Domestic Fixed Inc. Mutual Funds | Barclay US Bond Index | <u>\$11,114,320</u> | |
| | | Total Fixed Income | <u>11,114,320.</u> | 33% |
| Equity: | | | | |
| Various Mutual Funds | U.S. & Inter Equities | S&P 500 | 14,151,800 | |
| Various Mutual Funds | International Equities | MSCI World/Emerging Mrkt | 2,511,547 | |
| Hedge & Absolute Return Funds | Domestic/ International. Hedged Equities | Libor plus 200BP & 500BP | <u>3,053,354</u> | |
| | | Total Equities | <u>19,716,701</u> | 58% |
| Commodities: | | | | |
| Commodities Fund | Commodity Assets | DJ UBS Commodity Index | 1,309,773 | 4% |
| Non-Marketable Assets | | | | |
| Private Realty, Private Capital & Distressed Funds | Private Realty, Private Capital & Distressed Funds | | <u>1,652,725</u> | 5% |
| | | Total Investments | <u>\$33,793,520</u> | |

Through a "Cash Management Sweep Account and Automatic Daily Repurchase Agreement" with Key Bank National Association, the Foundation invests idle cash in uninsured repurchase agreements. The repurchase agreement is fully collateralized with an undivided, fractional interest in obligations of, or obligations that are fully guaranteed by the United States government or any agency thereof. Titles to the securities are vested in the bank. The bank repurchases the undivided, fractional interest from the Foundation on the next banking day.

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 & Poor's, and Fitch's. The Foundation's investment policy recognizes that fixed income securities are to be managed actively to pursue opportunities presented by the changes in interest rates, credit ratings, and maturity premiums. There are various investment limitations to the fixed income portfolio to minimize risk, concentrations, and deviation from portfolio benchmarks. The current portfolio is in compliance to those guidelines. However, the CFI Multi-strategy Bond Funds are un-rated in and of themselves.

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. The Commonfund Institutional Multi-Strategy Bond Fund has an average maturity of 3.9 years. The Foundation's investment policy does not limit maturities of interest bearing instruments.