



Consolidated Financial Statements  
June 30, 2016 and 2015

# Idaho State University Foundation, Inc. and Subsidiary

Idaho State University Foundation, Inc. and Subsidiary

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June 30, 2016 and 2015

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## Independent Auditor's Report

The Board of Directors and Management  
Idaho State University Foundation, Inc. and Subsidiary  
Pocatello, Idaho

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Idaho State University Foundation, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Idaho State University Foundation, Inc. and Subsidiary as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Boise, Idaho  
September 12, 2016

Idaho State University Foundation, Inc. and Subsidiary  
Consolidated Statements of Financial Position  
June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 2,551,354	\$ 2,167,955
Cash held pursuant to bond requirements	-	447,429
Promises to give, net	3,841,977	4,253,218
Life insurance cash surrender value	92,082	100,979
Inventory	412,280	361,181
Pharmacy receivables, net	202,039	218,853
Miscellaneous receivables, net	40,325	1,684
Prepaid expenses	114,171	63,701
Capitalized bond issuance costs, net	-	88,036
Property and equipment, net	372,700	183,535
Goodwill, net	199,241	199,241
Donated land held for sale	1,824,556	1,945,856
Investments	52,845,818	53,918,942
	\$ 62,496,543	\$ 63,950,610
<b>Liabilities and Net Assets (Deficit)</b>		
<b>Liabilities</b>		
Accounts payable	\$ 432,700	\$ 391,565
Scholarships and other payables to Idaho State University	426,317	423,941
Obligations to beneficiaries under split-interest agreements	850,798	917,521
Funds held in custody for others	716,020	652,640
Long-term debt	5,291,106	5,957,779
	7,716,941	8,343,446
<b>Net Assets (Deficit)</b>		
Unrestricted	(4,350,626)	(4,086,482)
Temporarily restricted	18,388,380	20,726,350
Permanently restricted	40,741,848	38,967,296
	54,779,602	55,607,164
	\$ 62,496,543	\$ 63,950,610

Idaho State University Foundation, Inc. and Subsidiary  
Consolidated Statement of Activities  
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support, Revenue, and Gains</b>				
Contributions and gifts	\$ 1,637,846	\$ 2,530,133	\$ 1,868,591	\$ 6,036,570
Contributed services	393,251	10,250	-	403,501
Interest and dividends	193,575	402,250	324	596,149
Net realized/unrealized gain (loss) on investments	97,464	(1,563,965)	6,465	(1,460,036)
Fees, charges, and miscellaneous	895,602	395	-	895,997
Pharmacy revenue	3,503,006	-	-	3,503,006
Less cost of goods sold	<u>(3,057,054)</u>	<u>-</u>	<u>-</u>	<u>(3,057,054)</u>
Net pharmacy charges	445,952	-	-	445,952
Net change in value of split-interest agreements and life insurance	-	34,312	39,638	73,950
Donor designated transfers	(300)	140,766	(140,466)	-
Net assets released from program restrictions	<u>3,892,111</u>	<u>(3,892,111)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and gains	<u>7,555,501</u>	<u>(2,337,970)</u>	<u>1,774,552</u>	<u>6,992,083</u>
<b>Expenses</b>				
Program support to Idaho State University				
Donations/transfers	1,293,830	-	-	1,293,830
Scholarships	1,869,773	-	-	1,869,773
Athletic	228,028	-	-	228,028
Department support	1,882,867	-	-	1,882,867
Support services				
Management and general	547,731	-	-	547,731
Fundraising	1,473,607	-	-	1,473,607
Pharmacy expenses	<u>523,809</u>	<u>-</u>	<u>-</u>	<u>523,809</u>
Total expenses	<u>7,819,645</u>	<u>-</u>	<u>-</u>	<u>7,819,645</u>
Change in Net Assets	(264,144)	(2,337,970)	1,774,552	(827,562)
Net Assets (Deficit), Beginning of Year	<u>(4,086,482)</u>	<u>20,726,350</u>	<u>38,967,296</u>	<u>55,607,164</u>
Net Assets (Deficit), End of Year	<u>\$ (4,350,626)</u>	<u>\$ 18,388,380</u>	<u>\$ 40,741,848</u>	<u>\$ 54,779,602</u>

Idaho State University Foundation, Inc. and Subsidiary  
Consolidated Statement of Activities  
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, Revenue, and Gains				
Contributions and gifts	\$ 1,263,570	\$ 2,423,074	\$ 3,626,016	\$ 7,312,660
Contributed services	714,109	-	-	714,109
Interest and dividends	133,487	330,823	-	464,310
Net realized/unrealized gain on investments	21,548	208,213	-	229,761
Fees, charges, and miscellaneous	881,750	29,449	-	911,199
Pharmacy revenue	1,908,647	-	-	1,908,647
Less cost of goods sold	<u>(1,395,718)</u>	<u>-</u>	<u>-</u>	<u>(1,395,718)</u>
Net pharmacy charges	512,929	-	-	512,929
Net change in value of split-interest agreements and life insurance	-	(114,130)	(71,669)	(185,799)
Donor designated transfers	48,883	(111,195)	62,312	-
Net assets released from program restrictions	<u>3,373,872</u>	<u>(3,373,872)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and gains	<u>6,950,148</u>	<u>(607,638)</u>	<u>3,616,659</u>	<u>9,959,169</u>
Expenses				
Program support to Idaho State University				
Donations/transfers	1,456,139	-	-	1,456,139
Scholarships	1,397,610	-	-	1,397,610
Athletic	196,049	-	-	196,049
Department support	2,108,971	-	-	2,108,971
Support services				
Management and general	464,844	-	-	464,844
Fundraising	1,744,644	-	-	1,744,644
Pharmacy expenses	<u>586,572</u>	<u>-</u>	<u>-</u>	<u>586,572</u>
Total expenses	<u>7,954,829</u>	<u>-</u>	<u>-</u>	<u>7,954,829</u>
Change in Net Assets	(1,004,681)	(607,638)	3,616,659	2,004,340
Net Assets (Deficit), Beginning of Year	<u>(3,081,801)</u>	<u>21,333,988</u>	<u>35,350,637</u>	<u>53,602,824</u>
Net Assets (Deficit), End of Year	<u>\$ (4,086,482)</u>	<u>\$ 20,726,350</u>	<u>\$ 38,967,296</u>	<u>\$ 55,607,164</u>

Idaho State University Foundation, Inc. and Subsidiary  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ (827,562)	\$ 2,004,340
Adjustments to reconcile change in net assets to net cash used for operating activities		
Unrealized loss (gain) on investments	1,522,752	(527,920)
Realized loss on investments	1,718	3,396
Realized loss on sale of property held for sale and investments	38,451	294,763
Donated assets	(10,250)	(608,000)
Contributions restricted to endowment	(1,868,591)	(2,590,179)
Change in value of split interest agreements	152,048	(21,604)
Amortization and depreciation expense	93,824	54,742
Write-off of goodwill	-	67,000
Changes in assets and liabilities		
Promises to give	295,333	697,911
Life insurance cash surrender value	8,897	(26,265)
Inventory	(51,099)	(115,678)
Pharmacy receivables	16,814	(143,601)
Miscellaneous receivables	(38,640)	20,578
Prepaid expenses	(79,550)	-
Accounts payable	110,026	261,968
Scholarships and other payables to Idaho State University	2,376	47,558
Obligations to beneficiaries	(76,024)	263,201
Net Cash used for Operating Activities	(709,477)	(317,790)
Investing Activities		
Proceeds from sale of investments	91,703	165,025
Restricted cash	447,429	54,511
Purchase of investments	(537,697)	(1,713,448)
Property and equipment purchases	(166,487)	(131,542)
Proceeds from sale of land	82,849	517,283
Net Cash used for Investing Activities	(82,203)	(1,108,171)

Idaho State University Foundation, Inc. and Subsidiary  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Financing Activities		
Proceeds from contributions restricted to endowment	1,763,736	3,042,685
Donated securities	220,763	(494,837)
Proceeds from issuance of debt	5,000,000	-
Payments for Challis purchase	-	(68,869)
Payment on pharmacy note payable	(66,673)	(25,543)
Payments to beneficiaries	(142,747)	(138,455)
Payment on bonds payable	(5,600,000)	(100,000)
Net Cash from Financing Activities	<u>1,175,079</u>	<u>2,214,981</u>
Change in Cash and Cash Equivalents	383,399	789,020
Cash and Cash Equivalents, Beginning of Year	<u>2,167,955</u>	<u>1,378,935</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,551,354</u>	<u>\$ 2,167,955</u>
Supplemental Disclosures		
Cash paid for interest	<u>\$ 130,331</u>	<u>\$ 19,570</u>
Supplemental Disclosures of Non-cash Investing and Financing Activities		
Inventory acquired under pharmacy purchase	\$ -	\$ 68,869
Equipment acquired in pharmacy purchase	\$ -	\$ 8,000
Long-term debt under pharmacy purchases	\$ -	\$ 75,000
Contributed services included in building construction	\$ 10,250	\$ -

## **Note 1 - Foundation Operations and Significant Accounting Policies**

### **Foundation Operations**

The Idaho State University Foundation, Inc. (the Foundation) and subsidiary was established in March, 1967 to provide support for the private fundraising efforts of 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 Directors. 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 with the State Board of Education's rules.

The Foundation has a subsidiary corporation called Bengal Pharmacy, LLC (the Pharmacy). The Pharmacy was formed as a limited liability company (LLC) with the Foundation as the sole member.

The Pharmacy was formed to serve students, administrative staff and faculty being seen at the student health center as well as patients of the Idaho State University (ISU) residency program. The residency program treats patients of a local Federally Qualified Health Center including those who qualify for discount drug purchases under Section 340b of the Public Health Service Act.

The pharmacy has expanded its original mission to support ISU's rural health mission by opening tele-health pharmacy locations in Arco and Challis, Idaho.

Per the operating agreement, any allocation and distribution of income will be allocated and 25% will be paid to the Foundation and 75% will be paid to the Idaho State University College of Pharmacy.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Foundation and the Pharmacy because the Foundation has both control and an economic interest in the Pharmacy. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the Foundation.

### **Basis of Accounting**

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 subject to donor restrictions that may or will be met either by actions of the Foundation and/or the passage of time and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation.

The Foundation reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Foundation. The restrictions stipulate that resources be maintained permanently but permit the Foundation to expend the income generated in accordance with the provisions of the agreements.

### **Use of Estimates in the Preparation of Financial Statements**

The preparation of consolidated 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 and those estimates could be material. The most significant estimates used in the consolidated financial statements relate to the present value of the promises to give, the obligations under the split interest agreements, and the fair market values of certain investments.

### **Cash and Cash Equivalents**

For purposes of the consolidated statements 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, and which is not held pursuant to bond requirements or held in trust for others, 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.

### **Investments**

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

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 of Directors oversees and approves all investment and asset allocation policies proposed by the Investment Committee.

### **Financial Instruments and Credit Risk**

The Foundation manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Foundation's mission. Investments are made by diversified investment managers whose performance is monitored

by management and the investment committee of the Board of Directors. The Foundation investment policy states that no single major industry shall represent more than 20% of the endowment's total market value, and no single security shall represent more than 5% of the endowment's total market value. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

### **Assessments**

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

### **Promises to Give**

Unconditional promises to give are recognized as an asset and contribution revenue in the period the promise is received. Fair values of new promises to give are determined using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would make in pricing the receivable. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

The allowance for doubtful accounts for all promises to give represents the Foundation's best estimate of the amount of probable losses in the Foundation's existing promises to give. The Foundation determines the allowance by performing on-going evaluations of its donors and their ability to make payments. The Foundation determines the adequacy of the allowance based upon length of time past due, historical experience and judgment of economic conditions. Account balances are charged off against the allowance after all means of collection have been exhausted and potential recovery is considered unlikely.

### **Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due to the Pharmacy. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

### **Inventories**

Inventory is comprised of Pharmacy merchandise held for sale. Inventories are stated at the lower of cost or market using the first-in, first out (FIFO) method. Cost is determined on an average cost basis.

### **Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Pharmacy revenues are recorded when the prescription has been picked up by the customer. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

### **Donated Materials and Services**

Donated materials and services are reflected as contributions at their estimated fair market values at date of receipt. Contributed professional services are recognized if the services 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 is located in the Idaho State University's administration building. The use of space is donated by Idaho State University, which also donates the services of employees that perform administrative functions for the Foundation. These items represent in-kind donations that are recognized as revenues with a corresponding expense.

### **Property and Equipment**

Property and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

### **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.

During 2016, the Foundation redeemed the bond through a refinancing agreement. The unamortized portion of the bond issuance costs of \$88,036 was expensed to reflect the payment of the bonds.

Accumulated amortization of these bond costs at the end of June 30, 2016 and 2015 was \$570,000 and \$481,965, respectively.

### **Obligations Under Split Interest Agreements**

The Foundation administers life income agreements such 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 risk-adjusted discount rates designed to reflect the assumptions market participants would make in pricing the liability. A contribution is recognized for the estimated remainder interest.

### **Donated Land Held for Sale**

Certain assets received from donors are held for resale. Such assets are recorded at fair value at date of donation. Subsequently, such assets are carried at the lower of their recorded amounts or fair value.

### **Advertising Costs**

Advertising costs are expensed as incurred, and were \$2,295 and \$9,448 for the years ended June 30, 2016 and 2015, respectively.

### **Goodwill**

Goodwill represents the excess of the purchase price over the fair value of the assets of the Pharmacy acquired.

Goodwill is not amortized; rather, potential impairment is considered on an annual basis, or more frequently upon the occurrence of an event or when circumstances indicate that the amount of goodwill is greater than its fair value. As of June 30, 2016 and 2015 the carrying value of goodwill was not considered impaired. As of June 30, 2015 the carrying value of goodwill was written down by \$67,000.

### **Income Taxes**

Idaho State University Foundation, Inc. is organized as an Idaho nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Sections 509(a)(1). Bengal Pharmacy LLC is treated as a disregarded entity for income tax purposes, and accordingly, all income and expenses are reported through the Foundation. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

### **Reclassification**

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

### **Recent Accounting Pronouncements**

In August 2016 the Financial Accounting Standards Board issued an Accounting Standard Update (ASU) that amended Topic 958, Presentation of Financial Statements of Not-for-Profit Entities that focuses on improving the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. Specifically, the ASU addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, lack of consistency in the type of information provided about expenses and investment return and misunderstandings about and opportunities to enhance the utility of the statement of cash flows. The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation is currently evaluating the new ASU and the effect it will have on the Foundation's financial statements when implemented.

## Subsequent Events

The Foundation has evaluated subsequent events through September 12, 2016, the date the consolidated financial statements were issued. No significant subsequent events were noted.

## Note 2 - Fair Value of Assets and Liabilities

### Fair Value Measurements

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset or liability.

Investment assets classified within Level 1 are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values.

The Foundation uses Net Asset Value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, to estimate the fair values of certain hedge funds and private equity funds which do not have readily determinable fair values. Investments valued at NAV are classified within Level 2 if the Foundation has the ability to redeem the investment at NAV per share at the measurement date or within the near term; otherwise, the investment is classified within Level 3.

Idaho State University Foundation, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below. This includes all operating investments, assets held under split-interest agreements and endowment investments at June 30, 2016 and 2015:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>June 30, 2016</u>				
Mutual funds				
Stock index fund	\$ 3,678,669	\$ -	\$ -	\$ 3,678,669
Co-mingled and pooled investment funds				
Real estate funds	-	81,203	-	81,203
Bond funds	-	5,624,840	-	5,624,840
Equity funds	-	26,162,390	-	26,162,390
Money market funds (at cost)	-	-	-	187,121
Hedge funds	-	9,803,853	-	9,803,853
Real asset funds	-	7,307,742	-	7,307,742
	<u>\$ 3,678,669</u>	<u>\$ 48,980,028</u>	<u>\$ -</u>	<u>\$ 52,845,818</u>
<u>June 30, 2015</u>				
Mutual funds				
Stock index fund	\$ 3,535,129	\$ -	\$ -	\$ 3,535,129
Co-mingled and pooled investment funds				
Real estate funds	-	142,383	-	142,383
Bond funds	-	6,229,232	-	6,229,232
Equity funds	-	23,998,347	-	23,998,347
Money market funds (at cost)	-	-	-	1,231,446
Hedge funds	-	16,518,944	-	16,518,944
Real asset funds	-	2,263,461	-	2,263,461
	<u>\$ 3,535,129</u>	<u>\$ 49,152,367</u>	<u>\$ -</u>	<u>\$ 53,918,942</u>

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Investments in certain entities that calculate NAV per share are as follows at June 30, 2016 and 2015:

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<u>2016</u>				
Co-mingled and pooled investment funds				
Real estate fund	\$ 81,203	\$ -	Annually	95 days
Bond funds	5,624,840	-	Monthly	5 days
Equity funds	26,162,390	7,493,139	Monthly	5 days
Hedge funds	9,803,853	-	Annually	95 days
Real asset funds	7,307,742	3,103,450	Monthly	2 - 120 days
<u>2015</u>				
Co-mingled and pooled investment funds				
Real estate fund	\$ 142,383	\$ -	Annually	95 days
Bond funds	6,229,232	-	Monthly	5 days
Equity funds	23,998,347	6,239,264	Monthly	5 days
Hedge funds	16,518,944	-	Annually	95 days
Real asset funds	2,263,461	2,301,840	Monthly	2 - 120 days

Real Estate Fund – This fund is a real estate investment trust that contains real estate located in various sections of the United States. The fund also is involved with various aspects of real estate including, leasing and development. Income is received primarily through rental income and the sale of property thus distributions received are received primarily through liquidation of the underlying asset.

Bond Fund – Funds focused on various other bond funds in an effort to fully diversify its fixed income portfolio. The fund invests directly or indirectly in dollar-denominated investment grade bonds and other fixed income securities in an attempt to outperform the broad U.S. bond market.

Equity Funds – Funds that focus on stocks, bonds and other direct holdings in an effort to outperform the overall markets in total.

Hedge Funds – Funds focus on a multi-manager, marketable alternative that is capable of outperforming the MSCI World Index over a full market cycle while providing some protection during down markets. These contain various forward foreign currency contracts, futures, written and purchased options and swaps investment vehicles.

Real Assets Funds – These funds focus on investments in the commodities and natural resources industries. With the commodities focus, the fund engages in various derivative type transactions with some investment income earnings. For the natural resources, this focus is around various companies that deal in natural resources.

**Fair Value of Financial Instruments Not Required To Be Reported at Fair Value**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and other liabilities, approximate fair value due to the short-term nature of the items, and are considered to fall within Level 1 of the fair value hierarchy. The carrying amount of promises to give due in more than one year is based on the discounted net present value of the expected future cash receipts, and approximates fair value. The carrying amount of liabilities under split-interest agreements is based on the discounted net present value of the expected future cash payments, and approximates fair value. The fair values of the Multi-Mode Variable Rate Revenue Bond bonds payable are based on estimates provided by Idaho State University Foundation, Inc.'s bond remarketing agent, and trading activity occurring on or near June 30, 2016 and 2015 as listed on the Electronic Municipal Market Access (EMMA) database, and totaled \$0 and \$5,600,000 on those dates, respectively. The fair values of other notes payable are based on a combination of the stated interest rates and the unsecured borrowing rate available to Idaho State University Foundation, Inc. at the measurement dates, and approximate their carrying amounts. These estimates are considered to fall within Level 2 of the fair value hierarchy.

**Note 3 - Promises to Give**

Unconditional promises to give are estimated to be collected as follows at June 30, 2016 and 2015:

	2016	2015
Receivable in less than one year	\$ 345,305	\$ 565,284
Receivable in one to five years	1,176,157	1,076,483
Receivable in more than five years	5,012,336	5,373,876
	6,533,798	7,015,643
Less discount to present value (at 2.0% - 8.75%)	(2,328,861)	(2,465,425)
Less allowance for uncollectable promises to give	(362,960)	(297,000)
	\$ 3,841,977	\$ 4,253,218

Promises to give restricted for repayment of the multi-mode variable rate revenue bonds at the end of June 30, 2015 totaled \$1,035,571.

During fiscal year 2015, a promise to give totaling \$1,062,450 entered into trusteeship upon the death of the donor. The payment of the promise to give is disputed by the trustee. The Foundation believes there is a reasonable likelihood of collecting a significant portion of the balance of the pledged amount.

**Note 4 - Property and Equipment**

Property and equipment consisted of the following as of June 30, 2016 and 2015:

	2016	2015
Furniture and equipment	\$ 411,577	\$ 129,284
Construction in process	31,835	99,424
	443,412	228,708
Less accumulated depreciation and amortization	(70,712)	(45,173)
Total	\$ 372,700	\$ 183,535

**Note 5 - Split Interest Agreement Obligations**

Split interest agreements held by the Foundation are irrevocable charitable remainder annuity trusts. Assets and liabilities related to the split interest agreements are included in the accompanying consolidated statements of financial position. Trust assets are recorded as fair market value and a liability is recorded for the present value of estimated distributions to the beneficiaries. The liability is calculated using the life expectancy tables published by the Internal Revenue Service and discounted to present value using risk-adjusted discount rates designed to reflect the assumptions market participants would make in pricing the liability. Assets held in the charitable remainder trusts totaled \$1,967,426 and \$1,997,701 at market value at June 30, 2016 and 2015, respectively, and are included in investments in the accompanying consolidated statements of financial position. The benefit obligation payments for the charitable remainder annuity trusts at June 30, 2016 and 2015 are discounted to total \$850,798 and \$917,521, respectively. The discount rates used range between 1.86% and 5.09% for the years ending June 30, 2016 and 2015. The assets of the individual trusts are invested and are expected to generate sufficient income to pay this obligation until the termination of the individual trusts. Changes in the value of the trust have been reported in the consolidated statements of activities in temporarily and permanently restricted net assets in accordance with donor-imposed restrictions.

**Note 6 - Long-Term Debt**

**Multi-Mode Variable Rate Revenue Bonds**

A Multi-Mode Variable Rate Revenue Bond for constructing, 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 were scheduled to fully mature on May 1, 2021 and were secured by donations, pledges and other funds under the Bond Indenture. The bond debt balance at June 30, 2016 and 2015 was \$0 and \$5,600,000, respectively.

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During 2016, the bonds were redeemed and replaced with a note payable to a commercial lender. The note payable terms included the following:

3.7% note payable, due in annual installments of \$500,000 with interest due quarterly, maturing December 2024, unsecured	\$ 5,000,000
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Total interest expense and fees during 2016 and 2015 were \$128,053 and \$98,505, respectively.

**Notes Payable**

Notes payable for the Pharmacy consist of the following as of June 30:

	2016	2015
6% note payable, due in monthly installments of \$3,053, including interest, maturing May 2024, unsecured	\$ 230,432	\$ 286,020
6% note payable, due in monthly installments of \$1,450, including interest, maturing March 2020, unsecured	60,674	71,759
	\$ 291,106	\$ 357,779

Future maturities of the notes payable are as follows:

	Foundation	Pharmacy	Total
2017	\$ 500,000	\$ 34,572	\$ 534,572
2018	500,000	39,943	539,943
2019	500,000	42,406	542,406
2020	500,000	40,650	540,650
2021	500,000	29,643	529,643
Thereafter	2,500,000	103,892	2,603,892
	\$ 5,000,000	\$ 291,106	\$ 5,291,106

The Pharmacy has two notes payable with the Foundation totaling \$169,971 at year end. One loan for \$75,000 was issued with payments commencing in April 2016 until maturity at May of 2021. The note bears interest at 6% and is unsecured and will bear interest at 18% upon default. The second note for \$100,000 was issued with payments commencing in April 2016 until maturity at May 2021. The note bears interest at 6% and is unsecured and will bear interest at 18% upon default. These notes have been eliminated in the consolidated financial statements.

**Note 7 - Donated Materials and Services**

Donated materials and services from Idaho State University for the years ended June 30 were:

	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<u>2016</u>			
Salaries and benefits	\$ 349,280	\$ -	\$ 349,280
Materials and supplies	31,231	-	31,231
Office space	12,740	-	12,740
	<u>\$ 393,251</u>	<u>\$ -</u>	<u>\$ 393,251</u>
<u>2015</u>			
Salaries and benefits	\$ 103,385	\$ 440,748	\$ 544,133
Materials and supplies	18,560	92,638	111,198
Capital	21,346	-	21,346
Office space	37,432	-	37,432
	<u>\$ 180,723</u>	<u>\$ 533,386</u>	<u>\$ 714,109</u>

**Note 8 - Endowment Funds**

The Foundation's endowment consists of approximately 500 individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions. Changes in the fair value of split-interest agreements, life insurance, and the net change in charitable remainder trusts relating to permanently restricted assets are summarized in other changes in the Endowment asset rollforward.

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 restricted 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:

- The duration and preservation of the fund or endowment
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- 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 addresses 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. Deficiencies have been reported in unrestricted net assets totaling \$2,677,711 and \$1,564,129 as of June 30, 2016 and 2015, respectively.

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. 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 predictable income stream and principal 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 Foundation's spending rate percentage and management fee.

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 investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy of appropriating for annual distribution 4% of its endowment fund's average fair value over the prior 12 quarters through the calendar year end proceeding the current fiscal year, assuming the endowment grows at an average rate at least equal to the change in the Consumer Price Index annually.

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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 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. The annual percentage distribution is reviewed annually by the Board of Directors and may change based on those reviews.

The endowment fund net asset composition is as follows:

At June 30, 2016	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	<u>\$ (2,677,711)</u>	<u>\$ 10,894,564</u>	<u>\$ 40,741,848</u>	<u>\$ 48,958,701</u>
At June 30, 2015	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	<u>\$ (1,564,129)</u>	<u>\$ 12,803,235</u>	<u>\$ 38,967,296</u>	<u>\$ 50,206,402</u>

Changes in endowment net assets are as follows:

	<u>June 30, 2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets, Beginning of Year July 1, 2015	\$ (1,564,129)	\$ 12,803,235	\$ 38,967,296	\$ 50,206,402
Investment return				
Investment income	-	392,689	-	392,689
Net realized and unrealized appreciation	(1,113,582)	(450,027)	-	(1,563,609)
Contributions	-	-	1,868,591	1,868,591
Appropriation of endowment assets for expenditures	-	(1,851,333)	-	(1,851,333)
Donor designated transfers	-	-	(140,466)	(140,466)
Other changes	-	-	46,427	46,427
Endowment Assets, End of Year June 30, 2016	<u>\$ (2,677,711)</u>	<u>\$ 10,894,564</u>	<u>\$ 40,741,848</u>	<u>\$ 48,958,701</u>

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	June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Assets, Beginning of Year July 1, 2014	\$ (1,182,041)	\$ 14,927,202	\$ 35,350,637	\$ 49,095,798
Investment return				
Investment income	-	331,460	-	331,460
Net realized and unrealized appreciation	(382,088)	889,501	-	507,413
Contributions	-	-	3,626,016	3,626,016
Appropriation of endowment assets for expenditures	-	(3,344,928)	-	(3,344,928)
Donor designated transfers	-	-	62,312	62,312
Other changes	-	-	(71,669)	(71,669)
	<u>\$ (1,564,129)</u>	<u>\$ 12,803,235</u>	<u>\$ 38,967,296</u>	<u>\$ 50,206,402</u>
Endowment Assets, End of Year June 30, 2015	<u>\$ (1,564,129)</u>	<u>\$ 12,803,235</u>	<u>\$ 38,967,296</u>	<u>\$ 50,206,402</u>

**Note 9 - Related Party Transactions**

The Foundation provides scholarships to the University based on the terms of the donations. The Foundation also provides various departmental support and athletic scholarships.

Several members of the Board of Directors have made promises to give to the Foundation. For the years ended June 30, 2016 and 2015, the balances outstanding on those promises to give were approximately \$2,357,071 and \$2,373,797, respectively.

Pullen-Grey Foundation and the Bengal Foundation transferred certain assets to the Foundation for investment and management, which are included in the amount in funds held in custody of others. Funds held for others totaled \$716,020 and \$652,640 as of June 30, 2016 and 2015, respectively. Interest and fees on investments are allocated accordingly to the respective investments.

**Note 10 - Restricted Net Assets and Unrestricted Net Deficit**

Temporarily restricted net assets at June 30, 2016 and 2015, consist of:

	2016	2015
Academic Support	\$ 7,318,563	\$ 7,719,952
Institutional Support	6,372,056	7,876,807
Scholarships	4,647,636	5,017,598
Pledges restricted for time	50,125	111,993
	<u>\$ 18,388,380</u>	<u>\$ 20,726,350</u>

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Temporarily restricted net assets are primarily available to support Idaho State University (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 thus restricted by purpose. Temporarily restricted net assets that are available for specific program services totaled \$18,388,380 and \$20,726,350 at June 30, 2016 and 2015, respectively.

## Unrestricted Net Deficit

At June 30, 2016 and 2015, the Foundation had an unrestricted net deficit of \$4,350,626 and \$4,086,482, respectively. These unrestricted net deficits arose primarily due to the Foundation gifting the Performing Arts Center to Idaho State University while still holding bond debt to fund the construction.

## Note 11 - Business Combination

On February 18, 2015, the Pharmacy completed the purchase from TLC Village Square, LLC, of substantially all of the assets of the Village Square drugstore located in Challis, ID. The aggregate purchase price paid was \$68,869 in cash, and \$75,000 in a note payable. The acquisition of the Challis location is expected to increase the Pharmacy's ability to service customers in the Challis and the surrounding communities.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date for TLC Village Square, LLC during fiscal year 2015:

Inventories	\$	68,869
Equipment		<u>8,000</u>
Net assets acquired	\$	<u><u>76,869</u></u>

**Note 12 - Retail Pharmacy Operation**

Retail pharmacy operations consisted of the following:

	2016	2015
Pharmacy sales	\$ 3,503,006	\$ 1,908,647
Cost of sales	(3,057,054)	(1,395,718)
Gross profit	445,952	512,929
Expenses		
Payroll	(280,453)	(303,087)
Operations	(243,355)	(283,485)
Total expenses	(523,808)	(586,572)
Loss from retail pharmacy operation	\$ (77,856)	\$ (73,643)

The following percentages reflect the concentration of gross revenues by major payor for the pharmacy's revenues for the years ended June 30, 2016 and 2015.

	2016	2015
Blue Cross and Other Commercial Payors	72.17%	66.86%
Medicare Part D	13.25%	13.28%
Medicaid	8.36%	8.92%
Self Pay	6.22%	10.94%
	100.00%	100.00%