



Consolidated Financial Statements
June 30, 2017 and 2016

Idaho State University Foundation, Inc. and Subsidiary

Idaho State University Foundation, Inc. and Subsidiary

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June 30, 2017 and 2016

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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, 2017 and 2016, 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 and Subsidiary as of June 30, 2017 and 2016, 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 Sully LLP

Boise, Idaho
September 12, 2017

Idaho State University Foundation, Inc. and Subsidiary
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 1,390,259	\$ 2,551,354
Promises to give, net	2,780,293	3,841,977
Life insurance cash surrender value	687,358	92,082
Inventory	451,216	412,280
Pharmacy receivables, net	168,457	202,039
Miscellaneous receivables, net	67,847	40,325
Prepaid expenses	126,332	114,171
Property and equipment, net	263,625	372,700
Goodwill, net	199,241	199,241
Donated land held for sale	1,466,916	1,824,556
Investments	56,990,994	52,845,818
	\$ 64,592,538	\$ 62,496,543
Liabilities and Net Assets (Deficit)		
Liabilities		
Accounts payable	\$ 273,453	\$ 432,700
Scholarships and other payables to Idaho State University	191,684	426,317
Obligations to beneficiaries under split-interest agreements	744,185	850,798
Funds held in custody for others	809,970	716,020
Long-term debt	4,749,762	5,291,106
	6,769,054	7,716,941
Net Assets (Deficit)		
Unrestricted	(3,949,544)	(4,350,626)
Temporarily restricted	19,736,747	18,388,380
Permanently restricted	42,036,281	40,741,848
	57,823,484	54,779,602
	\$ 64,592,538	\$ 62,496,543

Idaho State University Foundation, Inc. and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, Revenue, and Gains				
Contributions and gifts	\$ 1,420,789	\$ 2,703,572	\$ 1,191,625	\$ 5,315,986
Contributed services	378,201	-	-	378,201
Interest and dividends	162,011	339,672	-	501,683
Net realized/unrealized gain on investments	648,012	5,157,008	-	5,805,020
Fees, charges, and miscellaneous	811,782	26,828	-	838,610
Pharmacy gross revenue	5,226,456	-	-	5,226,456
Less cost of goods sold	<u>(4,309,333)</u>	<u>-</u>	<u>-</u>	<u>(4,309,333)</u>
Pharmacy net revenue	917,123	-	-	917,123
Net change in value of split-interest agreements and life insurance	71,410	(837,145)	62,683	(703,052)
Donor designated transfers	(573,170)	533,045	40,125	-
Net assets released from program restrictions	<u>6,574,613</u>	<u>(6,574,613)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and gains	<u>10,410,771</u>	<u>1,348,367</u>	<u>1,294,433</u>	<u>13,053,571</u>
Expenses				
Program support to Idaho State University				
Donations/transfers	1,390,421	-	-	1,390,421
Scholarships	1,911,321	-	-	1,911,321
Athletic	8,473	-	-	8,473
Department support	3,765,838	-	-	3,765,838
Support services				
Management and general	726,705	-	-	726,705
Fundraising	1,393,961	-	-	1,393,961
Pharmacy expenses	<u>812,970</u>	<u>-</u>	<u>-</u>	<u>812,970</u>
Total expenses	<u>10,009,689</u>	<u>-</u>	<u>-</u>	<u>10,009,689</u>
Change in Net Assets	401,082	1,348,367	1,294,433	3,043,882
Net Assets (Deficit), Beginning of Year	<u>(4,350,626)</u>	<u>18,388,380</u>	<u>40,741,848</u>	<u>54,779,602</u>
Net Assets (Deficit), End of Year	<u>\$ (3,949,544)</u>	<u>\$ 19,736,747</u>	<u>\$ 42,036,281</u>	<u>\$ 57,823,484</u>

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>
Support, Revenue, and Gains				
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 gross 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>
Pharmacy net revenue	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>
Expenses				
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 Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 3,043,882	\$ (827,562)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Unrealized loss (gain) on investments	(5,805,020)	1,460,036
Realized loss on sale of property held for sale and investments	400,000	38,451
Donated assets held for sale	(50,000)	(10,250)
Land and buildings donated to Idaho State University	437,433	-
Contributions restricted to endowment	(1,191,624)	(1,868,591)
Change in life insurance valuation	1,469,627	-
Change in value of split interest agreements	(286,834)	152,048
Amortization and depreciation expense	83,240	93,824
Changes in assets and liabilities		
Promises to give	(121,109)	295,333
Life insurance cash surrender value	(595,276)	8,897
Inventory	(38,936)	(51,099)
Pharmacy receivables	33,582	16,814
Miscellaneous receivables	(27,522)	(38,640)
Prepaid expenses	(12,161)	(79,550)
Accounts payable	(159,247)	110,026
Scholarships and other payables to Idaho State University	(234,633)	2,376
Funds held in custody of others	93,950	-
Obligations to beneficiaries	39,203	(76,024)
Net Cash used for Operating Activities	(2,921,445)	(773,911)
Investing Activities		
Proceeds from sale of investments	24,660,815	9,679,700
Restricted cash	-	447,429
Purchase of investments	(22,487,048)	(10,061,260)
Property and equipment purchases	(403,958)	(166,487)
Proceeds from sale of land	-	82,849
Net Cash from (used for) Investing Activities	1,769,809	(17,769)

Idaho State University Foundation, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Financing Activities		
Proceeds from contributions restricted to endowment	1,191,624	1,763,736
Donated securities	(513,923)	220,763
Proceeds from issuance of debt	-	5,000,000
Payment on pharmacy note payable	(41,344)	(66,673)
Payments to beneficiaries	(145,816)	(142,747)
Payment on long-term debt	(500,000)	(5,600,000)
	(9,459)	1,175,079
Net Cash (used for) from Financing Activities		
Change in Cash and Cash Equivalents	(1,161,095)	383,399
Cash and Cash Equivalents, Beginning of Year	2,551,354	2,167,955
Cash and Cash Equivalents, End of Year	\$ 1,390,259	\$ 2,551,354
Supplemental Disclosures		
Cash paid for interest	\$ 203,750	\$ 130,331
Supplemental Disclosures of Non-cash Investing and Financing Activities		
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 by 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 (FQHC) 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 the University's rural health mission by opening tele-health pharmacy locations in Arco and Challis, Idaho. During 2017, the Pharmacy began providing pharmacy management services to an FQHC-owned pharmacy in Council, 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 differences 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, time deposits with an original maturity date of three months or less and cash which is not 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 the size of the gift.

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 and amortization are 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.

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 rate 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. \$400,000 was written off during the year-ended June 30, 2017.

Advertising Costs

Advertising costs are expensed as incurred, and were \$4,575 and \$2,295 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 the carrying value of goodwill was not considered impaired.

Income Taxes

Idaho State University Foundation 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 filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

The Foundation has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. 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

The Financial Accounting Standards Board (FASB) issued ASU 2016-14 (the ASU) Presentation of Financial Statements for Not-for-Profit Entities during August 2016. The ASU is the first in a two-phase FASB project that will change the way not-for-profit (NFP) entities present their financial statements and related disclosures. It seeks to improve NFP financial reporting by simplifying net asset classifications and enhancing presentation and disclosure requirements regarding liquidity, financial performance, and cash flows. The ASU is effective for fiscal years beginning after December 15, 2017; for the Foundation, the ASU is effective July 1, 2018. The most significant changes resulting from the ASU are summarized as follows:

- The three existing classes of net assets will become two. The new categories of Net Assets without Donor Restrictions, which is not substantively different than current Unrestricted Net Assets, and Net Assets with Donor Restrictions, which includes all net assets subject to a donor restriction, will replace unrestricted, temporarily restricted, and permanently restricted net assets.
- Quantitative and qualitative information about liquidity will be required to provide financial statement users with an understanding of a NFP's exposure to risk, management of liquidity risks, and availability of assets to meet cash needs for general expenditures.
- NFP's presenting an intermediate measure of operations will need to provide additional information about items included or excluded from the operating measure.
- Investment returns presented in the statement of activities will be recorded net of both external and direct internal investment expenses.
- NFP's will be required to report expenses both by function and natural classification in a single location (this can be accomplished in several different ways).

- NFP's presenting a direct method statement of cash flows no longer need to present or disclose a reconciliation to the indirect method.

The second phase of the FASB's financial reporting project will consider additional operating measures and cash flow considerations that were not addressed in the first phase. There is no estimated timeframe for the completion of the second phase.

The Foundation is currently evaluating the new ASU and the effect it will have on the Foundation's financial statements when implemented.

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.

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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.

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, 2017 and 2016:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>June 30, 2017</u>				
Mutual funds and publicly traded securities				
Stock-index fund	\$ 4,330,840	\$ -	\$ -	\$ 4,330,840
Stock-bank industry	63,757	-	-	63,757
Co-mingled and pooled investment funds				
Real estate funds	-	97,888	-	97,888
Bond funds	-	5,021,363	-	5,021,363
Equity funds	-	30,445,513	-	30,445,513
Money market funds (at cost)	-	-	-	304,454
Hedge funds	-	9,059,008	-	9,059,008
Real asset funds	-	7,668,171	-	7,668,171
	<u>\$ 4,394,597</u>	<u>\$ 52,291,943</u>	<u>\$ -</u>	<u>\$ 56,990,994</u>
<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	-	26,457,701	-	26,457,701
Money market funds (at cost)	-	-	-	187,121
Hedge funds	-	9,803,853	-	9,803,853
Real asset funds	-	7,012,431	-	7,012,431
	<u>\$ 3,678,669</u>	<u>\$ 48,980,028</u>	<u>\$ -</u>	<u>\$ 52,845,818</u>

Idaho State University Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Investments in certain entities that calculate NAV per share are as follows at June 30, 2017 and 2016:

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<u>2017</u>				
Co-mingled and pooled investment funds				
Real estate fund	\$ 97,888	\$ -	Annually	95 days
Bond funds	5,021,363	-	Weekly	5 days
Equity funds	30,445,513	10,002,744	Monthly	5 days
Hedge funds	9,059,008	-	Annually	95 days
Real asset funds	7,668,171	2,451,610	Monthly	5 days
<u>2016</u>				
Co-mingled and pooled investment funds				
Real estate fund	\$ 81,203	\$ -	Annually	95 days
Bond funds	5,624,840	-	Weekly	5 days
Equity funds	26,457,701	7,493,139	Monthly	5 days
Hedge funds	9,803,853	-	Annually	95 days
Real asset funds	7,012,431	3,103,450	Monthly	5 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 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, 2017 and 2016:

	2017	2016
Receivable in less than one year	\$ 961,227	\$ 345,305
Receivable in one to five years	471,664	1,176,157
Receivable in more than five years	2,219,898	5,012,336
	3,652,789	6,533,798
Less discount to present value (at 2.0% - 8.75%)	(760,174)	(2,328,861)
Less allowance for uncollectable promises to give	(112,322)	(362,960)
	\$ 2,780,293	\$ 3,841,977

During fiscal year 2015, a promise to give totaling \$1,062,450 entered into trusteeship upon the death of the donor. In fiscal year 2017, the Foundation reached a settlement with the trustee. The above pledges include the amount of the settled pledge. The Foundation expects to receive the settled pledge amount in fiscal year 2018.

Note 4 - Property and Equipment

Property and equipment consisted of the following as of June 30, 2017 and 2016:

	2017	2016
Furniture and equipment	\$ 417,577	\$ 411,577
Construction in process	-	31,835
	417,577	443,413
Less accumulated depreciation and amortization	(153,952)	(70,713)
Total	\$ 263,625	\$ 372,700

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 \$2,155,430 and \$1,967,426 at market value at June 30, 2017 and 2016, 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, 2017 and 2016 are discounted to total \$744,185 and \$850,798, respectively. The discount rates used range between 1.86% and 5.09% for the years ending June 30, 2017 and 2016. 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

During 2016, the 2001 multi-mode variable rate revenue bonds were redeemed and replaced with a note payable to a commercial lender. The note payable terms included the following:

	2017	2016
3.7% note payable, due in annual installments of \$500,000 with interest due quarterly, maturing December 2024, unsecured	\$ 4,500,000	\$ 5,000,000

Total interest expense during 2017 and 2016 were \$203,750 and \$128,053, respectively.

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Notes Payable

Notes payable for the Pharmacy consist of the following:

	2017	2016
6% note payable, due in monthly installments of \$3,053, including interest, maturing May 2024, unsecured	\$ 206,983	\$ 230,432
6% note payable, due in monthly installments of \$1,450, including interest, maturing March 2020, unsecured	42,779	60,674
	\$ 249,762	\$ 291,106

Future maturities of the notes payable are as follows:

	Foundation	Pharmacy	Total
2018	\$ 500,000	\$ 40,143	\$ 540,143
2019	500,000	42,618	542,618
2020	500,000	39,404	539,404
2021	500,000	29,791	529,791
2022	500,000	31,629	531,629
Thereafter	2,000,000	66,177	2,066,177
	\$ 4,500,000	\$ 249,762	\$ 4,749,762

The Pharmacy has two notes payable with the Foundation totaling \$138,720 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:

	Management and General	Fundraising	Total
2017			
Salaries and benefits	\$ 351,188	\$ -	\$ 351,188
Materials and supplies	14,880	-	14,880
Office space	12,133	-	12,133
	\$ 378,201	\$ -	\$ 378,201
2016			
Salaries and benefits	\$ 349,280	\$ -	\$ 349,280
Materials and supplies	31,231	-	31,231
Office space	12,740	-	12,740
	\$ 393,251	\$ -	\$ 393,251

Note 8 - Endowment Funds

The Foundation's endowment consists of approximately 600 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 \$1,582,397 and \$2,677,711 as of June 30, 2017 and 2016, 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 current policy of appropriating for annual distribution 4% of its endowment funds' average fair values 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.

During the fiscal year ended June 30, 2017, the Foundation amended its policy for appropriating endowment funds for annual distributions. As amended, the policy allows a distribution from 0% to 4% of each endowment fund's average fair value. Distributions of less than 4% may be made if the fair market value of an endowment falls below its historical contribution value. The amended policy goes into effect July 1, 2018.

The endowment fund net asset composition is as follows:

At June 30, 2017	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	<u>\$ (1,582,397)</u>	<u>\$ 12,804,914</u>	<u>\$ 42,036,281</u>	<u>\$ 53,258,798</u>
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>

Changes in endowment net assets are as follows:

	<u>June 30, 2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets, Beginning of Year July 1, 2016	\$ (2,677,711)	\$ 10,894,564	\$ 40,741,848	\$ 48,958,701
Investment return				
Investment income	-	279,846	-	279,846
Net realized and unrealized appreciation	1,095,314	3,517,826	-	4,613,140
Contributions	-		1,191,625	1,191,625
Appropriation of endowment assets for expenditures	-	(1,847,197)	-	(1,847,197)
Donor designated transfers	-	(40,125)	40,125	-
Other changes	-	-	62,683	62,683
Endowment Assets, End of Year June 30, 2017	<u>\$ (1,582,397)</u>	<u>\$ 12,804,914</u>	<u>\$ 42,036,281</u>	<u>\$ 53,258,798</u>

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	June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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>

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, 2017 and 2016, the balances outstanding on those promises to give were approximately \$1,242,205 and \$2,357,071, respectively.

The Pullen-Grey Foundation, the Bengal Athletic Boosters and various other entities 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 \$809,970 and \$716,020 as of June 30, 2017 and 2016, 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, 2017 and 2016, consist of:

	2017	2016
Academic Support	\$ 7,855,272	\$ 7,318,563
Institutional Support	5,909,091	6,372,056
Scholarships	5,972,384	4,647,636
Pledges restricted for time	-	50,125
	<u>\$ 19,736,747</u>	<u>\$ 18,388,380</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 and are thus restricted by purpose.

Unrestricted Net Deficit

At June 30, 2017 and 2016, the Foundation had an unrestricted net deficit of \$3,949,544 and \$4,350,626, respectively. These unrestricted net deficits arose primarily due to the Foundation gifting the Performing Arts Center to the University while still holding bond debt to fund the construction.

Note 11 - Retail Pharmacy Operation

Retail pharmacy operations consisted of the following:

	2017	2016
Pharmacy sales	\$ 5,226,456	\$ 3,503,006
Cost of sales	(4,309,333)	(3,057,054)
Gross profit	917,123	445,952
Expenses		
Payroll	(431,742)	(280,454)
Operations	(381,228)	(243,355)
Total expenses	(812,970)	(523,809)
Gain (loss) from retail pharmacy operation	\$ 104,153	\$ (77,856)

The following percentages reflect the concentration of gross revenues by major payor for the pharmacy's revenues for the years ended June 30, 2017 and 2016.

	2017	2016
Blue Cross and Other Commercial Payors	56.91%	72.17%
Medicare Part D	15.84%	13.25%
Medicaid	21.42%	8.36%
Self Pay	5.83%	6.21%
	100.00%	100.00%

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The following percentages reflect the concentration of credit risk by major payer for the pharmacy's revenues for the years ended June 30, 2017 and 2016:

	2017	2016
Blue Cross and Other Commercial Payors	69.06%	62.19%
Medicare Part D	2.62%	15.78%
Medicaid	28.32%	22.03%
	100.00%	100.00%

Note 12 - Subsequent Events

The Foundation has evaluated subsequent events through September 12, 2017, the date the consolidated financial statements were issued.

During the year ended June 30, 2017, the Board of Directors for the Pharmacy approved the opening of an additional tele-health pharmacy site in Kendrick, Idaho. The expansion is in the planning stage as of June 30, 2017. The expenditure estimate for equipment, inventory and other supplies needed to open the pharmacy is \$150,000.