Consolidated Financial Statements
June 30, 2018 and 2017

Idaho State University Foundation, Inc. and Subsidiary

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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, 2018 and 2017, 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.

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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, 2018 and 2017, 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 10, 2018

	2018	2017
Assets		
Cash and cash equivalents	$ 8,750,013	$ 1,390,259
Promises to give, net	2,087,574	2,780,293
Life insurance cash surrender value	122,546	687,358
Inventory	684,856	451,216
Pharmacy receivables, net	198,249	168,457
Miscellaneous receivables, net	77,000	67,847
Prepaid expenses	134,949	126,332
Property and equipment, net	211,993	263,625
Goodwill	199,241	199,241
Donated land held for sale	1,252,384	1,466,916
Investments held under split interest agreements	2,560,422	2,155,430
Investments	60,601,159	54,835,564
	$ 76,880,386	$ 64,592,538
Liabilities		
Accounts payable	$ 858,566	$ 273,453
Scholarships and other payables to Idaho State University	171,838	191,684
Obligations to beneficiaries under split-interest agreements	1,160,852	744,185
Funds held in custody for others	1,210,515	809,970
Long-term debt	4,209,619	4,749,762
Total liabilities	7,611,390	6,769,054
Net Assets (Deficit)		
Unrestricted	(1,184,227)	(3,949,544)
Temporarily restricted	26,752,159	19,736,747
Permanently restricted	43,701,064	42,036,281
Total net assets	69,268,996	57,823,484
	$ 76,880,386	$ 64,592,538

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, Revenue, and Gains				
Contributions and gifts	$ 861,735	$ 7,190,264	$ 1,775,928	$ 9,827,927
Contributed services	355,641	-	-	355,641
Interest and dividends	175,535	425,993	-	601,528
Net realized/unrealized gain on investments	1,249,442	4,090,859	-	5,340,301
Fees, charges, and miscellaneous	999,380	30,468	-	1,029,848
Pharmacy gross revenue	5,934,795	-	-	5,934,795
Less cost of goods sold	(4,958,537)	-	-	(4,958,537)
Pharmacy net revenue	976,258	-	-	976,258
Net change in value of split-interest agreements and life insurance	34,649	(3,295)	66,171	97,525
Donor designated transfers	901,863	(823,863)	(78,000)	-
Net assets released from program restrictions	3,994,330	(3,895,014)	(99,316)	-
Total support, revenue, and gains	9,548,833	7,015,412	1,664,783	18,229,028
Expenses				
Program support to Idaho State University				
Donations/transfers	891,324	-	-	891,324
Scholarships	1,742,248	-	-	1,742,248
Athletic	80,150	-	-	80,150
Department support	983,875	-	-	983,875
Support services				
Management and general	1,305,680	-	-	1,305,680
Fundraising	731,469	-	-	731,469
Pharmacy expenses	1,048,770	-	-	1,048,770
Total expenses	6,783,516	-	-	6,783,516
Change in Net Assets	2,765,317	7,015,412	1,664,783	11,445,512
Net Assets (Deficit), Beginning of Year	(3,949,544)	19,736,747	42,036,281	57,823,484
Net Assets (Deficit), End of Year	$ (1,184,227)	$ 26,752,159	$ 43,701,064	$ 69,268,996

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 (loss) 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	(4,309,333)	-	-	(4,309,333)
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	6,574,613	(6,574,613)	-	-
Total support, revenue, and gains	10,410,771	1,348,367	1,294,433	13,053,571
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	812,970	-	-	812,970
Total expenses	10,009,689	-	-	10,009,689
Change in Net Assets	401,082	1,348,367	1,294,433	3,043,882
Net Assets (Deficit), Beginning of Year	(4,350,626)	18,388,380	40,741,848	54,779,602
Net Assets (Deficit), End of Year	$ (3,949,544)	$ 19,736,747	$ 42,036,281	$ 57,823,484

	2018	2017
Operating Activities		
Change in net assets	$ 11,445,512	$ 3,043,882
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Unrealized gain on investments	(5,125,156)	(5,805,020)
Realized (gain) loss on sale of property held for sale and investments	(526,468)	400,000
Donated assets held for sale	(403,211)	(50,000)
Land and buildings donated to Idaho State University	144,211	437,433
Contributions restricted to endowment	(1,775,987)	(1,191,624)
Change in life insurance valuation	19,233	1,469,627
Change in value of split interest agreements	(139,098)	(286,834)
Amortization and depreciation expense	83,955	83,240
Changes in assets and liabilities		
Promises to give	673,486	(121,109)
Life insurance cash surrender value	564,812	(595,276)
Inventory	(233,640)	(38,936)
Pharmacy receivables	(29,792)	33,582
Miscellaneous receivables	(9,153)	(27,522)
Prepaid expenses	(8,617)	(12,161)
Accounts payable	585,113	(159,247)
Scholarships and other payables to Idaho State University	(19,846)	(234,633)
Funds held in custody of others	330,007	93,950
Obligations to beneficiaries	586,209	39,203
Net Cash from (used for) Operating Activities	6,161,570	(2,921,445)
Investing Activities		
Proceeds from sale of investments	21,049,675	24,660,815
Purchase of investments	(20,863,529)	-
Property and equipment purchases	(32,323)	(22,487,048)
Proceeds from sale of land	1,000,000	(403,958)
Withdrawal from assets held under split-interest agreements	76,436	-
Net Cash from Investing Activities	1,230,259	1,769,809

	2018	2017
Financing Activities		
Proceeds from contributions restricted to endowment	1,775,987	1,191,624
Donated securities	(756,047)	(513,923)
Payments to beneficiaries	(169,542)	(145,816)
Proceeds from establishment of split-interest agreements	(342,330)	-
Payment on pharmacy note payable	(540,143)	(541,344)
Net Cash used for Financing Activities	(32,075)	(9,459)
Change in Cash and Cash Equivalents	7,359,754	(1,161,095)
Cash and Cash Equivalents, Beginning of Year	1,390,259	2,551,354
Cash and Cash Equivalents, End of Year	$ 8,750,013	$ 1,390,259
Supplemental Disclosures		
Cash paid for interest	$ 177,834	$ 203,750

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, Challis and Kendrick, Idaho, with the Kendrick location added in 2018. The Pharmacy also provides 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.

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. At June 30, 2018 and 2017, the allowance was $18,209 and $27,047, respectively.

Inventories

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

Net Assets

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.

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

Charitable Trusts

The Foundation acts as trustee for various revocable and irrevocable trusts. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets, in whole or in part, for a specified period or upon the occurrence of a specific event, respectively. If a trust is revocable, or if the maker of the trust reserves the right to replace the Foundation as the beneficiary of the trust, the assets placed in trust are recorded at fair value, with an equal and offsetting liability until such time that distributions from the trust are received in accordance with the terms of the trust. If the trust is irrevocable, the trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a temporarily or permanently restricted contribution until such amount is received via trust distribution and/or is expended in satisfaction of the restricted purpose stipulated by the trust agreement, if any, at which time temporarily restricted net assets are released to unrestricted net assets and permanently restricted net assets are transferred to the endowment. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the trust, the remaining liability is removed and recognized as income.

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. $195,000 and $400,000 were written off during the years-ended June 30, 2018 and 2017, respectively.

Advertising Costs

Advertising costs are expensed as incurred, and were $2,540 and $4,575 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 the carrying value of goodwill was not considered impaired.

Income Taxes

Idaho State University Foundation (the 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 Foundation adopted the provisions of Accounting Standards Update (ASU) 2015-07 "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)" which are effective for fiscal years beginning after December 15, 2016. ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net assets value practical expedient in Accounting Standards Codification 820. Accordingly, the accounting change has been retrospectively applied to the prior period presented, as required.

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 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

The Foundation reports certain assets and liabilities 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. Certificates of deposit are invested and traded in the financial markets. Those certificates of deposit and U.S. Government obligations are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2. The fair values of beneficial interests in charitable and perpetual trusts are determined by using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees.

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 that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at June 30, 2018 and 2017:

June 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV	Total
Operating Investments					
Mutual funds	$ 2,391,374	$ -	$ -	$ -	$ 2,391,374
Assets held under split interest agreements					
Mutual funds	2,560,422	-	-	-	2,560,422
Co-mingled and pooled investment funds					
Cash and money market funds	21,353	923,865	-	-	945,218
Real estate funds	-	125,962	-	-	125,962
Bond funds	-	6,115,796	-	-	6,115,796
Equity funds	-	36,100,341	-	-	36,100,341
Hedge funds	-	-	-	7,840,347	7,840,347
Real asset funds	-	5,564,774	-	1,517,347	7,082,121
	$ 4,973,149	$ 48,830,738	$ -	$ 9,357,694	$63,161,581

June 30, 2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV	Total
Operating Investments					
Mutual funds	$ 2,239,167	$ -	$ -	$ -	$ 2,239,167
Assets held under split interest agreements					
Mutual funds	2,155,430	-	-	-	2,155,430
Co-mingled and pooled investment funds					
Cash and money market funds	-	304,454	-	-	304,454
Real estate funds		97,888	-	-	97,888
Bond funds	-	5,021,363	-	-	5,021,363
Equity funds	-	30,445,513	-	-	30,445,513
Hedge funds	-	1,462,390	-	7,596,618	9,059,008
Real asset funds	-	6,264,687	-	1,403,484	7,668,171
	$ 4,394,597	$ 43,596,295	$ -	$ 9,000,102	$56,990,994

Investments in certain entities that calculate NAV per share are as follows at June 30, 2018 and 2017:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
2018				
Co-mingled and pooled investment funds				
Real asset funds	$ 1,517,347	$ -	Monthly	95 days
Hedge funds	7,840,347	-	Quarterly, limited	65 days
2017				
Co-mingled and pooled investment funds				
Real asset funds	$ 1,403,484	$ -	Monthly	95 days
Hedge funds	7,596,618	-	Quarterly, limited	65 days

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.

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.

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, 2018 and 2017:

	2018	2017
Receivable in less than one year	$ 263,135	$ 961,227
Receivable in one to five years	676,513	471,664
Receivable in more than five years	2,113,339	2,219,898
	3,052,987	3,652,789
Less discount to present value (at 2.0% - 8.75%)	(807,755)	(760,174)
Less allowance for uncollectable promises to give	(157,658)	(112,322)
	$ 2,087,574	$ 2,780,293

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, and in fiscal year 2018 received the settled pledge amount.

Note 4 - Property and Equipment

Property and equipment consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Furniture and equipment	$ 449,900	$ 417,577
	449,900	417,577
Less accumulated depreciation and amortization	(237,907)	(153,952)
Total	$ 211,993	$ 263,625

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 $2,560,422 and $2,155,430 at market value at June 30, 2018 and 2017, 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, 2018 and 2017 are discounted to total $1,160,852 and $744,185, respectively. The discount rates used range between 1.86% and 5.09% for the years ending June 30, 2018 and 2017. 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

Notes Payable - Foundation

Notes payable for the Foundation consist of the following:

	2018	2017
3.7% note payable, due in annual installments of $500,000 with interest due quarterly, maturing December 2024, unsecured	$ 4,000,000	$ 4,500,000

Total interest expense during 2018 and 2017 was $157,970 and $203,750, respectively.

Notes Payable - Pharmacy

Notes payable for the Pharmacy consist of the following:

	2018	2017
6% note payable, due in monthly installments of $3,053, including interest, maturing May 2024, unsecured	$ 182,088	$ 206,983
6% note payable, due in monthly installments of $1,450, including interest, maturing March 2020, unsecured	27,531	42,779
	$ 209,619	$ 249,762

Total interest expense during 2018 and 2017 was $16,229 and $18,422, respectively.

Future maturities of the notes payable are as follows:

	Foundation	Pharmacy	Total
2018	$ 500,000	$ 42,618	$ 542,618
2019	500,000	39,404	539,404
2020	500,000	29,791	529,791
2021	500,000	31,629	531,629
2022	500,000	33,579	533,579
Thereafter	1,500,000	32,598	1,532,598
	$ 4,000,000	$ 209,619	$ 4,209,619

The Pharmacy has two notes payable with the Foundation totaling $105,542 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	Total
2018		
Salaries and benefits	$ 329,607	$ 329,607
Materials and supplies	14,594	14,594
Office space	11,440	11,440
	$ 355,641	$ 355,641
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

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 $1,096,463 and $1,582,397 as of June 30, 2018 and 2017, 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.

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, 2018, 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, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (1,096,463)	$ 14,980,047	$ 43,701,064	$ 57,584,648

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

Changes in endowment net assets are as follows:

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Assets, Beginning of Year July 1, 2017	$ (1,582,397)	$ 12,804,914	$ 42,036,281	$ 53,258,798
Investment return				
Investment income	-	355,962	-	355,962
Net realized and unrealized appreciation	485,934	3,462,156	-	3,948,090
Contributions	-		1,775,928	1,775,928
Appropriation of endowment assets for expenditures	-	(1,720,985)	-	(1,720,985)
Donor designated transfers	-	78,000	(78,000)	-
Other changes	-	-	(33,145)	(33,145)
Endowment Assets, End of Year June 30, 2018	$ (1,096,463)	$ 14,980,047	$ 43,701,064	$ 57,584,648

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	$ (1,582,397)	$ 12,804,914	$ 42,036,281	$ 53,258,798

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, 2018 and 2017, the balances outstanding on those promises to give were approximately $1,420,444 and $1,242,205, 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 $1,210,515 and $809,970 as of June 30, 2018 and 2017, 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, 2018 and 2017, consist of:

	2018	2017
Academic Support	$ 9,119,578	$ 7,855,272
Institutional Support	10,025,391	5,909,091
Scholarships	7,607,190	5,972,384
	$ 26,752,159	$ 19,736,747

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, 2018 and 2017, the Foundation had an unrestricted net deficit of $1,158,979 and $3,949,544, 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:

	2018	2017
Pharmacy sales	$ 5,913,742	$ 5,226,456
Cost of sales	(4,912,236)	(4,309,333)
Gross profit	1,001,506	917,123
Expenses		
Payroll	(674,405)	(431,742)
Operations	(374,365)	(381,228)
Total expenses	(1,048,770)	(812,970)
Gain (loss) from retail pharmacy operation	$ (47,264)	$ 104,153

The following percentages reflect the concentration of gross revenues by major payor for the pharmacy's revenues for the years ended June 30, 2018 and 2017.

Concentration of gross revenues by major payor:

	2018	2017
Blue Cross and Other Commercial Payors	59.66%	56.91%
Medicare Part D	14.75%	15.84%
Medicaid	19.45%	21.42%
Self Pay	6.14%	5.83%
	100.00%	100.00%

The following percentages reflect the concentration of credit risk by major payer for the pharmacy's receivables as of June 30, 2018 and 2017:

Concentration of credit risk by major payers	2018	2017
Blue Cross and Other Commercial Payors	75.00%	69.06%
Medicare Part D	14.75%	2.62%
Medicaid	10.25%	28.32%
	100.00%	100.00%

Note 12 - Subsequent Events

The Foundation has evaluated subsequent events through September 10, 2018, the date the consolidated financial statements were issued.

During the year ended June 30, 2018, the Foundation selected a new Outsourced Chief Investment Officer (OCIO) to manage endowment portfolio assets. The transition to the new OCIO began July 1, 2018 and was completed August 13, 2018.