



Consolidated Financial Statements
June 30, 2020 and 2019

**Idaho State University Foundation, Inc.
and Subsidiary**

Idaho State University Foundation, Inc. and Subsidiary

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June 30, 2020 and 2019

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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, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Idaho State University Foundation, Inc. and Subsidiary as of June 30, 2020 and 2019, 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
September 11, 2020

Idaho State University Foundation, Inc. and Subsidiary
Consolidated Statements of Financial Position
June 30, 2020 and 2019

| | 2020 | 2019 |
|----------------------------------------------------------------------|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,439,093 | \$ 2,170,296 |
| Life insurance cash surrender value | 133,750 | 126,891 |
| Promises to give, net | 3,605,964 | 2,133,524 |
| Pharmacy receivables, net | 314,004 | 226,251 |
| Miscellaneous receivables, net | 60,871 | 38,500 |
| Prepaid expenses | 127,071 | 127,638 |
| Inventory | 378,133 | 405,254 |
| Property and equipment, net | 145,430 | 336,713 |
| Goodwill | 199,241 | 199,241 |
| Donated land held for sale | 330,793 | 655,793 |
| Investments held under split interest agreements | 2,554,100 | 2,641,859 |
| Investments held for operations | 16,404,246 | 15,660,257 |
| Investments held for endowment | 56,133,138 | 56,346,446 |
| | \$ 81,825,834 | \$ 81,068,663 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 349,210 | \$ 322,190 |
| Scholarship and program support payable to Idaho State University | 15,906 | 80,760 |
| Obligations to beneficiaries under split-interest agreements | 969,469 | 1,103,265 |
| Funds held in custody for others | 1,024,539 | 949,742 |
| Long-term debt | 3,127,597 | 3,667,001 |
| | 5,486,721 | 6,122,958 |
| Net Assets | | |
| Net assets without donor restrictions | 1,652,019 | 621,623 |
| Net assets with donor restrictions | 74,687,094 | 74,324,082 |
| | 76,339,113 | 74,945,705 |
| | \$ 81,825,834 | \$ 81,068,663 |

Idaho State University Foundation, Inc. and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|------------------------------------------------------------------------|---------------------------------------|------------------------------------|----------------------|
| Support, Revenue, and Gains | | | |
| Contributions and gifts | \$ 1,437,794 | \$ 9,058,645 | \$ 10,496,439 |
| Donated materials and services | 401,601 | - | 401,601 |
| Interest and dividends | 377,994 | 1,780,570 | 2,158,564 |
| Net realized/unrealized gain/(loss) on investments | 471,692 | (4,303,695) | (3,832,003) |
| Fees, charges, and miscellaneous | 1,071,598 | - | 1,071,598 |
| Pharmacy revenue | 6,198,121 | - | 6,198,121 |
| Less cost of goods sold | (5,195,063) | - | (5,195,063) |
| Pharmacy Gross Margin | 1,003,058 | - | 1,003,058 |
| Net change in value of split-interest agreements and life insurance | 6,859 | 32,090 | 38,949 |
| Donor designated transfers | (502,877) | 502,877 | - |
| Net assets released from program restrictions | 6,707,475 | (6,707,475) | - |
| | <u>10,975,194</u> | <u>363,012</u> | <u>11,338,206</u> |
| Expenses | | | |
| Program services | | | |
| Academic, development and program support | 6,990,690 | - | 6,990,690 |
| Endowment and private resource management | 14,671 | - | 14,671 |
| Pharmacy expenses | 910,382 | - | 910,382 |
| Support services | | | |
| Management and general | 1,528,968 | - | 1,528,968 |
| Fundraising | 500,087 | - | 500,087 |
| Total expenses | <u>9,944,798</u> | <u>-</u> | <u>9,944,798</u> |
| Change in Net Assets | 1,030,396 | 363,012 | 1,393,408 |
| Net Assets, Beginning of Year | <u>621,623</u> | <u>74,324,082</u> | <u>74,945,705</u> |
| Net Assets, End of Year | <u>\$ 1,652,019</u> | <u>\$ 74,687,094</u> | <u>\$ 76,339,113</u> |

Idaho State University Foundation, Inc. and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|------------------------------------------------------------------------|---------------------------------------|------------------------------------|----------------------|
| Support, Revenue, and Gains | | | |
| Contributions and gifts | \$ 712,606 | \$ 11,731,597 | \$ 12,444,203 |
| Donated materials and services | 342,191 | - | 342,191 |
| Interest and dividends | 257,891 | 1,370,950 | 1,628,841 |
| Net realized/unrealized gain on investments | 478,530 | 1,156,356 | 1,634,886 |
| Fees, charges, and miscellaneous | 1,096,208 | 20,641 | 1,116,849 |
| Pharmacy revenue | 5,597,002 | - | 5,597,002 |
| Less cost of goods sold | <u>(4,780,924)</u> | <u>-</u> | <u>(4,780,924)</u> |
| Pharmacy Gross Margin | 816,078 | - | 816,078 |
| Net change in value of split-interest agreements and life insurance | 4,345 | 139,694 | 144,039 |
| Donor designated transfers | (21,637) | 21,637 | - |
| Net assets released from program restrictions | <u>9,473,552</u> | <u>(9,473,552)</u> | <u>-</u> |
| | <u>13,159,764</u> | <u>4,967,323</u> | <u>18,127,087</u> |
| Expenses | | | |
| Program services | | | |
| Academic, development and program support | 9,399,019 | - | 9,399,019 |
| Endowment and private resource management | 75,431 | - | 75,431 |
| Pharmacy expenses | 1,005,241 | - | 1,005,241 |
| Support services | | | |
| Management and general | 1,448,558 | - | 1,448,558 |
| Fundraising | <u>522,129</u> | <u>-</u> | <u>522,129</u> |
| Total expenses | <u>12,450,378</u> | <u>-</u> | <u>12,450,378</u> |
| Change in Net Assets | 709,386 | 4,967,323 | 5,676,709 |
| Net Assets (Deficit), Beginning of Year | <u>(87,763)</u> | <u>69,356,759</u> | <u>69,268,996</u> |
| Net Assets, End of Year | <u>\$ 621,623</u> | <u>\$ 74,324,082</u> | <u>\$ 74,945,705</u> |

Idaho State University Foundation, Inc. and Subsidiary
Consolidated Statement of Functional Expense
Year Ended June 30, 2020

| | Program Services | | | | Management and General | Fundraising | Total |
|----------------------------------------------------------------------------------|----------------------------------------------------|----------------------------------------------------|--------------------|---------------------|---------------------------|-------------------|---------------------|
| | Academic, Development and Program Support | Endowment and Private Resource Management | Bengal Pharmacy | Total | | | |
| Personnel costs | \$ - | \$ - | \$ 459,469 | \$ 459,469 | \$ 118,577 | \$ - | \$ 578,046 |
| Cost of goods sold | - | - | 5,195,063 | 5,195,063 | - | - | 5,195,063 |
| Professional services | - | - | - | - | 18,278 | 21,447 | 39,725 |
| Travel | - | - | 16,087 | 16,087 | 1,056 | - | 17,143 |
| Conferences and meetings | - | - | - | - | 6,073 | - | 6,073 |
| Other operating expenses | - | - | 124,499 | 124,499 | - | - | 124,499 |
| Credit card and processing fees | - | - | 143,060 | 143,060 | - | 21,928 | 164,988 |
| Life insurance premiums | - | - | - | - | - | 8,888 | 8,888 |
| Interest expense | - | - | 12,034 | 12,034 | 137,949 | - | 149,983 |
| Payments under planned gift instruments | - | 14,671 | - | 14,671 | - | - | 14,671 |
| Management and gift fees | - | - | - | - | 737,698 | 323,612 | 1,061,310 |
| Contributed services | - | - | - | - | 401,601 | - | 401,601 |
| Insurance | - | - | 17,950 | 17,950 | 11,149 | - | 29,099 |
| Accounting and audit fees | - | - | 23,352 | 23,352 | 62,241 | - | 85,593 |
| Bad debt | - | - | (295) | (295) | 18,193 | - | 17,898 |
| Information technology | 74,247 | - | 83,378 | 157,625 | 16,153 | 33,229 | 207,007 |
| Depreciation and amortization | - | - | 30,848 | 30,848 | - | - | 30,848 |
| Development office support | 191,353 | - | - | 191,353 | - | 90,983 | 282,336 |
| Promotional transfers | 135,500 | - | - | 135,500 | - | - | 135,500 |
| Scholarships | 2,790,296 | - | - | 2,790,296 | - | - | 2,790,296 |
| Athletics | 47,468 | - | - | 47,468 | - | - | 47,468 |
| General and capital support | 3,751,826 | - | - | 3,751,826 | - | - | 3,751,826 |
| Total expenses by function | 6,990,690 | 14,671 | 6,105,445 | 13,110,806 | 1,528,968 | 500,087 | 15,139,861 |
| Less expenses included with revenues on the statement of activities | | | | | | | |
| Pharmacy cost of goods sold | - | - | (5,195,063) | (5,195,063) | - | - | (5,195,063) |
| Total reductions of revenues | - | - | (5,195,063) | (5,195,063) | - | - | (5,195,063) |
| Total expenses included in the expense section on the statement of activities | <u>\$ 6,990,690</u> | <u>\$ 14,671</u> | <u>\$ 910,382</u> | <u>\$ 7,915,743</u> | <u>\$ 1,528,968</u> | <u>\$ 500,087</u> | <u>\$ 9,944,798</u> |

See Notes to Consolidated Financial Statements

Idaho State University Foundation, Inc. and Subsidiary
Consolidated Statement of Functional Expense
Year Ended June 30, 2019

| | Academic, Development and Program Support | Endowment and Private Resource Management | Bengal Pharmacy | Total | Management and General | Fundraising | Total |
|----------------------------------------------------------------------------------|----------------------------------------------------|----------------------------------------------------|---------------------|----------------------|---------------------------|-------------------|----------------------|
| Personnel costs | \$ - | \$ - | \$ 598,221 | \$ 598,221 | \$ 119,459 | \$ - | \$ 717,680 |
| Cost of goods sold | - | - | 4,780,924 | 4,780,924 | - | - | 4,780,924 |
| Professional services | - | 10,000 | 32,358 | 42,358 | 41,628 | - | 83,986 |
| Travel | - | - | 15,423 | 15,423 | 744 | - | 16,167 |
| Conferences and meetings | - | - | 520 | 520 | 8,792 | - | 9,312 |
| Other operating expenses | - | 1,608 | 100,742 | 102,350 | 4,552 | 60 | 106,962 |
| Credit card and processing fees | - | - | 111,374 | 111,374 | - | 15,156 | 126,530 |
| Life insurance premiums | - | - | - | - | - | 68,918 | 68,918 |
| Interest expense | - | - | 16,802 | 16,802 | 139,315 | - | 156,117 |
| Payments under planned gift instruments | - | 63,775 | - | 63,775 | - | - | 63,775 |
| Management and gift fees | - | - | - | - | 686,623 | 415,872 | 1,102,495 |
| Contributed services | - | - | - | - | 342,191 | - | 342,191 |
| Information technology | 73,579 | - | 74,574 | 148,153 | 16,435 | 18,456 | 183,044 |
| Insurance | - | - | 19,210 | 19,210 | 11,309 | - | 30,519 |
| Accounting and audit fees | - | - | - | - | 47,870 | - | 47,870 |
| Bad debt | - | - | 3,743 | 3,743 | (45,524) | - | (41,781) |
| Depreciation and amortization | 36,524 | - | 32,274 | 68,798 | 5,707 | 2,282 | 76,787 |
| Development office support | 10,221 | 48 | - | 10,269 | 69,457 | 1,385 | 81,111 |
| Promotional transfers | 135,500 | - | - | 135,500 | - | - | 135,500 |
| Scholarships | 2,084,549 | - | - | 2,084,549 | - | - | 2,084,549 |
| Athletics | 280,390 | - | - | 280,390 | - | - | 280,390 |
| General and capital support | 6,778,256 | - | - | 6,778,256 | - | - | 6,778,256 |
| Total expenses by function | <u>9,399,019</u> | <u>75,431</u> | <u>5,786,165</u> | <u>15,260,615</u> | <u>1,448,558</u> | <u>522,129</u> | <u>17,231,302</u> |
| Less expenses included with revenues on the statement of activities | | | | | | | |
| Pharmacy cost of goods sold | - | - | (4,780,924) | (4,780,924) | - | - | (4,780,924) |
| Total reductions of revenues | <u>-</u> | <u>-</u> | <u>(4,780,924)</u> | <u>(4,780,924)</u> | <u>-</u> | <u>-</u> | <u>(4,780,924)</u> |
| Total expenses included in the expense section on the statement of activities | <u>\$ 9,399,019</u> | <u>\$ 75,431</u> | <u>\$ 1,005,241</u> | <u>\$ 10,479,691</u> | <u>\$ 1,448,558</u> | <u>\$ 522,129</u> | <u>\$ 12,450,378</u> |

Idaho State University Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---------------------------------------------------------------------------|--------------|--------------|
| Operating Activities | | |
| Change in net assets | \$ 1,393,408 | \$ 5,676,709 |
| Adjustments to reconcile change in net assets to net cash | | |
| From (used for) operating activities | | |
| Unrealized gain/(loss) on investments | 1,358,377 | (3,362,309) |
| Realized loss (gain) on sale of property held for sale and investments | - | 41,591 |
| Land and property donated to Idaho State University | 245,857 | - |
| Contributions restricted to endowment | (4,189,244) | (2,499,785) |
| Change in life insurance valuation | (22,354) | (16,880) |
| Change in value of split interest agreements | 87,759 | (76,437) |
| Depreciation and amortization expense | 30,848 | 76,787 |
| Changes in assets and liabilities | | |
| Promises to give | (1,450,086) | (29,070) |
| Life insurance cash surrender value | (6,859) | (4,345) |
| Inventory | 27,121 | 279,602 |
| Pharmacy receivables | (87,753) | (28,002) |
| Miscellaneous receivables | (22,371) | 38,500 |
| Prepaid expenses | 567 | 7,311 |
| Accounts payable | 27,020 | (536,375) |
| Scholarships and other payables to Idaho State University | 2,362,923 | (91,078) |
| Funds held in custody for others | 35,530 | (304,008) |
| Obligations to beneficiaries | 231,563 | 122,077 |
| Net Cash from (used for) Operating Activities | 22,306 | (705,712) |
| Investing Activities | | |
| Proceeds from sale of investments | 16,854,799 | 46,383,773 |
| Purchase of investments | (17,248,341) | (53,810,207) |
| Equipment purchases | (85,422) | (201,507) |
| Proceeds from sale of land | 325,000 | 555,000 |
| (Addition to) withdrawal from assets held under split-interest agreements | - | (5,000) |
| Net Cash from (used for) Investing Activities | (153,964) | (7,077,941) |

Idaho State University Foundation, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|----------------------------------------------------------------------|------------------|------------------|
| Financing Activities | | |
| Proceeds from contributions restricted to endowment | 4,189,244 | 2,499,786 |
| Donated securities | (1,456,249) | (573,566) |
| Payments to beneficiaries | (365,359) | (179,664) |
| Proceeds from debt refinancing | 3,500,000 | - |
| Payment on notes payable | (3,539,404) | (542,618) |
| | 2,328,232 | 1,203,938 |
| Net Cash from (used for) Financing Activities | | |
| Change in Cash and Cash Equivalents | 2,196,574 | (6,579,717) |
| Cash and Cash Equivalents, Beginning of Year | 2,170,296 | 8,750,013 |
| Cash and Cash Equivalents, End of Year | \$ 4,366,870 | \$ 2,170,296 |
| Supplemental Disclosures | | |
| Cash paid for interest | \$ 61,317 | \$ 156,117 |
| Cash paid for unrelated business income taxes | \$ 2,205 | \$ 1,745 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activity | | |
| Forgiveness of debt owed to Idaho State University | \$ 500,000 | \$ - |

Note 1 - Foundation Operations and Significant Accounting Policies

Organization

The Idaho State University Foundation, Inc. (the Foundation) and Subsidiary is the primary affiliated foundation supporting Idaho State University (the University). The Foundation was formed in March, 1967 as a not-for-profit corporation incorporated in accordance with the laws of the State of Idaho and is 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). Operating and services agreements between the Foundation and the University define the relationship between the two entities in accordance with the State Board of Education's rules.

The mission of the Foundation is to stimulate voluntary private support from alumni, parents, friends, corporations, foundations, and others for the benefit of the University and its students. The mission is accomplished by focusing on three primary service areas.

Academic, development and program support

The Foundation supports private individuals and organizations in contributing to the University programs and projects that are meaningful to the donor and important to the University. The Foundation provides assurance that contributions will be received, distributed and used in the manner donor intended. The donated resources provide additional opportunities for students and promote a degree of institutional excellence unavailable with state funding levels.

Endowment and private resource management

The Foundation manages the endowment and other privately donated funds received for the benefit of the University and its programs. Management of these resources includes selection of investment advisors, establishing investment targets and allocations, enhancing returns invested funds and managing cash flows to meet the spending needs of the University from endowment and other funds.

Pharmacy

The Foundation has a subsidiary corporation called Bengal Pharmacy, LLC (the Pharmacy). The Pharmacy was formed in 2014 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 ISU's rural health mission by operating tele-health pharmacy locations in Arco, Challis and Kendrick, Idaho, with the Kendrick location added in 2018.

During the fiscal year, the Pharmacy also provides pharmacy management services to an FQHC-owned pharmacy in Council, Idaho. Late in fiscal 2019 the FQHC-owned pharmacy in Council was able to take over management of its pharmacy. Going forward, the Pharmacy will provide pharmacist back-up services as requested by the FQHC.

Per the operating agreement, any distribution of income will be allocated and paid 25% to the Foundation and 75% to the ISU College of Pharmacy. There were no distributions for the years ended June 30, 2020 and 2019.

Principles of Consolidation

As the Foundation has both control over and an economic interest in the Pharmacy, the consolidated financial statements include the accounts of both the Foundation and 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.

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to endowments that are perpetual in nature or other long-term purposes are excluded from this definition. Cash and cash equivalents held by investment managers are considered investments as the funds have been designated by the Foundation for investment purposes.

Investments Held for Operations

The Foundation holds certain funds that are not intended for long-term investment as part of the endowment pool. These funds are expected to be called by the University or used for Foundation operations within a 3-year time frame, but could be called for at any time. The investment risk profile for these funds is intended to ensure the original value of the investments is maintained and the risk of loss is minimized.

Promises to Give

The Foundation records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At June 30, 2020 and 2019, the allowance was \$130,326 and \$112,133, respectively.

Pharmacy Receivables

Pharmacy receivables consist primarily of non-interest-bearing amounts due to the Pharmacy for prescriptions dispensed and delivered to patients. Management determines the allowance for uncollectable pharmacy receivables 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, 2020 and 2019, the allowance was \$23,642 and \$21,953, respectively.

Inventory

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.

Property and Equipment

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to be a result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2020 and 2019.

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.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the underlying assets for one location acquired by the Pharmacy.

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, 2020 and 2019, the carrying value of goodwill was not considered impaired.

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.

Assets Held and Liabilities 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.

Charitable Trusts

The Foundation acts as trustee for various irrevocable trusts. These trusts are governed by the respective trust agreements, which generally provide for a future distribution of cash or other assets upon the occurrence of a specific event. 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 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 contribution with donor restrictions until such amount is received via trust distribution or is expended in satisfaction of the donor-restricted purpose stipulated by the trust agreement, or both, if any. At that time, net assets with donor-imposed time or purpose restrictions are released to net assets without restrictions, and net assets with donor restrictions that are perpetual in nature 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.

Charitable Gift Annuities

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agree to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The 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 annuity liability is recorded as a contribution without donor restrictions. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

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.

Investments in equity and debt securities that have readily determinable fair values are recorded at quoted market prices. Investment securities without quoted market prices are valued at estimated fair value using appropriate valuation methods that consider the underlying assets and financial reports.

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.

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:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

The pharmacy recognizes prescription revenues when the prescription has been picked up by the customer. The Foundation recognizes contributions when cash, securities, or other assets; and unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Consequently, at June 30, 2020, contributions approximating \$4,533,622, have not been recognized in the accompanying consolidated statement of activities because the conditions on which they depend has not been met.

The Foundation has adopted Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605) as management believes the standard improves the usefulness and understandability of the Foundation's financial reporting. The Foundation implemented this standard under the modified prospective basis. As such there was no prior period effect related to the implementation of this standard.

Assessments

All endowment funds are charged an annual administrative fee of 1.5%. New gifts with donor-imposed restrictions are charged an administrative fee which varies with the size of the gift.

Donated Services and In-Kind Contributions

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.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses have been allocated to programs or functions when the expense was specifically for that program. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

Pharmacy expenses are specific to that program only, and have been included in functional expenses for that program accordingly.

Fundraising includes annual giving program expenses and other costs of fundraising such as transaction and administrative gift fees. The costs included in fundraising are specifically identifiable to that function.

Certain information technology expenses, including donor database expenses and amortization, are allocated according to the number of users in each program or function.

Income Taxes

Idaho State University Foundation, Inc. is organized as an Idaho nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Sections 509(a)(1). Bengal Pharmacy LLC is treated as a disregarded entity for income tax purposes, and accordingly, all income and expenses are reported through the Foundation. The Foundation is annually required

to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Foundation has 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 consolidated financial statements. The Foundation will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Estimates

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.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Foundation 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. 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.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position, comprise the following:

| | <u>Combined</u> |
|----------------------------------------------------------------|----------------------|
| Cash and cash equivalents | \$ 1,439,094 |
| Investments held for operations | 16,404,246 |
| Pharmacy receivables | 314,004 |
| Miscellaneous receivables | 60,871 |
| Distributions from assets held under split-interest agreements | 182,926 |
| Endowment spending rate distributions and appropriations | <u>2,817,828</u> |
| | <u>\$ 21,218,969</u> |

Endowment funds are donor-restricted and are not available for general expenditure. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use.

As part of a liquidity management plan, cash in excess of projected requirements is invested in short-term investments, CDs, and money market funds.

Note 3 - Fair Value of Assets and Liabilities

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 and other investments with readily determinable fair values based on daily redemption values. 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 interest 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, as a practical expedient to estimate the fair values of certain hedge funds, real asset 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.

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019:

| | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investments Measured at NAV | Total |
|---------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|-----------------------------------|----------------------|
| <u>June 30, 2020</u> | | | | | |
| Operating Investments | | | | | |
| Mutual funds | \$ 3,320,132 | \$ - | \$ - | \$ - | \$ 3,320,132 |
| Cash and money market funds | 2,488,262 | - | - | - | 2,488,262 |
| Bond funds | - | 10,595,852 | - | - | 10,595,852 |
| Assets held under split interest agreements | | | | | |
| Mutual funds | 2,554,100 | - | - | - | 2,554,100 |
| Co-mingled and pooled investment funds | | | | | |
| Cash and money market funds | 67,905 | - | - | - | 67,905 |
| Real estate funds | - | 117,709 | - | - | 117,709 |
| Bond funds | - | 10,171,727 | - | - | 10,171,727 |
| Equity funds | - | 33,184,820 | - | 8,747,734 | 41,932,554 |
| Real asset funds | - | 2,656,056 | - | 1,187,187 | 3,843,243 |
| | <u>\$ 8,430,399</u> | <u>\$ 56,726,164</u> | <u>\$ -</u> | <u>\$ 9,934,921</u> | <u>\$ 75,091,484</u> |

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

| | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investments Measured at NAV | Total |
|---------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|-----------------------------------|----------------------|
| <u>June 30, 2019</u> | | | | | |
| Operating Investments | | | | | |
| Mutual funds | \$ 2,824,050 | \$ - | \$ - | \$ - | \$ 2,824,050 |
| Cash and money market funds | 2,453,536 | - | - | - | 2,453,536 |
| Bond funds | - | 10,382,671 | - | - | 10,382,671 |
| Assets held under split interest agreements | | | | | |
| Mutual funds | 2,641,859 | - | - | - | 2,641,859 |
| Co-mingled and pooled investment funds | | | | | |
| Cash and money market funds | 425,528 | - | - | - | 425,528 |
| Real estate funds | - | 142,727 | - | - | 142,727 |
| Bond funds | - | 9,175,867 | - | - | 9,175,867 |
| Equity funds | - | 30,729,655 | - | 8,798,419 | 39,528,074 |
| Hedge funds | - | - | - | 2,056,649 | 2,056,649 |
| Real asset funds | - | 3,897,669 | - | 1,119,932 | 5,017,601 |
| | <u>\$ 8,344,973</u> | <u>\$ 54,328,589</u> | <u>\$ -</u> | <u>\$ 11,975,000</u> | <u>\$ 74,648,562</u> |

Investments in certain entities that calculate NAV per share are as follows at June 30, 2020 and 2019:

| | Fair Value | Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
|----------------------------------------|--------------|------------------------|-------------------------|-----------------------------|
| <u>2020</u> | | | | |
| Co-mingled and pooled investment funds | | | | |
| Equity Funds | \$ 8,747,734 | \$ - | Illiquid | none |
| Real asset funds | 1,187,187 | - | Illiquid | none |
| <u>2019</u> | | | | |
| Co-mingled and pooled investment funds | | | | |
| Hedge funds | \$ 2,056,649 | \$ - | Quarterly, limited | 65 days |
| Equity Funds | 8,798,419 | - | Illiquid | none |
| Real asset funds | 1,119,932 | - | Illiquid | none |

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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Equity Funds – Funds focused primarily on equities of publicly traded companies. These funds may include global equity funds, which invest all over the world, including investment in emerging markets; sector equity funds, which invest in individual areas of the economy such as technology firm or banks, and market capitalization equity funds, which generally limit investments to small-cap, mid-cap, and large-cap companies. These funds are used to promote growth in the value of the endowment portfolio.

Hedge Funds – The fund focuses 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. The various funds invest in natural resources commodities and commercial property opportunities.

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 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2020 and 2019:

| | 2020 | 2019 |
|---------------------------------------------------|--------------|--------------|
| Receivable in less than one year | \$ 754,686 | \$ 280,247 |
| Receivable in one to five years | 1,306,607 | 582,938 |
| Receivable in more than five years | 2,232,809 | 2,080,312 |
| | 4,294,102 | 2,943,497 |
| Less discount to present value (at 2.00% - 8.75%) | (557,812) | (697,840) |
| Less allowance for uncollectable promises to give | (130,326) | (112,133) |
| | \$ 3,605,964 | \$ 2,133,524 |

Note 5 - Property and Equipment

Property and equipment consisted of the following as of June 30, 2020 and 2019:

| | 2020 | 2019 |
|------------------------------------------------|------------|------------|
| Furniture and equipment | \$ 454,370 | \$ 449,900 |
| Construction in process | - | 201,507 |
| | 454,370 | 651,407 |
| Less accumulated depreciation and amortization | (308,940) | (314,694) |
| Total | \$ 145,430 | \$ 336,713 |

Note 6 - 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 \$2,554,100 and \$2,641,859 at market value at June 30, 2020 and 2019, 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, 2020 and 2019, are discounted to total \$969,469 and \$1,103,265 respectively. The discount rates used range between 1.86% and 5.09% for the years ending June 30, 2020 and 2019. 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 7 - Long-Term Debt

Notes Payable - Foundation

During the year ended June 30, 2020, the Foundation entered into an agreement with the University in order to refinance its note payable to the bank in the amount of \$3,500,000. The agreement with the University is secured by conditional pledges for the Stephens Performing Arts Center (SPAC). As the pledges mature, the Foundation will remit the proceeds to the University. The agreement does not carry a stated interest rate. However, interest imputed at the University's bond rate of 4.00% is recognized as both contribution revenue without donor restrictions and interest expense. For the year ended June 30, 2020, the amount of imputed interest was \$86,667.

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

In a subsequent written agreement with the Foundation and University, a donor holding a SPAC pledge amended the pledge agreement to redistribute a portion of the pledge to scholarship endowment funds. As a result of the subsequent agreement, the Foundation recognized contributed revenue and a decrease in its payable to the University in the amount of \$500,000.

Notes payable for the Foundation consist of the following:

| | 2020 | 2019 |
|---------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| 3.7% note payable to bank, due in annual installments of \$500,000 with interest due quarterly, maturing December 2024, secured | \$ - | \$ 3,500,000 |
| Interest-free payable to Idaho State University, without specified payment terms, secured | 3,000,000 | - |
| | \$ 3,000,000 | \$ 3,500,000 |

Total interest expense during 2020 and 2019 was \$135,949 and \$139,315, respectively.

Notes Payable - Pharmacy

Notes payable for the Pharmacy consist of the following:

| | 2020 | 2019 |
|-------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| 6% note payable to private lender, due in monthly installments of \$3,053, including interest, maturing May 2024, unsecured | \$ 127,597 | \$ 155,658 |
| 6% note payable to private lender, due in monthly installments of \$1,450, including interest, maturing March 2020, unsecured | - | 11,343 |
| | \$ 127,597 | \$ 167,001 |

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Total interest expense and fees during 2020 and 2019, were \$12,034 and \$16,802, respectively..

Future maturities of the notes payable are as follows:

| | Foundation | Pharmacy | Total |
|------|------------|------------|------------|
| 2021 | \$ - | \$ 29,791 | \$ 29,791 |
| 2022 | - | 31,629 | 31,629 |
| 2023 | - | 33,579 | 33,579 |
| 2024 | - | 32,598 | 32,598 |
| | \$ - | \$ 127,597 | \$ 127,597 |

The Pharmacy has two notes payable with the Foundation totaling \$32,920 at year end. One loan for \$75,000 was issued with payments commencing in April 2016 and continuing to maturity in May of 2021. The note is unsecured and bears interest at 6%. In the event of default, the note will bear interest at 18%. The second note for \$100,000 was issued with payments commencing in April 2016 and continuing to maturity in May 2021. The note is unsecured and bears interest at 6%. In the event of a default, the note will bear interest at 18%. These notes have been eliminated in the consolidated financial statements.

Note 8 - Donated Materials and Services

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

| | Management and General |
|------------------------|---------------------------|
| 2020 | |
| Salaries and benefits | \$ 380,538 |
| Materials and supplies | 11,079 |
| Office space | 9,984 |
| | \$ 401,601 |
| 2019 | |
| Salaries and benefits | \$ 303,165 |
| Materials and supplies | 28,626 |
| Office space | 10,400 |
| | \$ 342,191 |

Note 9 - 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 donor 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. At June 30, 2020 and 2019, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of the gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the endowment. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by IPMIFA.

In accordance with IPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund or endowment
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

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

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or IPMIFA requires the Foundation to maintain as a fund of perpetual duration. Deficiencies have been reported in unrestricted net assets totaling \$2,289,594 and \$987,377 as of June 30, 2020 and 2019, 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.

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 spending 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 went into effect July 1, 2018.

The endowment fund net asset composition is as follows:

| At June 30, 2020 | Without Donor Restrictions | With Donor Restrictions | Total |
|-------------------------------------|-------------------------------|----------------------------|---------------|
| Donor restricted endowment funds | \$ - | \$ 58,999,191 | \$ 58,999,191 |
| At June 30, 2019 | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor restricted endowment funds | \$ - | \$ 59,074,509 | \$ 59,074,509 |

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Changes in endowment net assets are as follows:

| | June 30, 2020 | | |
|-------------------------------------------------------|-------------------------------|----------------------------|---------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment Assets, Beginning of Year July 1, 2019 | \$ - | \$ 59,074,509 | \$ 59,074,509 |
| Investment return | | | |
| Investment income | - | 2,205,544 | 2,205,544 |
| Net realized and unrealized appreciation | - | (3,892,444) | (3,892,444) |
| Contributions | - | 4,136,615 | 4,136,615 |
| Appropriation of endowment assets for expenditures | - | (2,525,033) | (2,525,033) |
| | - | (2,525,033) | (2,525,033) |
| Endowment Assets, End of Year June 30, 2020 | \$ - | \$ 58,999,191 | \$ 58,999,191 |
| | | | |
| | June 30, 2019 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment Assets, Beginning of Year July 1, 2018 | \$ - | \$ 57,584,648 | \$ 57,584,648 |
| Investment return | | | |
| Investment income | - | 371,533 | 371,533 |
| Net realized and unrealized appreciation | - | 1,841,425 | 1,841,425 |
| Contributions | - | 2,531,054 | 2,531,054 |
| Appropriation of endowment assets for expenditures | - | (1,853,039) | (1,853,039) |
| Other changes | - | (1,401,112) | (1,401,112) |
| | - | (1,401,112) | (1,401,112) |
| Endowment Assets, End of Year June 30, 2019 | \$ - | \$ 59,074,509 | \$ 59,074,509 |

Note 10 - Related Party Transactions

The Foundation is the primary affiliated foundation for the University, The Foundation provides support to the University from resources both with and without donor restrictions. Support from donor restricted resources includes academic and athletic scholarships to students attending the University and various types of departmental support, in accordance with the terms of the gifts generating the resources. The Foundation also provides support from resources without donor restrictions for University advancement efforts.

During the year ended June 30, 2020, the Foundation entered into an agreement with the University to refinance the existing long-term debt on the SPAC, as discussed in Note 7. Under the terms of that agreement, the Foundation made a \$500,000 contribution to a capital project undertaken by the University.

Several members of the Board of Directors have made promises to give to the Foundation. For the years ended June 30, 2020 and 2019, the balances outstanding on those promises to give were approximately \$1,198,000 and \$1,360,031, 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 of funds held in custody for others. Funds held for others totaled \$1,024,539 and \$949,742 as of June 30, 2020 and 2019, respectively. Interest and fees on investments are allocated accordingly to the respective investments.

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Note 11 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

| | 2020 | 2019 |
|-------------------------------------------------------------------------------------------------|---------------|---------------|
| Subject to expenditure for specified purpose: | | |
| Academic Support | \$ 3,684,144 | \$ 3,142,082 |
| Institutional Support | 10,051,396 | 9,987,220 |
| Scholarships | 1,952,363 | 2,120,271 |
| | 15,687,903 | 15,249,573 |
| Endowments | | |
| Subject to appropriation and expenditure for a specified purpose | | |
| Academic Support | 5,543,775 | 6,423,272 |
| Institutional Support | 1,168,978 | 840,226 |
| Scholarships | 2,588,796 | 6,261,123 |
| | 9,301,549 | 13,524,621 |
| Perpetual in nature, earnings from which are subject to endowment spending policy appropriation | | |
| Academic Support | 9,292,202 | 8,204,990 |
| Institutional Support | 3,054,164 | 1,996,194 |
| Scholarships | 39,640,870 | 36,336,082 |
| Underwater endowments | (2,289,594) | (987,378) |
| | 49,697,642 | 45,549,888 |
| Total endowments | 58,999,191 | 59,074,509 |
| | \$ 74,687,094 | \$ 74,324,082 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2020 and 2019:

| | 2020 | 2019 |
|-----------------------------------------------------------------|--------------|--------------|
| Net assets released from restrictions | | |
| Satisfactions of purpose restrictions: | | |
| Academic Support | \$ 1,176,349 | \$ 1,645,996 |
| Institutional Support | 1,844,336 | 4,780,534 |
| Scholarships | 2,777,045 | 2,040,628 |
| Restricted-purpose spending-rate distributions and appropriates | 909,745 | 1,006,394 |
| | \$ 6,707,475 | \$ 9,473,552 |

Note 12 - Retail Pharmacy Operation

Supplementary information for the Pharmacy includes the following:

Balance Sheets

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------|---------------------|---------------------|
| Assets | | |
| Cash | \$ 234,359 | \$ 253,973 |
| Pharmacy receivables, net | 314,004 | 226,251 |
| Inventory | 378,133 | 405,254 |
| Prepaid expenses | 32,272 | 12,832 |
| Property and equipment, net | 145,430 | 135,206 |
| Goodwill | 199,241 | 199,241 |
| | <u>1,303,439</u> | <u>1,232,757</u> |
| Total assets | <u>\$ 1,303,439</u> | <u>\$ 1,232,757</u> |
| Liability and Member's Equity | | |
| Accounts payable | \$ 335,562 | \$ 280,755 |
| Long-term debt | 160,517 | 237,318 |
| | <u>496,079</u> | <u>518,073</u> |
| Total liabilities | <u>496,079</u> | <u>518,073</u> |
| Member's Equity | | |
| Investment from ISUF (Wallace Fund) | 1,092,054 | 1,092,054 |
| Accumulated earnings | (284,694) | (377,370) |
| | <u>807,360</u> | <u>714,684</u> |
| Total member's equity | <u>807,360</u> | <u>714,684</u> |
| | <u>\$ 1,303,439</u> | <u>\$ 1,232,757</u> |

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Statements of Operations

| | 2020 | 2019 |
|----------------------------------------------|--------------|--------------|
| Pharmacy sales | \$ 6,198,121 | \$ 5,597,002 |
| Cost of sales | (5,195,063) | (4,780,924) |
| Gross profit | 1,003,058 | 816,078 |
| Expenses | | |
| Payroll | (459,469) | (598,221) |
| Operations | (450,913) | (407,020) |
| Total expenses | (910,382) | (1,005,241) |
| Income (loss) from retail pharmacy operation | \$ 92,676 | \$ (189,163) |

Statements of Cash Flows

| | 2020 | 2019 |
|------------------------------------------------------------------------------------------------------|------------|--------------|
| Operating Activities | | |
| Income (loss) from pharmacy operation | \$ 92,676 | \$ (189,163) |
| Adjustments to reconcile loss in pharmacy operation to net cash from (used for) operating activities | | |
| Depreciation | 30,848 | 32,274 |
| Changes in assets and liabilities | | |
| Pharmacy receivables, net | (87,753) | (28,002) |
| Inventory | 27,121 | 279,602 |
| Prepaid expenses | (19,440) | 12,055 |
| Accounts payable and accrued liabilities | 54,807 | (532,915) |
| Net cash from (used for) Operating Activities | 98,259 | (426,149) |
| Investing Activities | | |
| Purchase of equipment | (41,072) | - |
| Net cash from (used for) Financing Activities | (41,072) | - |
| Financing Activities | | |
| Proceeds from ISUF (Wallace Fund) | - | 344,554 |
| Payment on notes payable | (76,801) | (77,842) |
| Net cash from (used for) Financing Activities | (76,801) | 266,712 |
| Change in Cash | (19,614) | (159,437) |
| Cash , Beginning of Year | 253,973 | 413,410 |
| Cash , End of Year | \$ 234,359 | \$ 253,973 |

Idaho State University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

The following percentages reflect the concentration of gross revenues by major payor for the pharmacy's revenues for the years ended June 30, 2020 and 2019.

Concentration of gross revenues by major payor:

| | 2020 | 2019 |
|----------------------------------------|---------|---------|
| Blue Cross and Other Commercial Payors | 46.96% | 53.69% |
| Medicare Part D | 12.11% | 19.86% |
| Medicaid | 35.73% | 20.36% |
| Self Pay | 5.20% | 6.09% |
| | 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, 2020 and 2019:

| | 2020 | 2019 |
|----------------------------------------|---------|---------|
| Blue Cross and Other Commercial Payors | 52.45% | 75.00% |
| Medicare Part D | 7.20% | 14.75% |
| Medicaid | 38.68% | 10.25% |
| Self Pay | 1.67% | 0.00% |
| | 100.00% | 100.00% |

Note 13 - Subsequent Events

Economic Conditions

The Foundation's revenue consists of contributions, pharmacy sales, and investment income. Its ability to support its operations is significantly dependent on the receipt of this income. The continued decline in economic activity resulting from the COVID-19 pandemic may have a significant impact on the Foundation's receipt of contributions.

The Foundation has evaluated subsequent events through September 11, 2020, the date the consolidated financial statements were available to be issued.