Financial Statements
June 30, 2012 and 2011

Idaho State University Foundation, Inc.

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Independent Auditor's Report

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

We have audited the accompanying statements of financial position of Idaho State University Foundation, Inc. (the Foundation), as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Idaho State University Foundation, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Boise, Idaho
September 14, 2012

	2012	2011
Assets		
Cash and cash equivalents	$ 1,335,356	$ 2,419,802
Cash and cash equivalents-restricted	729,453	851,039
Investments	40,583,656	41,051,000
Promises to give, net	5,008,945	3,233,981
Life insurance cash surrender value	69,298	44,219
Miscellaneous receivables	20,187	20,001
Capitalized bond issuance costs, net	145,303	165,154
Property held for sale and investments	1,541,502	1,697,327
	$ 49,433,700	$ 49,482,523
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 32,284	$ 58,904
Scholarships and other payables to Idaho State University	320,200	785,724
Obligations to beneficiaries under split-interest agreements	683,972	710,014
Funds held in custody for others	59,055	49,310
Long-term debt	5,900,000	6,000,000
Total liabilities	6,995,511	7,603,952
Net Assets		
Unrestricted	(5,302,030)	(4,793,872)
Temporarily restricted	16,040,654	16,622,396
Permanently restricted	31,699,565	30,050,047
Total net assets	42,438,189	41,878,571
	$ 49,433,700	$ 49,482,523

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions and gifts	$ 2,686,382	$ 2,786,383	$ 1,686,944	$ 7,159,709
Property contributions	-	107,000	-	107,000
Contributed services	702,555	-	-	702,555
Interest and dividends	289,721	387,437	-	677,158
Net realized/unrealized gain (loss) on investments	742,112	(2,242,526)	-	(1,500,414)
Fees, charges, and miscellaneous	660,812	-	-	660,812
Net change in value of annuity and life insurance	-	(45,627)	5,975	(39,652)
Total revenues and gains	5,081,582	992,667	1,692,919	7,767,168
Donor designated transfers	20,685	22,716	(43,401)	-
Net assets released from program restrictions	1,597,125	(1,597,125)	-	-
Total revenues	6,699,392	(581,742)	1,649,518	7,767,168
Expenses				
Program support to Idaho State University				
Donations/transfers	2,471,149	-	-	2,471,149
Scholarships	1,033,312	-	-	1,033,312
Athletic	206,432	-	-	206,432
Department support	1,636,399	-	-	1,636,399
Support services				
Management and general	390,538	-	-	390,538
Fundraising	1,469,720	-	-	1,469,720
Total expenses	7,207,550	-	-	7,207,550
Change in Net Assets	(508,158)	(581,742)	1,649,518	559,618
Net Assets, Beginning of Year	(4,793,872)	16,622,396	30,050,047	41,878,571
Net Assets, End of Year	$ (5,302,030)	$ 16,040,654	$ 31,699,565	$ 42,438,189

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions and gifts	$ 2,861,739	$ 2,444,905	$ 2,047,129	$ 7,353,773
Contributed services	745,262	-	-	745,262
Interest and dividends	252,304	391,828	-	644,132
Net realized/unrealized gain on investments	1,046,043	4,891,465	-	5,937,508
Fees, charges, and miscellaneous	670,103	9,176	-	679,279
Net change in value of annuity and life insurance	-	893,447	43,835	937,282
Total revenues and gains	5,575,451	8,630,821	2,090,964	16,297,236
Donor designated transfers	(4,067)	(6,712)	10,779	-
Net assets released from program restrictions	8,128,797	(8,128,797)	-	-
Total revenues	13,700,181	495,312	2,101,743	16,297,236
Expenses				
Program support to Idaho State University				
Donations/transfers	2,764,353	-	-	2,764,353
Scholarships	1,041,106	-	-	1,041,106
Athletic	317,685	-	-	317,685
Department support	1,644,096	-	-	1,644,096
Support services				
Management and general	468,819	-	-	468,819
Fundraising	1,990,935	-	-	1,990,935
Total expenses	8,226,994	-	-	8,226,994
Change in Net Assets	5,473,187	495,312	2,101,743	8,070,242
Net Assets, Beginning of Year	(10,267,059)	16,127,084	27,948,304	33,808,329
Net Assets, End of Year	$ (4,793,872)	$ 16,622,396	$ 30,050,047	$ 41,878,571

	2012	2011
Operating Activities		
Change in net assets	$ 559,618	$ 8,070,242
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized (gain) loss on investments	1,279,839	(5,133,360)
Realized gain on investments	-	(92,822)
Realized gain on sale of property held for sale and investments	(484,216)	(711,325)
Donated assets held for sale	(107,000)	(100,954)
Contributions restricted to endowment	(1,686,944)	(2,047,129)
Change in value of split interest agreements	107,165	(909,537)
Other	4,508	4,020
Amortization expense	19,851	23,791
Changes in assets and liabilities		
Obligations to beneficiaries	26,042	506,688
Payments to beneficiaries	(100,616)	(136,263)
Promises to give	(851,771)	141,726
Cash surrender value	(25,079)	(4,157)
Miscellaneous receivable	(186)	20,508
Accounts payable	(26,620)	951
Scholarships and other payables to Idaho State University	(465,524)	(1,294)
Funds held for others	9,746	7,237
Net Cash from (used for) Operating Activities	(1,741,187)	(361,678)
Investing Activities		
Proceeds from sale of investments	124,362	3,033,000
Restricted cash	121,586	(115,673)
Purchase of investments	(1,000,000)	(703,290)
Proceeds from sale of land	747,042	1,138,270
Net Cash from (used for) Investing Activities	(7,010)	3,352,307
Financing Activities		
Proceeds from contributions restricted to endowment	763,751	2,047,129
Payment on bonds payable	(100,000)	(3,260,000)
Net Cash used for Financing Activities	663,751	(1,212,871)
Change in Cash and Cash Equivalents	(1,084,446)	1,777,758
Cash and Cash Equivalents, Beginning of Year	2,419,802	642,044
Cash and Cash Equivalents, End of Year	$ 1,335,356	$ 2,419,802
Supplemental Disclosures		
Cash paid for interest	$ 7,812	$ 20,301

Note 1 - Foundation Operations and Significant Accounting Policies

Foundation Operations

The Idaho State University Foundation, Inc. (the Foundation) 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 to the State Board of Education's rules.

Basis of Accounting

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

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

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

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates used in the financial statements relate to the present value of the pledges receivable, the obligations under the split interest agreements, and the non-readily available fair market value of certain level 3 investments.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all cash on deposit in demand savings and time deposits with an original maturity date of three months or less to be cash equivalents. Cash and cash equivalents held by investment managers are considered investments as the funds have been designated by the Foundation for investment purposes. Cash deposits at times during the years ended June 30, 2012 and 2011 exceeded FDIC insured limits.

Cash Held for Bond Requirements

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

Investments

Investments in equity and debt securities that have readily determinable fair values are recorded at quoted market prices as reported by the Investment Managers/Custodians. 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 change in fair value of the investments is reflected in the accompanying statements of activities.

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

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. Furthermore, the Board and the Investment Committee acknowledge and understand their fiduciary roles and will always seek to act prudently in the best interests of the Foundation.

Concentration of Credit Risk

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

Assessments

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

Pledges Receivable

Unconditional promises to give (pledges) are recognized as an asset and contribution revenue in the period the promise is received. Fair values of new pledges 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. New pledges during the year ended June 30, 2012 and 2011 were discounted to fair value when the pledge was made and are not re-valued during the life of the pledge. As of June 30, 2012 and 2011, the fair values of the pledges received during each year were $1,740,559 and $44,458, respectively.

The allowance for doubtful accounts for all receivables represents the Foundation's best estimate of the amount of probable credit losses in the Foundation's existing pledge receivable. 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.

Contributions

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

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 resides in the Idaho State University's administration building. The space is donated by Idaho State University as are the employee's services that are used to run the Foundation. These items represent in-kind donations that are recognized as revenues with a corresponding expense.

Property and Equipment

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

Obligations Under Split Interest Agreements

The Foundation administers such life income agreements as charitable remainder trusts where an income beneficiary is the lifetime recipient of income and the Foundation is the remainder beneficiary. Upon receipt of the gift, a liability is established for the estimated net present value of the lifetime recipient's interest using applicable mortality tables and a risk-adjusted discount rates designed to reflect the assumptions market participants would make in pricing the liability. A contribution is recognized for the estimated remainder interest.

Land Held for Sale and Investment

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

Income Taxes

The Foundation is a not-for-profit entity exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a public charity under Section 509(a)(1).

As of June 30, 2012 and 2011, the Foundation had no unrecognized tax benefit accrual.

The Foundation will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. The Foundation is no longer subject to Federal and state tax examinations by tax authorities for years filed before 2009.

Fair Value Measurements

The Foundation has determined the fair value of certain assets and liabilities in accordance with the provisions of *Fair Value Measurements and Disclosures*, Topic of Financial Accounting Standards Board's Accounting Standards Codification (Codification) which provides a framework for measuring fair value under generally accepted accounting principles.

The Codification defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Codification requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

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

Endowment

The Foundation's endowment consists of approximately 500 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors, are classified and reported based upon the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Idaho Prudent Management of Institutional Funds Act (IPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily 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. The corpus balance of the endowment was $31,726,688 and $30,050,047 as of June 30, 2012 and 2011, respectively. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were $2,837,754 and $1,553,541 as of June 30, 2012 and 2011, 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. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide both a reasonably predicted income stream and principle appreciation that exceeds inflation. The Foundation expects its endowment funds, over time, to provide an average minimum rate of return equal to the annual change in the United States Consumer Price Index plus the 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 the prudent risk constraints.

The Foundation has a policy of appropriating for annual distribution 4.5% of its endowment fund’s average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distributions endowment to grow at an average rate at least equal to the change in the Consumer Price Index annually. This is are planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its 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.

Advertising Costs

Advertising costs are expensed as incurred and were $698 and $2,119 for the years ended June 30, 2012 and 2011, respectively.

Subsequent Events

The Foundation has evaluated subsequent events through September 14, 2012, the date which the financial statements were issued. Other than the volatility in the markets, no subsequent events were noted.

Note 2 - Fair Value of Assets and Liabilities

Assets and liabilities measured at fair value on a recurring basis at June 30, 2012 and 2011:

	2012	2011
Investment securities		
Mutual funds	$ 2,191,983	$ 2,203,603
Co-mingled and pooled marketable investment funds	34,586,972	36,731,751
Common stock	76,076	-
Hedge funds	3,728,625	2,115,646
Total assets	$ 40,583,656	$ 41,051,000

Assets and liabilities measured at fair value on a recurring basis at June 30, 2012 and 2011:

	2012	2011
Promises to give	$ 1,729,004	$ 44,458
Property held for sale and investments	107,000	125,000
Total assets	$ 1,836,004	$ 169,458

The related fair value of those assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual funds				
Index fund	$ 2,191,983	$ -	$ -	$ 2,191,983
Co-mingled and pooled marketable investment funds				
Real estate funds	-	145,898	-	145,898
Bond funds	-	10,041,327	-	10,041,327
Equity funds	-	15,382,016	-	15,382,016
Money market funds	-	193,706	-	193,706
Hedge funds	-	5,648,741	-	5,648,741
Real asset funds	-	3,175,284	-	3,175,284
Commong stock	-	-	76,076	76,076
Hedge funds	-	-	3,728,625	3,728,625
	$ 2,191,983	$ 34,586,972	$ 3,804,701	$ 40,583,656

The related fair values of those assets and liabilities measured at fair value on a nonrecurring basis as of June 30, 2012 are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Property held for sale and investments	$ -	$ -	$ 107,000	$ 107,000
Promises to give	-	-	1,729,004	1,729,004
	$ -	$ -	$ 1,836,004	$ 1,836,004

The related fair value of these assets and liabilities on a recurring basis as of June 30, 2011 are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual funds				
Index fund	$ 2,079,143	$ -	$ -	$ 2,079,143
Money market fund	124,460	-	-	124,460
Co-mingled and pooled marketable investment funds				
Real estate funds	-	139,991	-	139,991
Bond funds	-	7,375,022	-	7,375,022
Equity funds	-	18,619,417	-	18,619,417
Money market funds	-	176,383	-	176,383
Hedge funds	-	6,838,432	-	6,838,432
Real asset funds	-	3,582,506	-	3,582,506
Hedge funds	-	-	2,115,646	2,115,646
	$ 2,203,603	$ 36,731,751	$ 2,115,646	$ 41,051,000

The related fair value of these assets and liabilities on a nonrecurring basis as of June 30, 2011 are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Property held for sale and investments	$ -	$ -	$ 125,000	$ 125,000
Promises to give	-	-	44,458	44,458
	$ -	$ -	$ 169,458	$ 169,458

The fair value for mutual fund investments is determined based on quoted market prices. For fixed income investments, fair value is determined based on the value of the underlying investments. For co-mingled and pooled marketable investment funds, fair value is obtained by using the net asset value of the underlying investments. At this level, the underlying assets have a direct market reference price that is traceable. For the hedge funds, fair value is determined with independent, third party valuations occurring monthly to every six months depending upon the investment type. Property held for sale and investments are valued based on property sold that had a similar use, size and location as the property held by the Foundation. Pledges receivable value is determined at the present value of expected future cash flows and are fair valued at the time of gift. In subsequent years, it is amortized over the life of the pledge.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011:

	2012 Hedge Funds	2011 Hedge Funds
Beginning balance	$ 2,115,646	$ 1,462,350
Total unrealized gains and losses included in earnings (or changes in net assets)	258,719	109,283
Calls	1,354,260	544,013
Ending balance	$ 3,728,625	$ 2,115,646
The amount of total gains or losses included in changes in net assets that are attributable to the change in unrealized gains and losses relating to the assets held at the reporting date.	$ 258,719	$ 109,283

2012	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Co-mingled and pooled marketable investment funds	$ 34,441,074	$ -	120 days	95 days
Hedge funds	$ 3,723,486	$ 2,708,812	Annually	120 days

2011	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Co-mingled and pooled marketable investment funds	$ 36,591,768	$ -	120 days	95 days
Hedge funds	$ 2,115,646	$ 2,794,055	Annually	120 days

Interests in the fund with respect to longer-term investments are not redeemable by the investor until the corresponding longer-term investments are realized.

Note 3 - Promises to Give

Promises to give receivable are unconditional promises to give, to be received by the Foundation in future years. These receivables are reflected at the present value of estimated future cash flows using a risk-adjusted discount rate designed to reflect the assumptions market participants would make in pricing the promise to give. The rates used ranged from 4% to 6.2% as of June 30, 2012 and 2011. $1,551,258 of the promises to give as of June 30, 2012 are restricted for repayment of the multi-mode variable rate revenue bonds. Receivable maturities as of June 30, 2012 are:

Receivable in less than one year	$ 657,247
Receivable in one to five years	859,478
Receivable in more than five years	6,602,162
	8,118,887
Less discount to present value	(2,707,492)
Less allowance for uncollectable promises to give	(402,450)
	$ 5,008,945

Note 4 - 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 statements of financial position. Trust assets are recorded as fair market value and a liability is recorded for the present value of estimated distributions to the beneficiaries. The liability is calculated using the life expectancy tables published by the Internal Revenue Service and discounted to present value using risk-adjusted discount rates designed to reflect the assumptions market participants would make in pricing the liability. Assets held in the charitable remainder trusts totaled $1,368,644 and $1,401,236 at market value at June 30, 2012 and 2011, respectively, and are included in investments in the accompanying statements of financial position. The benefit obligation payments for the charitable remainder annuity trusts at June 30, 2012 and 2011 are discounted to total $683,972 and $710,014, respectively. The discount rates used range between 4.03% and 5.09% for the years ending June 30, 2012 and 2011. 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 statements of activities in temporarily restricted net assets.

Note 5 - Multi-Mode Variable Rate Revenue Bonds

A Multi-Mode Variable Rate Revenue Bond for the construction, furnishing, equipping and improving certain real and personal property comprising the L.E. and Thelma Stephens Performing Arts Center was issued on May 30, 2001 in the amount of $22,170,000. The Bonds fully mature on May 1, 2021 and are secured by donations, pledges and other funds held under the Bond Indenture. Debt balance at June 30, 2012 and 2011 was $5,900,000 and $6,000,000, respectively. Interest payments are made monthly with a mandatory bond redemption of $100,000 due annually at May 1st. Total interest expense and fees during 2012 and 2011 were $91,425 and $135,080, respectively. In April 2011, a principle payment of $3,260,000 was made from cash reserves.

For the period from and including the date of the issuance and delivery of the Bonds, the Bonds will bear interest at interest rates determined for the Weekly Rate until converted to another permitted interest rate. The Interest Rate Mode for the Bonds may be changed from time to time and from the Weekly Rate, the Semi-Annual Rate, and the Long-Term Rate. Each interest rate for an Interest Rate Mode for the Bonds will be determined by the Remarketing Agent, initially Wells Fargo Brokerage Services, LLC. The interest rate at June 30, 2012 and 2011 was .18% and .08%, respectively. The bonds are also secured by a direct pay letter of credit issued by Wells Fargo in the amount of $5,972,740. On an annual basis, the letter of credit is renewed for a fee of 1.5% of the current debt balance at the time of the renewal.

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

2013	$ 100,000
2014	100,000
2015	100,000
2016	475,000
2017	475,000
Thereafter	4,650,000
	$ 5,900,000

Note 6 - Capitalized Bond Issuance Costs

Capitalized bond issuance costs consist of legal costs, underwriting fees, printing and other costs incurred to obtain, secure and rate the multi-mode variable rate revenue Bonds issued for the construction of the L.E. and Thelma Stephens Performing Arts Center on May 30, 2001. The issuance costs for the multi-mode variable rate bonds have an original cost of $570,000 at May 30, 2001 and are amortized over the term of the bonds using the effective interest rate method. Accumulated amortization of these bond costs at the end of June 30, 2012 and 2011 was $424,697 and $404,846, respectively.

Note 7 - Net Assets

Temporarily Restricted Net Assets

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. Temporarily restricted net assets that are available for specific program services totaled $16,040,654 and $16,622,396 at June 30, 2012 and 2011, respectively.

Permanently Restricted for Endowment

At June 30, 2012 and 2011, the Foundation held $31,699,565 and $30,050,047, respectively, in true endowment funds. The investment income earned on these permanently restricted net assets is generally restricted as to purpose and is recorded as temporarily restricted net assets.

Negative Unrestricted Net Assets

At June 30, 2012 and 2011, the Foundation had negative unrestricted assets of $5,302,030 and $4,793,872, respectively. These unrestricted net assets are negative primarily due to the Foundation gifting the Performing Arts Center to Idaho State University while still holding bond debt to fund the construction. The bond debt is collateralized by the pledges receivable.

Note 8 - Donated Materials and Services

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

	2012	2011
Support Services - Fundraising		
Salaries and benefits	$ 591,790	$ 619,545
Materials and supplies	73,333	88,285
Office space	37,432	37,432
	$ 702,555	$ 745,262

Note 9 - Endowment Funds

The endowment fund net asset composition is as follows:

At June 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (2,837,754)	$ 10,473,241	$ 31,699,565	$ 39,335,052
	$ (2,837,754)	$ 10,473,241	$ 31,699,565	$ 39,335,052

At June 30, 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (1,553,541)	$ 12,500,181	$ 30,050,047	$ 40,996,687
	$ (1,553,541)	$ 12,500,181	$ 30,050,047	$ 40,996,687

Changes in endowment net assets are as follows:

	June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Assets, Beginning of Year July 1, 2011	$ (1,553,541)	$ 12,500,181	$ 30,050,047	$ 40,996,687
Investment return				
Investment income	-	387,347	-	387,347
Net realized and unrealized appreciation	(1,284,213)	(958,313)	-	(2,242,526)
Contributions	-	-	1,686,944	1,686,944
Appropriation of endowment assets for expenditures	-	(1,455,974)	-	(1,455,974)
Other changes	-	-	(37,426)	(37,426)
Endowment Assets, End of Year June 30, 2012	$ (2,837,754)	$ 10,473,241	$ 31,699,565	$ 39,335,052

	June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Assets, Beginning of Year July 1, 2010	$ (2,755,459)	$ 9,755,382	$ 27,948,304	$ 34,948,227
Investment return				
Investment income	-	390,993	-	390,993
Net realized and unrealized appreciation	1,201,918	3,847,870	-	5,049,788
Contributions	-	-	2,047,129	2,047,129
Appropriation of endowment assets for expenditures	-	(1,494,064)	-	(1,494,064)
Other changes	-	-	54,614	54,614
Endowment Assets, End of Year June 30, 2011	$ (1,553,541)	$ 12,500,181	$ 30,050,047	$ 40,996,687

The components of endowment funds classified as temporarily and permanently restricted net assets as of June 30, 2012 and 2011, respectively, are as follows:

	2012	2011
Temporarily restricted net assets		
The portion of funds subject to time or purpose restrictions	$ 10,473,241	$ 12,500,181
Permanently restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by interpretation of the board of directors	$ 31,699,565	$ 30,050,047

Note 10 - 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, 2012 and 2011, the balances outstanding on those promises to give were approximately $2,594,496 and $1,772,670, respectively.

Pullen-Grey Foundation and the Bengal Foundation, transferred certain assets to the Foundation for investment and management, which are included in the amount in funds held in custody of others. Funds held for others totaled $59,055 and $49,310 as of June 30, 2012 and 2011, respectively. Interest and fees on investments are allocated accordingly to the respective investments.

Supplementary Information
June 30, 2012 and 2011

Idaho State University Foundation, Inc.

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

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

Our report on the audit of the financial statements of the Idaho State University Foundation, Inc. for the year June 30, 2012, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on the following pages is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Foundation's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Boise, Idaho
September 14, 2012

Additional Information on Deposits & Investments

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

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

Deposits

The Foundation maintains an Escrow/Reserve account for the Performing Arts Center. This account is invested in a Money Market Mutual Fund. It is not FDIC insured and may lose value. The June 30, 2012 and 2011 balances were $729,453 and $851,039, respectively. The Foundation's investment policy does not address custodial credit risk, as defined by GASB.

Investments

The role of the Investment Committee is also to monitor and review the actions of the investment manager(s) and custodian(s), make recommendations on investment policy, and oversee the management of all other assets of the Foundation. The Investment Committee reports regularly to the Board of Directors.

The overall investment policy is to maximize the return on investments within an acceptable range of risks. Appropriate levels of investment risk will be determined by guidelines and influenced by spending rules. The principal of the endowment should be protected over time with a spending rule set to maintain the purchasing power of returns from the assets.

At June 30, 2012 the distribution of investments was:

Investment Type	Portfolio	Benchmark	Amount	
Fixed Income	Inter & Domestic Fixed Inc. Mutual Funds	Barclay US Bond Index	$ 9,519,262	
	Total Fixed Income		9,519,262	23%
Equity	US & Inter Equities	S&P 500, Russell 3000	12,818,300	
	International Equities	MSCI World/Emerging Mrkt	4,755,648	
	Domestic/International Hedged Equities	3 Mo. T-bill + 400BP	5,648,739	
			23,222,687	57%
Commodities	Commodity Assets	DJ UBS Commodity Index	3,891,104	10%
Non-Marketable Assets	Various Private Realty, Distressed and Private Capital Investments		3,950,603	10%
		Total Investments	$ 40,583,656	

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

Credit Risk of Debt Securities

The risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard & Poor's, and Fitch's. The Foundation's investment policy recognizes that fixed income securities are to be managed actively to pursue opportunities presented by the changes in interest rates, credit ratings, and maturity premiums. There are various investment limitations to the fixed income portfolio to minimize risk, concentrations, and deviation from portfolio benchmarks. The current portfolio is in compliance to those guidelines. However, the CFI Multi-strategy Bond Funds are unrated in and of themselves.

Interest Rate Risk

Investments in debt securities that are fixed for longer periods are likely to experience greater variability in their fair values due to future changes in interest rates. The Commonfund Institutional Multi-Strategy Bond Fund has an average maturity of 3.9 years. The Foundation's investment policy does not limit maturities of interest bearing instruments.