

**Intercollegiate Studies Institute, Inc.
and Subsidiary**

Consolidated Financial Statements

June 30, 2016 and 2015



BAKER TILLY

Candor. Insight. Results.

Intercollegiate Studies Institute, Inc. and Subsidiary

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Independent Auditors' Report

Board of Trustees
Intercollegiate Studies Institute, Inc. and Subsidiary

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

Management's Responsibility for the Financial Statements

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

Auditors' 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 consolidated financial position of the Intercollegiate Studies Institute, Inc. and Subsidiary as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Viechow Krause, LLP

Philadelphia, Pennsylvania
January 16, 2017

Intercollegiate Studies Institute, Inc. and Subsidiary

Consolidated Statement of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash	\$ 1,502,967	\$ 1,539,400
Publications receivable	75,667	77,727
Inventory	231,690	290,355
Contributions receivable, current	437,960	1,190,955
Prepaid expenses	131,002	117,005
	<u>2,379,286</u>	<u>3,215,442</u>
Total current assets		
Other Assets		
Contributions receivable, long-term	42,000	5,625
Land, buildings and equipment, net	3,734,617	3,857,245
Long-term investments	4,732,154	3,822,911
Charitable remainder trusts	138,036	149,693
	<u>8,646,807</u>	<u>7,835,474</u>
Total other assets		
Total assets	<u><u>\$ 11,026,093</u></u>	<u><u>\$ 11,050,916</u></u>
Liabilities and Net Assets		
Current Liabilities		
Demand note payable, bank	\$ -	\$ 1,774,776
Deferred rent revenue	26,600	-
Accounts payable	293,928	238,861
Current maturities of capital lease payable	15,067	15,127
Liability for funds held for others	143,991	72,009
	<u>479,586</u>	<u>2,100,773</u>
Total current liabilities		
Long-Term Liabilities		
Capital lease payable, net of current maturities	<u>5,757</u>	<u>22,140</u>
Total liabilities	<u>485,343</u>	<u>2,122,913</u>
Net Assets		
Unrestricted	6,363,689	5,291,874
Temporarily restricted	2,107,517	2,636,129
Permanently restricted	2,069,544	1,000,000
	<u>10,540,750</u>	<u>8,928,003</u>
Total net assets		
Total liabilities and net assets	<u><u>\$ 11,026,093</u></u>	<u><u>\$ 11,050,916</u></u>

See notes to consolidated financial statements

Intercollegiate Studies Institute, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Gains and Other Support				
Contributions	\$ 5,868,516	\$ 1,129,845	\$ 1,069,544	\$ 8,067,905
Programs	312,201	-	-	312,201
Publication sales	518,772	-	-	518,772
Investment income	75,068	53,961	-	129,029
Corporate rent	53,200	-	-	53,200
Satisfaction of program restrictions	1,799,454	(1,799,454)	-	-
Total revenue, gains and other support	<u>8,627,211</u>	<u>(615,648)</u>	<u>1,069,544</u>	<u>9,081,107</u>
Expenses				
Program:				
Publications	638,485	-	-	638,485
National student journalism	1,406,325	-	-	1,406,325
Lectures and debates	75,086	-	-	75,086
Honors fellows and fellowships	822,112	-	-	822,112
Membership services	708,840	-	-	708,840
Faculty development	140,417	-	-	140,417
Books	979,184	-	-	979,184
Liberty fund	417,189	-	-	417,189
Conferences	1,133,168	-	-	1,133,168
Total program expenses	<u>6,320,806</u>	<u>-</u>	<u>-</u>	<u>6,320,806</u>
Program support services:				
General and administrative	752,255	-	-	752,255
Development	601,804	-	-	601,804
Total program support services	<u>1,354,059</u>	<u>-</u>	<u>-</u>	<u>1,354,059</u>
Total expenses	<u>7,674,865</u>	<u>-</u>	<u>-</u>	<u>7,674,865</u>
Increase (decrease) in net assets from operating activities	<u>952,346</u>	<u>(615,648)</u>	<u>1,069,544</u>	<u>1,406,242</u>
Non-Operating Activities				
Net realized gains on investments	176,824	(2,893)	-	173,931
Net unrealized gains on investments	(67,558)	89,929	-	22,371
Change in value of split-interest agreements	10,203	-	-	10,203
Increase in net assets from non-operating activities	<u>119,469</u>	<u>87,036</u>	<u>-</u>	<u>206,505</u>
Increase (decrease) in net assets	<u>1,071,815</u>	<u>(528,612)</u>	<u>1,069,544</u>	<u>1,612,747</u>
Net Assets, Beginning of Year	<u>5,291,874</u>	<u>2,636,129</u>	<u>1,000,000</u>	<u>8,928,003</u>
Net Assets, End of Year	<u>\$ 6,363,689</u>	<u>\$ 2,107,517</u>	<u>\$ 2,069,544</u>	<u>\$ 10,540,750</u>

See notes to consolidated financial statements

Intercollegiate Studies Institute, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Gains and Other Support				
Contributions	\$ 3,896,557	\$ 3,084,700	\$ -	\$ 6,981,257
Programs	300,742	-	-	300,742
Publication sales	483,379	-	-	483,379
Investment income	141,622	-	-	141,622
Corporate rent	63,503	-	-	63,503
Satisfaction of program restrictions	2,732,284	(2,732,284)	-	-
Total revenue, gains and other support	<u>7,618,087</u>	<u>352,416</u>	<u>-</u>	<u>7,970,503</u>
Expenses				
Program:				
Publications	557,977	-	-	557,977
National student journalism	1,384,667	-	-	1,384,667
Lectures and debates	109,550	-	-	109,550
Honors fellows and fellowships	790,989	-	-	790,989
Membership services	636,644	-	-	636,644
Faculty development	134,558	-	-	134,558
Books	906,216	-	-	906,216
Liberty fund	419,256	-	-	419,256
Conferences	1,035,552	-	-	1,035,552
Total program expenses	<u>5,975,409</u>	<u>-</u>	<u>-</u>	<u>5,975,409</u>
Program support services:				
General and administrative	835,569	-	-	835,569
Development	491,519	-	-	491,519
Total program support services	<u>1,327,088</u>	<u>-</u>	<u>-</u>	<u>1,327,088</u>
Total expenses	<u>7,302,497</u>	<u>-</u>	<u>-</u>	<u>7,302,497</u>
Increase in net assets from operating activities	<u>315,590</u>	<u>352,416</u>	<u>-</u>	<u>668,006</u>
Non-Operating Activities				
Net realized gains on investments	22,021	-	-	22,021
Net unrealized losses on investments	(50,875)	-	-	(50,875)
Change in value of split-interest agreements	(40,272)	-	-	(40,272)
Decrease in net assets from non-operating activities	<u>(69,126)</u>	<u>-</u>	<u>-</u>	<u>(69,126)</u>
Increase in net assets	246,464	352,416	-	598,880
Net Assets, Beginning of Year	<u>5,045,410</u>	<u>2,283,713</u>	<u>1,000,000</u>	<u>8,329,123</u>
Net Assets, End of Year	<u>\$ 5,291,874</u>	<u>\$ 2,636,129</u>	<u>\$ 1,000,000</u>	<u>\$ 8,928,003</u>

See notes to consolidated financial statements

Intercollegiate Studies Institute, Inc. and Subsidiary

Consolidated Statement of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 1,612,747	\$ 598,880
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	232,488	204,134
Unrealized (gains) losses on investments	(22,371)	50,875
Realized gains on investments	(173,931)	(22,021)
Change in value of split-interest agreements	(10,203)	40,272
Contributions restricted for long-term purposes	(1,569,544)	-
Changes in assets and liabilities:		
Contributions receivable	716,620	(393,134)
Prepaid expenses	(13,997)	139,124
Publications receivable	2,060	62,918
Inventory	58,665	(4,639)
Charitable remainder trusts	11,657	6,045
Accounts payable	55,067	26,552
Deferred rent revenue	26,600	-
Liability for funds held for others	71,982	(59,856)
Net cash provided by operating activities	<u>997,840</u>	<u>649,150</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(109,860)	(192,654)
Purchases of investments	(702,738)	-
Proceeds from sale of investments	-	936,964
Net cash (used in) provided by investing activities	<u>(812,598)</u>	<u>744,310</u>
Cash Flows from Financing Activities		
Contributions restricted for long-term purposes	1,569,544	-
Payments on demand note payable, bank	(1,774,776)	(1,107,224)
Net payments on capital lease payable	(16,443)	(13,968)
Net cash used in financing activities	<u>(221,675)</u>	<u>(1,121,192)</u>
Net (decrease) increase in cash	(36,433)	272,268
Cash, Beginning	<u>1,539,400</u>	<u>1,267,132</u>
Cash, Ending	<u>\$ 1,502,967</u>	<u>\$ 1,539,400</u>
Supplementary Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 18,355</u>	<u>\$ 73,208</u>

See notes to consolidated financial statements

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Intercollegiate Studies Institute, Inc., a not-for-profit organization, was founded in 1953 and is located in Wilmington, Delaware. The Institute's mission is to inspire college students to discover, embrace and advance the principles and virtues that make America free and prosperous.

Collegiate Network, Inc. is a wholly owned subsidiary founded to enhance the educational opportunities of college students by providing materials, advice and assistance to teachers and students involved with the production and writing of student newspapers and journals.

The above organizations are collectively referred to as the "Institute".

Principles of Consolidation

The consolidated financial statements include the accounts of Intercollegiate Studies Institute, Inc. and Collegiate Network Inc. All material intercompany balances and transactions have been eliminated.

Basis of Presentation

In accordance with generally accepted accounting principles, the Institute is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that will be met either by actions of the Institute and/or the passage of time.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that are maintained permanently by the Institute. Generally, the donors of these assets permit the Institute to use all or part of the income earned on related investments for general or specific purposes, subject to limitations specified by State of Delaware law.

Basis of Accounting

The accompanying financial statements include all of the net assets that are administered by the Institute and come under the control of the Board of Trustees. The statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Financial Instruments and Risk Concentration

The Institute's principal financial instruments subject to credit risk are its cash, accounts receivable, contributions receivable, investments, and investments in charitable gift annuities. Investment securities and investments in charitable gift annuities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and investments in charitable gift annuities and the level of uncertainty related to changes in the value of investment securities and investments in charitable gift annuities, it is at least reasonably possible that changes in the value of investments and investments in charitable gift annuities in the near term would materially affect the amounts reported in the statement of financial position and the statement of activities.

The Institute maintains cash balances in major financial institutions in excess of the federally insured limit by the Federal Deposit Insurance Corporation (FDIC). Historically, the Institute has not experienced any losses and management believes it is not exposed to any significant credit risk.

Publications Receivable

Publications receivable are uncollateralized customer obligations due under normal trade terms generally requiring payment within 30 days from the invoice date. Follow-up correspondence is made if unpaid publications receivable go beyond 30 days. Payments of publications receivable are applied to the earliest unpaid invoice. The stated balance of publications receivable is based upon the amount management has determined to be reasonably collectible. Bad debts are charged to expense when determined to be uncollectible by management. It is the opinion of management that bad debt expense computed under this method would not be materially different from what it would be if the allowance method were used. There was no bad debt expense recorded for the years ended June 30, 2016 and 2015.

Contributions

Authoritative guidance requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the Institute to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Donor-restricted contributions are reported as unrestricted operating revenue when the restriction is satisfied within the same year that the contribution is received.

Contributions are reported as an increase in the appropriate net asset category in the year received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at their net present value. The discount is computed using a credit-adjusted interest rate. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Inventory

Inventory, which consists primarily of books, is valued at the lower of cost (first-in, first-out) or market.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Prepaid Expenses

Prepaid expenses include pre-press expenses and prepaid royalties that are amortized as publications are sold. Amortization expense at June 30, 2016 and 2015 is included within book expenses in the consolidated statement of activities.

Land, Buildings, Equipment and Depreciation

Buildings, office equipment and furniture are recorded at cost. Provisions for depreciation are made over the estimated useful lives of the respective assets (generally five years for equipment and furniture, and forty years for buildings) using the straight-line method. Land is recorded at cost.

Upon retirement or disposition of office equipment and furniture, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the consolidated statement of activities. The Institute capitalizes all expenditures for property and equipment in excess of \$5,000. Lesser amounts are expensed.

Investments

Investments in equity and debt securities are recorded at fair value in the consolidated statement of financial position. Any unrealized gains and losses on investments are included in the consolidated statement of activities as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations, in which case unrealized gains or losses will affect temporarily restricted net assets. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

Operating and Non-Operating Classifications

Revenue, gains, and other support and expenses are classified in the consolidated statement of activities as operating and non-operating. The operating classification includes revenue from contributions, programs, publications and investment income. The non-operating classification includes realized and unrealized gains and losses on investments and change in value of split interest agreements.

Income Taxes

Intercollegiate Studies Institute, Inc. and Collegiate Network, Inc. are not-for-profit entities that are exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, have made no provision for federal or state income tax in the accompanying consolidated financial statements. In addition, both organizations have been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Institute accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2016 and 2015.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

The Institute's policy is to recognize interest related to unrecognized tax benefits and obligations in interest expense and penalties in operating expenses. There were no unrecognized tax benefits recorded during the periods presented in the accompanying consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Subsequent events were evaluated through January 16, 2017, which is the date the consolidated financial statements were available to be issued.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (students) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Institute will be required to retroactively adopt the guidance in ASU 2014-09 for the fiscal year beginning July 1, 2019. The Institute has not yet determined the impact of adoption of ASU 2014-09 on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU was issued as a result of feedback received relating to the different balance sheet presentation requirements for debt issuance costs and debt discounts and premiums. To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. ASU 2015-03 is effective for the Institute's fiscal year beginning July 1, 2016; early adoption is permitted for financial statements that have not been previously issued. The guidance is retrospective, and management does not anticipate that the adoption of this ASU will have a significant impact on the Institute's consolidated financial position or results of operations.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. This ASU was issued to address the diversity in practice relating to how certain investments measured at net asset value are categorized in the fair value hierarchy. The amendments in this update remove the requirement to categorize, within the fair value hierarchy, all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU 2015-07 is effective for the Institute's fiscal year beginning July 1, 2017; early adoption is permitted. The guidance is retrospective, and management does not anticipate that the adoption of ASU 2015-07 will have a significant impact on the Institute's consolidated financial position or results of operations.

In January 2016, FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new guidance is intended to improve the recognition and measurement of financial instruments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for institutions that are not public business entities. For non-public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017. However, the new guidance permits entities that are not public business entities to adopt upon issuance the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The Institute elected to adopt this provision in fiscal 2016. ASU 2016-01 is to be applied by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The Institute is assessing the impact the remainder of this standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019. Early application is permitted for all entities. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Institute is assessing the impact this standard will have on its financial statements.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements
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In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Institute is assessing the impact this standard will have on its financial statements.

2. Contributions Receivable

As of June 30, 2016 and 2015, contributors to the Institute have made written unconditional promises to give. These contributions receivable are included in the consolidated financial statements at their estimated net realizable value for unconditional promises to give that are expected to be collected or paid in less than one year, and at their net present value for promises expected to be collected or paid in one year or more.

Based upon payment schedules that are either specified by donors or estimated by the Institute, payments on pledges are due as follows as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Amounts due in less than one year	\$ 437,960	\$ 1,190,955
Amounts due between one and five years	42,000	5,625
Amounts due after five years	-	-
Total value of contributions receivable	479,960	1,196,580
Less discount on contributions receivable	-	-
Reported value of contributions receivable	<u>\$ 479,960</u>	<u>\$ 1,196,580</u>

There was no allowance for doubtful contributions receivable as of June 30, 2016 and 2015.

3. Land, Buildings and Equipment

Land, buildings and equipment consisted of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 768,320	\$ 768,320
Buildings and improvements	4,597,629	4,487,770
Office furniture and equipment	499,787	499,787
	5,865,736	5,755,877
Less accumulated depreciation	2,131,119	1,898,632
Net	<u>\$ 3,734,617</u>	<u>\$ 3,857,245</u>

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

Included in the above is equipment carried under capital leases at June 30:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 75,085	\$ 75,085
Accumulated depreciation	<u>54,261</u>	<u>37,818</u>
Net	<u>\$ 20,824</u>	<u>\$ 37,267</u>

4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, otherwise known as the “exit price”, in an orderly transaction between market participants at the measurement date. The Institute uses the three-tier fair value hierarchy as a basis for its assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access at the measurement date.

Level 2 - inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted market prices for identical or similar assets and liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value:

Short-term funds, corporate stocks, bonds, annuity investments, and other marketable securities are valued at the quoted net asset value of shares held at year-end, which are considered Level 1 inputs.

Charitable remainder trusts are valued based on the Institute’s interest in the fair value of the underlying assets, which approximates the present value of the estimated future cash flows to be received from the trusts, which are considered Level 3 inputs.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The following table presents the assets measured at fair value as of June 30, 2016:

	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term funds	\$ 224,447	\$ 224,447	\$ -	\$ -
Domestic bonds	1,323,986	1,323,986	-	-
Large cap stocks	1,773,869	1,773,869	-	-
Small cap stocks	374,153	374,153	-	-
International stocks	404,646	404,646	-	-
Other marketable securities	194,451	194,451	-	-
Annuity investments	436,602	436,602	-	-
Total investments	4,732,154	4,732,154	-	-
Charitable remainder trusts	138,036	-	-	138,036
Total	<u>\$ 4,870,190</u>	<u>\$ 4,732,154</u>	<u>\$ -</u>	<u>\$ 138,036</u>

The following table presents the assets measured at fair value as of June 30, 2015:

	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term funds	\$ 156,589	\$ 156,589	\$ -	\$ -
Domestic bonds	780,255	780,255	-	-
Large cap stocks	1,760,597	1,760,597	-	-
Small cap stocks	340,634	340,634	-	-
International stocks	402,587	402,587	-	-
Other marketable securities	100,624	100,624	-	-
Annuity investments	281,625	281,625	-	-
Total investments	3,822,911	3,822,911	-	-
Charitable remainder trusts	149,693	-	-	149,693
Total	<u>\$ 3,972,604</u>	<u>\$ 3,822,911</u>	<u>\$ 0</u>	<u>\$ 149,693</u>

5. Charitable Remainder Trusts

The Institute is the trustee under a charitable remainder trust. The principal is held in trust and the income is paid to the donors until their deaths. The value of the principal held in trust totaled \$118,036 and \$129,693 as of June 30, 2016 and 2015, respectively. The relating liability for the charitable remainder trust totaled \$23,112 and \$32,265 as of June 30, 2016 and 2015, respectively. This liability is included in funds held for others on the consolidated statement of financial position. The Institute is also a beneficiary of a second charitable remainder trust with a value of \$20,000 at both June 30, 2016 and 2015.

In addition to the charitable remainder trust obligation that is included in the liability funds held for others are amounts relating to charitable gift annuities established to benefit the Institute totaling \$120,879 and \$39,744 as of June 30, 2016 and 2015, respectively.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

6. Capital Lease Payable

The Institute has entered into an agreement to lease certain assets, which are accounted for as capital leases. The assets are recorded at the lesser of the fair value of the asset or at the present value of minimum lease payments and included in land, buildings and equipment. Depreciation of assets under capital leases is included in depreciation expense.

	<u>2016</u>	<u>2015</u>
Total payment due under capital leases	\$ 25,261	\$ 47,155
Amount representing maintenance	(3,309)	(6,177)
Amount representing interest	<u>(1,128)</u>	<u>(3,711)</u>
Present value	<u>\$ 20,824</u>	<u>\$ 37,267</u>

Future minimum lease payments under capital leases are as follows for the years ending June 30:

2017	\$ 15,067
2018	5,757
2019	-
2020	-
2021	<u>-</u>
Total minimum capital lease payments	<u>\$ 20,824</u>

7. Demand Note Payable, Bank

During fiscal year 2015, the Institute refinanced a portion of its line of credit held at Univest Bank with a second line of credit at WSFS Bank. For the years ended June 30, 2016 and 2015, the demand note payable drawn against both lines of credit amounted to \$0- and \$1,774,776, respectively, bearing interest at each bank's prime rate (average of 2.41% as of June 30, 2016 and 2015). The remaining unused balance of these commitments at June 30, 2016 and 2015 amounted to \$5,443,991 and \$3,659,215, respectively. The line of credit has been designated for working capital purposes, is due on demand, and is collateralized by the investment assets of the Institute. The lines of credit were both paid off on November 9, 2015.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

8. Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2016</u>	<u>2015</u>
Operations	\$ 381,704	\$ 382,033
Capital campaign	500,000	-
Conferences	113,000	130,000
Memberships	-	50,000
Publication programs	871,816	838,285
Fellowships	-	485,811
Honors	100,000	750,000
Unexpended gains	140,997	-
Total	<u>\$ 2,107,517</u>	<u>\$ 2,636,129</u>

Permanently restricted net assets at June 30, 2016 and June 30, 2015 consisted of a \$2,069,544 and \$1,000,000 fellowship endowment, respectively, the income of which is available for general operations.

9. Retirement Plan

During the fiscal year 2007, the Institute established a profit sharing plan (the "retirement plan"). The retirement plan covers all qualified salaried employees who have completed one year of service and are age 21 or older. The Institute contributes amounts annually at its own discretion. Vesting is based upon continuous years of service. Participants are fully vested after three years of service. The Institute contributed \$72,560 and \$44,510 to the retirement plan during the years ended June 30, 2016 and June 30, 2015, respectively.

10. Endowment

The Institute's investable assets include an endowment that consists of a donor-restricted fund established for fellowships. As required by authoritative guidance, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Trustees of the Institute has interpreted the state of Delaware's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, and the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets in accordance with the direction of the donor gift instrument. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Institute and the donor-restricted endowment fund.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Institute.
7. The investment policies of the Institute.

Changes in endowment net assets for the years ended June 30, 2016 and 2015:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, July 1, 2015	\$ 300,109	\$ -	\$ 1,000,000	\$ 1,300,109
Additions	-	-	1,069,544	1,069,544
Investment return:				
Investment income	36,245	53,961	-	90,206
Net appreciation (realized and unrealized)	7,989	87,036	-	95,025
Total investment return	44,234	140,997	-	185,231
Amounts released	344,343	-	-	344,343
Endowment net assets, June 30, 2016	\$ -	\$ 140,997	\$ 2,069,544	\$ 2,210,541

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

	2015		
	Unrestricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	\$ 285,693	\$ 1,000,000	\$ 1,285,693
Investment return:			
Investment income	37,920	-	37,920
Net appreciation (realized and unrealized)	(23,504)	-	(23,504)
Total investment return	14,416	-	14,416
Amounts released	-	-	-
Endowment net assets, June 30, 2015	\$ 300,109	\$ 1,000,000	\$ 1,300,109

Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Institute to retain as a fund of perpetual duration. There were no such amounts as of June 30, 2016 or 2015.

11. Related Party Transactions

The Institute received contributions from staff and board members, totaling \$710,941 during the year ended June 30, 2016 and \$141,049 during the year ended June 30, 2015.

12. Contingencies and Commitments

In the normal conduct of business, the Institute can become subject to various claims and litigations. Management is not aware of any such claims or litigations.