

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

Consolidated Financial Statements

June 30, 2012



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

---

Table of Contents

June 30, 2012

	<b><u>Page</u></b>
<b>Independent Auditors' Report</b>	1
<b>Consolidated Financial Statements</b>	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5

## Independent Auditors' Report

Board of Directors  
Intercollegiate Studies Institute, Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial position of the Intercollegiate Studies Institute, Inc. and Subsidiary (the "Institute") as of June 30, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Intercollegiate Studies Institute, Inc. and Subsidiary as of June 30, 2012, and the change in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, certain errors resulting in an overstatement of previously reported changes in net assets for the year ended June 30, 2011 were discovered by the entity's management during the current year. Accordingly, an adjustment has been made to net assets as of July 1, 2011, to correct the errors.

*ParenteBeard LLC*

Pittsburgh, Pennsylvania  
November 30, 2012

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

Consolidated Statement of Financial Position

June 30, 2012

**Assets****Current Assets**

Cash and cash equivalents	\$ 637,653
Accounts receivable	259,910
Inventory	387,387
Contributions receivable, current	1,454,175
Prepaid expenses	274,890
	<hr/>
Total current assets	3,014,015

**Other Assets**

Contributions receivable, long-term	818,332
Land, buildings and equipment, net	3,872,127
Long-term investments	5,665,962
Charitable remainder trusts	151,101
Investments designated for deferred compensation	819,549
	<hr/>
Total other assets	11,327,071
	<hr/>
Total assets	\$ 14,341,086

**Liabilities and Net Assets****Current Liabilities**

Accounts payable	\$ 177,753
Deferred compensation payable	819,549
Demand note payable, bank	4,888,533
Current maturities of note payable, bank	30,034
Current maturities of capital lease payable	17,824
Liability for funds held for others	285,514
	<hr/>
Total current liabilities	6,219,207

**Long-Term Liabilities**

Note payable, bank, net of current maturities	906,474
Capital lease payable, net of current maturities	29,270
	<hr/>
Total long-term liabilities	935,744
	<hr/>
Total liabilities	7,154,951

**Net Assets**

Unrestricted	2,227,992
Temporarily restricted	3,958,143
Permanently restricted	1,000,000
	<hr/>
Total net assets	7,186,135
	<hr/>
Total liabilities and net assets	\$ 14,341,086

See notes to financial statements

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

 Consolidated Statement of Activities  
 Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, Gains and Other Support</b>				
Contributions	\$ 4,626,822	\$ 1,301,166	\$ -	\$ 5,927,988
Programs	360,556	-	-	360,556
Publications	848,155	-	-	848,155
Investment income	186,075	-	-	186,075
Satisfaction of program restrictions	2,297,102	(2,297,102)	-	-
Total revenue, gains and other support	8,318,710	(995,936)	-	7,322,774
<b>Expenses</b>				
Programs				
Publications and Collegiate Network	1,209,253	-	-	1,209,253
Lectures	551,364	-	-	551,364
Honors fellows and fellowships	618,881	-	-	618,881
Membership services	373,975	-	-	373,975
Faculty development	167,898	-	-	167,898
Books	1,515,482	-	-	1,515,482
Liberty Fund	184,215	-	-	184,215
Conferences	615,740	-	-	615,740
Total program expenses	5,236,808	-	-	5,236,808
Supporting Services				
General and administrative	698,980	-	-	698,980
Development	772,551	-	-	772,551
Total supporting services expenses	1,471,531	-	-	1,471,531
Total expenses	6,708,339	-	-	6,708,339
Increase (decrease) in net assets from operating activities	1,610,371	(995,936)	-	614,435
<b>Non-Operating Losses</b>				
Net realized losses on investments	(4,928)	-	-	(4,928)
Net unrealized losses on investments	(65,558)	-	-	(65,558)
Change in value of split-interest agreements	(11,662)	-	-	(11,662)
Decrease in net assets from non-operating activities	(82,148)	-	-	(82,148)
<b>Increase (decrease) in net assets</b>	1,528,223	(995,936)	-	532,287
<b>Net Assets, Beginning of Year, as Previously Reported</b>	1,993,182	5,074,440	1,000,000	8,067,622
<b>Restatement</b>	(1,293,413)	(120,361)	-	(1,413,774)
<b>Net Assets, Beginning of Year, as Restated</b>	699,769	4,954,079	1,000,000	6,653,848
<b>Net Assets, End of Year</b>	\$ 2,227,992	\$ 3,958,143	\$ 1,000,000	\$ 7,186,135

See notes to financial statements

## Intercollegiate Studies Institute, Inc. and Subsidiary

Consolidated Statement of Cash Flows  
Year Ended June 30, 2012

### Cash Flows from Operating Activities

Increase in net assets	\$ 532,287
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	195,412
Unrealized losses on investments	65,558
Realized losses on investments	4,928
Change in value of split-interest agreements	11,662
Changes in assets and liabilities:	
Contributions receivable	996,559
Prepaid expenses	32,717
Accounts receivable	(16,550)
Inventory	24,895
Accounts payable	(602,485)
Accrued expense	(18,484)
Liability for funds held for others	7,308
	<hr/>
Net cash provided by operating activities	1,233,807

### Cash Flows from Investing Activities

Purchases of property and equipment	(32,254)
Proceeds from sale of investments	1,714
	<hr/>
Net cash used in investing activities	(30,540)

### Cash Flows from Financing Activities

Principal payments on note payable, bank	(28,014)
Proceeds from demand note payable, bank	742,901
Payments on demand note payable, bank	(1,271,125)
Net payments on capital lease payable	(22,473)
	<hr/>
Net cash used in financing activities	(578,711)

Net increase in cash and cash equivalents 624,556

**Cash and Cash Equivalents, Beginning** 

---

13,097

**Cash and Cash Equivalents, Ending** 

---

\$ 637,653

### Supplementary Cash Flows Information

Cash paid during the year for interest 

---

\$ 214,977

### Supplementary Disclosure of Non-Cash Information

Conversion of charitable remainder trust to contribution receivable 

---

\$ 514,746

See notes to financial statements

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

---

Notes to Consolidated Financial Statements

June 30, 2012

## **1. Nature of Activities and Summary of Significant Accounting Policies**

### **Nature of Activities**

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 and embrace 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 financial, technical and administrative support to student-run newspapers.

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 Accounting and Presentation**

The financial statements of the Institute have been prepared on the accrual basis of accounting.

These financial statements present financial information showing the financial position, the activities, and the cash flows of the Institute reflecting the presence or absence of donor-imposed restrictions. Accordingly, the amounts of net assets are classified according to the nature of restrictions, as follows:

*Permanently Restricted Net Assets* - Net assets which are subject to donor-imposed restrictions that they be 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. The donors of certain permanently restricted net assets allow for the Institute to utilize the corpus of the gift if sufficient investment income does not exist to fulfill the purpose of the gift.

*Temporarily Restricted Net Assets* - Net assets which are subject to donor-imposed restrictions that will be met when expenditures are made for the designated purposes or with passage of time. The expiration of temporary restrictions on net assets is reported in the statement of activities as satisfaction of restrictions. Temporarily restricted contributions and temporarily restricted endowment income whose restrictions are not met in the same period as received or earned are reported as increases in temporarily restricted net assets.

*Unrestricted Net Assets* - Net assets not subject to donor-imposed restrictions.

### **Cash and Cash Equivalents**

Cash and cash equivalents represent highly liquid investments with an original maturity date not exceeding 90 days.

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

---

Notes to Consolidated Financial Statements

June 30, 2012

### **Accounts Receivable**

Accounts 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 accounts receivable go beyond 30 days. Payments of accounts receivable are applied to the earliest unpaid invoice. The stated balance of trade accounts 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 year ended June 30, 2012.

### **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.

### **Prepaid Expenses**

Prepaid expenses include pre-press expenses and prepaid royalties that are amortized over the sale of publications. Amortization expense at June 30, 2012 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 \$1,000. Lesser amounts are expensed.

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

---

Notes to Consolidated Financial Statements

June 30, 2012

## **Impairment of Long-Lived Assets**

Management of the Institute reviews long-lived assets (including property and equipment and other assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management considers the undiscounted cash flow expected to be generated by the use of the asset and its eventual disposition to determine when, and if, an impairment has occurred. An impairment loss is recognized to the extent that the carrying value of assets exceeds their fair value. Any write-downs due to impairment are charged to operations at the time impairment is identified. No such write-downs were required during the year ended June 30, 2012.

## **Investments**

Investments in equity and debt securities are recorded at fair market 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.

The Institute's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the Institute's investment policy. The degree and concentration of credit risk varies by type of investment. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

## **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.

## **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, state or local 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, 2012.

The federal Exempt Organization Business Income Tax Returns for both organizations remain subject to examination by the IRS for the years subsequent to June 30, 2008.

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

---

Notes to Consolidated Financial Statements

June 30, 2012

The Institute's policy is to recognize interest related to unrecognized tax benefits and obligations in interest expense and penalties in operating expenses.

### **Allocation of Costs**

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Salaries and general administrative costs are allocated among programs and supporting services on the basis of employee time devoted thereto.

### **Advertising Costs**

Advertising costs are expensed as incurred. For the year ended June 30, 2012, advertising expense was \$14,784.

### **Use of Estimates**

The preparation of the consolidated financial statements is in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Subsequent Events**

Subsequent events were evaluated through November 30, 2012 which is the date the consolidated financial statements were available to be issued.

### **New Accounting Standard**

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," ("ASU 2011-04") which amends FASB ASC Topic 820, "Fair Value Measurements," to bring accounting principles generally accepted in the United States of America for fair value measurements in line with International Financial Reporting Standards by clarifying existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of Level 3 assets. ASU 2011-04 is effective for fiscal years and interim reporting periods beginning after December 15, 2011. Management is evaluating the impact of adopting ASU 2011-04 and believes it will not be material to the consolidated financial statements but will provide additional disclosures.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2012

### 2. Restatement

The Institute restated its beginning net asset balance as of July 1, 2011 to record reserves for obsolete inventory items, to write off uncollectible prepaid royalty costs, to write off uncollectible pledges, and to reduce a beneficial interest in a charitable remainder trust. The effects of these adjustments were to decrease unrestricted net assets by \$1,293,413 and temporarily restricted net assets by \$120,361.

The effects of these adjustments were as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Consolidated statement of financial position:		
Contributions receivable, long-term	\$ 1,218,030	\$ 963,669
Inventory	1,122,282	412,282
Prepaid expenses	645,791	307,607
Charitable remainder trusts	788,738	677,509

### 3. Contributions Receivable

As of June 30, 2012, 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, 2012:

Amounts due in less than one year	\$ 1,454,175
Amounts due between one and five years	841,000
Amounts due after five years	<u>1,000</u>
Total value of contributions receivable	2,296,175
Less discount on receivables	<u>23,668</u>
Reported value of contributions receivable	<u><u>\$ 2,272,507</u></u>

Receivables greater than one year were adjusted using discount rates between 0.72% and 2.54% for the year ended June 30, 2012, depending on the length of the discount period and on the corresponding treasury bill rate at the time of the contribution.

The Institute estimates that all contributions receivable at June 30, 2012 are collectible; accordingly, there is no provision for an allowance for doubtful accounts.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2012

### 4. Land, Buildings and Equipment

Land, buildings and equipment consisted of the following as of June 30, 2012:

Land	\$	768,320
Buildings and improvements		4,576,186
Office furniture and equipment		500,028
		<u>5,844,534</u>
Less accumulated depreciation		<u>1,972,407</u>
Net	\$	<u><u>3,872,127</u></u>

Included in the above is equipment carried under capital leases at June 30, 2012 as follows:

Cost	\$	98,185
Accumulated depreciation		<u>85,913</u>
Net	\$	<u><u>12,272</u></u>

### 5. Investments

Marketable debt and equity securities are carried at fair market value. Investments consisted of the following as of June 30, 2012:

	<u>Cost</u>	<u>Market</u>
Short-term funds	\$ 141,736	\$ 141,736
Certificates of deposit	1,189,998	1,190,000
Corporate stocks	924,107	1,094,560
Corporate bonds	714,466	769,871
Mutual funds	1,449,674	1,517,210
U.S. government and agency obligations	184,990	189,131
Annuity investments	<u>730,469</u>	<u>763,454</u>
Total	<u>\$ 5,335,440</u>	<u>\$ 5,665,962</u>

The investments are managed by professional advisors, subject to the Institute's investment policy.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2012

### 6. 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 \$131,101 as of June 30, 2012. The relating liability for the charitable remainder trust totaled \$58,774 as of June 30, 2012. 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.

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 \$226,740. The contracts call for various monthly payments totaling \$53,626 annually over the term of the annuities.

### 7. 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 property and equipment. Depreciation of assets under capital leases is included in depreciation expense.

Total payment due under capital leases	\$ 85,155
Amount representing maintenance	(27,188)
Amount representing interest	<u>(10,873)</u>
Present Value	<u>\$ 47,094</u>

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

2013	\$ 17,824
2014	21,290
2015	<u>7,980</u>
Total minimum capital lease payments	<u>\$ 47,094</u>

### 8. Demand Note Payable, Bank

For the year ended June 30, 2012, the demand note payable drawn against the line of credit with Univest National Bank amounted to \$4,888,533, bearing interest at the Bank's prime rate (3.25% as of June 30, 2012). The remaining unused balance of these commitments at June 30, 2012 amounted to \$611,467. The line of credit has been designated for working capital purposes, is due on demand, and is collateralized by a second mortgage on the Institute's building and an assignment of the investment assets of the Institute.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2012

### 9. Note Payable, Bank

Note payable, bank consisted of the following at June 30, 2012:

Note payable to Univest National Bank and Trust Co., interest rate at 6.25%, 59 monthly principal and interest payments of \$7,306 and a single "balloon payment" of the entire unpaid principal and interest balance due February 1, 2015, collateralized by a mortgage on the related property.	\$ 936,508
Less current portion of note payable	<u>30,034</u>
Long-term portion of note payable	<u>\$ 30,034</u>

Interest cost incurred and expensed for the year ended June 30, 2012 was \$214,977.

Future minimum note payable, bank payments are as follows for the years ending June 30:

2013	\$ 30,034
2014	31,966
2015	<u>874,508</u>
Total	<u>\$ 936,508</u>

### 10. Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2012:

Operations	\$ 2,280,068
Lectures	270,000
Publication programs	743,331
Fellowships	612,744
Honors	50,000
Faculty development	<u>2,000</u>
Total	<u>\$ 3,958,143</u>

Permanently restricted net assets at June 30, 2012 consist of a \$1,000,000 fellowship endowment, the income of which is available for general operations.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2012

### 11. 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 retirement plan is subject to the provisions of the Employee Retirement Income Security Act of 1974. The Institute contributes amounts annually using its own discretion. Vesting is based upon continuous years of service. Participants are fully vested after three years of service. No contributions were made to the retirement plan during the year ended June 30, 2012.

### 12. Deferred Compensation Payable

During fiscal year 2000, the Institute established a deferred compensation plan for a portion of the former president's salary. Semi-monthly, on its normal dates of payroll, the Institute credited an amount determined annually during the duration of that president's employment. All funds have been invested in a manner selected by the Institute in consultation with former president. All risk associated with any increase or decrease in value is assumed by former president. Any funds which may be invested under the provisions of the plan agreement shall continue to be part of the general funds of the Institute; and to the extent that any person acquires a right to receive payments from the Institute under the agreement, such right shall be no greater than the right of any unsecured general creditor of the Institute.

The Institute has designated certain assets to support the liability of deferred compensation as follows for the year ended June 30, 2012:

	<u>Fair Value</u>
Short-term funds	\$ 149,298
Corporate stocks	<u>670,251</u>
Total	<u>\$ 819,549</u>

### 13. Concentration of Credit Risk

The Institute maintains cash balances at local banks. These banks participate in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. Under that program, through December 31, 2012, all non-interest bearing transaction accounts are guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to, and separate from, the coverage available under the FDIC's general deposit insurance rules. Certain other accounts are maintained by the Institute which are, at times, in excess of the FDIC insured limit of \$250,000.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2012

### 14. Fair Value Measurements

The Institute measures on a recurring basis its investments at fair value in accordance with FASB codification "Fair Value Measurement," which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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. The three levels of fair value hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets that are accessible to the Institute for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Inputs to the valuation methodology include significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets or liabilities, quoted market prices in inactive markets for identical or similar assets or liabilities, and other observable inputs.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair values of assets and liabilities measured on a recurring basis were as follows at June 30, 2012:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term funds	\$ 291,034	\$ 291,034	\$ -	\$ -
Certificates of deposit	1,190,000	1,190,000	-	-
Corporate stocks	1,764,811	1,764,811	-	-
Corporate bonds	769,871	769,871	-	-
Mutual Funds	1,517,210	1,517,210	-	-
U.S. government and agency obligations	189,131	-	189,131	-
Annuity investments	763,454	763,454	-	-
Charitable remainder trusts	151,101	131,101	20,000	-
Total	<u>\$ 6,636,612</u>	<u>\$ 6,247,481</u>	<u>\$ 209,131</u>	<u>\$ -</u>

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

---

Notes to Consolidated Financial Statements

June 30, 2012

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012.

Short-term funds, certificates of deposit, corporate stocks, bonds, mutual funds, annuity investments, and investments designated for deferred compensation are valued at the quoted net asset value of shares held at year-end.

U.S. government and agency obligations are valued at the current unit values applied to the quantity held at the measurement date as reported in the markets on which the securities are traded.

Charitable remainder trusts are valued at the quoted net asset value of shares held at year-end, as the Institute is the trustee under the trust agreements.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

### **15. Endowment**

The Institute's endowment 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 Directors 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.
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.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2012

Endowment net assets composition by type of fund as of June 30, 2012:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 189,546	\$ 1,000,000	\$ 1,189,546

Changes in endowment net assets for the year ended June 30, 2012:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 234,119	\$ 1,000,000	\$ 1,234,119
Investment return:			
Investment income	29,235	-	29,235
Net depreciation, (realized and unrealized)	(45,264)	-	(45,264)
Total investment return	(16,029)	-	(16,029)
Amounts released	(28,544)	-	(28,544)
Endowment net assets, end of year	<u>\$ 189,546</u>	<u>\$ 1,000,000</u>	<u>\$ 1,189,546</u>

### 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, 2012.

### 16. Related Party Transactions

The Institute received contributions from related parties, principally Board members, totaling \$183,390 during the year ended June 30, 2012.

A member of the Institute's Board is the former Chief Executive Officer of the Institute's principal lender.

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

---

Notes to Consolidated Financial Statements

June 30, 2012

### **17. Contingencies and Commitments**

The Institute is involved in various claims and litigation arising out of the normal conduct of its operations. In the opinion of management, the outcome of such claims and litigation will not have a material effect on the Institute's consolidated financial statements.