

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

Consolidated Financial Statements

June 30, 2012 and 2013



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 (the "Institute"), which comprise the consolidated statement of financial position as of June 30, 2012 and 2013, 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 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 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 Institute as of June 30, 2012 and 2013, 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.

ParenteBeard LLC

Philadelphia, Pennsylvania
November 1, 2013

Intercollegiate Studies Institute, Inc. and SubsidiaryConsolidated Statement of Financial Position
June 30, 2012 and 2013

	<u>2012</u>	<u>2013</u>
Assets		
Current Assets		
Cash	\$ 637,653	\$ 2,067,207
Accounts receivable	259,910	206,736
Inventory	387,387	331,351
Contributions receivable, current	1,454,175	1,073,192
Prepaid expenses	274,890	236,494
	<u>3,014,015</u>	<u>3,914,980</u>
Total current assets		
	<u>3,014,015</u>	<u>3,914,980</u>
Other Assets		
Contributions receivable, long-term	818,332	82,456
Land, buildings and equipment, net	3,872,127	3,753,555
Long-term investments	5,665,962	3,972,500
Charitable remainder trusts	151,101	152,021
Investments designated for deferred compensation	819,549	-
	<u>11,327,071</u>	<u>7,960,532</u>
Total other assets		
	<u>11,327,071</u>	<u>7,960,532</u>
Total assets		
	<u>\$ 14,341,086</u>	<u>\$ 11,875,512</u>
Liabilities and Net Assets		
Current Liabilities		
Demand note payable, bank	\$ 4,888,533	\$ 3,798,493
Accounts payable	177,753	138,117
Deferred compensation payable	819,549	-
Current maturities of note payable, bank	30,034	-
Current maturities of capital lease payable	17,824	12,897
Liability for funds held for others	285,514	214,725
	<u>6,219,207</u>	<u>4,164,232</u>
Total current liabilities		
	<u>6,219,207</u>	<u>4,164,232</u>
Long-Term Liabilities		
Note payable, bank, net of current maturities	906,474	-
Capital lease payable, net of current maturities	29,270	51,235
	<u>935,744</u>	<u>51,235</u>
Total long-term liabilities		
	<u>935,744</u>	<u>51,235</u>
Total liabilities		
	<u>7,154,951</u>	<u>4,215,467</u>
Net Assets		
Unrestricted	2,227,992	3,864,798
Temporarily restricted	3,958,143	2,795,247
Permanently restricted	1,000,000	1,000,000
	<u>7,186,135</u>	<u>7,660,045</u>
Total net assets		
	<u>7,186,135</u>	<u>7,660,045</u>
Total liabilities and net assets		
	<u>\$ 14,341,086</u>	<u>\$ 11,875,512</u>

See notes to consolidated financial statements

Intercollegiate Studies Institute, Inc. and SubsidiaryConsolidated Statement of Activities
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Gains and Other Support				
Contributions	\$ 4,096,182	\$ 1,550,310	\$ -	\$ 5,646,492
Programs	357,146	-	-	357,146
Publications	640,061	-	-	640,061
Investment income	184,544	-	-	184,544
Corporate rent	69,694	-	-	69,694
Satisfaction of program restrictions	2,713,206	(2,713,206)	-	-
Total revenue, gains and other support	<u>8,060,833</u>	<u>(1,162,896)</u>	<u>-</u>	<u>6,897,937</u>
Expenses				
Program:				
Publications	229,421	-	-	229,421
National student journalism	903,904	-	-	903,904
Lectures and debates	601,952	-	-	601,952
Honors fellows and fellowships	820,993	-	-	820,993
Membership services	443,679	-	-	443,679
Faculty development	252,348	-	-	252,348
Books	1,205,433	-	-	1,205,433
Liberty fund	453,210	-	-	453,210
Conferences	530,801	-	-	530,801
Total program expenses	<u>5,441,741</u>	<u>-</u>	<u>-</u>	<u>5,441,741</u>
Supporting Services:				
General and administrative	583,247	-	-	583,247
Development	702,688	-	-	702,688
Total supporting services expenses	<u>1,285,935</u>	<u>-</u>	<u>-</u>	<u>1,285,935</u>
Total expenses	<u>6,727,676</u>	<u>-</u>	<u>-</u>	<u>6,727,676</u>
Increase (decrease) in net assets from operating activities	<u>1,333,157</u>	<u>(1,162,896)</u>	<u>-</u>	<u>170,261</u>
Non-Operating Gains (Losses):				
Net realized gains on investments	341,534	-	-	341,534
Net unrealized losses on investments	(38,805)	-	-	(38,805)
Change in value of split-interest agreements	920	-	-	920
Increase in net assets from non-operating activities	<u>303,649</u>	<u>-</u>	<u>-</u>	<u>303,649</u>
Increase (Decrease) in Net Assets	<u>1,636,806</u>	<u>(1,162,896)</u>	<u>-</u>	<u>473,910</u>
Net Assets, Beginning of Year	<u>2,227,992</u>	<u>3,958,143</u>	<u>1,000,000</u>	<u>7,186,135</u>
Net Assets, End of Year	<u>\$ 3,864,798</u>	<u>\$ 2,795,247</u>	<u>\$ 1,000,000</u>	<u>\$ 7,660,045</u>

See notes to consolidated financial statements

Intercollegiate Studies Institute, Inc. and SubsidiaryConsolidated Statement of Activities
Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Gains and Other Support				
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	<u>8,318,710</u>	<u>(995,936)</u>	<u>-</u>	<u>7,322,774</u>
Expenses				
Program:				
Publications and National Student Journalism	1,209,253	-	-	1,209,253
Lectures and debates	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	<u>5,236,808</u>	<u>-</u>	<u>-</u>	<u>5,236,808</u>
Supporting Services:				
General and administrative	698,980	-	-	698,980
Development	772,551	-	-	772,551
Total supporting services expenses	<u>1,471,531</u>	<u>-</u>	<u>-</u>	<u>1,471,531</u>
Total expenses	<u>6,708,339</u>	<u>-</u>	<u>-</u>	<u>6,708,339</u>
Increase (decrease) in net assets from operating activities	<u>1,610,371</u>	<u>(995,936)</u>	<u>-</u>	<u>614,435</u>
Non-Operating Losses:				
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	<u>(82,148)</u>	<u>-</u>	<u>-</u>	<u>(82,148)</u>
Increase (Decrease) in Net Assets	<u>1,528,223</u>	<u>(995,936)</u>	<u>-</u>	<u>532,287</u>
Net Assets, Beginning of Year	<u>699,769</u>	<u>4,954,079</u>	<u>1,000,000</u>	<u>6,653,848</u>
Net Assets, End of Year	<u>\$ 2,227,992</u>	<u>\$ 3,958,143</u>	<u>\$ 1,000,000</u>	<u>\$ 7,186,135</u>

See notes to consolidated financial statements

Intercollegiate Studies Institute, Inc. and SubsidiaryConsolidated Statement of Cash Flows
June 30, 2012 and 2013

	<u>2012</u>	<u>2013</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 532,287	\$ 473,910
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	195,412	199,155
Gain on disposal of property and equipment	-	(5,498)
Unrealized losses on investments	65,558	38,805
Realized losses (gains) on investments	4,928	(341,534)
Loss on change in value of split-interest agreements	11,662	(920)
Changes in assets and liabilities:		
Contributions receivable	996,559	1,116,859
Prepaid expenses	32,717	38,396
Accounts receivable	(16,550)	53,174
Inventory	24,895	56,036
Investments designated for deferred compensation	-	819,549
Accounts payable	(602,485)	(39,636)
Accrued expense	(18,484)	-
Deferred compensation payable	-	(819,549)
Liability for funds held for others	7,308	(70,789)
Net cash provided by operating activities	<u>1,233,807</u>	<u>1,517,958</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(32,254)	-
Proceeds from sale of investments	1,714	1,996,191
Net cash (used in) provided by investing activities	<u>(30,540)</u>	<u>1,996,191</u>
Cash Flows from Financing Activities		
Principal payments on note payable, bank	(28,014)	(936,508)
Proceeds from demand note payable, bank	742,901	1,648,937
Payments on demand note payable, bank	(1,271,125)	(2,738,977)
Net payments on capital lease payable	(22,473)	(58,047)
Net cash used in financing activities	<u>(578,711)</u>	<u>(2,084,595)</u>
Net increase in cash	624,556	1,429,554
Cash, Beginning	<u>13,097</u>	<u>637,653</u>
Cash, Ending	<u>\$ 637,653</u>	<u>\$ 2,067,207</u>
Supplementary Cash Flow Information,		
Cash paid during the year for interest	<u>\$ 214,977</u>	<u>\$ 216,026</u>
Supplementary Disclosure of Non-Cash Information,		
Conversion of charitable remainder trust to contribution receivable	<u>\$ 514,746</u>	<u>\$ -</u>
Capital lease incurred for the acquisition of equipment	<u>\$ -</u>	<u>\$ 75,085</u>

See notes to consolidated financial statements

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2012 and 2013

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 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.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2012 and 2013

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 years ended June 30, 2012 and 2013.

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 as publications are sold. Amortization expense at June 30, 2012 and 2013 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 and 2013

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 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, 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 and 2013.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2012 and 2013

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, 2009.

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

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 1, 2013 which is the date the consolidated financial statements were available to be issued.

New Accounting Standard

In October 2012, the Financial Accounting Standards Board issued Accounting Standards Update 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale of Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This amendment addresses the diversity in practice with regard to the presentation of cash receipts from the sale of donated assets in the statement of cash flows. Under this update, a non-for-profit entity will be required to classify cash receipts from the sale of donated financial assets as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes. This update is effective for the Institute's fiscal year beginning July 1, 2013. The guidance is prospective and management does not believe 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, 2012 and 2013

2. Contributions Receivable

As of June 30, 2012 and 2013, 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 and 2013:

	<u>2012</u>	<u>2013</u>
Amounts due in less than one year	\$ 1,454,175	\$ 1,148,192
Amounts due between one and five years	841,000	86,522
Amounts due after five years	1,000	-
	<hr/>	<hr/>
Total value of contributions receivable	2,296,175	1,234,714
Less discount and allowance on contributions receivable	<hr/> 23,668	<hr/> 79,066
Reported value of contributions receivable	<u>\$ 2,272,507</u>	<u>\$ 1,155,648</u>

Receivables greater than one year were adjusted using discount rates between 0.72% and 2.54% for the years ended June 30, 2012 and 2013, depending on the length of the discount period and on the corresponding treasury bill rate at the time of the contribution.

There was no allowance for doubtful contributions receivable at June 30, 2012. The allowance for doubtful contributions receivable was \$75,000 as of June 30, 2013.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2012 and 2013

3. Land, Buildings and Equipment

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

	<u>2012</u>	<u>2013</u>
Land	\$ 768,320	\$ 768,320
Buildings and improvements	4,449,498	4,287,956
Office furniture and equipment	626,715	272,079
	<u>5,844,533</u>	<u>5,328,355</u>
Less accumulated depreciation	<u>1,972,406</u>	<u>1,574,800</u>
Net	<u>\$ 3,872,127</u>	<u>\$ 3,753,555</u>

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

	<u>2012</u>	<u>2013</u>
Equipment	\$ 98,185	\$ 75,085
Accumulated depreciation	<u>85,913</u>	<u>11,263</u>
Net	<u>\$ 12,272</u>	<u>\$ 63,822</u>

4. Investments and 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.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2012 and 2013

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>Total 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>\$ 6,427,481</u>	<u>\$ 209,131</u>	<u>\$ -</u>

Fair values of assets and liabilities measured on a recurring basis were as follows at June 30, 2013:

	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term funds	\$ 122,661	\$ 122,661	\$ -	\$ -
Domestic bonds	827,939	827,939	-	-
Large cap stocks	1,455,883	1,455,883	-	-
Small cap stocks	230,118	230,118	-	-
International stocks	392,883	392,883	-	-
Other marketable securities	171,647	171,647	-	-
Annuity investments	771,369	771,369	-	-
Charitable remainder trusts	152,021	132,021	20,000	-
Total	<u>\$ 4,124,521</u>	<u>\$ 4,104,521</u>	<u>\$ 20,000</u>	<u>\$ -</u>

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 or 2013.

Short-term funds, certificates of deposit, corporate stocks, bonds, mutual funds, annuity investments, and other marketable securities 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.

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2012 and 2013

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.

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 \$131,101 and \$132,021 as of June 30, 2012 and 2013, respectively. The relating liability for the charitable remainder trust totaled \$58,774 and \$49,452 as of June 30, 2012 and 2013, 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, 2012 and 2013.

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 and \$165,273 as of June 30, 2012 and 2013, respectively.

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

	<u>2012</u>	<u>2013</u>
Total payment due under capital leases	\$ 85,155	\$ 87,573
Amount representing maintenance	(27,188)	(11,472)
Amount representing interest	<u>(10,873)</u>	<u>(11,969)</u>
Present Value	<u>\$ 47,094</u>	<u>\$ 64,132</u>

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

2014	\$ 12,897
2015	13,968
2016	15,127
2017	16,383
2018	<u>5,758</u>
Total minimum capital lease payments	<u>\$ 64,132</u>

Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements
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7. Demand Note Payable, Bank

For the years ended June 30, 2012 and 2013, the demand note payable drawn against the line of credit with Univest National Bank amounted to \$4,888,533 and \$3,798,493, respectively, bearing interest at the Bank's prime rate (3.25% as of June 30, 2012 and 2013). The remaining unused balance of these commitments at June 30, 2012 and 2013 amounted to \$611,467 and \$135,398, 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.

8. Note Payable, Bank

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

	<u>2012</u>	<u>2013</u>
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>	<u>-</u>
Long-term portion of note payable	<u>\$ 906,474</u>	<u>\$ -</u>

Interest cost incurred and expensed for the years ended June 30, 2012 and 2013 was \$214,977 and \$216,026, respectively.

During April 2013, the Institute paid the remaining balance of the above note payable in full utilizing temporarily restricted investment funds after receiving donor approval. The temporarily restricted investment funds are being replenished over a ten year period with interest accruing at 4% annually.

9. Net Assets

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

	<u>2012</u>	<u>2013</u>
Operations	\$ 2,280,068	\$ 1,257,462
Lectures	270,000	70,000
Publication programs	743,331	800,041
Fellowships	612,744	642,744
Honors	50,000	25,000
Faculty development	<u>2,000</u>	<u>-</u>
Total	<u>\$ 3,958,143</u>	<u>\$ 2,795,247</u>

Permanently restricted net assets at June 30, 2012 and June 30, 2013 consisted of a \$1,000,000 fellowship endowment, the income of which is available for general operations.

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Notes to Consolidated Financial Statements
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10. 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 at 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 years ended June 30, 2012 and 2013.

11. 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 were invested in a manner selected by the Institute in consultation with the former president and could be liquidated and distributed to the former president at any time subject to the Institute's discretion. All risk associated with any increase or decrease in value was assumed by the 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 acquired 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:

	Fair Value	
	2012	2013
Short-term funds	\$ 149,298	\$ -
Corporate stocks	670,251	-
Total	<u>\$ 819,549</u>	<u>\$ -</u>

In December 2012, the Institute made a distribution of \$853,422 to the former president to satisfy the liability and retire the asset.

12. Concentration of Credit Risk

The Institute maintains its cash accounts in commercial banks. These account balances may, at times, exceed the Federal Deposit Insurance Corporation's limits.

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Notes to Consolidated Financial Statements

June 30, 2012 and 2013

13. 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 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.

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Notes to Consolidated Financial Statements
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Changes in endowment net assets for the year ended June 30, 2013 and 2012:

	2012		
	Unrestricted	Permanently Restricted	Total
Endowment net assets, July 1, 2011	\$ 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, June 30, 2012	\$ 189,546	\$ 1,000,000	\$ 1,189,546
	2013		
	Unrestricted	Permanently Restricted	Total
Endowment net assets, July 1, 2012	\$ 189,546	\$ 1,000,000	\$ 1,189,546
Investment return:			
Investment income	34,782	-	34,782
Net appreciation (realized and unrealized)	92,756	-	92,756
Total investment return	127,538	-	127,538
Amounts released	(27,507)	-	(27,507)
Endowment net assets, June 30, 2013	\$ 289,577	\$ 1,000,000	\$ 1,289,577

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 or 2013.

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14. Related Party Transactions

The Institute received contributions from related parties, principally Board members, totaling \$122,119 during the year ended June 30, 2012 and \$109,289 during the year ended June 30, 2013.

15. 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.

16. Subsequent Events

The Institute has made payments to reduce the demand note payable by approximately \$520,000 subsequent to year-end and through the date of this report.