

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

Consolidated Financial Statements

June 30, 2013 and 2014



**BAKER TILLY**

Candor. Insight. Results.

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

---

Table of Contents

June 30, 2013 and 2014

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Consolidated Financial Statements</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7



formerly  
PARENTEBEARD

Baker Tilly Virchow Krause, LLP  
20 Stanwix St, Ste 800  
Pittsburgh, PA 15222-4808  
tel 412 697 6400  
tel 800 267 9405  
fax 888 264 9617  
bakertilly.com

## 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, 2013 and 2014, 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 Intercollegiate Studies Institute, Inc. and Subsidiary as of June 30, 2013 and 2014, 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 Virchow Krause, LLP*

Philadelphia, Pennsylvania  
November 24, 2014

**Intercollegiate Studies Institute, Inc. and Subsidiary**Consolidated Statement of Financial Position  
June 30, 2013 and 2014

	<u>2013</u>	<u>2014</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 2,067,207	\$ 1,267,132
Accounts receivable	206,736	140,645
Inventory	331,351	285,716
Contributions receivable, current	1,073,192	514,659
Prepaid expenses	236,494	256,129
Total current assets	<u>3,914,980</u>	<u>2,464,281</u>
<b>Other Assets</b>		
Contributions receivable, long-term	82,456	288,787
Land, buildings and equipment, net	3,753,555	3,868,725
Long-term investments	3,972,500	4,829,001
Charitable remainder trusts	152,021	155,738
Total other assets	<u>7,960,532</u>	<u>9,142,251</u>
Total assets	<u>\$ 11,875,512</u>	<u>\$ 11,606,532</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Demand note payable, bank	\$ 3,798,493	\$ 2,882,000
Accounts payable	138,117	212,309
Current maturities of capital lease payable	12,897	13,968
Liability for funds held for others	214,725	131,865
Total current liabilities	<u>4,164,232</u>	<u>3,240,142</u>
<b>Long-Term Liabilities</b>		
Capital lease payable, net of current maturities	<u>51,235</u>	<u>37,267</u>
Total long-term liabilities	<u>51,235</u>	<u>37,267</u>
Total liabilities	<u>4,215,467</u>	<u>3,277,409</u>
<b>Net Assets</b>		
Unrestricted	3,864,798	5,045,409
Temporarily restricted	2,795,247	2,283,713
Permanently restricted	1,000,000	1,000,000
Total net assets	<u>7,660,045</u>	<u>8,329,122</u>
Total liabilities and net assets	<u>\$ 11,875,512</u>	<u>\$ 11,606,532</u>

See notes to consolidated financial statements

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

 Consolidated Statement of Activities  
 Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, Gains and Other Support</b>				
Contributions	\$ 3,551,790	\$ 2,100,015	\$ -	\$ 5,651,805
Programs	258,332	-	-	258,332
Publications	679,304	-	-	679,304
Investment income	119,415	-	-	119,415
Corporate rent	92,556	-	-	92,556
Satisfaction of program restrictions	2,611,549	(2,611,549)	-	-
Total revenue, gains and other support	7,312,946	(511,534)	-	6,801,412
<b>Expenses</b>				
Program:				
Publications	424,830	-	-	424,830
National student journalism	896,494	-	-	896,494
Lectures and debates	505,583	-	-	505,583
Honors fellows and fellowships	728,524	-	-	728,524
Membership services	447,413	-	-	447,413
Faculty development	219,378	-	-	219,378
Books	973,383	-	-	973,383
Liberty fund	378,534	-	-	378,534
Conferences	691,498	-	-	691,498
Total program expenses	5,265,637	-	-	5,265,637
Supporting Services:				
General and administrative	726,525	-	-	726,525
Development	620,355	-	-	620,355
Total supporting services expenses	1,346,880	-	-	1,346,880
Total expenses	6,612,517	-	-	6,612,517
Increase (decrease) in net assets from operating activities	700,429	(511,534)	-	188,895
<b>Non-Operating (Losses) Gains:</b>				
Net realized losses on investments	(9,249)	-	-	(9,249)
Net unrealized gains on investments	437,760	-	-	437,760
Change in value of split-interest agreements	51,671	-	-	51,671
Increase in net assets from non-operating activities	480,182	-	-	480,182
<b>Increase (Decrease) in Net Assets</b>	1,180,611	(511,534)	-	669,077
<b>Net Assets, Beginning of Year</b>	3,864,798	2,795,247	1,000,000	7,660,045
<b>Net Assets, End of Year</b>	\$ 5,045,409	\$ 2,283,713	\$ 1,000,000	\$ 8,329,122

See notes to consolidated financial statements

**Intercollegiate Studies Institute, Inc. and Subsidiary**Consolidated Statement of Activities  
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue, Gains and Other Support</b>				
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>
<b>Expenses</b>				
Program:				
Publications	229,421	-	-	229,421
National Student Journalist	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>
<b>Non-Operating Gains (Losses):</b>				
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>
<b>Increase (Decrease) in Net Assets</b>	<u>1,636,806</u>	<u>(1,162,896)</u>	<u>-</u>	<u>473,910</u>
<b>Net Assets, Beginning of Year</b>	<u>2,227,992</u>	<u>3,958,143</u>	<u>1,000,000</u>	<u>7,186,135</u>
<b>Net Assets, End of Year</b>	<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 Subsidiary**Consolidated Statement of Cash Flows  
Year Ended June 30, 2013 and 2014

	<u>2013</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 473,910	\$ 669,077
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	199,155	151,780
Gain on disposal of property and equipment	(5,498)	-
In-kind donation of equipment	-	(112,421)
Unrealized losses (gains) on investments	38,805	(437,760)
Realized (gains) losses on investments	(341,534)	9,249
Change in value of split-interest agreements	(920)	(51,671)
Changes in assets and liabilities:		
Contributions receivable	1,116,859	352,202
Prepaid expenses	38,396	(19,635)
Accounts receivable	53,174	66,091
Inventory	56,036	45,635
Investments designated for deferred compensation	819,549	-
Accounts payable	(39,636)	74,193
Deferred compensation payable	(819,549)	-
Liability for funds held for others	(70,789)	(82,860)
Net cash provided by operating activities	<u>1,517,958</u>	<u>663,880</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	-	(154,529)
Purchases of investments	-	(380,036)
Proceeds from sale of investments	1,996,191	-
Net cash provided by (used in) investing activities	<u>1,996,191</u>	<u>(534,565)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on note payable, bank	(936,508)	-
Proceeds from demand note payable, bank	1,648,937	-
Payments on demand note payable, bank	(2,738,977)	(916,493)
Net payments on capital lease payable	(58,047)	(12,897)
Net cash used in financing activities	<u>(2,084,595)</u>	<u>(929,390)</u>
Net increase (decrease) in cash	1,429,554	(800,075)
<b>Cash, Beginning</b>	<u>637,653</u>	<u>2,067,207</u>
<b>Cash, Ending</b>	<u>\$ 2,067,207</u>	<u>\$ 1,267,132</u>
<b>Supplementary Disclosure of Cash Flow Information,</b>		
Cash paid during the year for interest	<u>\$ 216,026</u>	<u>\$ 106,591</u>
<b>Supplementary Disclosure of Non-Cash Information,</b>		
Capital lease incurred for the acquisition of equipment	<u>\$ 75,085</u>	<u>\$ -</u>

See notes to consolidated financial statements



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

---

Notes to Consolidated Financial Statements

June 30, 2013 and 2014

## **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 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, 2013 and 2014

### **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, 2013 and 2014.

### **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, 2013 and 2014 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, 2013 and 2014

### **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 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, 2013 and 2014.

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, 2010.

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

## Intercollegiate Studies Institute, Inc. and Subsidiary

---

Notes to Consolidated Financial Statements  
June 30, 2013 and 2014

### 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 24, 2014 which is the date the consolidated financial statements were available to be issued.

### New Accounting Standards

In October 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale 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 not-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 was effective for the Institute's fiscal year beginning July 1, 2013. The adoption of this ASU did not have a significant impact on the Institute's financial position or results of operations.

In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*. This amendment will require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Such services will be required to be measured at the cost recognized by the affiliate for the personnel providing those services. However, if this measurement will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either the cost recognized by the affiliate for the personnel providing that service or the fair value of that service. This update is effective for the Institute's fiscal year beginning July 1, 2014. The guidance is prospective and management does not believe the adoption of this ASU will have a significant impact on the Institute's financial position or results of operations.

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, 2018. The Institute has not yet determined the impact of adoption of ASU 2014-09 on its financial statements.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2013 and 2014

### 2. Contributions Receivable

As of June 30, 2013 and 2014, 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, 2013 and 2014:

	<u>2013</u>	<u>2014</u>
Amounts due in less than one year	\$ 1,148,192	\$ 514,659
Amounts due between one and five years	86,522	289,891
Amounts due after five years	-	-
	<hr/>	<hr/>
Total value of contributions receivable	1,234,714	804,550
Less discount and allowance on contributions receivable	<hr/> 79,066	<hr/> 1,104
Reported value of contributions receivable	<u>\$ 1,155,648</u>	<u>\$ 803,446</u>

Receivables greater than one year were adjusted using a discount rate of 2.54% for the years ended June 30, 2013 and 2014, based on the length of the discount period and on the corresponding treasury bill rate at the time of the contribution.

The allowance for doubtful contributions receivable was \$75,000 at June 30, 2013. There was no allowance for doubtful contributions receivable at June 30, 2014.

### 3. Land, Buildings and Equipment

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

	<u>2013</u>	<u>2014</u>
Land	\$ 768,320	\$ 768,320
Buildings and improvements	4,287,956	4,360,510
Office furniture and equipment	<hr/> 272,079	<hr/> 466,475
	5,328,355	5,595,305
Less accumulated depreciation	<hr/> 1,574,800	<hr/> 1,726,580
Net	<u>\$ 3,753,555</u>	<u>\$ 3,868,725</u>

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2013 and 2014

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

	<u>2013</u>	<u>2014</u>
Equipment	\$ 75,085	\$ 75,085
Accumulated depreciation	<u>11,263</u>	<u>23,850</u>
Net	<u>\$ 63,822</u>	<u>\$ 51,235</u>

#### 4. Investments and Fair Value Measurements

The Institute measures its deposits with trustees and investments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Institute for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the same term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements  
June 30, 2013 and 2014

The following tables present the assets measured at fair value as of 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>

The following tables present the assets measured at fair value as of June 30, 2014:

	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term funds	\$ 821,380	\$ 821,380	\$ -	\$ -
Domestic bonds	690,509	690,509	-	-
Large cap stocks	1,697,339	1,697,339	-	-
Small cap stocks	303,660	303,660	-	-
International stocks	417,333	417,333	-	-
Other marketable securities	112,530	112,530	-	-
Annuity investments	786,250	786,250	-	-
Charitable remainder trusts	155,738	135,738	20,000	-
Total	<u>\$ 4,984,739</u>	<u>\$ 4,964,739</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, 2013 or 2014.

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.

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.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2013 and 2014

### 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 \$132,021 and \$135,738 as of June 30, 2013 and 2014, respectively. The relating liability for the charitable remainder trust totaled \$49,452 and \$40,329 as of June 30, 2013 and 2014, 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, 2013 and 2014.

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 \$165,273 and \$91,536 as of June 30, 2013 and 2014, 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 land, buildings and equipment. Depreciation of assets under capital leases is included in depreciation expense.

	<u>2013</u>	<u>2014</u>
Total payment due under capital leases	\$ 87,573	\$ 67,364
Amount representing maintenance	(11,472)	(8,824)
Amount representing interest	<u>(11,969)</u>	<u>(7,305)</u>
Present Value	<u>\$ 64,132</u>	<u>\$ 51,235</u>

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

2015	\$ 13,968
2016	15,127
2017	16,383
2018	5,757
2019	<u>-</u>
Total minimum capital lease payments	<u>\$ 51,235</u>

### 7. Demand Note Payable, Bank

For the years ended June 30, 2013 and 2014, the demand note payable drawn against the line of credit with Univest National Bank amounted to \$3,798,493 and \$2,882,000, respectively, bearing interest at the Bank's prime rate (3.25% as of June 30, 2013 and 2014). The remaining unused balance of these commitments at June 30, 2013 and 2014 amounted to \$135,398 and \$1,051,891, 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.



## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2013 and 2014

### 8. Net Assets

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

	<u>2013</u>	<u>2014</u>
Operations	\$ 1,257,462	\$ 773,394
Lectures	70,000	75,000
Publication programs	800,041	806,043
Fellowships	642,744	479,276
Honors	25,000	150,000
Total	<u>\$ 2,795,247</u>	<u>\$ 2,283,713</u>

Permanently restricted net assets at June 30, 2013 and June 30, 2014 consisted of a \$1,000,000 fellowship endowment, 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 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, 2013 and 2014.

### 10. 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.

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements  
June 30, 2013 and 2014

### 11. 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.

Changes in endowment net assets for the years ended June 30, 2013 and 2014:

	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

## Intercollegiate Studies Institute, Inc. and Subsidiary

Notes to Consolidated Financial Statements  
June 30, 2013 and 2014

	<u>2014</u>		
Endowment net assets, July 1, 2013	<u>\$ 289,577</u>	<u>\$ 1,000,000</u>	<u>\$ 1,289,577</u>
Investment return:			
Investment income	31,965	-	31,965
Net appreciation (realized and unrealized)	<u>164,151</u>	<u>-</u>	<u>164,151</u>
Total investment return	<u>196,116</u>	<u>-</u>	<u>196,116</u>
Amounts released	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Endowment net assets, June 30, 2014	<u>\$ 285,693</u>	<u>\$ 1,000,000</u>	<u>\$ 1,285,693</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, 2013 or 2014.

### 12. Related Party Transactions

The Institute received contributions from staff and Board members, totaling \$109,289 during the year ended June 30, 2013 and \$143,984 during the year ended June 30, 2014.

### 13. 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.

### 14. Subsequent Events

The Institute has made payments to reduce the demand note payable by approximately \$100,000 subsequent to year-end and through the date of this report.