

University of Southern Indiana Foundation

Accountants' Report and Consolidated Financial Statements

June 30, 2012 and 2011



University of Southern Indiana Foundation

June 30, 2012 and 2011

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Independent Accountants' Report on Consolidated Financial Statements and Supplementary Information

Board of Directors
University of Southern Indiana Foundation
Evansville, Indiana

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The accompanying supplementary consolidating information listed in the table of contents is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the separate entities and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

October 9, 2012

University of Southern Indiana Foundation
Consolidated Statements of Financial Position
June 30, 2012 and 2011

Assets

	2012	2011
Cash	\$ 599,014	\$ 705,964
Accounts and interest receivable	83,176	93,725
Contributions receivable, net	4,729,501	826,240
Prepaid expenses	17,535	1,984
Investments	70,416,808	68,186,768
Cash value of life insurance	258,726	178,836
Beneficial interest in charitable remainder trusts	680,416	689,081
Beneficial interest in perpetual trusts	3,005,440	3,092,429
Beneficial interest in Community Foundation	55,467	59,758
Real estate held for investment	2,406,765	2,348,560
Land	289,918	375,483
Buildings, net of accumulated depreciation; 2012 – \$215,818, 2011 – \$244,253	669,488	978,124
Buildings held for disposal, net of accumulated depreciation; 2012 – \$47,972, 2011 – \$0	207,428	-
Property management deposits	3,775	3,925
Total assets	\$ 83,423,457	\$ 77,540,877

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 30,038	\$ 22,464
Deposits	2,700	2,600
Deferred income	14,610	3,735
Payable to related parties	415,111	465,294
Annuities payable	1,912,038	1,081,653
Total liabilities	2,374,497	1,575,746

Net Assets

Unrestricted	12,443,665	12,612,843
Temporarily restricted	32,819,586	29,655,504
Permanently restricted	35,785,709	33,696,784
Total net assets	81,048,960	75,965,131
Total liabilities and net assets	\$ 83,423,457	\$ 77,540,877

University of Southern Indiana Foundation
Consolidated Statements of Activities
Years Ended June 30, 2012 and 2011

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and Other Support				
Contributions	\$ 111,267	\$ 5,533,200	\$ 2,143,664	\$ 7,788,131
Contribution from USI New Harmony Foundation	-	-	-	-
Change in value of split-interest agreements	-	(100,540)	(66,230)	(166,770)
Rental income (loss), net	(42,570)	-	-	(42,570)
Miscellaneous income	88,735	134,228	-	222,963
Reclassification of donor intent	-	(97,682)	97,682	-
Net assets released from restrictions	<u>2,671,556</u>	<u>(2,671,556)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>2,828,988</u>	<u>2,797,650</u>	<u>2,175,116</u>	<u>7,801,754</u>
Expenses				
Programs – University of Southern Indiana				
Scholarships and awards	1,620,068	-	-	1,620,068
Educational grants and academic enhancements	607,555	-	-	607,555
Athletic support	48,946	-	-	48,946
Other University support	541,417	-	-	541,417
Capital projects	-	-	-	-
Community outreach	<u>28,089</u>	<u>-</u>	<u>-</u>	<u>28,089</u>
Total program services	2,846,075	-	-	2,846,075
Management and general	573,181	-	-	573,181
Fundraising	208,397	-	-	208,397
Uncollectible pledge loss	<u>-</u>	<u>28,485</u>	<u>-</u>	<u>28,485</u>
Total expenses	<u>3,627,653</u>	<u>28,485</u>	<u>-</u>	<u>3,656,138</u>
Other Changes				
Investment income, net	629,510	319,318	798	949,626
Change in value of beneficial interests	-	(4,291)	(86,989)	(91,280)
Mineral royalty income	122,142	-	-	122,142
Loss on disposal of property	(94,805)	-	-	(94,805)
Property contribution – University of Southern Indiana	(27,360)	-	-	(27,360)
Gain on cash value of life insurance	<u>-</u>	<u>79,890</u>	<u>-</u>	<u>79,890</u>
Total other changes	<u>629,487</u>	<u>394,917</u>	<u>(86,191)</u>	<u>938,213</u>
Change in Net Assets	(169,178)	3,164,082	2,088,925	5,083,829
Net Assets, Beginning of Year	<u>12,612,843</u>	<u>29,655,504</u>	<u>33,696,784</u>	<u>75,965,131</u>
Net Assets, End of Year	<u>\$ 12,443,665</u>	<u>\$ 32,819,586</u>	<u>\$ 35,785,709</u>	<u>\$ 81,048,960</u>

See Notes to Consolidated Financial Statements

2011

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 314,925	\$ 1,173,808	\$ 1,376,883	\$ 2,865,616
-	623,461	-	623,461
-	113,888	44,550	158,438
(24,678)	-	-	(24,678)
93,463	117,604	-	211,067
-	-	-	-
<u>1,573,385</u>	<u>(1,573,385)</u>	<u>-</u>	<u>-</u>
<u>1,957,095</u>	<u>455,376</u>	<u>1,421,433</u>	<u>3,833,904</u>
673,630	-	-	673,630
530,123	-	-	530,123
53,998	-	-	53,998
424,397	-	-	424,397
44,215	-	-	44,215
<u>52,343</u>	<u>-</u>	<u>-</u>	<u>52,343</u>
1,778,706	-	-	1,778,706
505,798	-	-	505,798
200,438	-	-	200,438
<u>-</u>	<u>15,684</u>	<u>79</u>	<u>15,763</u>
<u>2,484,942</u>	<u>15,684</u>	<u>79</u>	<u>2,500,705</u>
2,411,417	9,830,955	206,621	12,448,993
-	8,807	363,811	372,618
135,087	-	-	135,087
(5,040)	-	-	(5,040)
(94,500)	-	-	(94,500)
<u>-</u>	<u>1,371</u>	<u>-</u>	<u>1,371</u>
<u>2,446,964</u>	<u>9,841,133</u>	<u>570,432</u>	<u>12,858,529</u>
1,919,117	10,280,825	1,991,786	14,191,728
<u>10,693,726</u>	<u>19,374,679</u>	<u>31,704,998</u>	<u>61,773,403</u>
<u>\$ 12,612,843</u>	<u>\$ 29,655,504</u>	<u>\$ 33,696,784</u>	<u>\$ 75,965,131</u>

University of Southern Indiana Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	\$ 5,083,829	\$ 14,191,728
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized gain on sale of investments	(470,606)	(84,340)
Loss on sale of property	94,805	5,040
Contribution of investments and real estate, net	(415,138)	(847,700)
Depreciation	44,168	45,697
Property contribution – University of Southern Indiana	27,360	94,500
Unrealized (gain) loss on investments	1,528,945	(10,775,264)
Changes in		
Accounts and interest receivable	10,549	(3,957)
Contributions receivable	(3,903,261)	407,056
Beneficial interest investments	99,945	(469,736)
Prepaid expenses	(15,551)	16,951
Increase in cash value of life insurance	(79,890)	(1,372)
Accounts payable and payable to related parties	(42,609)	(475,015)
Deposits	250	425
Annuities payable	830,385	(137,307)
Deferred income	10,875	3,735
	<u>2,804,056</u>	<u>1,970,441</u>
Net cash provided by operating activities		
Investing Activities		
Improvements to land and buildings	(37,765)	(21,280)
Purchase of investments	(10,287,297)	(8,995,653)
Sales and maturities of investments	8,615,503	6,974,992
Change in cash investments	(1,201,447)	434,716
	<u>(2,911,006)</u>	<u>(1,607,225)</u>
Net cash used in investing activities		
Increase (Decrease) in Cash	(106,950)	363,216
Cash, Beginning of Year	<u>705,964</u>	<u>342,748</u>
Cash, End of Year	<u>\$ 599,014</u>	<u>\$ 705,964</u>

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The University of Southern Indiana Foundation (Foundation) is a not-for-profit organization the mission and principal activity of which is to support the activities of the University of Southern Indiana (University) and includes the activities of various University support organizations. The Foundation's revenues and other support are derived principally from contributions and its activities are conducted principally in the Southwest Indiana area.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, Southern Indiana Higher Education Holdings, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Operational income of the subsidiary is minimal. On June 22, 2011, the Foundation acquired the net assets of USI New Harmony Foundation, Inc. (USI New Harmony Foundation). The assets acquired largely consisted of cash and investments.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

Cash consists of bank deposits in federally insured accounts. Pursuant to legislation enacted in 2010, the Federal Deposit Insurance Corporation's (FDIC) will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions.

Interest-bearing accounts held at FDIC-insured institutions are insured up to \$250,000. At June 30, 2012, the Foundation's interest-bearing accounts and certificates of deposit did not exceed federally insured limits.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments. Investment return is presented net of fees.

University of Southern Indiana Foundation

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Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Investments in real estate are recorded at the market value when donated or at the lower of cost or market if purchased. The properties held for investment are not depreciated.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset.

Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2012 and 2011.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those the use of which by the Foundation has been limited by donors to a specific time period or purpose. Unconditional promises to give that are due in future periods and are not permanently restricted are classified as temporarily restricted net assets. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

No amounts have been reflected in the consolidated financial statements for donated services because the Foundation generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific assistance programs, solicitations and various committee assignments.

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in U.S. federal and state jurisdictions. With a few exceptions, the Foundation is no longer subject to U.S. federal and state examinations by tax authorities for years before 2008.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on actual direct expenditures and other methods.

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

Scholarship Expense

In light of market conditions, the University committed to providing temporary funding to meet the scholarship obligations normally paid by the Foundation's endowed scholarship funds for fiscal year ended June 30, 2011. This allowed for the continued funding of scholarship expenses without driving the Foundation's endowment funds further underwater through spending on top of market losses and assists in quicker endowment value recovery when market conditions recover.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the consolidated financial statements were available to be issued.

Note 2: Contributions Receivable

Contributions receivable at June 30 consisted of the following:

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 1,142,222	\$ 87,992	\$ 1,230,214
Due in one to five years	2,751,788	224,981	2,976,769
Due in five or more years	<u>757,878</u>	<u>-</u>	<u>757,878</u>
	4,651,888	312,973	4,964,861
Less			
Allowance for uncollectible contributions	23,500	-	23,500
Unamortized discount	<u>201,373</u>	<u>10,487</u>	<u>211,860</u>
	<u>\$ 4,427,015</u>	<u>\$ 302,486</u>	<u>\$ 4,729,501</u>

University of Southern Indiana Foundation
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The discount rate used was 1.28 percent for 2012. Approximately 81 percent of the contributions receivable at June 30, 2012, were due from two donors.

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 445,471	\$ 10,800	\$ 456,271
Due in one to five years	201,888	212,346	414,234
	647,359	223,146	870,505
Less			
Allowance for uncollectible contributions	13,500	-	13,500
Unamortized discount	14,437	16,328	30,765
	\$ 619,422	\$ 206,818	\$ 826,240

The discount rate used was 2.73 percent for 2011. Approximately 49 percent of the contributions receivable at June 30, 2011, were due from two donors.

Contributions receivable designated for specific purposes and with time restrictions at June 30 were as follows:

	2012	2011
Scholarships and awards	\$ 183,948	\$ 71,629
Educational grants and academic enhancements	1,340,160	545,021
Athletic support	57,078	12,133
Other University support	606,391	37,024
Capital projects	2,415,027	58,176
Community outreach	18,605	56,409
Time restrictions	108,292	45,848
	\$ 4,729,501	\$ 826,240

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Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

	Market	
	2012	2011
Short-term investments	\$ 2,911,640	\$ 1,710,192
U.S. Treasury securities	3,561,402	3,764,897
Corporate debt securities	3,017,208	3,075,042
Certificates of deposit	162,882	156,612
Common stocks	8,372,568	7,346,930
Preferred stocks	511,759	1,012,028
Mutual funds		
Fixed income	11,745,713	9,270,951
International	11,416,919	12,313,961
Large cap	20,567,491	21,992,038
Small cap	7,026,746	7,468,188
Alternative investment – private investment fund	1,122,480	75,929
	\$ 70,416,808	\$ 68,186,768

Included in the Foundation's investments above are investments subject to split-interest agreements with a fair market value of \$69,471 and \$74,516 as of June 30, 2012 and 2011, respectively.

The aggregate amount of deficiencies in the fair values of assets for all donor-restricted endowment funds that are less than the level required by donor stipulations was \$9,486 and \$12,817 as of June 30, 2012 and 2011, respectively.

Total investment return at June 30 was comprised of the following:

	2012	2011
Interest and dividend income	\$ 2,124,802	\$ 1,705,077
Investment management fees	(116,837)	(115,688)
	2,007,965	1,589,389
Net realized and unrealized gains (losses) on investments reported at fair value	(1,058,339)	10,859,604
	\$ 949,626	\$ 12,448,993

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Note 4: Beneficial Interest in Trusts

The Foundation is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the Foundation has the irrevocable right to receive income earned on the trusts' assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$3,005,440 and \$3,092,429, which represents the fair value of the trusts' assets at June 30, 2012 and 2011, respectively. The gain (loss) from these trusts for 2012 and 2011 was \$(86,989) and \$363,811, respectively.

The Foundation has been named a secondary beneficiary in certain charitable remainder trusts administered by outside parties. Upon termination of the trusts, the Foundation will receive the assets remaining in the trusts. Prior to termination of the trusts and transfer of assets, the Foundation records the present value of the estimated residual benefits as assets. At June 30, 2012 and 2011, the residual benefits were valued at \$680,416 and \$689,081, respectively.

Note 5: Annuities Payable

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value and are recorded in temporarily or permanently restricted funds in accordance with the donor restrictions. The Foundation has recorded a liability at June 30, 2012 and 2011, in the temporarily restricted funds of \$443,662 and \$453,172, respectively, and in the permanently restricted funds of \$1,468,376 and \$628,481, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from approximately three percent to eight percent.

Note 6: Net Assets

Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Scholarships and awards	\$ 17,342,391	\$ 18,243,004
Educational grants and academic enhancements	7,938,817	7,069,643
Athletic support	713,906	614,061
Other University support	3,213,326	2,522,689
Capital projects	3,161,690	787,357
Community outreach	341,164	372,902
For periods after June 30	<u>108,292</u>	<u>45,848</u>
	<u>\$ 32,819,586</u>	<u>\$ 29,655,504</u>

University of Southern Indiana Foundation
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Athletic support and other University support may be spent on fundraising activities if approved by the officers and/or directors of the support organizations for which the net assets are restricted.

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2012	2011
Investment in perpetuity, the income of which is expendable to support		
Scholarships and awards	\$ 23,189,488	\$ 22,622,830
Educational grants and academic enhancements	6,555,380	5,420,780
Other University support	6,040,841	5,653,174
	<u>\$ 35,785,709</u>	<u>\$ 33,696,784</u>

Net Assets Released From Restrictions

Net assets were released from donor restrictions by receipt of pledge payments, incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2012	2011
Purpose restrictions released		
Scholarships and awards	\$ 1,581,798	\$ 662,430
Educational grants and academic enhancements	587,241	503,082
Athletic support	48,946	53,998
Other University support	425,482	257,317
Capital projects	-	44,215
Community outreach	28,089	52,343
Total restrictions released	<u>\$ 2,671,556</u>	<u>\$ 1,573,385</u>

Note 7: Endowment

The Foundation's endowment consists of approximately 300 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the State of Indiana Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the

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contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30 was:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (9,485)	\$ 10,194,932	\$ 32,532,478	\$ 42,717,925
Board-designated endowment funds	<u>7,088,896</u>	<u>-</u>	<u>-</u>	<u>7,088,896</u>
Total endowment funds	<u>\$ 7,079,411</u>	<u>\$ 10,194,932</u>	<u>\$ 32,532,478</u>	<u>\$ 49,806,821</u>
	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (12,817)	\$ 10,818,133	\$ 30,368,898	\$ 41,174,214
Board-designated endowment funds	<u>7,139,351</u>	<u>-</u>	<u>-</u>	<u>7,139,351</u>
Total endowment funds	<u>\$ 7,126,534</u>	<u>\$ 10,818,133</u>	<u>\$ 30,368,898</u>	<u>\$ 48,313,565</u>

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Changes in endowment net assets for the years ended June 30 were:

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 7,126,534	\$ 10,818,133	\$ 30,368,898	\$ 48,313,565
Investment return				
Investment income	142,943	1,350,333	26,745	1,520,021
Net depreciation	(141,082)	(1,178,993)	(25,947)	(1,346,022)
Total investment return	1,861	171,340	798	173,999
Contributions	100	55,818	2,143,664	2,199,582
Appropriation of endowment assets for expenditure	(49,084)	(904,359)	-	(953,443)
Reclassification of donor intent	-	54,000	97,682	151,682
Other changes – change in value of split-interest agreements	-	-	(78,564)	(78,564)
	(48,984)	(794,541)	2,162,782	1,319,257
Endowment net assets, end of year	\$ 7,079,411	\$ 10,194,932	\$ 32,532,478	\$ 49,806,821

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 5,324,436	\$ 3,103,187	\$ 28,770,162	\$ 37,197,785
Investment return				
Investment income	155,437	602,570	16,425	774,432
Net appreciation	<u>1,658,637</u>	<u>7,048,200</u>	<u>190,196</u>	<u>8,897,033</u>
Total investment return	<u>1,814,074</u>	<u>7,650,770</u>	<u>206,621</u>	<u>9,671,465</u>
Contributions	25,212	133,743	1,376,883	1,535,838
Appropriation of endowment assets for expenditure	(37,188)	(69,567)	-	(106,755)
Other changes – uncollectible pledge loss	-	-	(79)	(79)
Other changes – change in value of split-interest agreements	<u>-</u>	<u>-</u>	<u>15,311</u>	<u>15,311</u>
	<u>(11,976)</u>	<u>64,176</u>	<u>1,392,115</u>	<u>1,444,315</u>
Endowment net assets, end of year	\$ <u>7,126,534</u>	\$ <u>10,818,133</u>	\$ <u>30,368,898</u>	\$ <u>48,313,565</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30 consisted of:

	2012	2011
Permanently restricted net assets – portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	\$ <u>32,532,478</u>	\$ <u>30,368,898</u>
Temporarily restricted net assets – portion of perpetual endowment funds subject to a time restriction under SPMIFA – with purpose restrictions	\$ <u>10,194,932</u>	\$ <u>10,818,133</u>

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$9,485 and \$12,817 at June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for scholarships and other programs supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those assets of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is intended to offer equity and fixed income investments that are diversified among various asset classes, thus minimizing risk of large losses, out-perform inflation by the long-term spending level for endowed funds and maximize total return with reasonable and prudent levels of risk.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's spending policy goals include maintaining reasonable inflation-adjusted spending into the future, providing for sufficient asset growth after spending to preserve the inflation-adjusted value of the assets and smoothing spending on a quarterly basis rather than vary it with short-term changes in interest rates and asset values. The Foundation sets the spending level to balance current need with growth for the future. The current spending rate is 4.5 percent calculated on a rolling twelve-quarter average market value of each endowment fund. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 8: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements* (Topic 820), defines fair value 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. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include short-term investments (money market mutual funds), common and preferred stocks and mutual funds. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include corporate debt and U.S. Treasury securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified as Level 3 of the hierarchy and include a private investment fund.

Beneficial Interest in Charitable Remainder Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Beneficial Interest in Community Foundation

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

	2012			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Short-term investments	\$ 1,590,281	\$ 1,590,281	\$ -	\$ -
U.S. Treasury securities	3,561,402	-	3,561,402	-
Corporate debt securities	3,017,208	-	3,017,208	-
Common stocks	8,372,568	8,372,568	-	-
Preferred stocks	511,759	511,759	-	-
Mutual funds				
Fixed income	11,745,713	11,745,713	-	-
International	11,416,919	11,416,919	-	-
Large cap	20,567,491	20,567,491	-	-
Small cap	7,026,746	7,026,746	-	-
Private investment fund	<u>1,122,480</u>	<u>-</u>	<u>-</u>	<u>1,122,480</u>
	<u>\$ 68,932,567</u>	<u>\$ 61,231,477</u>	<u>\$ 6,578,610</u>	<u>\$ 1,122,480</u>
Beneficial interest in charitable remainder trusts	<u>\$ 680,416</u>	<u>\$ -</u>	<u>\$ 680,416</u>	<u>\$ -</u>
Beneficial interest in perpetual trusts	<u>\$ 3,005,440</u>	<u>\$ -</u>	<u>\$ 3,005,440</u>	<u>\$ -</u>
Beneficial interest in Community Foundation	<u>\$ 55,467</u>	<u>\$ -</u>	<u>\$ 55,467</u>	<u>\$ -</u>

University of Southern Indiana Foundation

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

	2011			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Short-term investments	\$ 1,321,975	\$ 1,321,975	\$ -	\$ -
U.S. Treasury securities	3,764,897	-	3,764,897	-
Corporate debt securities	3,075,042	-	3,075,042	-
Common stocks	7,346,930	7,346,930	-	-
Preferred stocks	1,012,028	1,012,028	-	-
Mutual funds				
Fixed income	9,270,951	9,270,951	-	-
International	12,313,961	12,313,961	-	-
Large cap	21,992,038	21,992,038	-	-
Small cap	7,468,188	7,468,188	-	-
Private investment fund	<u>75,929</u>	<u>-</u>	<u>-</u>	<u>75,929</u>
	<u>\$ 67,641,939</u>	<u>\$ 60,726,071</u>	<u>\$ 6,839,939</u>	<u>\$ 75,929</u>
Beneficial interest in charitable remainder trusts	<u>\$ 689,081</u>	<u>\$ -</u>	<u>\$ 689,081</u>	<u>\$ -</u>
Beneficial interest in perpetual trusts	<u>\$ 3,092,429</u>	<u>\$ -</u>	<u>\$ 3,092,429</u>	<u>\$ -</u>
Beneficial interest in Community Foundation	<u>\$ 59,758</u>	<u>\$ -</u>	<u>\$ 59,758</u>	<u>\$ -</u>

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the consolidated accompanying statement of financial position using significant unobservable (Level 3) inputs:

	Private Investment Fund
Balance, July 1, 2010	\$ -
Total realized and unrealized gains and losses included in other changes in net assets	(14,071)
Purchases	<u>90,000</u>
Balance, June 30, 2011	75,929
Total realized and unrealized gains and losses included in other changes in net assets	5,551
Purchases	<u>1,041,000</u>
Balance, June 30, 2012	\$ <u>1,122,480</u>

Level 3 realized and unrealized gains and losses included in change in net assets for the years ended June 30 are reported in the consolidated statement of activities as follows:

	2012	2011
Total gains and losses	\$ <u>5,551</u>	\$ <u>(14,071)</u>
Change in unrealized losses relating to assets still held at the consolidated statement of financial position date	\$ <u>1,052</u>	\$ <u>(13,318)</u>

Note 9: Related-Party Transactions

The University and the Foundation are related parties that are not financially interrelated organizations. The University authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the University.

The Foundation paid an annual administrative fee of \$280,900 and \$248,200 to the University for the years ended June 30, 2012 and 2011, respectively, for accounting, computer, administrative and other miscellaneous services provided to the Foundation by University personnel.

Amounts due to the University for approved program expenditures, which are included in payable to related parties as of June 30, 2012 and 2011, were \$415,111 and \$465,294, respectively.

University of Southern Indiana Foundation

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Note 10: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

In 2012 and 2011, approximately 76 percent and 26 percent of all contributions were received from three donors and one donor, respectively.

Note 11: Risks and Uncertainties

Investments

The Foundation invests in various investment securities. Investment securities, as well as beneficial interests in trusts, are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and beneficial interests, it is at least reasonably possible that the changes in the values of investment securities and beneficial interests will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Current Economic Conditions

The current economic situation continues to present not-for-profit organizations with difficult circumstances and challenges, which, in some cases, have resulted in large declines in the fair value of investments, declines in contributions, constraints on liquidity and difficulty obtaining financing. The consolidated financial statements have been prepared using values and information currently available to the Foundation.

Current economic conditions have made it difficult for many donors to continue to contribute to not-for-profit organizations. A significant decline in contribution revenue could have an adverse impact on the Foundation's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in investment values and contributions receivable that could negatively impact the Foundation's financial position.

Supplementary Information

University of Southern Indiana Foundation
Consolidating Schedules of Financial Position Information
June 30, 2012
(With Comparative Totals for 2011)

	2012			
	University of Southern Indiana Foundation	Southern Indiana Higher Education Holdings, LLC	Eliminations	Total
Assets				
Cash	\$ 198,117	\$ 400,897	\$ -	\$ 599,014
Accounts and interest receivable	72,796	10,380	-	83,176
Contributions receivable, net	4,729,501	-	-	4,729,501
Prepaid expenses	17,535	-	-	17,535
Investments	70,416,808	-	-	70,416,808
Cash value of life insurance	258,726	-	-	258,726
Beneficial interest in charitable remainder trusts	680,416	-	-	680,416
Beneficial interest in perpetual trusts	3,005,440	-	-	3,005,440
Beneficial interest in Community Foundation	55,467	-	-	55,467
Real estate held for investment	370,060	2,036,705	-	2,406,765
Investment in Southern Indiana Higher Education Holdings, LLC	2,982,889	-	(2,982,889)	-
Land	110,863	179,055	-	289,918
Buildings, net of accumulated depreciation; 2012 – \$215,818, 2011 – \$244,253	312,112	357,376	-	669,488
Buildings held for disposal, net of accumulated depreciation; 2012 – \$47,972, 2011 – \$0	207,428	-	-	207,428
Property management deposits	1,450	2,325	-	3,775
Total assets	<u>\$ 83,419,608</u>	<u>\$ 2,986,738</u>	<u>\$ (2,982,889)</u>	<u>\$ 83,423,457</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 27,889	\$ 2,149	\$ -	\$ 30,038
Deposits	1,000	1,700	-	2,700
Deferred income	14,610	-	-	14,610
Payable to related parties	415,111	-	-	415,111
Annuities payable	1,912,038	-	-	1,912,038
Total liabilities	<u>2,370,648</u>	<u>3,849</u>	<u>-</u>	<u>2,374,497</u>
Net Assets				
Unrestricted	12,443,665	2,982,889	(2,982,889)	12,443,665
Temporarily restricted	32,819,586	-	-	32,819,586
Permanently restricted	35,785,709	-	-	35,785,709
Total net assets	<u>81,048,960</u>	<u>2,982,889</u>	<u>(2,982,889)</u>	<u>81,048,960</u>
Total liabilities and net assets	<u>\$ 83,419,608</u>	<u>\$ 2,986,738</u>	<u>\$ (2,982,889)</u>	<u>\$ 83,423,457</u>

2011

Total

\$ 705,964
93,725
826,240
1,984
68,186,768
178,836

689,081
3,092,429

59,758
2,348,560

-
375,483

978,124

-
3,925

\$ 77,540,877

\$ 22,464
2,600
3,735
465,294
1,081,653

1,575,746

12,612,843
29,655,504
33,696,784

75,965,131

\$ 77,540,877

University of Southern Indiana Foundation
Consolidating Schedules of Activities Information
Year Ended June 30, 2012
(With Comparative Totals for 2011)

	2012			
	Unrestricted			
	University of Southern Indiana Foundation	Southern Indiana Higher Education Holdings, LLC	Eliminations	Total
Revenues and Other Support				
Contributions	\$ 111,267	\$ -	\$ -	\$ 111,267
Contribution from USI/NH Foundation	-	-	-	-
Change in value of split-interest agreements	-	-	-	-
Rental income (loss), net	(40,886)	(1,684)	-	(42,570)
Miscellaneous income	88,735	-	-	88,735
Reclassification of donor intent	-	-	-	-
Net assets released from restrictions	2,671,556	-	-	2,671,556
Total revenues and other support	<u>2,830,672</u>	<u>(1,684)</u>	<u>-</u>	<u>2,828,988</u>
Expenses				
Programs – University of Southern Indiana				
Scholarships and awards	1,620,068	-	-	1,620,068
Educational grants and academic enhancements	607,555	-	-	607,555
Athletic support	48,946	-	-	48,946
Other University support	541,417	-	-	541,417
Capital projects	-	-	-	-
Community outreach	28,089	-	-	28,089
Total program services	<u>2,846,075</u>	<u>-</u>	<u>-</u>	<u>2,846,075</u>
Management and general	529,645	43,536	-	573,181
Fundraising	208,397	-	-	208,397
Uncollectible pledge loss	-	-	-	-
Total expenses	<u>3,584,117</u>	<u>43,536</u>	<u>-</u>	<u>3,627,653</u>
Other Changes				
Investment income, net	628,331	1,179	-	629,510
Change in value of beneficial interest in trusts	-	-	-	-
Mineral royalty income	-	122,142	-	122,142
Loss on disposal of property	-	(94,805)	-	(94,805)
Property contribution – University of Southern Indiana	-	(27,360)	-	(27,360)
Net income of subsidiary	(44,064)	-	44,064	-
Gain on cash value of life insurance	-	-	-	-
Total other changes	<u>584,267</u>	<u>1,156</u>	<u>44,064</u>	<u>629,487</u>
Change in Net Assets	<u>\$ (169,178)</u>	<u>\$ (44,064)</u>	<u>\$ 44,064</u>	<u>\$ (169,178)</u>

		2011	
Temporarily Restricted	Permanently Restricted		
University of Southern Indiana Foundation	University of Southern Indiana Foundation	Total	Total
\$ 5,533,200	\$ 2,143,664	\$ 7,788,131	\$ 2,865,616
-	-	-	623,461
(100,540)	(66,230)	(166,770)	158,438
-	-	(42,570)	(24,678)
134,228	-	222,963	211,067
(97,682)	97,682	-	-
(2,671,556)	-	-	-
<u>2,797,650</u>	<u>2,175,116</u>	<u>7,801,754</u>	<u>3,833,904</u>
-	-	1,620,068	673,630
-	-	607,555	530,123
-	-	48,946	53,998
-	-	541,417	424,397
-	-	-	44,215
-	-	28,089	52,343
-	-	2,846,075	1,778,706
-	-	573,181	505,798
-	-	208,397	200,438
28,485	-	28,485	15,763
<u>28,485</u>	<u>-</u>	<u>3,656,138</u>	<u>2,500,705</u>
319,318	798	949,626	12,448,993
(4,291)	(86,989)	(91,280)	372,618
-	-	122,142	135,087
-	-	(94,805)	(5,040)
-	-	(27,360)	(94,500)
-	-	-	-
79,890	-	79,890	1,371
<u>394,917</u>	<u>(86,191)</u>	<u>938,213</u>	<u>12,858,529</u>
<u>\$ 3,164,082</u>	<u>\$ 2,088,925</u>	<u>\$ 5,083,829</u>	<u>\$ 14,191,728</u>