

**University of Southern Indiana Foundation**  
Accountants' Report and Consolidated Financial Statements  
June 30, 2009 and 2008



**University of Southern Indiana Foundation**  
**June 30, 2009 and 2008**

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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, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2009 and 2008, 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.

As discussed in Note 9, in 2009 the Foundation changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary consolidating information 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. The consolidating information has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

BKD, LLP

October 5, 2009

**University of Southern Indiana Foundation**  
**Consolidated Statements of Financial Position**  
**June 30, 2009 and 2008**

**Assets**

	<u>2009</u>	<u>2008</u>
Cash	\$ 147,274	\$ 45,066
Accounts and interest receivable	74,988	111,771
Contributions receivable, net	1,107,590	2,037,992
Prepaid expenses	4,480	6,841
Investments	48,297,778	56,795,341
Cash value of life insurance	165,245	156,701
Beneficial interest in charitable remainder trusts	565,447	719,047
Beneficial interest in perpetual trusts	2,594,334	3,245,783
Beneficial interest in Community Foundation	51,918	68,476
Real estate held for investment	2,443,060	2,443,060
Land	398,523	429,643
Buildings, net of accumulated depreciation; 2009 – \$159,833, 2008 – \$100,801	1,079,235	1,260,146
Land and buildings held for sale, net of accumulated depreciation; 2009 – \$0, 2008 – \$59,350	153,000	231,737
Property management deposits	<u>7,025</u>	<u>3,000</u>
Total assets	<u>\$ 57,089,897</u>	<u>\$ 67,554,604</u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 54,392	\$ 48,933
Notes payable	-	73,093
Deposits	5,025	2,000
Deferred income	7,435	23,952
Payable to related parties	711,127	1,086,572
Annuities payable	<u>1,147,945</u>	<u>1,210,103</u>
Total liabilities	<u>1,925,924</u>	<u>2,444,653</u>

**Net Assets**

Unrestricted	8,378,719	11,883,040
Temporarily restricted	16,315,314	22,632,611
Permanently restricted	<u>30,469,940</u>	<u>30,594,300</u>
Total net assets	<u>55,163,973</u>	<u>65,109,951</u>
Total liabilities and net assets	<u>\$ 57,089,897</u>	<u>\$ 67,554,604</u>

**University of Southern Indiana Foundation**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2009 and 2008**

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues and Other Support</b>				
Contributions	\$ 121,827	\$ 1,874,332	\$ 826,773	\$ 2,822,932
Change in value of split-interest agreements	-	(164,208)	(85,507)	(249,715)
Rental income (loss), net	(21,569)	-	-	(21,569)
Miscellaneous income	86,017	118,085	-	204,102
Reclassification of donor intent	(639)	(5,787)	6,426	-
Net assets released from restrictions	<u>2,599,427</u>	<u>(2,599,427)</u>	<u>-</u>	<u>-</u>
<b>Total revenues and other support</b>	<u>2,785,063</u>	<u>(777,005)</u>	<u>747,692</u>	<u>2,755,750</u>
<b>Expenses</b>				
Programs – University of Southern Indiana				
Scholarships and awards	1,502,871	-	-	1,502,871
Educational grants and academic enhancements	758,897	-	-	758,897
Athletic support	70,981	-	-	70,981
Other University support	467,117	-	-	467,117
Capital projects	6,147	-	-	6,147
Community outreach	<u>108,421</u>	<u>-</u>	<u>-</u>	<u>108,421</u>
<b>Total program services</b>	<u>2,914,434</u>	<u>-</u>	<u>-</u>	<u>2,914,434</u>
Management and general	388,694	-	-	388,694
Fundraising	208,814	-	-	208,814
Uncollectible pledge loss	<u>-</u>	<u>38,690</u>	<u>17,721</u>	<u>56,411</u>
<b>Total expenses</b>	<u>3,511,942</u>	<u>38,690</u>	<u>17,721</u>	<u>3,568,353</u>
<b>Other Changes</b>				
Investment income (loss), net	(2,872,405)	(5,494,588)	(202,882)	(8,569,875)
Change in value of beneficial interest in trusts	-	(16,558)	(651,449)	(668,007)
Gain on sale of property	94,350	-	-	94,350
Gain on cash value of life insurance	<u>613</u>	<u>9,544</u>	<u>-</u>	<u>10,157</u>
<b>Total other changes</b>	<u>(2,777,442)</u>	<u>(5,501,602)</u>	<u>(854,331)</u>	<u>(9,133,375)</u>
<b>Change in Net Assets</b>	<u>(3,504,321)</u>	<u>(6,317,297)</u>	<u>(124,360)</u>	<u>(9,945,978)</u>
<b>Net Assets, Beginning of Year</b>	<u>11,883,040</u>	<u>22,632,611</u>	<u>30,594,300</u>	<u>65,109,951</u>
<b>Net Assets, End of Year</b>	<u>\$ 8,378,719</u>	<u>\$ 16,315,314</u>	<u>\$ 30,469,940</u>	<u>\$ 55,163,973</u>

**2008**

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 3,120,344	\$ 2,042,785	\$ 808,862	\$ 5,971,991
-	(121,638)	(141,225)	(262,863)
41,839	1,200	-	43,039
90,291	128,286	-	218,577
-	800	(800)	-
<u>3,159,413</u>	<u>(3,159,413)</u>	<u>-</u>	<u>-</u>
<u>6,411,887</u>	<u>(1,107,980)</u>	<u>666,837</u>	<u>5,970,744</u>
1,319,099	-	-	1,319,099
693,275	-	-	693,275
137,563	-	-	137,563
472,264	-	-	472,264
797,897	-	-	797,897
<u>125,213</u>	<u>-</u>	<u>-</u>	<u>125,213</u>
3,545,311	-	-	3,545,311
378,414	-	-	378,414
201,727	-	-	201,727
<u>-</u>	<u>10,689</u>	<u>400</u>	<u>11,089</u>
<u>4,125,452</u>	<u>10,689</u>	<u>400</u>	<u>4,136,541</u>
30,397	(2,949,785)	(79,754)	(2,999,142)
-	(4,537)	(392,331)	(396,868)
-	-	-	-
<u>-</u>	<u>11,143</u>	<u>-</u>	<u>11,143</u>
<u>30,397</u>	<u>(2,943,179)</u>	<u>(472,085)</u>	<u>(3,384,867)</u>
2,316,832	(4,061,848)	194,352	(1,550,664)
<u>9,566,208</u>	<u>26,694,459</u>	<u>30,399,948</u>	<u>66,660,615</u>
<u>\$ 11,883,040</u>	<u>\$ 22,632,611</u>	<u>\$ 30,594,300</u>	<u>\$ 65,109,951</u>

**University of Southern Indiana Foundation**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Operating Activities</b>		
Change in net assets	\$ (9,945,978)	\$ (1,550,664)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized (gain) loss on sale of investments	1,701,618	(292,050)
Gain on sale of property	(94,350)	-
Contribution of investments and real estate	(422,723)	(3,206,862)
Depreciation	59,031	30,111
Unrealized loss on investments	8,826,165	6,628,976
Changes in		
Accounts and interest receivable	36,783	7,543
Contributions receivable	930,402	(567,430)
Beneficial interest investments	821,607	556,155
Prepaid expenses	2,361	(2,021)
Increase in cash value of life insurance	(8,544)	(11,143)
Accounts payable and payable to related parties	(369,986)	171,262
Deposits	(1,000)	(2,000)
Annuities payable	(62,158)	(45,171)
Deferred income	(16,517)	23,552
	<u>1,456,711</u>	<u>1,740,258</u>
<b>Investing Activities</b>		
Purchase of land and buildings	-	(203,500)
Proceeds from sale of land and buildings	326,087	-
Purchase of investments	(12,706,659)	(11,232,493)
Sales and maturities of investments	12,060,491	8,787,692
Change in cash investments	(961,329)	993,933
	<u>(1,281,410)</u>	<u>(1,654,368)</u>
<b>Financing Activity – Principal payments on notes payable</b>	<u>(73,093)</u>	<u>(82,834)</u>
<b>Increase in Cash</b>	102,208	3,056
<b>Cash, Beginning of Year</b>	<u>45,066</u>	<u>42,010</u>
<b>Cash, End of Year</b>	<u>\$ 147,274</u>	<u>\$ 45,066</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 355	\$ 4,911

# University of Southern Indiana Foundation

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### 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 whose mission and principal activity 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*

Effective in fiscal year 2008, the Foundation's financial statements reflect consolidated operations. The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, Southern Indiana Higher Education Holdings, LLC. On June 30, 2008, Southern Indiana Higher Education, Inc. contributed its wholly owned subsidiary, Southern Indiana Higher Education Holdings, LLC to the Foundation. The contributed assets consisted of land and certain residential properties surrounding the University. All significant intercompany accounts and transactions have been eliminated in consolidation. Operational income of the subsidiary is minimal.

#### *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. The financial institutions holding the Foundation's cash accounts are participating in the Federal Deposit Insurance Corporation's (FDIC) transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2013. At June 30, 2009, the Foundation's cash accounts and certificates of deposit did not exceed federally insured limits.



# University of Southern Indiana Foundation

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in 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.

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.

### ***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use 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 and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

# University of Southern Indiana Foundation

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

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.

### ***Reclassification of Donor Intent***

At times the Foundation receives requests from donors to change the specified use of their original gift. These requests are reviewed by the Foundation for approval. Approved changes, depending on the donor's requests, may result in the reclassification of net assets between unrestricted, temporarily restricted or permanently restricted net asset classes. These reclassifications are reflected in the consolidated statements of activities as reclassification of donor intent.

### ***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.

**University of Southern Indiana Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2009 and 2008**

**Uncertain Tax Positions**

In accordance with Financial Accounting Standards Board (FASB) Staff Position No. FIN 48-3, the Foundation has elected to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until its fiscal year ending June 30, 2010. The Foundation has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Statement No. 5, *Accounting for Contingencies*.

**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.

**Subsequent Events**

Subsequent events have been evaluated through October 5, 2009, which is the date the consolidated financial statements were issued.

**Reclassifications**

Certain reclassifications have been made to the 2008 consolidated financial statements to conform to the 2009 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

**Note 2: Contributions Receivable**

Contributions receivable at June 30 consisted of the following:

	<b>2009</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due within one year	\$ 557,531	\$ 205,262	\$ 762,793
Due in one to five years	<u>383,629</u>	<u>13,300</u>	<u>396,929</u>
	941,160	218,562	1,159,722
Less			
Allowance for uncollectible contributions	36,000	-	36,000
Unamortized discount	<u>16,132</u>	<u>-</u>	<u>16,132</u>
	<u>\$ 889,028</u>	<u>\$ 218,562</u>	<u>\$ 1,107,590</u>

The discount rate used was 2.71% for 2009. Approximately 17% of the contributions receivable at June 30, 2009, were due from one donor.

**University of Southern Indiana Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2009 and 2008**

	<b>2008</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due within one year	\$ 1,073,042	\$ 507,221	\$ 1,580,263
Due in one to five years	<u>501,493</u>	<u>7,165</u>	<u>508,658</u>
	1,574,535	514,386	2,088,921
Less			
Allowance for uncollectible contributions	20,000	-	20,000
Unamortized discount	<u>30,929</u>	<u>-</u>	<u>30,929</u>
	<u>\$ 1,523,606</u>	<u>\$ 514,386</u>	<u>\$ 2,037,992</u>

The discount rate used was 3.84% for 2008. Approximately 40% of the contributions receivable at June 30, 2008, were due from two donors.

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

	<b>2009</b>	<b>2008</b>
Scholarships and awards	\$ 373,045	\$ 680,752
Educational grants and academic enhancements	539,304	1,124,056
Athletic support	10,030	7,690
Other University support	41,574	103,285
Capital projects	9,204	59,513
Community outreach	91,144	29,813
Time restrictions	<u>43,289</u>	<u>32,883</u>
	<u>\$ 1,107,590</u>	<u>\$ 2,037,992</u>

**Note 3: Investments and Investment Return**

Investments at June 30 consisted of the following:

	<b>Market</b>	
	<b>2009</b>	<b>2008</b>
Short-term investments	\$ 1,626,991	\$ 665,663
U.S. Treasury securities	3,627,340	8,381,245
Corporate debt securities	2,713,736	1,578,498
Certificates of deposit	193,589	47,173
Marketable equity securities	6,103,517	9,371,786
Mutual funds	<u>34,032,605</u>	<u>36,750,976</u>
	<u>\$ 48,297,778</u>	<u>\$ 56,795,341</u>

**University of Southern Indiana Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2009 and 2008**

Included in the Foundation's investments above are investments subject to split-interest agreements with a fair market value of \$63,112 and \$82,598 as of June 30, 2009 and 2008, 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 \$2,183,115 and \$32,660 as of June 30, 2009 and 2008, respectively.

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

	<b>2009</b>	<b>2008</b>
Interest and dividend income	\$ 2,056,407	\$ 3,454,776
Investment management fees	<u>(98,499)</u>	<u>(116,992)</u>
	1,957,908	3,337,784
Net realized and unrealized losses on investments reported at fair value	<u>(10,527,783)</u>	<u>(6,336,926)</u>
	<u>\$ (8,569,875)</u>	<u>\$ (2,999,142)</u>

**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 \$2,594,334 and \$3,245,783, which represents the fair value of the trusts' assets at June 30, 2009 and 2008, respectively. The loss from these trusts for 2009 and 2008 was \$651,449 and \$392,331, 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, 2009 and 2008, the residual benefits were valued at \$565,447 and \$719,047, respectively.

**Note 5: Long-term Debt**

	<b>2008</b>
Note payable, bank (A)	\$ <u>73,093</u>

(A) Due February 2011; payable \$564 monthly, including interest at 5%; secured by certain property. The Foundation paid off the remaining balance of this note in July 2008.

# University of Southern Indiana Foundation

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 6: 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, 2009 and 2008, in the temporarily restricted funds of \$610,077 and \$630,997, respectively, and in the permanently restricted funds of \$537,868 and \$579,106, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from approximately 3% to 8%.

### Note 7: Net Assets

#### **Temporarily Restricted Net Assets**

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

	2009	2008
Scholarships and awards	\$ 8,304,471	\$ 13,549,572
Educational grants and academic enhancements	5,815,192	6,223,731
Athletic support	503,906	652,100
Other University support	430,861	1,016,423
Capital projects	740,255	699,167
Community outreach	477,340	458,735
For periods after June 30	43,289	32,883
	\$ 16,315,314	\$ 22,632,611

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 whom the net assets are restricted.

#### **Permanently Restricted Net Assets**

Permanently restricted net assets at June 30 are restricted to:

	2009	2008
Investment in perpetuity, the income of which is expendable to support		
Scholarships and awards	\$ 21,474,706	\$ 21,242,192
Educational grants and academic enhancements	3,607,221	4,044,239
Other University support	5,388,013	5,307,869
	\$ 30,469,940	\$ 30,594,300

# University of Southern Indiana Foundation

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### 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.

	<u>2009</u>	<u>2008</u>
Purpose restrictions released		
Scholarships and awards	\$ 1,486,371	\$ 1,305,099
Educational grants and academic enhancements	639,406	536,367
Athletic support	70,491	137,210
Other University support	288,590	258,627
Capital projects	6,147	797,897
Community outreach	<u>108,422</u>	<u>124,213</u>
Total restrictions released	<u>\$ 2,599,427</u>	<u>\$ 3,159,413</u>

### Note 8: 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 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

**University of Southern Indiana Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2009 and 2008**

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:

	<b>2009</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (2,183,115)	\$ 889,229	\$ 27,675,357	\$ 26,381,471
Board-designated endowment funds	<u>4,988,574</u>	<u>-</u>	<u>-</u>	<u>4,988,574</u>
<b>Total endowment funds</b>	<b><u>\$ 2,805,459</u></b>	<b><u>\$ 889,229</u></b>	<b><u>\$ 27,675,357</u></b>	<b><u>\$ 31,370,045</u></b>
	<b>2008</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (32,660)	\$ 5,844,847	\$ 27,090,746	\$ 32,902,933
Board-designated endowment funds	<u>6,305,871</u>	<u>-</u>	<u>-</u>	<u>6,305,871</u>
<b>Total endowment funds</b>	<b><u>\$ 6,273,211</u></b>	<b><u>\$ 5,844,847</u></b>	<b><u>\$ 27,090,746</u></b>	<b><u>\$ 39,208,804</u></b>



**University of Southern Indiana Foundation**  
**Notes to Consolidated Financial Statements**  
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Changes in endowment net assets for the years ended June 30 were:

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ <u>6,273,211</u>	\$ <u>5,844,847</u>	\$ <u>27,090,746</u>	\$ <u>39,208,804</u>
Investment return				
Investment loss	(205,991)	(441,373)	(17,987)	(665,351)
Net depreciation	<u>(3,165,913)</u>	<u>(3,892,832)</u>	<u>(184,895)</u>	<u>(7,243,640)</u>
Total investment return	<u>(3,371,904)</u>	<u>(4,334,205)</u>	<u>(202,882)</u>	<u>(7,908,991)</u>
Contributions	40,000	26,090	826,773	892,863
Appropriation of endowment assets for expenditure	(135,848)	(647,503)	-	(783,351)
Other changes – reclassification of donor intent	-	-	6,426	6,426
Other changes – uncollectible pledge loss	-	-	(17,721)	(17,721)
Other changes – change in value of split-interest agreements	<u>-</u>	<u>-</u>	<u>(27,985)</u>	<u>(27,985)</u>
Endowment net assets, end of year	\$ <u><u>2,805,459</u></u>	\$ <u><u>889,229</u></u>	\$ <u><u>27,675,357</u></u>	\$ <u><u>31,370,045</u></u>

# University of Southern Indiana Foundation

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ <u>7,012,281</u>	\$ <u>9,037,671</u>	\$ <u>26,416,057</u>	\$ <u>42,466,009</u>
Investment return:				
Investment income	341,580	1,652,741	60,984	2,055,305
Net depreciation	<u>(903,994)</u>	<u>(4,376,246)</u>	<u>(140,738)</u>	<u>(5,420,978)</u>
Total investment return	<u>(562,414)</u>	<u>(2,723,505)</u>	<u>(79,754)</u>	<u>(3,365,673)</u>
Contributions	-	32,179	808,862	841,041
Appropriation of endowment assets for expenditure	(176,656)	(501,498)	-	(678,154)
Other changes – reclassification of donor intent	-	-	(800)	(800)
Other changes – uncollectible pledge loss	-	-	(400)	(400)
Other changes – change in value of split-interest agreements	<u>-</u>	<u>-</u>	<u>(53,219)</u>	<u>(53,219)</u>
Endowment net assets, end of year	\$ <u>6,273,211</u>	\$ <u>5,844,847</u>	\$ <u>27,090,746</u>	\$ <u>39,208,804</u>

**University of Southern Indiana Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2009 and 2008**

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

	<b>2009</b>	<b>2008</b>
Permanently restricted net assets – portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u>\$ 27,675,357</u>	<u>\$ 27,090,746</u>
Temporarily restricted net assets – portion of perpetual endowment funds subject to a time restriction under SPMIFA		
With purpose restrictions	\$ 889,229	\$ 5,841,390
Without purpose restrictions	-	3,457
	<u>\$ 889,229</u>	<u>\$ 5,844,847</u>

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 \$2,183,115 and \$32,660 at June 30, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly 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, this minimizing risk of large losses; outperform 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% calculated on

**University of Southern Indiana Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2009 and 2008**

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 9: Disclosures About Fair Value of Assets and Liabilities**

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants at the measurement date. FAS 157 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
- 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, marketable equity securities 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.

# University of Southern Indiana Foundation

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### ***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.

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 FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009:

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Investments</b>				
Short-term investments	\$ 759,658	\$ 759,658	\$ -	\$ -
U.S. Treasury securities	\$ 3,627,340	\$ -	\$ 3,627,340	\$ -
Corporate debt securities	\$ 2,713,736	\$ -	\$ 2,713,736	\$ -
Marketable equity securities	\$ 6,103,517	\$ 6,103,517	\$ -	\$ -
Mutual funds	\$ 34,032,605	\$ 34,032,605	\$ -	\$ -
Beneficial interest in charitable remainder trusts	\$ 565,447	\$ -	\$ 565,447	\$ -
Beneficial interest in perpetual trusts	\$ 2,594,334	\$ -	\$ 2,594,334	\$ -
Beneficial interest in Community Foundation	\$ 51,918	\$ -	\$ 51,918	\$ -

**University of Southern Indiana Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2009 and 2008**

**Note 10: Related-party Transactions**

The University and the Foundation are related parties that are not financially inter-related 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 \$187,000 and \$166,900 to the University for the years ended June 30, 2009 and 2008, 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, 2009 and 2008, were \$392,941 and \$683,276, respectively.

The Foundation serves as a custodian of certain assets on behalf of USI New Harmony Foundation. At June 30, 2009 and 2008, \$318,186 and \$403,296, respectively, was included in investments and payable to related parties associated with this arrangement.

**Note 11: 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 2009 and 2008, approximately 18% and 58% of all contributions were received from one donor, respectively.

**Note 12: 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.

# University of Southern Indiana Foundation

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### ***Money Market Mutual Funds***

The Foundation has investments in money market mutual funds at June 30, 2009, of which \$609,754 was guaranteed by the U.S. Treasury Department through September 18, 2009, under the Treasury's Temporary Guarantee Program.

### ***Current Economic Conditions***

The current economic environment presents not-for-profit organizations with unprecedented 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, 2009**  
**(With Comparative Totals for 2008)**

	2009			
	University of Southern Indiana Foundation	Southern Indiana Higher Education Holdings, LLC	Eliminations	Total
<b>Assets</b>				
Cash	\$ 141,778	\$ 5,496	\$ -	\$ 147,274
Accounts and interest receivable	71,130	3,858	-	74,988
Contributions receivable, net	1,107,590	-	-	1,107,590
Prepaid expenses	4,410	70	-	4,480
Investments	48,297,778	-	-	48,297,778
Cash value of life insurance	165,245	-	-	165,245
Beneficial interest in charitable remainder trusts	565,447	-	-	565,447
Beneficial interest in perpetual trusts	2,594,334	-	-	2,594,334
Beneficial interest in Community Foundation	51,918	-	-	51,918
Real estate held for investment	343,060	2,100,000	-	2,443,060
Investment in Southern Indiana Higher Education Holdings, LLC	2,992,209	-	(2,992,209)	-
Land	160,903	237,620	-	398,523
Buildings, net of accumulated depreciation; 2009 - \$159,833, 2008 - \$100,801	584,362	494,873	-	1,079,235
Land and buildings held for sale, net of accumulated depreciation; 2009 - \$0, 2008 - \$59,350	-	153,000	-	153,000
Property management deposits	3,400	3,625	-	7,025
<b>Total assets</b>	<b>\$ 57,083,564</b>	<b>\$ 2,998,542</b>	<b>\$ (2,992,209)</b>	<b>\$ 57,089,897</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 51,459	\$ 2,933	\$ -	\$ 54,392
Notes payable	-	-	-	-
Deposits	2,400	2,625	-	5,025
Deferred income	6,660	775	-	7,435
Payable to related parties	711,127	-	-	711,127
Annuities payable	1,147,945	-	-	1,147,945
<b>Total liabilities</b>	<b>1,919,591</b>	<b>6,333</b>	<b>-</b>	<b>1,925,924</b>
<b>Net Assets</b>				
Unrestricted	8,378,719	2,992,209	(2,992,209)	8,378,719
Temporarily restricted	16,315,314	-	-	16,315,314
Permanently restricted	30,469,940	-	-	30,469,940
<b>Total net assets</b>	<b>55,163,973</b>	<b>2,992,209</b>	<b>(2,992,209)</b>	<b>55,163,973</b>
<b>Total liabilities and net assets</b>	<b>\$ 57,083,564</b>	<b>\$ 2,998,542</b>	<b>\$ (2,992,209)</b>	<b>\$ 57,089,897</b>

2008

Total

\$ 45,066  
111,771  
2,037,992  
6,841  
56,795,341  
156,701  
  
719,047  
3,245,783  
68,476  
2,443,060  
  
-  
429,643  
  
1,260,146  
  
231,737  
3,000  
\$ 67,554,604

\$ 48,933  
73,093  
2,000  
23,952  
1,086,572  
1,210,103  
2,444,653

11,883,040  
22,632,611  
30,594,300  
65,109,951  
\$ 67,554,604

**University of Southern Indiana Foundation**  
**Consolidating Schedules of Activities Information**  
**Year Ended June 30, 2009**  
**(With Comparative Totals for 2008)**

	2009			
	Unrestricted			
	University of Southern Indiana Foundation	Southern Indiana Higher Education Holdings, LLC	Eliminations	Total
<b>Revenues and Other Support</b>				
Contributions	\$ 121,827	\$ -	\$ -	\$ 121,827
Change in value of split-interest agreements	-	-	-	-
Rental income (loss), net	(20,099)	(1,470)	-	(21,569)
Miscellaneous income	86,017	-	-	86,017
Reclassification of donor intent	(639)	-	-	(639)
Net assets released from restrictions	2,599,427	-	-	2,599,427
Total revenues and other support	<u>2,786,533</u>	<u>(1,470)</u>	<u>-</u>	<u>2,785,063</u>
<b>Expenses</b>				
Programs – University of Southern Indiana				
Scholarships and awards	1,502,871	-	-	1,502,871
Educational grants and academic enhancements	758,897	-	-	758,897
Athletic support	70,981	-	-	70,981
Other University support	467,117	-	-	467,117
Capital projects	6,147	-	-	6,147
Community outreach	108,421	-	-	108,421
Total program services	2,914,434	-	-	2,914,434
Management and general	360,374	28,320	-	388,694
Fundraising	208,814	-	-	208,814
Uncollectible pledge loss	-	-	-	-
Total expenses	<u>3,483,622</u>	<u>28,320</u>	<u>-</u>	<u>3,511,942</u>
<b>Other Changes</b>				
Investment loss, net	(2,872,405)	-	-	(2,872,405)
Change in value of beneficial interest in trusts	-	-	-	-
Gain on sale of property	94,350	-	-	94,350
Net income of subsidiary	(29,790)	-	29,790	-
Gain on cash value of life insurance	613	-	-	613
Total other changes	<u>(2,807,232)</u>	<u>-</u>	<u>29,790</u>	<u>(2,777,442)</u>
<b>Change in Net Assets</b>	<u>\$ (3,504,321)</u>	<u>\$ (29,790)</u>	<u>\$ 29,790</u>	<u>\$ (3,504,321)</u>

2008

Temporarily Restricted	Permanently Restricted		
University of Southern Indiana Foundation	University of Southern Indiana Foundation	Total	Total
\$ 1,874,332	\$ 826,773	\$ 2,822,932	\$ 5,971,991
(164,208)	(85,507)	(249,715)	(262,863)
-	-	(21,569)	43,039
118,085	-	204,102	218,577
(5,787)	6,426	-	-
(2,599,427)	-	-	-
<u>(777,005)</u>	<u>747,692</u>	<u>2,755,750</u>	<u>5,970,744</u>
-	-	1,502,871	1,319,099
-	-	758,897	693,275
-	-	70,981	137,563
-	-	467,117	472,264
-	-	6,147	797,897
-	-	108,421	125,213
-	-	2,914,434	3,545,311
-	-	388,694	378,414
-	-	208,814	201,727
38,690	17,721	56,411	11,089
<u>38,690</u>	<u>17,721</u>	<u>3,568,353</u>	<u>4,136,541</u>
(5,494,588)	(202,882)	(8,569,875)	(2,999,142)
(16,558)	(651,449)	(668,007)	(396,868)
-	-	94,350	-
-	-	-	-
9,544	-	10,157	11,143
<u>(5,501,602)</u>	<u>(854,331)</u>	<u>(9,133,375)</u>	<u>(3,384,867)</u>
<u>\$ (6,317,297)</u>	<u>\$ (124,360)</u>	<u>\$ (9,945,978)</u>	<u>\$ (1,550,664)</u>