

University of Southern Indiana Foundation
Accountants' Report and Consolidated Financial Statements
June 30, 2010 and 2009



University of Southern Indiana Foundation
June 30, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 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 12, 2010

University of Southern Indiana Foundation
Consolidated Statements of Financial Position
June 30, 2010 and 2009

Assets

	2010	2009
Cash	\$ 342,748	\$ 147,274
Accounts and interest receivable	89,768	74,988
Contributions receivable, net	1,233,296	1,107,590
Prepaid expenses	18,935	4,480
Investments	54,870,479	48,297,778
Cash value of life insurance	177,464	165,245
Beneficial interest in charitable remainder trusts	591,963	565,447
Beneficial interest in perpetual trusts	2,728,618	2,594,334
Beneficial interest in Community Foundation	50,951	51,918
Real estate held for investment	2,466,100	2,443,060
Land	375,483	398,523
Buildings, net of accumulated depreciation; 2010 – \$198,557, 2009 – \$159,833	1,007,581	1,079,235
Land and buildings held for sale	-	153,000
Property management deposits	5,150	7,025
Total assets	\$ 63,958,536	\$ 57,089,897

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 42,201	\$ 54,392
Deposits	3,400	5,025
Deferred income	-	7,435
Payable to related parties	920,572	711,127
Annuities payable	1,218,960	1,147,945
Total liabilities	2,185,133	1,925,924

Net Assets

Unrestricted	10,693,726	8,378,719
Temporarily restricted	19,374,679	16,315,314
Permanently restricted	31,704,998	30,469,940
Total net assets	61,773,403	55,163,973
Total liabilities and net assets	\$ 63,958,536	\$ 57,089,897

University of Southern Indiana Foundation
Consolidated Statements of Activities
Years Ended June 30, 2010 and 2009

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and Other Support				
Contributions	\$ 217,005	\$ 1,280,373	\$ 1,086,819	\$ 2,584,197
Change in value of split-interest agreements	-	(46,658)	(73,939)	(120,597)
Rental income (loss), net	(125,529)	-	-	(125,529)
Miscellaneous income	81,095	95,023	-	176,118
Reclassification of donor intent	-	-	-	-
Net assets released from restrictions	<u>1,827,338</u>	<u>(1,827,338)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,999,909</u>	<u>(498,600)</u>	<u>1,012,880</u>	<u>2,514,189</u>
Expenses				
Programs – University of Southern Indiana				
Scholarships and awards	686,682	-	-	686,682
Educational grants and academic enhancements	741,197	-	-	741,197
Athletic support	55,108	-	-	55,108
Other University support	469,142	-	-	469,142
Capital projects	182,160	-	-	182,160
Community outreach	<u>150,662</u>	<u>-</u>	<u>-</u>	<u>150,662</u>
Total program services	2,284,951	-	-	2,284,951
Management and general	392,351	-	-	392,351
Fundraising	187,042	-	-	187,042
Uncollectible pledge loss	<u>-</u>	<u>1,767</u>	<u>25</u>	<u>1,792</u>
Total expenses	<u>2,864,344</u>	<u>1,767</u>	<u>25</u>	<u>2,866,136</u>
Other Changes				
Investment income (loss), net	3,101,743	3,548,479	87,919	6,738,141
Change in value of beneficial interest in trusts	-	(967)	134,284	133,317
Mineral royalty income	131,002	-	-	131,002
Gain (loss) on sale of property	(53,303)	-	-	(53,303)
Gain on cash value of life insurance	<u>-</u>	<u>12,220</u>	<u>-</u>	<u>12,220</u>
Total other changes	<u>3,179,442</u>	<u>3,559,732</u>	<u>222,203</u>	<u>6,961,377</u>
Change in Net Assets	2,315,007	3,059,365	1,235,058	6,609,430
Net Assets, Beginning of Year	<u>8,378,719</u>	<u>16,315,314</u>	<u>30,469,940</u>	<u>55,163,973</u>
Net Assets, End of Year	<u>\$ 10,693,726</u>	<u>\$ 19,374,679</u>	<u>\$ 31,704,998</u>	<u>\$ 61,773,403</u>

2009

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 121,827	\$ 1,874,332	\$ 826,773	\$ 2,822,932
-	(164,208)	(85,507)	(249,715)
(21,569)	-	-	(21,569)
86,017	118,085	-	204,102
(639)	(5,787)	6,426	-
<u>2,599,427</u>	<u>(2,599,427)</u>	<u>-</u>	<u>-</u>
<u>2,785,063</u>	<u>(777,005)</u>	<u>747,692</u>	<u>2,755,750</u>
1,502,871	-	-	1,502,871
758,897	-	-	758,897
70,981	-	-	70,981
467,117	-	-	467,117
6,147	-	-	6,147
<u>108,421</u>	<u>-</u>	<u>-</u>	<u>108,421</u>
2,914,434	-	-	2,914,434
388,694	-	-	388,694
208,814	-	-	208,814
-	38,690	17,721	56,411
<u>3,511,942</u>	<u>38,690</u>	<u>17,721</u>	<u>3,568,353</u>
(2,872,405)	(5,494,588)	(202,882)	(8,569,875)
-	(16,558)	(651,449)	(668,007)
-	-	-	-
94,350	-	-	94,350
<u>613</u>	<u>9,544</u>	<u>-</u>	<u>10,157</u>
<u>(2,777,442)</u>	<u>(5,501,602)</u>	<u>(854,331)</u>	<u>(9,133,375)</u>
(3,504,321)	(6,317,297)	(124,360)	(9,945,978)
<u>11,883,040</u>	<u>22,632,611</u>	<u>30,594,300</u>	<u>65,109,951</u>
\$ <u>8,378,719</u>	\$ <u>16,315,314</u>	\$ <u>30,469,940</u>	\$ <u>55,163,973</u>

University of Southern Indiana Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Activities		
Change in net assets	\$ 6,609,430	\$ (9,945,978)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized (gain) loss on sale of investments	(321,059)	1,701,618
(Gain) loss on sale of property	53,303	(94,350)
Contribution of investments and real estate	(230,418)	(422,723)
Depreciation	58,576	59,031
Unrealized (gain) loss on investments	(5,044,387)	8,826,165
Changes in		
Accounts and interest receivable	(14,780)	36,783
Contributions receivable	(125,706)	930,402
Beneficial interest investments	(159,833)	821,607
Prepaid expenses	(14,455)	2,361
Increase in cash value of life insurance	(12,219)	(8,544)
Accounts payable and payable to related parties	197,254	(369,986)
Deposits	250	(1,000)
Annuities payable	71,015	(62,158)
Deferred income	(7,435)	(16,517)
Net cash provided by operating activities	<u>1,059,536</u>	<u>1,456,711</u>
Investing Activities		
Improvements to land and buildings	(29,700)	-
Proceeds from sale of land and buildings	142,475	326,087
Purchase of investments	(10,456,167)	(12,706,659)
Sales and maturities of investments	9,997,247	12,060,491
Change in cash investments	<u>(517,917)</u>	<u>(961,329)</u>
Net cash used in investing activities	<u>(864,062)</u>	<u>(1,281,410)</u>
Financing Activity – Principal payments on notes payable	<u>-</u>	<u>(73,093)</u>
Increase in Cash	195,474	102,208
Cash, Beginning of Year	<u>147,274</u>	<u>45,066</u>
Cash, End of Year	<u>\$ 342,748</u>	<u>\$ 147,274</u>
Supplemental Cash Flows Information		
Interest paid	\$ -	\$ 355

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

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

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, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Effective December 31, 2010, through December 31, 2012, deposits held in all noninterest-bearing transaction accounts will be fully insured, regardless of the amount in the account, at all FDIC-insured institutions.

The FDIC's insurance limits have been permanently increased to \$250,000 for deposits held at FDIC insured institutions. At June 30, 2010, the Foundation's interest-bearing accounts and certificates of deposit did not exceed federally insured limits.

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

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, 2010 and 2009

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 2006.

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, 2010 and 2009

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 years ended June 30, 2010, and ending June 30, 2011. This will allow for the continued funding of scholarship expenses without driving the Foundation's endowment funds further underwater through spending on top of market losses and assist in quicker endowment value recovery when market conditions recover.

Subsequent Events

Subsequent events have been evaluated through October 12, 2010, 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:

	2010		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 557,384	\$ 83,822	\$ 641,206
Due in one to five years	<u>240,127</u>	<u>443,286</u>	<u>683,413</u>
	797,511	527,108	1,324,619
Less			
Allowance for uncollectible contributions	33,000	-	33,000
Unamortized discount	<u>28,194</u>	<u>30,129</u>	<u>58,323</u>
	<u>\$ 736,317</u>	<u>\$ 496,979</u>	<u>\$ 1,233,296</u>

The discount rate used was 3.27% for 2010. Approximately 51% of the contributions receivable at June 30, 2010, were due from two donors.

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

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

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

	2010	2009
Scholarships and awards	\$ 212,228	\$ 373,045
Educational grants and academic enhancements	899,662	539,304
Athletic support	4,596	10,030
Other University support	18,261	41,574
Capital projects	4,616	9,204
Community outreach	54,404	91,144
Time restrictions	39,529	43,289
	<u>\$ 1,233,296</u>	<u>\$ 1,107,590</u>

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
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Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

	Market	
	2010	2009
Short-term investments	\$ 2,144,909	\$ 1,626,991
U.S. Treasury securities	3,787,539	3,627,340
Corporate debt securities	2,566,466	2,713,736
Certificates of deposit	150,592	193,589
Marketable equity securities	7,234,505	6,103,517
Mutual funds	<u>38,986,468</u>	<u>34,032,605</u>
	<u>\$ 54,870,479</u>	<u>\$ 48,297,778</u>

Included in the Foundation's investments above are investments subject to split-interest agreements with a fair market value of \$65,670 and \$63,112 as of June 30, 2010 and 2009, 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 \$377,661 and \$2,183,115 as of June 30, 2010 and 2009, respectively.

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

	2010	2009
Interest and dividend income	\$ 1,479,098	\$ 2,056,407
Investment management fees	<u>(106,403)</u>	<u>(98,499)</u>
	1,372,695	1,957,908
Net realized and unrealized gains (losses) on investments reported at fair value	<u>5,365,446</u>	<u>(10,527,783)</u>
	<u>\$ 6,738,141</u>	<u>\$ (8,569,875)</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 \$2,728,618 and \$2,594,334, which represents the fair value of the trusts' assets at June 30, 2010 and 2009, respectively. The gain (loss) from these trusts for 2010 and 2009 was \$134,284 and \$(651,449), respectively.

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
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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, 2010 and 2009, the residual benefits were valued at \$591,963 and \$565,447, 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, 2010 and 2009, in the temporarily restricted funds of \$588,232 and \$610,077, respectively, and in the permanently restricted funds of \$630,728 and \$537,868, 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 6: Net Assets

Temporarily Restricted Net Assets

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

	<u>2010</u>	<u>2009</u>
Scholarships and awards	\$ 10,896,452	\$ 8,304,471
Educational grants and academic enhancements	6,261,536	5,815,192
Athletic support	513,741	503,906
Other University support	557,534	430,861
Capital projects	750,048	740,255
Community outreach	355,838	477,340
For periods after June 30	<u>39,530</u>	<u>43,289</u>
	<u>\$ 19,374,679</u>	<u>\$ 16,315,314</u>

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.

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
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Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2010	2009
Investment in perpetuity, the income of which is expendable to support		
Scholarships and awards	\$ 22,034,218	\$ 21,474,706
Educational grants and academic enhancements	4,203,804	3,607,221
Other University support	5,466,976	5,388,013
	\$ 31,704,998	\$ 30,469,940

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.

	2010	2009
Purpose restrictions released		
Scholarships and awards	\$ 668,517	\$ 1,486,371
Educational grants and academic enhancements	687,685	639,406
Athletic support	55,108	70,491
Other University support	260,384	288,590
Capital projects	4,982	6,147
Community outreach	150,662	108,422
Total restrictions released	\$ 1,827,338	\$ 2,599,427

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 years ended June 30, 2010, and ending June 30, 2011. This will allow for the continued funding of scholarship expenses without driving the Foundation's endowment funds further underwater through spending on top of market losses and assist in quicker endowment value recovery when market conditions recover.

University of Southern Indiana Foundation

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

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 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:

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ (377,661)	\$ 3,103,187	\$ 28,770,162	\$ 31,495,688
Board-designated endowment funds	<u>5,702,097</u>	<u>-</u>	<u>-</u>	<u>5,702,097</u>
Total endowment funds	<u>\$ 5,324,436</u>	<u>\$ 3,103,187</u>	<u>\$ 28,770,162</u>	<u>\$ 37,197,785</u>

University of Southern Indiana Foundation
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	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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>
Total endowment funds	<u>\$ 2,805,459</u>	<u>\$ 889,229</u>	<u>\$ 27,675,357</u>	<u>\$ 31,370,045</u>

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

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ <u>2,805,459</u>	\$ <u>889,229</u>	\$ <u>27,675,357</u>	\$ <u>31,370,045</u>
Investment return				
Investment income	506,992	266,626	13,289	786,907
Net appreciation	<u>2,062,126</u>	<u>2,018,103</u>	<u>74,630</u>	<u>4,154,859</u>
Total investment return	<u>2,569,118</u>	<u>2,284,729</u>	<u>87,919</u>	<u>4,941,766</u>
Contributions	9,395	12,887	1,086,819	1,109,101
Appropriation of endowment assets for expenditure	(59,536)	(83,658)	-	(143,194)
Other changes – uncollectible pledge loss	-	-	(25)	(25)
Other changes – change in value of split-interest agreements	<u>-</u>	<u>-</u>	<u>(79,908)</u>	<u>(79,908)</u>
	<u>(50,141)</u>	<u>(70,771)</u>	<u>1,006,886</u>	<u>885,974</u>
Endowment net assets, end of year	<u>\$ 5,324,436</u>	<u>\$ 3,103,187</u>	<u>\$ 28,770,162</u>	<u>\$ 37,197,785</u>

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 6,273,211	\$ 5,844,847	\$ 27,090,746	\$ 39,208,804
Investment return				
Investment income	(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>
	<u>(95,848)</u>	<u>(621,413)</u>	<u>787,493</u>	<u>70,232</u>
Endowment net assets, end of year	<u>\$ 2,805,459</u>	<u>\$ 889,229</u>	<u>\$ 27,675,357</u>	<u>\$ 31,370,045</u>

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

	2010	2009
Permanently restricted net assets – portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u>\$ 28,770,162</u>	<u>\$ 27,675,357</u>
Temporarily restricted net assets – portion of perpetual endowment funds subject to a time restriction under SPMIFA		
With purpose restrictions	<u>\$ 3,103,187</u>	<u>\$ 889,229</u>

University of Southern Indiana Foundation

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

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 \$377,661 and \$2,183,115 at June 30, 2010 and 2009, 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, 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% 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*, 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, 2010 and 2009

- 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.

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, 2010 and 2009

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:

	2010			
	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	\$ 512,643	\$ 512,643	\$ -	\$ -
U.S. Treasury securities	\$ 3,787,539	\$ -	\$ 3,787,539	\$ -
Corporate debt securities	\$ 2,566,466	\$ -	\$ 2,566,466	\$ -
Marketable equity securities	\$ 7,234,505	\$ 7,234,505	\$ -	\$ -
Mutual funds				
Fixed income	\$ 8,135,122	\$ 8,135,122	\$ -	\$ -
International	\$ 7,262,411	\$ 7,262,411	\$ -	\$ -
Large cap	\$ 17,492,326	\$ 17,492,326	\$ -	\$ -
Small cap	\$ 6,096,609	\$ 6,096,609	\$ -	\$ -
Beneficial interest in charitable remainder trusts	\$ 591,963	\$ -	\$ 591,963	\$ -
Beneficial interest in perpetual trusts	\$ 2,728,618	\$ -	\$ 2,728,618	\$ -
Beneficial interest in Community Foundation	\$ 50,951	\$ -	\$ 50,951	\$ -

University of Southern Indiana Foundation

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

	2009			
	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	\$ 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				
Fixed income	\$ 8,321,162	\$ 8,321,162	\$ -	\$ -
International	\$ 5,522,822	\$ 5,522,822	\$ -	\$ -
Large cap	\$ 15,218,611	\$ 15,218,611	\$ -	\$ -
Small cap	\$ 4,970,010	\$ 4,970,010	\$ -	\$ -
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	\$ -

Note 9: 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 to the University for the years ended June 30, 2010 and 2009 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, 2010 and 2009, were \$549,725 and \$392,941, respectively.

University of Southern Indiana Foundation
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

The Foundation serves as a custodian of certain assets on behalf of USI New Harmony Foundation. At June 30, 2010 and 2009, \$370,847 and \$318,186, respectively, was included in investments and payable to related parties associated with this arrangement.

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 2010 and 2009, approximately 31% and 18% of all contributions were received from two 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 protracted economic decline 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, 2010
(With Comparative Totals for 2009)

	2010			
	University of Southern Indiana Foundation	Southern Indiana Higher Education Holdings, LLC	Eliminations	Total
Assets				
Cash	\$ 159,070	\$ 183,678	\$ -	\$ 342,748
Accounts and interest receivable	69,009	20,759	-	89,768
Contributions receivable, net	1,233,296	-	-	1,233,296
Prepaid expenses	18,935	-	-	18,935
Investments	54,870,479	-	-	54,870,479
Cash value of life insurance	177,464	-	-	177,464
Beneficial interest in charitable remainder trusts	591,963	-	-	591,963
Beneficial interest in perpetual trusts	2,728,618	-	-	2,728,618
Beneficial interest in Community Foundation	50,951	-	-	50,951
Real estate held for investment	366,100	2,100,000	-	2,466,100
Investment in Southern Indiana Higher Education Holdings, LLC	3,007,211	-	(3,007,211)	-
Land	137,863	237,620	-	375,483
Buildings, net of accumulated 2010 – \$198,557, 2009 – \$159,833	523,182	484,399	-	1,007,581
Land and buildings held for sale	-	-	-	-
Property management deposits	2,450	2,700	-	5,150
Total assets	\$ 63,936,591	\$ 3,029,156	\$ (3,007,211)	\$ 63,958,536
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 21,956	\$ 20,245	\$ -	\$ 42,201
Deposits	1,700	1,700	-	3,400
Deferred income	-	-	-	-
Payable to related parties	920,572	-	-	920,572
Annuities payable	1,218,960	-	-	1,218,960
Total liabilities	2,163,188	21,945	-	2,185,133
Net Assets				
Unrestricted	10,693,726	3,007,211	(3,007,211)	10,693,726
Temporarily restricted	19,374,679	-	-	19,374,679
Permanently restricted	31,704,998	-	-	31,704,998
Total net assets	61,773,403	3,007,211	(3,007,211)	61,773,403
Total liabilities and net assets	\$ 63,936,591	\$ 3,029,156	\$ (3,007,211)	\$ 63,958,536

2009

Total

\$ 147,274
74,988
1,107,590
4,480
48,297,778
165,245

565,447
2,594,334

51,918
2,443,060

-
398,523

1,079,235
153,000
7,025
\$ 57,089,897

\$ 54,392
5,025
7,435
711,127
1,147,945
1,925,924

8,378,719
16,315,314
30,469,940
55,163,973
\$ 57,089,897

University of Southern Indiana Foundation
Consolidating Schedules of Activities Information
Year Ended June 30, 2010
(With Comparative Totals for 2009)

	2010			
	Unrestricted			
	University of Southern Indiana Foundation	Southern Indiana Higher Education Holdings, LLC	Eliminations	Total
Revenues and Other Support				
Contributions	\$ 217,005	\$ -	\$ -	\$ 217,005
Change in value of split-interest agreements	-	-	-	-
Rental income (loss), net	(39,847)	(85,682)	-	(125,529)
Miscellaneous income	80,090	1,005	-	81,095
Reclassification of donor intent	-	-	-	-
Net assets released from restrictions	1,827,338	-	-	1,827,338
Total revenues and other support	2,084,586	(84,677)	-	1,999,909
Expenses				
Programs – University of Southern Indiana				
Scholarships and awards	686,682	-	-	686,682
Educational grants and academic enhancements	741,197	-	-	741,197
Athletic support	55,108	-	-	55,108
Other University support	469,142	-	-	469,142
Capital projects	182,160	-	-	182,160
Community outreach	150,662	-	-	150,662
Total program services	2,284,951	-	-	2,284,951
Management and general	371,428	20,923	-	392,351
Fundraising	187,042	-	-	187,042
Uncollectible pledge loss	-	-	-	-
Total expenses	2,843,421	20,923	-	2,864,344
Other Changes				
Investment income (loss), net	3,101,743	-	-	3,101,743
Change in value of beneficial interest in trusts	-	-	-	-
Mineral royalty income	-	131,002	-	131,002
Gain (loss) on sale of property	(42,903)	(10,400)	-	(53,303)
Net income of subsidiary	15,002	-	(15,002)	-
Gain on cash value of life insurance	-	-	-	-
Total other changes	3,073,842	120,602	(15,002)	3,179,442
Change in Net Assets	\$ 2,315,007	\$ 15,002	\$ (15,002)	\$ 2,315,007

2009

Temporarily Restricted	Permanently Restricted		
University of Southern Indiana Foundation	University of Southern Indiana Foundation	Total	Total
\$ 1,280,373	\$ 1,086,819	\$ 2,584,197	\$ 2,822,932
(46,658)	(73,939)	(120,597)	(249,715)
-	-	(125,529)	(21,569)
95,023	-	176,118	204,102
-	-	-	-
(1,827,338)	-	-	-
(498,600)	1,012,880	2,514,189	2,755,750
-	-	686,682	1,502,871
-	-	741,197	758,897
-	-	55,108	70,981
-	-	469,142	467,117
-	-	182,160	6,147
-	-	150,662	108,421
-	-	2,284,951	2,914,434
-	-	392,351	388,694
-	-	187,042	208,814
1,767	25	1,792	56,411
1,767	25	2,866,136	3,568,353
3,548,479	87,919	6,738,141	(8,569,875)
(967)	134,284	133,317	(668,007)
-	-	131,002	-
-	-	(53,303)	94,350
-	-	-	-
12,220	-	12,220	10,157
3,559,732	222,203	6,961,377	(9,133,375)
\$ 3,059,365	\$ 1,235,058	\$ 6,609,430	\$ (9,945,978)