

# **Kuali Foundation, Inc.**

Accountants' Report and Financial Statements

June 30, 2010 and 2009

# Kuali Foundation, Inc.

June 30, 2010 and 2009

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## Independent Accountants' Report

Board of Directors  
Kuali Foundation, Inc.  
Indianapolis, Indiana

We have audited the accompanying statements of financial position of Kuali Foundation, Inc. (Foundation) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the year ended June 30, 2010. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kuali Foundation, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

*BKD, LLP*  
December 9, 2010

**Kuali Foundation, Inc.**  
**Statements of Financial Position**  
**June 30, 2010 and 2009**

**Assets**

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 3,444,486	\$ 1,333,292
Accounts receivable	806,148	169,054
Contributions receivable - fair value option	25,572,717	28,992,095
Prepaid expenses and other assets	<u>9,980</u>	<u>3,785</u>
Total assets	<u>\$ 29,833,331</u>	<u>\$ 30,498,226</u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable and accrued expenses	\$ 260,793	\$ 251,968
Deferred income	<u>270,692</u>	<u>172,909</u>
Total liabilities	<u>531,485</u>	<u>424,877</u>

**Net Assets**

Unrestricted	1,033,647	797,116
Temporarily restricted	<u>28,268,199</u>	<u>29,276,233</u>
Total net assets	<u>29,301,846</u>	<u>30,073,349</u>
Total liabilities and net assets	<u>\$ 29,833,331</u>	<u>\$ 30,498,226</u>

**Kuali Foundation, Inc.**  
**Statement of Activities**  
**Year Ended June 30, 2010**

	2010		
	Unrestricted	Temporarily Restricted	Total
<b>Revenue and Support</b>			
In-kind contributions			
Kuali Financial System	\$ -	\$ 500,000	\$ 500,000
KRA - Coeus	-	376,000	376,000
Kuali RICE	-	100,000	100,000
Kuali Student	-	2,000,000	2,000,000
Kuali OLE	-	3,557,114	3,557,114
Total in-kind contributions	<u>-</u>	<u>6,533,114</u>	<u>6,533,114</u>
Project partner dues			
Kuali Financial System	-	310,000	310,000
KRA - Coeus	-	50,000	50,000
Kuali RICE	-	170,000	170,000
Kuali Student	-	500,000	500,000
Kuali OLE	-	2,543,707	2,543,707
Kuali Ready	-	180,000	180,000
Total project partner dues	<u>-</u>	<u>3,753,707</u>	<u>3,753,707</u>
Other contributions	<u>-</u>	<u>1,017,732</u>	<u>1,017,732</u>
Total gross contribution revenue	-	11,304,553	11,304,553
Change in fair value	-	360,800	360,800
Total net contribution revenue	<u>-</u>	<u>11,665,353</u>	<u>11,665,353</u>
Kuali Days	279,579	-	279,579
Membership dues	790,675	-	790,675
Interest and other income	21,394	-	21,394
Total revenue	<u>1,091,648</u>	<u>11,665,353</u>	<u>12,757,001</u>
Net assets released from restriction	12,673,387	(12,673,387)	-
Total revenue and other support	<u>13,765,035</u>	<u>(1,008,034)</u>	<u>12,757,001</u>
<b>Expenses</b>			
Project expenses			
Kuali Financial System	1,193,508	-	1,193,508
KRA - Coeus	1,920,300	-	1,920,300
Kuali RICE	1,383,072	-	1,383,072
Kuali Student	7,282,342	-	7,282,342
Kuali OLE	890,317	-	890,317
Kuali Ready	2,590	-	2,590
Total project expenses	<u>12,672,129</u>	<u>-</u>	<u>12,672,129</u>
Foundation expenses	604,966	-	604,966
Kuali Days expenses	251,409	-	251,409
Total expenses	<u>13,528,504</u>	<u>-</u>	<u>13,528,504</u>
<b>Change in Net Assets</b>	236,531	(1,008,034)	(771,503)
<b>Net Assets, Beginning of Year</b>	<u>797,116</u>	<u>29,276,233</u>	<u>30,073,349</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,033,647</u>	<u>\$ 28,268,199</u>	<u>\$ 29,301,846</u>

**Kuali Foundation, Inc.**  
**Statement of Cash Flows**  
**Year Ended June 30, 2010**

		<b>2010</b>
<b>Operating Activities</b>		
Change in net assets	\$	(771,503)
Change in		
Accounts receivable		(637,094)
Contributions receivable		3,419,378
Prepaid expenses and other assets		(6,195)
Accounts payable and deferred revenues		106,608
Net cash provided by operating activities		\$ 2,111,194
<b>Net Increase in Cash and Cash Equivalents</b>		2,111,194
<b>Cash and Cash Equivalents, Beginning of Year</b>		1,333,292
<b>Cash and Cash Equivalents, End of Year</b>		\$ 3,444,486

**Kuali Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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

***Nature of Operations***

Kuali Foundation, Inc. (Foundation) is a not-for-profit organization whose mission and principal activities are to foster the development of the Kuali software for administrative and service needs of education, to promote collaboration, sharing of good practices and dissemination of results of innovative approaches to applying open technology architectures and systems in general for education. The Foundation's revenues and other support are derived principally from membership and partnership dues.

***Use of Estimates***

The preparation of 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 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 and Cash Equivalents***

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2010 and 2009, cash equivalents consisted primarily of money market accounts with brokers.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At June 30, 2010, the Foundation's cash accounts exceeded federally insured limits by approximately \$3,200,000.

***Accounts Receivable***

Accounts receivable are stated at the amounts to be received from the members for dues or subscriptions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice which coincides with the period the member dues or subscriptions relate to. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are written off based on expiration dates of either the membership or subscription.

**Kuali Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

***Deferred Revenue***

Revenue from fees for memberships and subscriptions are deferred and recognized over the periods to which the fees relate.

***Contributions***

Contributions of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Contributions received with a donor stipulation that limits their use are reported as temporarily 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. Contributions 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. Majority of contributions are recognized through partnership agreements and are restricted for specific Foundation projects. These partnership agreements are expected to be paid with cash, contributed services or a combination of both.

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 initially reported at fair value determined using the discounted present value of estimated future cash flows.

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.

***Temporarily 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.

***Income Taxes***

The Foundation is exempt from income taxes under Section 501(c)(3) 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 the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2007.

**Kuali Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

***In-kind Contributions and Services***

In addition to receiving cash contributions, the Foundation receives in-kind contributions of services from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount.

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. Contribution revenue recognized from contributed services consisted of:

	<u><b>2010</b></u>
Software development for Kuali Financial System	\$ 500,000
Software development for KRA - Coeus	376,000
Software development for Kuali RICE	100,000
Software development for Kuali Student	2,000,000
Software development for Kuali OLE	<u>3,557,114</u>
	<u><u>\$ 6,533,114</u></u>

***Software Costs***

The costs of internally developing, maintaining and providing support for open source software are expensed in the period incurred. The Foundation does not generate revenue from the software. Because of the absence of future gross revenue, there is no net realizable value for those products inherent with the availability to download the software.

***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on the actual time and expense tracking.

***Subsequent Events***

Subsequent events have been evaluated through December 9, 2010, which is the date the financial statements were available to be issued.

**Kuali Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**Note 2: Contributions Receivable**

Contributions receivable consisted of the following:

	<b>Temporarily Restricted 2010</b>	<b>2009</b>
Due within one year	\$ 15,845,151	\$ 11,505,844
Due in one to five years	10,240,039	18,359,524
	<u>26,085,190</u>	<u>29,865,368</u>
Less: Discount	<u>(512,473)</u>	<u>(873,273)</u>
	<u><u>\$ 25,572,717</u></u>	<u><u>\$ 28,992,095</u></u>

Discount rates ranged from 0.74% to 2.72% and from 0.75% to 2.25% for 2010 and 2009, respectively, which reflects an estimate of the rates a market participant would demand for bearing the uncertainty in such cash flows.

Contributions receivable designated for specific purposes are as follows:

	<b>2010</b>	<b>2009</b>
Kuali Financial System	\$ 2,498,585	\$ 3,063,518
KRA - Coeus	2,139,364	3,553,370
Kuali RICE	1,220,416	2,516,756
Kuali Student	15,315,118	19,858,451
Kuali OLE	4,289,673	-
Kuali Ready	109,561	-
	<u>\$ 25,572,717</u>	<u>\$ 28,992,095</u>

**Note 3: Net Assets**

***Temporarily Restricted Net Assets***

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

	<b>2010</b>	<b>2009</b>
Kuali Financial System	\$ 3,104,530	\$ 3,280,162
KRA - Coeus	2,302,263	3,605,798
Kuali RICE	1,442,470	2,516,756
Kuali Student	16,038,124	19,873,517
Kuali OLE	5,200,508	-
Kuali Ready	180,304	-
	<u>\$ 28,268,199</u>	<u>\$ 29,276,233</u>

**Kuali Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**Note 4: Net Assets Released From Restrictions**

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

	<b>2010</b>
Purpose restrictions accomplished	
Kuali Financial System	\$ 1,193,508
KRA - Coeus	1,920,300
Kuali RICE	1,383,072
Kuali Student	7,282,342
Kuali OLE	890,317
Kuali Ready	2,590
Other	1,258
Total net assets released from restrictions	\$ 12,673,387

**Note 5: 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 specifies 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 that are significant to the fair value of the assets or liabilities

**Kuali Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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

**Contributions Receivable**

Fair value is estimated at the present value of the future payments expected to be received. Due to the nature of the valuation inputs, the receivable is classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying 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 and 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>
Contributions receivable				
As of June 30, 2010	\$ 25,572,717	\$ -	\$ -	\$ 25,572,717
As of June 30, 2009	\$ 28,992,095	\$ -	\$ -	\$ 28,992,095

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

	<b>Contributions Receivable</b>
Balance, July 1, 2009	\$ 28,992,095
Net payments	(3,780,178)
Change in fair value included in the change in net assets	360,800
Balance, June 30, 2010	\$ 25,572,717

**Kuali Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**Note 6: The Fair Value Option**

As permitted by Topic 825, the Foundation has elected to measure contributions receivable at fair value. Management has elected the fair value option for these items because it more accurately reflects their financial position.

See Notes 2 and 5 for additional disclosures regarding fair value of each of the statements of financial position line items listed in the preceding paragraph.

**Note 7: Functional Expenses**

Total expenses by functional classification are as follows:

	<u>2010</u>
Program expenses	\$ 13,407,967
Management and general	<u>120,537</u>
	<u>\$ 13,528,504</u>

**Note 8: 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:

***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 and unanticipated declines in contributions and memberships and caused constraints on liquidity. The Foundation depends on income from memberships and partnership agreements in order to fulfill its purpose. Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for receivables that could negatively impact the Foundation's ability to maintain sufficient liquidity.